

Global Weekly Flash

Madrid, 8 March 2013
Economic Analysis

Financial Scenarios

Cristina Varela Donoso
cvarela@bbva.com
+34 91 537 7825

María Martínez Álvarez
maria.martinez.alvarez@bbva.com
+34 91 537 66 83

Alejandro Neut
robertoalejandro.neut@bbva.com

Ignacio Santiago Llorente
i.santiago.llorente@bbva.com
+34 91 537 76 80

Indicators collaboration:

Europe
Agustín García
agustin.garcia@bbva.com
+34 537 79 36

US
Alejandro Vargas
alejandro.vargas@bbvacompass.com
+1 713 831 7348

Asia
Fielding Chen
fielding.chen@bbva.com.hk
+852 2582 3297

The week closes with good macro data, reaffirming markets positive mood

Financial markets have performed well this week, despite persisting uncertainties about Italy's political deadlock and the impact of US "sequestration" measures. Peripheral risk premium narrowed, safe-haven assets registered net outflows, while US equity indices hit new highs.

• Central banks, in developed countries, on hold

- **As expected, the ECB kept rates unchanged**, although not by unanimity. Mr. Draghi gave no hints of policy change in the near future. More importantly, the ECB highlighted that monetary policy will remain "accommodative as long as needed". Despite slight downward revisions to ECB's projections, the general outlook barely changes, i.e. a gradual recovery is expected during the second half of the year. Meanwhile, **the Bank of England also kept its interest rates unchanged, while voting not to increase the quantitative easing programme.**
- In Asia, **the Bank of Japan also maintained its current policy.** It kept the size of its asset purchase program at 101tn yen and the policy rate unchanged at 0-0.1%. But expectations are running high that the BoJ may announce additional easing measures at its April meeting, which could include the purchase of longer maturity government bonds (three years at present), buying foreign bonds, and/or bringing forward the open-ended asset purchase program now set to start in 2014..

• Banxico brings forward its expected rate cut

- Banxico cut its interest rate by 50pb. While the decision was expected, the timing surprised markets (the move was more likely in April). In its statement, the Central bank pointed to the weakness of the global economy and its prevailing risks, the slowdown of the Mexican economy, the expected moderation of inflation and the risk of ever-increasing capital inflows in a global context of very accommodative monetary conditions. According to its statement, the central bank understands that this move is a one-off rate cut, i.e. it should not be the beginning of an easing cycle.
- Central banks in Brazil and Peru kept their policy rates on hold, as expected. However Brazil refrained from committing to stable rates, introducing an even greater upward bias to our current call for stable interest rates during 2013. Meanwhile, Peru is adjusting credit and demand growth through reserve requirement policies.

• Good news to peripherals from European authorities

- European Union finance ministers discussed the possibility of an extension of EFSF and EFSM initial loans to Ireland and Portugal. A final decision was postponed to April's ECOFIN meeting. Such measure would smooth the return of Ireland and Portugal to funding markets. Negotiations on a potential bailout programme to Cyprus also continued. The Eurogroup meeting concluded that the second review of the Spanish financial sector programme is on track. Nonetheless, Vice-President Olli Rehn favors an extension to fulfilling deficit targets within the euro area. At the eurogroup press conference,

Olli Rehn said that the Commission's Winter Economic Forecast showed that the necessary rebalancing process will continue to weigh on growth and public finances for some time to come. This may also justify, in a certain number of cases, reviewing deadlines for the correction of excessive deficits, in line with the rules of the Stability and Growth Pact.

- Portugal's credit rating outlook was raised to stable from negative by Standard & Poor's, as European lenders will probably extend their support to the government, and thus sustain the nation's fiscal tightening. The rating agency confirmed Portugal's BB long-term sovereign credit rating.
- Fitch downgraded one notch the Italian rating to BBB+ from A-, with a negative outlook. The rating agency cited that increased political uncertainty and non-conducive backdrop for further structural reform measures constitute a further adverse shock to the real economy amidst the deep recession. Contrarily, Standard and Poor's Head of Sovereign Ratings said that Italian elections by themselves do not carry a ratings implication, "We need to see what the political consequences are. The political situation is uncertain," "While the broad fiscal stance would remain intact, the main challenge for Italy would be achieving economic growth." In this regard, Pier Luigi Bersani called on Beppe Grillo's Five Star Movement and Prime Minister Mario Monti's coalition to back his efforts to form a government based on a program of easing austerity in Italy.
- Spain's Treasury successfully sold EUR 5.02bn in 3Y, 5Y 10Y bond auctions, topping the upper limit of its initial issuance target (EUR 4-5bn). Bid-to-cover ratios improved while average yields were lower than in previous auctions. Borrowing costs for the 10Y bond fell below the 5% level for the first time since November 2010.

