

# Global Weekly Flash

Madrid, 31 October 2013  
Economic Analysis

Financial Scenarios

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## Central banks wait for further macro evidence

- **The FOMC awaits stronger economic data before reviving any taper-talks**
  - The last FOMC statement was carefully crafted to communicate neither a dovish nor hawkish bias. On the one hand, its economic outlook remained optimistic, signaling no concerns about the government shutdown. On the other hand, the FOMC signaled ongoing concern over low inflation rates. As a result, the Committee confirmed that its monthly pace of LSAP will remain data driven. The possibility of a scaling-down of asset purchases by December remains contingent upon a potential upward revision of September's employment indicators and signs of sustainable economic progress in October's macro data.
- **ECB meeting next week: we expect monetary policy to remain unchanged.**
  - Despite continuing signs of economic recovery, the ECB wording will remain dovish. The reasons are that the upturn remains very fragile and, more importantly, inflation figures have recently surprised on the downside. On the liquidity side, following the last ECB meeting, Mr. Draghi stood strongly in favor of ECB's liquidity support, reiterating that they will remain "particularly attentive" to developments in money markets. While we do not foresee any new announcement next week, the ECB is surely contemplating another round of the LTRO program in the near future. Questions about the euro's recent appreciation and downward inflationary pressures will probably dominate the Q&A session. We think that a strong euro may trigger a verbal response/intervention from the ECB, but no immediate actions (ECB Executive Members Jorg Asmussen and Ewald Nowotny have shown no specific concern about the strength of the euro). Mr. Asmussen recently said that "we don't have an explicit exchange rate target." "In nominal terms and in real effective terms, which is more important, it is within the band we have seen for the last ten years." "It only concerns me as it factors into our inflation forecast." Moreover, Mr. Nowotny said that "the strong euro is something that policy-makers and others will "have to live with," and "I do not see any instruments we could use against it, and I also don't see that the problem has reached a dimension requiring a response." The upcoming Asset Quality Review (AQR) will probably raise another set of questions, given that only few details have been released about the comprehensive assessment on the eurozone banking sector ([see also](#)).
- **Yields at the eurozone core fall on the back of lower-than-expected inflation while risky assets correct downwards after the FOMC statement, more hawkish than expected by the markets**
  - In the euro zone, core bond yields ended significantly lower (-11bps) while peripheral yields barely fell (the exception was Spain's 10Y bond yield which fell in line with core yields past the 4% mark). The US 10Y yield also fell earlier in the week, but it bounced back after the FOMC statement forced markets to retain the possibility of tapering in December. As a result, the 10Y US Treasury bond is ending flat. Latin American sovereign debt markets have been hard hit by the Fed statement and yields are closing

- the week with sharp increases: Mexico's 10Y local yield +30bps, Brazil's +12bps, Colombia's +7bps and Peru's +8bps. Despite correcting downwards after the Fed's meeting, equity indices have remained well supported at levels only slightly below their recent highs. By the end of the week, European stocks closed with mixed results (the financial sector among the worst performers) while US stocks are accumulating fresh gains. In FX markets, the US dollar is registering gains against major currencies: the euro, the British pound, the Japanese yen and the Swiss franc are ending the week 1% lower against the dollar. EM currencies are falling against the dollar, the Chilean peso and the (-2%) and the Brazilian (-1%) were among the worst performer in the week.
- **In the US, September's activity and price data favor prolonging the Fed's stimuli.**
  - US retail sales unexpectedly fell in September (retail sales excluding auto components grew, but less than expected). Moreover, manufacturing output also disappointed despite a better-than-expected performance of industrial production. In October, the partial government shutdown negatively affected consumer confidence, which fell more than expected. Labor market figures also disappointed: according to ADP national employment report, private jobs increased less than expected in October. With regard to the evolution of prices, inflationary pressure remained subdued in September: headline and core measures for both the consumer price index (CPI) and the production price index (PPI) showed that year over year inflation had remained well below the 2% mark (1.2%YoY CPI headline, 0.3% YoY PPI). Despite all, back in August, housing prices, as measured by the S&P/Case-Shiller 20, increased more than expected.
- **In the eurozone, inflation falls below expectations while confidence continues to improve.**
  - In October, flash HICP inflation slowed down by 0.4pp (to 0.7% YoY) more than expected. The price performance of the more volatile components (energy and fresh food) could explain around 0.2pp of the slowdown in headline inflation, while the remaining 0.2pp could be stemming from lower growth in both services and processed food prices. As a result, core inflation is also likely to have declined in September (to 1% YoY from 1.2%). We expect inflation to increase slightly by the end of this year and to hover around 1% throughout the next. Yet downside risks remain: recent negative surprises, mainly in more volatile components, challenge our inflation forecasts for 2013 and 2014 (possibly reducing our estimates by 0.1pp and 0.2pp, respectively) Meanwhile, October's economic sentiment indicator rose for a sixth straight month at a rate that was higher than expected. The increase was driven by confidence in industry and, to a lesser extent, by consumers. In contrast, confidence weakened in services, retail trade and construction. By country, economic sentiment improved in three out of the five largest euro area economies: the Netherlands (+3.3), France (+2.6) and Germany (+0.8), while it deteriorated in Spain (-2.2) and Italy (-2.0). On the other hand, Spain's GDP grew in 3Q13 in line with expectations (+0.1% QoQ), according to the flash estimate of Spanish GDP, leaving behind nine consecutive quarters of negative growth. GDP growth in the third quarter was mostly driven by external demand.
- **China looks forward to its Third Plenary meeting on November 9-12.**
  - In China, expectations for the new leadership's reform agenda run high ahead of the Third Plenary meeting in November. President Xi Jinping was reported to have said that the Third Plenary meeting will set out a roadmap for "broad and deep reforms." Furthermore, over the weekend a published report of the State Council's think tank, which may be a precursor to reforms to be announced, highlights three areas: "marketization" of the economic system, government administration reform, and innovation of enterprises. Besides, growth of industrial profits stayed resilient in September, increasing 18.4% YoY, after recording its fastest pace so far this year in

