

Global Weekly Flash

Madrid, 11 October 2013
Economic Analysis

Financial Scenarios

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All eyes on a potential debt-ceiling agreement

- **Mounting pressure to raise the US debt ceiling led Republicans to offer a six-week extension to current debt limit. However, at the time of writing, an agreement is still pending**
 - Throughout the week, private corporate leaders and US Treasury bill investors warned Congress of the impact of the shutdown and of a potential US default. China, which has 60% of its foreign reserves invested in US assets, urged US authorities to end the debt deadlock. Meanwhile, some clearinghouses are planning to increase the haircut applied to US Treasuries with maturities of less than one year. Nonetheless, the Republican offer is essentially another postponement and would not end the threat of a government shutdown in the future. Moreover, the offer may run counter to Democrats' wishes of "a clean debt ceiling increased". The Treasury Department still projects that existing "special" accounting measures, designed to keep borrowing costs just under the debt limit, will be insufficient by October 17.
- **Political turmoil weighed on the Fed's decision to postpone QE tapering**
 - FOMC minutes from the September 17th-18th meeting convey that the decision to postpone a QE3 scale-down announcement was a close call, mostly driven by the potential risk of further financial-market tightening and by increased downside risks of a fiscal policy gridlock. Overall, Committee members viewed positively both economic conditions and the labor market, however also saw increased downside risk linked to fiscal uncertainties. Conditional on greater fiscal policy clarity, the FOMC could announce its plan to scale down QE3 in December. However, if the government shutdown and the debt ceiling debate linger, the FOMC would likely delay tapering until 2014. Vice Chair Ellen's nomination to succeed Chairman Bernanke implies continuity to monetary policy.
- **Concerns over a potential US default have not impacted asset prices, but risk measurements signal markets' unease**
 - Early in the week, equity indices remained broadly stable, however since Thursday they started rising, following the proposal for a 6-weeks debt ceiling extension. By the end of the week, most equity indices were registering gains: in Europe led by the Italian MIB (+3%) and the Spanish IBEX (+2.3%), while in Asia led by India and Indonesia (+3%). However, risk indicators, such as the implied volatility or trade levels in the US Treasury market, tightened earlier in the week yet have recovered since Thursday. In particular, the S&P500 volatility index VIX ends the week at 16.4, after reaching above 21 (July's levels, when markets started pricing in the tapering, yet below December's 2012 levels, when market grew anxious about the US fiscal cliff). Furthermore, the Treasury bill market has continued under pressure due to fears of a US default on its debts: the 1M T-bill is closing the week at 0.30%, from the 0.02% at the beginning of October and despite increasing hopes of an early agreement in DC. 10Y bond yields in the US (+6bps) and Europe also rose, except in Italy, which has closed the yield gap against Spain. The USD appreciated slightly against major peers (DXY +0.3%) but depreciated against most of emerging countries (Brazilian real +1.44%, Indian Rupee +0.5%).