- **Positive US economic releases underpinned the outperformance of risky assets**

- US payroll increased more than expected in February, and the unemployment rate unexpectedly decreased to a seven-year low of 7.7%, from 7.9% in January. Early in the week better-than-expected figures in February's ADP private employment report and a reduction in jobless claims anticipated the improving trend in US labor market. The Federal Reserve's Beige Book also brought good news, or at least no bad news, about the US economy. March's report showed an overall expansion of the economy across most of the twelve districts. Although some districts, such as Boston and Chicago, barely expanded, the overwhelming majority showed moderate expansions across a multitude of industries (primarily in manufacturing and real estate). Loan demand also increased as asset quality improved and loan standards loosened. Finally, according to the ISM index, the US service sector continued to expand in February.

- **China's 2013 official macro targets are in line with expectations, bringing some comfort to financial markets**

- Official 2013 macro targets were released during the first day of the National People's Congress (which concludes on March 17). Main targets were set for GDP growth (at 7.5%), average inflation (at 3.5%), M2 growth (at 13.0%), and the fiscal deficit (at 2.0% of GDP). Taken together, the targets signal the new leadership's intention to maintain policy continuity by mixing "proactive fiscal policy and prudential monetary policy". This announcement helped reverse part of the sharp decline of the Chinese stock market early in the week, after the announcement of new measures to curtail the rise in property prices.

- **In Mexico, consumer confidence and manufacturing orders showed signs of an economic soft patch**, while inflation increased for the first time in four months. Yet this increase should be short-lived. Besides, Brazil's GDP grew only 0.9% in 2012 4Q12 GDP expanded 0.6% QoQ, in line with our forecasts but slightly less than the consensus'. Whereas Chile's monthly economic activity indicator revealed strong growth in February (6.7% annualized).
 - Inflation, as expected, has increased for the first time in four months with core inflation reaching 2.96%. However this increase should be short lived, as fundamentals remain favorable. We thus maintain our view that inflation will stay under 4% throughout 2013.

Next week: The European Council will assess progress in implementing its 2012 country-specific recommendations. They will provide guidance to member states on the 2013 Stability and Convergence Programmes and National Reform Programmes, based on the Commission's Annual Growth Survey and the synthesis report prepared by the Presidency. Italy's parliament will reconvene on Friday. Spain and Italy will again tap the market, Italy with two auctions totalling EUR10bn and Spain issuing 3M and 12M bills.

Week March, 4 - March, 8

CC	Indicator	Period	Cons. E	Prior		Obs. *
United States	ISM Non Manufacturing	Feb	55	55	↑	56
	Factory Orders (MoM)	Jan	-2.20%	1.80%	↓	-2.0%
	Non farm payrolls (th)	Feb	165	157	↑	236
	Unemployment Rate	Feb	7.9%	7.9%	↑	7.7%
	International Trade (US\$ bn)	Jan	-43.0	-38.5	↓	-44.4
	Wholesales inventories	Jan	0.3%	-0.1%	↓	-0.8%
Euro zone	Euro-Zone PPI (MoM)	Jan	0.4%	-0.2%	↑	0.6%
	PMI Services	Feb F	47.3	47.3	↑	47.9
	PMI Composite	Feb F	47.3	47.3	↑	47.9
	Euro-Zone Retail Sales (MoM)	Jan	0.2%	-0.9%	↑	1.2%
	Euro-Zone GDP s.a. (YoY)	4Q P	-0.9%	-0.9%	→	-0.9%
	ECB Interest Rates	Mar	0.75	0.75	→	0.75
Germany	PMI Services	Feb F	54.1	54.1	↑	54.70
	Factory Orders (YoY nsa)	Jan	1.8%	-1.8%	↓	-2.5%
	Industrial Prod. (YoY nsa wda)	Jan	-1.20%	-1%	↓	-4.8%
Spain	Unemployment (MoM th)	Feb	75.00	132.10	↑	59.00
	Industrial output (Wda YoY)	Jan	-6.0%	-6.9%	↑	-5.0%
Japan	GDP annualized QoQ	4Q12f	0.2%	-0.4%	→	0.2%
	Current account total (Jpy¥ bn)	Jan	-626	-264	↓	-364.80
China	Non Manufacturing PMI	Feb		56.2	↑	54.50
	Trade balance (US\$ bn)	Feb	-6.9	29.2	↑	15.25
	Exports Yoy	Feb	8%	25%	↑	22%
Mexico	Consumer prices (MoM)	Feb	0.53%	0.4%	↓	0.5%
	Consumer confidence	Feb	98	100	↓	95.5
Colombia	Consumer prices (MoM)	Feb	0.5%	0.3%	↓	0.4%
Brazil	Industrial Production (MoM sa)	Jan	1.55%	0.0%	↑	2.5%
Chile	Trade balance (US\$ million)	Feb	500.00	244.00	↓	68.00
	Economic activity index	Feb	0.20%	1.20%	↓	0.10%

* e. Forecast/ * Magenta- Below consensus forecast. Green-Above consensus forecast. Yellow- In line consensus forecast.
 Source: Bloomberg and BBVA Research

Calendar: Indicators

Eurozone: Industrial production (January, March 13rd)

Forecast: -0.5% m/m	Consensus: 0.2% m/m	Previous: 0.7% m/m
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We expect industrial output to have declined slightly in January after the unexpected rebound observed in late 2012. These figures imply that industrial production in early 2013 should have remained broadly stable over the 4Q12 average level and thus, given its strong correlation with the business cycle, they suggest that economic activity could have stabilized at the beginning of the year or even have increased mildly. Looking forward, the advanced signals from confidence surveys is mixed, with the PMI for manufacturing raising doubts about the recovery of the sector, while the EC survey continued to show a clear upward trend in business expectations. Overall, both surveys suggest that improving foreign orders will continue to remain as the main driver of the pickup in coming months. However, the export-led upturn is likely to take time to boost investment, due to the slack capacity of the economy, while firms' investment decisions could be postponed if the uncertainty around economic outlook in coming quarters persists.

Eurozone: HICP inflation (February, March 15th)

Forecast: 1.8% y/y	Consensus: 1.8 y/y	Previous: 2.0% y/y
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Headline inflation is expected to be confirmed at 1.8% y/y in February, reflecting a slowdown somewhat larger than we anticipated previously (BBVA Research: 1.9%) from 2% in January. Underlying this performance could be not only the continuous base effect in energy prices, as expected, but also the moderation in food inflation. In addition, inflation of both services and non-energy industrial goods is likely to have remained stable. As a result, core inflation could have declined slightly again to 1.4% in February from 1.5%. Looking forward, inflation is expected to slow further in April after remaining relatively stable in March. Thereafter, inflation could increase again but would hover around 1.6% during the second half of the year. Core inflation is likely to remain more stable, fluctuating around the current rates along this year.

US: Retail Sales, Ex Autos (February, March 13rd)

Forecast: 0.2% m/m, 0.3% m/m	Consensus: 0.3% m/m, 0.4% m/m	Previous: 0.1% m/m, 0.2% m/m
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Retail sales for February are not expected to show much of a change due to lacking engagement from consumers and continuing political headwinds that may hinder some activity. Historically a positive month, February indicators released thus far show little sign of consumer activity being bolstered by political capitulation. However, the sustained growth in housing prices and equity market gains may have an increased wealth effect as both major U.S. equity indices reached 5-year highs during the month. For February, the ICSC Goldman Sachs retail store sales index increased but the monthly average is only slightly above that of January. Other retail surveys suggest a similar story, and the fluctuations show little evidence for a significant acceleration in retail sales growth. With oil prices on the rise again in February, igniting some of pressure on consumer spending power, we expect overall growth in retail sales to be minimal but positive.