- **No high hopes on next week's Eurogroup meeting**
 - Eurozone ministers will assess both Portugal's and Spain's review mission, following the positive assessment released last week by the Troika. According to reports in the media, the Eurogroup has postponed any decision to cover the Greek funding gap until December and any debt relief until April next year. However, they may study ways to help Ireland to return to markets. Financial ministers will also prepare for the EU council meeting, October 24-25. There they will address ways to foster eurozone job and growth and assess on-going work to establish a banking union. Investors are waiting for the first detailed of the Asset Quality Review (AQR) and for the backstop measures to help national governments recapitalise problem banks. According to news flows, European officials are biased towards creating national government local backstops rather than a European backstop fund. Several days ago, the ECB President Mario Draghi and the Vice-president of the European Commission Olli Rehn suggested the exclusion of public injections to banks from the definition of "excessive deficit." At the end of the day, any decision will remain vulnerable until a new German government has been formed. According to Der Spiegel, German Chancellor Angela Merkel has set herself a two-week deadline to find a coalition partner. A grand coalition with the SPD party alliance is considered the most likely scenario.
- **Spain and Italy attract strong foreign investor demand**
 - The Spanish and Italian Treasuries launched syndicated bonds (30Y and 7Y, respectively). Both auctions faced strong demand, with bid-to-cover ratios of around 2.5x and 2.2x, respectively. Demand from foreign investors rose from previous syndicates, closing auctions at pre-crisis levels. Foreign investors accounted for 64% of the Spanish issuance and 62% of the Italian one. Real money funds, such as insurance and pension fund managers, hold 62% of the Spanish issuance and 44% of the Italian.
- **IMF cut global growth outlook as emerging markets weaken**
 - The institution revised downwards its 2013 global growth forecast (2.9% from previous 3.1%), which was dragged down by downward revisions to emerging economies. In particular, the institution stated that much of the expected pickup in growth will be driven by advanced economies. The institution also reduced its growth forecast for 2014 (3.6% from July's estimate of 3.8%) and signaled some risks, like a US failure to raise the debt ceiling, a weaker Chinese economy, and the market volatility that may arise once the Fed starts to taper (and potential disruptions in those markets that have been accumulating vulnerabilities, such as in several emerging markets). By country, the institution revised upwards its growth forecast for the euro-area countries and the United Kingdom, with the exception of Italy that did not change. In emerging markets, the most significant downward revisions were for Mexico, Russia and China.
- **In Europe, August's industrial production disappointed, despite previous positive signs from confidence indicators**
 - Germany's factory orders unexpectedly fell in August (-0.3%), suggesting industrial production may lose luster in the coming months (annulling the impact of the observed increase in August's industrial production). Meanwhile, Germany's trade balance improved by less than expected, as growth in exports (+1%) were higher than in imports (+0.4%). Furthermore, French industrial production also disappointed, rising in August less than expected. Moreover, Italy's industrial production contracted for a second month in a row (yet by less than forecasted). In Greece, industrial production continued to contract in August. The Bank of France revised upwards its GDP forecast for Q3, from -0.1% QoQ to +0.1% QoQ, yet still a significant deceleration from the previous +0.5% QoQ growth in Q2.

- **Few economic indicators were released in the US**
 - US initial jobless claims for the week have surprised to the upside (374K, consensus 311K). Continuing claims reached 2905K (consensus 2863K). However technical problems and the government shutdown may weigh on these figures. The U. Michigan consumer confidence index dropped 2.3 points in October, driven by a fall in the expectation component.
- **Inflation in Mexico and Chile remained subdued, while falling below the 6% threshold in Brazil**
 - September's inflation dropped in both Mexico and Brazil (to 3.39% YoY from 3.46%YoY in Mexico and to 5.86% YoY from 6.09% in Brazil). Despite a slight increase in Mexico's core inflation, this measure remained close to August's all-time low level, signaling ample economic slack. We continue to expect a 25bp cut at the October 25 Banxico monetary policy meeting. Meanwhile, inflation in Brazil has less room to fall and we continue to foresee another increase in the SELIC rate (of 25pb) next November, following the 50pbs increase in the SELIC carried out this week. In Chile, inflation increased 0.5% MoM in September in line with our expectations. Core inflation remained subdued at around 2% YoY in September, whereas the monthly activity index expanded by 4.1% in August, pointing at a 3Q13 GDP growth of around 4.5% YoY. Against this background we do not expect any changes in the monetary policy rate at October's meeting.

Next week: The US need to agreement on raising the debt ceiling before next Thursday to avoid default. The Fed will release its Beige book on Wednesday. In Europe, the German Zew, the UK's ILO unemployment, and the euro zone's industrial production will be released. Industrial production will be also released in Japan, and China's NBS will publish 3Q13 GDP.

Weekly Indicators

Week October, 7 - October, 11

CC	Indicator	Period	Cons. E	Prior	Obs. *
United States	Consumer Credit MoM (USD Bn)	Aug	12000	10437	↑ 13625
	Initial Jobless Claims ('000)	5-Oct	310	308	↑ 374
	Continuing Claims ('000)	28-Sep	2863	2925	↑ 2905
	U. Michigan Consumer Sentiment	Oct	76	77.5	↓ 75.2
France	Bank of France Bus. Sentiment	Sep	98	97	↓ 97
	Industrial Production MoM	Aug	0.6%	-0.6%	↓ 0.2%
Germany	Trade Balance	Aug	15	16.1	↓ 13.1
	Exports SA MoM	Aug	1.1%	-1.1%	↓ 1.0%
	Industrial Production SA MoM	Aug	1.0%	-1.7%	↓ 1.4%
	Factory Orders MoM	Aug	1.1%	-2.7%	↓ -0.3%
	CPI MoM	Sep F	0.0%	0.0%	→ 0.0%
	CPI YoY	Sep F	1.4%	1.4%	→ 1.4%
Italy	Deficit to GDP YTD	2Q	--	7.3%	4.1%
	Industrial Production MoM	Aug	0.60%	-1.10%	↓ -0.30%
UK	Industrial Production MoM	Aug	0.4%	0.0%	↓ -1.1%
China	HSBC/Markit ServicesPMI	Sept	--	52.4	52.8
	New Yuan Loans (Bn)	Sept	675	--	↑ 711.3
	Money Supply MoM	Sept	14.2%	--	↑ 14.7%
Japan	Machine Orders MoM	Sept	-0.30%	3.40%	↓ -0.70%
Mexico	Industrial Production MoM	11-Oct	0.10%	-0.10%	→ 0.50%
	CPI MoM	Sept	0.44%	0.28%	↓ 0.35%
Chile	Economic Activity YoY	07-Oct	3.80%	5.30%	↑ 4.10%
Brazil	IBGE Inflation IPCA MoM	Sept	0.35%	0.24%	→ 0.35%

* 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 (August, October 14th)

Forecast: 1.0% m/m	Consensus: 0.6% m/m	Previous: -1.5% m/m
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We expect industrial production to have increased by 1.0% m/m in August, not enough to offset the significant fall observed in July (-1.5% m/m). Across countries, national figures published recently have been mixed, with German industrial production surprising on the upside, but both French and Italian industrial outputs disappointing. Our forecast for industrial production in the eurozone implies that the output in this sector could have declined between July and August by around -0.7% over 2T13, in contrast with the more upbeat signs stemming from industrial confidence surveys. Overall, these figures are in line with our view that the pace of the recovery in the eurozone could have eased slightly in the third quarter, especially in French and Germany, with periphery economies showing some signs of stabilization.

Eurozone: HICP inflation (September, October 16th)

Forecast: 1.1% y/y	Consensus: 1.1% y/y	Previous: 1.3% y/y
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HICP inflation is likely to be confirmed at 1.1% y/y in September, slowing 0.2pp from the August figures. This decline should have been widespread across components, except service prices, which could have increased by 0.1pp to 1.5% y/y. Our forecasts suggest that underlying the September slowdown were mainly lower energy prices (subtracting around 0.1pp to annual HICP inflation), but also the lower growth of prices of non-energy industrial goods and food. All in all, core inflation is likely to have declined by around 0.1pp to 1.2% y/y. Looking forward, our forecasts suggest that the headline profile could be somewhat more uneven by year-end, increasing slightly to around 1.4% y/y in December (average of 1.5% for 2013 as a whole), partly reflecting a lower base effect of energy prices. This performance is expected to remain throughout 2014, hovering around the projected annual inflation rate next year (1.4%). In contrast, core inflation is projected to remain around 1.2% y/y in the last quarter of 2013 and over next year.