US: Industrial Production & Capacity Utilization (February, March 15th)

Forecast: 0.2% m/m, 79.2%	Consensus: 0.3% m/m, 79.2%	Previous: -0.1% m/m, 79.1%
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Although January saw a one-tenth decline in the industrial production index, we expect that output will rebound in February. In general, the month has been relatively quiet aside from political headlines, but there have been pockets of manufacturing and business activity that are evidence for an increase in the production series. The ISM manufacturing index for February rose modestly with new orders on the rise along with export growth. In addition, the regional Federal Reserve manufacturing surveys indicated increasing activity with the Empire State survey breaking into expansionary territory for the first time in six months. These surveys hint at expansion in manufacturing for February along with sustained growth into March given the large increases in new orders in both groups. This is also coupled with a sustainable demand for appliances and larger goods for the housing market and the growing demand for vehicle parts which should combat some headwinds from overall political uncertainty.

China: Industrial production (ytd) (February, March 9th)

Forecast: 10.5% y/y	Consensus: 10.3% y/y	Previous: 10.3% y/y
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An important set of activity indicators for January and February will be released tomorrow, March 9, including industrial production, retail sales, and inflation. The release of combined data for January and February is aimed at eliminating distortions from the Chinese New Year, which occurred in February this year (with a reduced number of working days) versus January last year. The data will be closely watched as a gauge of the momentum of the ongoing pickup in growth, especially after disappointing PMI figures in February (50.1 for the official index). With policy settings remaining growth supportive, and with external demand improving, especially after February exports (released on March 8) surprised to the upside (21.8% y/y vs. consensus: 8.1% y/y; BBVA: 14.5% y/y), we expect industrial production to have continued to trend up in January and February.

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.28	0	-1	-19
		2-yr yield	0.25	2	1	-6
		10-yr yield	2.05	21	9	2
	EMU	3-month Euribor rate	0.20	0	-3	-69
		2-yr yield	0.09	6	-13	-7
		10-yr yield	1.53	12	-11	-27
Exchange rates (changes in %)	Europe	Dollar-Euro	1.297	-0.4	-4.1	-1.2
		Pound-Euro	0.87	0.3	0.6	3.8
		Swiss Franc-Euro	1.24	0.8	0.5	2.6
		Argentina (peso-dollar)	5.07	0.4	1.6	16.7
	America	Brazil (real-dollar)	1.95	-1.5	-2.1	8.8
		Colombia (peso-dollar)	1802	-0.6	0.6	2.2
		Chile (peso-dollar)	472	-0.5	-0.2	-2.4
		Mexico (peso-dollar)	12.67	-0.7	-0.1	0.2
		Peru (Nuevo sol-dollar)	2.60	0.1	0.8	-2.6
	Asia	Japan (Yen-Dollar)	95.87	2.4	2.4	16.3
		Korea (KRW-Dollar)	1090.46	0.5	0.2	-2.5
		Australia (AUD-Dollar)	1.022	0.2	-0.9	-3.3
	Comm. (chg %)		Brent oil (\$/b)	110.0	-0.4	-5.8
		Gold (\$/ounce)	1577.0	0.0	-6.0	-8.0
		Base metals	534.8	-0.1	-1.0	-2.0
Stock markets (changes in %)	Euro	Ibex 35	8628	5.4	7.1	4.2
		EuroStoxx 50	2729	4.3	4.3	8.5
	America	USA (S&P 500)	1549	2.0	2.4	13.0
		Argentina (Merval)	3327	7.3	1.1	24.8
		Brazil (Bovespa)	58400	2.7	-0.9	-12.4
		Colombia (IGBC)	14417	-2.5	-5.0	-4.1
		Chile (IGPA)	22028	-1.2	-1.4	2.4
		Mexico (CPI)	43897	-0.2	-3.7	16.5
		Peru (General Lima)	20381	-1.3	-6.3	-12.3
	Venezuela (IBC)	617817	-0.5	9.3	282.0	
Asia	Nikkei225	12284	5.8	7.2	23.7	
	HSI	23092	0.9	-0.7	9.5	
Credit (changes in bps)	Ind.	Itraxx Main	107	-11	-10	-26
		Itraxx Xover	415	-39	-39	-166
	Sovereign risk	CDS Germany	38	-1	-5	-38
		CDS Portugal	376	-19	-24	-840
		CDS Spain	258	-14	-35	-142
		CDS USA	41	-2	-2	---
		CDS Emerging	239	-5	6	0
		CDS Argentina	2942	-673	609	2136
		CDS Brazil	125	-9	5	-4
		CDS Colombia	95	-6	-4	-22
		CDS Chile	66	-3	-4	-29
		CDS Mexico	95	-8	-5	-27
CDS Peru	94	-6	-3	-37		