US: Consumer Price Index, Core (September, October 16th)

Forecast: 0.1%, 0.1%	Consensus: 0.2%, 0.2%	Previous: 0.1%, 0.1%
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Inflationary pressures have been muted for some time now, and the current slow-growth environment doesn't signal a changing trend anytime soon. The consumer price index has increased for four consecutive months, though at a slow enough pace that the Fed does not feel pressured to immediately scale-back its asset purchase program. The usual suspects are at play here, with shelter and medical care services driving core inflation and volatile energy prices influencing the headline figure. In September, inflation pressures from the energy sector were relatively low, with Brent crude oil prices up slightly offsetting a minor decline in WTI. Natural gas prices, however, jumped back up in September for the first time since April. Overall, we do not expect significant changes to occur throughout the next few months regarding the path of inflation.

Industrial Production (September, October 17th)

Forecast: 0.3%	Consensus: 0.4%	Previous: 0.4%
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Industrial production jumped in August to recover from a flat reading in July and very subtle gains at the end of the second quarter. Manufacturing production was the big winner for the month while utilities output declined for the fifth consecutive period. For September, we expect the data to show a similar picture as manufacturing activity continues to gain momentum but at a very gradual pace. Demand (both domestically and abroad) is still not certain enough for businesses to significantly ramp up production in the short-term, although conditions remain mostly favorable for modest increases throughout the rest of the year.

China: Q3 GDP growth (October 18th)

Forecast: 7.7% y/y	Consensus: 7.8% y/y	Previous: 7.5% y/y
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China's economy is likely to have accelerated in Q3, based on recent activity indicators pointing to a stronger growth momentum after a slowdown in H1. The pickup is attributable improving private manufacturing investment and external demand. The former has been facilitated by enhanced policy clarity, which lifted confidence in the 7.5% growth target for 2013, as well as "mini" stimulus measures, including tax cuts for small businesses, accelerated infrastructure spending, and streamlining of exports customs procedures. On sequential terms, Q3 growth is likely to rise to 2.1% q/q sa, from 1.7% in Q2. We expect growth momentum to continue in early 2014, but lose some steam in the second half of the year as stimulus wears off and as the authorities address rising financial fragilities and reforms to rebalance growth. A batch of monthly activity indicators for September will also be released, including trade (Oct 12), credit aggregates (Oct 12-15), inflation (Oct 14), industrial production, investment, and retail sales (Oct 18).

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.24	0	-1	-9
		2-yr yield	0.34	1	-10	8
		10-yr yield	2.68	3	-23	102
	EMU	3-month Euribor rate	0.23	0	0	2
		2-yr yield	0.18	1	-7	14
		10-yr yield	1.86	2	-18	42
Exchange rates (changes in %)	Europe	Dollar-Euro	1.353	-0.2	1.7	4.5
		Pound-Euro	0.85	0.3	0.9	5.4
		Swiss Franc-Euro	1.23	0.4	-0.3	2.1
	America	Argentina (peso-dollar)	5.83	0.4	2.0	23.7
		Brazil (real-dollar)	2.18	-1.5	-4.2	6.7
		Colombia (peso-dollar)	1880	-0.4	-2.1	4.6
		Chile (peso-dollar)	498	-0.2	-0.8	5.4
		Mexico (peso-dollar)	13.00	-0.6	-0.4	1.0
		Peru (Nuevo sol-dollar)	2.77	-0.3	-0.1	7.2
	Asia	Japan (Yen-Dollar)	98.49	1.0	-1.4	25.6
		Korea (KRW-Dollar)	1071.40	0.1	-1.4	-3.6
		Australia (AUD-Dollar)	0.947	0.3	1.5	-7.5
Comm. (chg %)		Brent oil (\$/b)	111.0	1.4	-0.4	-3.1
		Gold (\$/ounce)	1271.8	-3.0	-6.9	-27.5
		Base metals	513.7	-0.6	-1.9	-0.8
Stock markets (changes in %)	Euro	Ibex 35	9669	2.6	8.9	26.3
		EuroStoxx 50	2974	1.6	3.9	20.5
	America	USA (S&P 500)	1703	0.7	0.8	19.2
		Argentina (Merval)	5217	7.4	15.5	117.3
		Brazil (Bovespa)	53064	0.4	-0.9	-10.3
		Colombia (IGBC)	14224	1.3	1.1	-0.3
		Chile (IGPA)	18865	-0.1	-1.4	-9.2
		Mexico (CPI)	40940	0.1	-1.7	-1.7
		Peru (General Lima)	15449	-0.5	-9.1	-27.8
	Venezuela (IBC)	1813092	3.7	24.2	401.8	
	Asia	Nikkei225	14405	2.7	-0.1	68.8
HIS		23218	0.3	1.2	9.8	
Credit (changes in bps)	Ind.	Itraxx Main	96	-1	-1	-32
		Itraxx Xover	384	-4	-3	-157
	Sovereign risk	CDS Germany	24	-1	-4	-25
		CDS Portugal	415	-28	-109	-48
		CDS Spain	205	-7	-29	-149
		CDS USA	38	-3	14	---
		CDS Emerging	278	-8	-29	58
		CDS Argentina	2308	-235	-433	1317
		CDS Brazil	154	-13	-22	43
		CDS Colombia	123	-7	1	19
		CDS Chile	83	-4	-7	0
		CDS Mexico	109	-9	-4	7
		CDS Peru	134	-8	1	28