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
EMU	03/07/2013	<p>➤ ECB Watch: Slight change in numbers, but no change in mood As expected, the ECB Governing Council (GC) left the key policy rate unchanged at 0.75%.</p>
Spain	03/08/2013	<p>➤ Flash España: Producción industrial en enero La producción industrial evolucionó positivamente en enero debido, fundamentalmente, a la sorpresa al alza de los bienes intermedios y de equipo</p>
	03/07/2013	<p>➤ Una apuesta por nuestro futuro Lo decisivo y urgente ahora es que la sociedad española comprenda la importancia de lo que nos jugamos, los objetivos a conseguir a largo plazo y las prioridades para lograrlos.</p>
	03/04/2013	<p>➤ Flash España: Afiliación a la Seguridad Social y desempleo registrado en febrero Por segundo mes consecutivo, se observa un deterioro de los registros del mercado laboral menor del que apuntaban las previsiones.</p>
US	03/07/2013	<p>➤ U.S. Economic Flash. Trade Deficit Expands On Surge in Oil Imports The international trade balance expanded to -\$44.4bn in January from the prior -\$38.1bn. Exports declined 1.17%, with goods falling 1.5% and services down 0.25%</p>
	03/06/2013	<p>➤ U.S. Flash. Beige Book Points To Expansion On A Broad Scale Modest increases in manufacturing and consumer spending across most districts. Reports of general expansion in real estate with help from low borrowing rates</p>
	03/05/2013	<p>➤ U.S. Economic Flash. ISM Non-Manufacturing Rebounds On New Order Growth The ISM Non-Manufacturing Index rose to 56.0, up 0.8 points on better demand and increased backlogs. Business activity rose moderately while the employment gauge fell slightly</p>
	03/04/2013	<p>➤ U.S. Weekly Flash. Government spending cuts are outdone by better trade on GDP revision (Spanish version) After a slightly worrying negative GDP figure for the advanced 4Q12 estimate, preliminary figures show a reversal to a positive 0.1% on a QoQ seasonally-adjusted annualized basis</p>
Latam	03/08/2013	<p>➤ Latam Daily Flash: Lower-than-expected inflation in Mexico; IP grew in Brazil in January; no surprises from Peru's central bank</p>
	03/07/2013	<p>➤ Latam Daily Flash: COPOM refrains from committing to stable rates ahead; Fitch revises Colombia's outlook to positive</p>
	03/06/2013	<p>➤ Latam Daily Flash: Strong economic activity in Chile; low inflation in Colombia; more signs of moderation in Mexico</p>
	03/05/2013	<p>➤ Latam Daily Flash: In Mexico, manufacturing confidence improved but with reduced momentum</p>
	03/04/2013	<p>➤ Latam Daily Flash: Slow activity recovery in Brazil; CB focus on domestic risks in Chile; unexpected fall in inflation in Peru</p>
Brazil	03/07/2013	<p>➤ Brazil Flash: COPOM leaves the SELIC unchanged, but refrains from committing to stable monetary conditions ahead In line with our expectations, the Monetary Policy Committee (COPOM) decided, unanimously, to maintain the SELIC at 7.25%</p>
Chile	03/05/2013	<p>➤ Actividad económica muestra fuerte crecimiento anual en enero La actividad económica mantuvo su dinamismo en enero al registrar un incremento de 6,7% a/a (0,1% m/m), apoyada en la fortaleza de sectores ligados a demanda interna y una recuperación en minería.</p>
Colombia	03/05/2013	<p>➤ Flash Colombia. Inflación de febrero se ubicó por debajo del rango meta inflacionario en 1,83% En febrero la inflación al consumidor se ubicó en 0,44% m/m (0,53% consenso y 0,54% BBVA Research), con una variación interanual de 1,83%</p>
Peru	03/07/2013	<p>➤ Banco Central: tasa de política sin novedades El Banco Central mantuvo su tasa de política monetaria en 4.25%, en línea con lo esperado</p>