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
EMU	10/10/2013	➤ Economic Watch Portugal: Though weak, recovery continues in the third quarter The MICA-BBVA model for Portugal estimates marginal GDP growth in 3Q13 (up 0.2% q/q) (Spanish version) (Portuguese version)
	10/10/2013	➤ Europe Economic Watch: Recovery in the eurozone continued in the third quarter, although at a slower pace The widespread improvement in confidence in 3Q13 is not reflected to the same extent in real indicators (Spanish version)
Spain	10/11/2013	➤ Flash España: IPC de septiembre La inflación se desaceleró en septiembre debido principalmente al efecto base derivado del incremento del IVA en 2012
	10/10/2013	➤ La financiación de las comunidades autónomas de régimen común en 2011 En esta nota se analiza la financiación definitiva de las comunidades autónomas de régimen común en el año 2011
	10/09/2013	➤ Observatorio Económico España: "Tercer trimestre de 2013: el cambio de ciclo habría comenzado pero todavía con un débil crecimiento" La información conocida del tercer trimestre de 2013 sugiere que la actividad económica podría haber registrado un débil crecimiento
	10/08/2013	➤ Flash España: producción industrial en agosto Los datos de agosto siguen advirtiendo una ralentización de la contracción interanual de la actividad en la industria.
	10/08/2013	➤ Informe "La empresa mediana española" El tamaño de la empresa es relevante para innovar e internacionalizarse
US	10/09/2013	➤ Fed Watch. FOMC Minutes: September 17th - 18th Foreseen Government Shutdown Put September Tapering on Hold (Spanish version)
	10/09/2013	➤ U.S. Monthly Outlook Slides October 2013
	10/07/2013	➤ U.S. Weekly Flash. Government Shutdown in Full Effect as Brinkmanship Continues in Congress As September 30th drew to a close, Congress was unable to agree on a last-minute continuing resolution to establish budget appropriations for FY2014, sending the government into shutdown mode on October 1 st (Spanish version)
Latam	10/11/2013	➤ Latam Daily Flash: Central Bank of Peru kept its policy rate unchanged in the context of gradual inflation convergence In Chile, the Central Bank survey anticipates maintenance of the policy rate in October but a cut in December.
	10/10/2013	➤ Latam Daily Flash: We do not expect changes in the MP meeting in Peru. The tightening in Brazil continued as expected
	10/09/2013	➤ Latam Daily Flash: Today eyes will be on Brazil's monetary policy meeting. We expect the Selic to be adjusted by +50bp
	10/08/2013	➤ Latam Daily Flash: Activity in Chile in August was in line with our forecast for this year, with a first cut in November
	10/07/2013	➤ Latam Daily Flash: In Peru business confidence rebounded, in line with our view of a convergence with potential growth In Peru business confidence rebounded in line with the view of convergence with potential growth in the coming months.
	10/06/2013	➤ El verdadero gigante de Latinoamérica ¿Cuál es el gigante económico de América Latina?

Brasil	10/10/2013	<p>➤ Brazil Flash: "COPOM: no surprises; no hints" As widely expected, the Monetary Policy Committee (COPOM) unanimously decided to hike the SELIC rate to 9.50% (Spanish version)</p>
	10/09/2013	<p>➤ Brazil Flash: Inflation drops below 6% for the first time this year Yearly inflation declined to 5.86% YoY in September, from 6.09% YoY in August, in line with forecasts (BBVA: 5.86% YoY; consensus: 5.86% YoY). (Spanish version)</p>
Chile	10/08/2013	<p>➤ IPC de septiembre se ubica en 0,5% (2% en 12 meses), en línea con nuestras expectativas. El IPC de septiembre creció 0,5% m/m acumulando 1,9% en lo que va del año. Destacan alzas en automóviles nuevos (3,4% m/m), bajas en gasolinas (2% m/m) y alzas en algunas frutas y verduras.</p>
	10/07/2013	<p>➤ Sin sorpresas, Imacec de agosto crece 4,1% a/a Imacec de agosto creció 4,1% a/a en línea con nuestra proyección (BBVAe 3,8% a/a). En el registro incidió principalmente el dinamismo de las actividades de minería y comercio.</p>
Colombia	10/07/2013	<p>➤ Flash Colombia. Inflación de Septiembre se mantiene estable en 2.27% a/a sin la caída interanual anticipada por el mercado. La sorpresa se presentó ante un crecimiento de los precios de la energía superior al anticipado por su estacionalidad y un fuerte incremento en los precios de los alimentos.</p>
Peru	10/10/2013	<p>➤ Flash Perú. Política monetaria sin cambios El Banco Central mantuvo su tasa de política monetaria en 4,25%, nivel vigente desde mayo de 2011.</p>
Mexico	10/10/2013	<p>➤ Mexico Economic Watch. Reverse Mortgages in Mexico as a pension supplement By means of the Reverse Mortgage contract, people aged over 60 will be able to receive a life annuity, using their own home as collateral (Spanish version)</p>
	10/09/2013	<p>➤ Mexico Inflation Flash. September's inflation: came in lower than our below-consensus expectation Headline: Actual: 0.38% MoM (BBVA Research: 0.43%; Consensus: 0.45%). Core: Actual: 0.32% MoM (BBVA Research: 0.30%; Consensus: 0.35%) (Spanish version)</p>
	10/08/2013	<p>➤ Competition and Efficiency in the Mexican Banking Sector The Mexican banking sector experienced a process of liberalization which aimed towards increasing the level of competition and efficiency</p>
Asia	10/10/2013	<p>➤ Asia Flash 10 Oct 2013: PBoC and ECB sign swap line in boost to RMB internationalization; Bank of Korea keeps rates on hold; Australia unemployment rate falls in September. PBoC and ECB sign swap line in boost to RMB internationalization; Bank of Korea keeps rates on hold as ¿moderate¿ growth continues; Australia unemployment rate falls.</p>
	10/08/2013	<p>➤ Asia Flash 8 Oct 2013: India's central bank relaxes liquidity measures as external pressures ease; Bank Indonesia leave rates unchanged after series of aggressive hikes China's stock market re-opened today, after a week-long holiday. The Shanghai index rose by 1.1%, in catch-up with regional developments.</p>

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