Mexico

- 03/07/2013 ➤ **Flash Inmobiliario México. El programa de garantías a la construcción: ¿es lo que se necesita?**
El gobierno anuncia un plan de apoyo a la construcción de vivienda a través de un programa de garantías para estimular el financiamiento bancario a esta actividad
- 03/07/2013 ➤ **Flash Inmobiliario México. La producción en la construcción un escalón hacia abajo**
Primer mes con tasa negativa en la producción de la construcción. Menor gasto público en capital físico, junto con una menor producción privada
- 03/07/2013 ➤ **Mexico Inflation Flash. February's CPI: Inflation Accelerated As Widely Expected; But It's Risk Balance Remains Positive**
General: Actual: 0.49% m/m vs. BBVA: 0.58% m/m Consensus: 0.52% m/m. Core: Actual: 0.51% m/m, vs. BBVA: 0.53% m/m Consensus: 0.52% m/m
(Spanish version)
- 03/06/2013 ➤ **Mexico Flash. Banco de México: Upward inflation risks increase the probability that the rate cut takes place in April**
Waiting some weeks to assess the upward inflation risks and the magnitude of US sequestration could bring more elements for a rate cut
(Spanish version)

Asia

- 03/08/2013 ➤ **Asia Daily Flash | 8 March 2013: China exports surge; Japan Q4 GDP revised up; China regulator eases restrictions on RQFII**
China's Feb exports were a big upside surprise. Japan's 4Q GDP was revised upward to +0.2% from -0.4%. The yen's depreciation continued, breaking through the 95/USD level. Nikkei soared by 2.6%
- 03/07/2013 ➤ **Asia Daily Flash | 7 March 2013: Japan, Indonesia, Malaysia central banks all remain on hold; weak exports in Taiwan**
BoJ announced no changes to interest rates or asset purchasing program. Nikkei pared gains after the decision but still finished higher (0.3%) while Chinese Korean indices were lower (-1.0%, -0.8%)
- 03/06/2013 ➤ **Asia Daily Flash | 6 March 2013: Australia Q4 GDP rises; Offshore RMB business off to fast start in Taiwan**
Asian markets rose ahead of monetary policy meetings being held tomorrow in Japan, Indonesia and Malaysia. Japan's Nikkei rose by 2.1%, followed by the Philippines (+1.8%) and Indonesia (+1.5%).
- 03/05/2013 ➤ **Asia Daily Flash | 5 March 2013: China released 2013 macro targets; RBA kept rates unchanged; India service PMI fell**
China released official 2013 macro targets which helped reverse market sentiment after yesterday's sharp equity decline. Shanghai Composite was up by 2.3% followed by India (1.4%) and Australia (1.3%)
- 03/05/2013 ➤ **China Flash: Official 2013 macro targets set in line with expectations, highlighted by 7.5% growth target**
GDP growth target of 7.5% is unchanged. Inflation target has been lowered to 3.5%. M2 growth target has been lowered to 13%. Fiscal policy to support growth with a higher deficit target of 2.0%.
- 03/04/2013 ➤ **Asia Daily Flash | 4 March 2013: Property measures cause China shares to tumble; Korea inflation falls; Release of China Banking Flash**
Property tightening measures announced by China sent shares on the Shanghai Composite sharply lower today. With weaker-than-expected PMI outturns, regional market sentiment was down.
- 03/04/2013 ➤ **China Flash: Strong 2012 banking indicators, but profits are set to decline**
The China Banking Regulatory Commission (CBRC) released its annual set of banking indicators last Friday, showing overall profit growth of 19% for the banking system.

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