August (24.2% YoY). Lastly, the People's Bank of China has engaged in seven-day reverse-repurchase agreements worth 13 billion yuan in order to ease pressure into money market. Nonetheless, the benchmark 7-day SHIBOR rate has remained near its three-month high (currently at 4.947%).

- **In Latam, no significant changes were observed.**

- In Chile, retail sales expanded in September while manufacturing output declined. These figures suggest that the monthly activity index (Imacec) will grow 3.9% YoY in September, leading in turn to an estimated 4.4% GDP growth in 3Q13 (YoY). This remains in line with our GDP growth forecast for 2013 (4.2%).

**Next week:** markets will focus on the ECB meeting (November 7th). In the US there will be a slew of economic indicators: 3Q13 GDP growth, October's payroll and ISM non-manufacturing, and September's factory orders, personal income and spending. Furthermore, November's U.M consumer confidence index will be also released. In the eurozone, final figures for October's PMI indexes and September's retail sales will be published. China is expected to release several economic indicators for October, including export and import figures, industrial production and retail sales.

## Weekly Indicators

Week October, 28 - October, 31

	Indicator	Period	Cons. E	Prior		Obs. *
United States	Industrial production (MoM)	Sept	0.40%	0.40%	↑	0.60%
	Capacity Utilization	Sept	78.00%	77.90%	↑	78.30%
	Manufacturing production (MoM)	Sept	0.3%	0.5%	↓	0.1%
	Pending home sales (YoY)	Sept	3.6%	2.8%	↓	1.1%
	PPI (YoY)	Sept	0.60%	1.40%	↓	0.30%
	PPI ex food and energy (YoY)	Sept	1.20%	1.10%	→	1.20%
	Retail sales (MoM)	Sept	0.0%	0.2%	↓	-0.1%
	S&P/CCS Composite (YoY)	Aug	12.5%	12.3%	↑	12.8%
	Consumer Confidence Index	Oct	75	80.2	↓	71.2
	ADP Employment (k)	Oct	150	145	↓	130
	CPI (YoY)	Sept	1.2%	1.5%	→	1.2%
	CPI Core (YoY)	Sept	1.8%	1.8%	↓	1.7%
	Initial Jobless claims	01-oct	338	350	→	340
	Chicago PMI	Oct	55.0	55.7	↑	65.9
	ISM Manufacturing	Oct	55	56		
Eurozone	Business Climate Indicator	Oct	-0.19	-0.19	↑	-0.01
	Economic confidence	Oct	97.20	96.90	↑	97.80
	Industrial confidence	Oct	-6.50	-6.60	↑	-4.80
	Consumer Confidence	Oct	-14.50	-14.50	→	-14.50
	Services confidences	Oct	-2.80	-3.20	↓	-3.70
	Unemployment Rate	Sept	12.0%	12.2%	↑	12.2%
	CPI (YoY)	Oct	1.1%	1.1%	↓	0.7%
	CPI Core (YoY)	Oct	1.0%	1.0%	↓	0.8%
France	Consumer confidence	Oct	86	85	↓	85
	Consumer Spending (YoY)	Sept	0.2%	0.1%	↓	-0.1%
Germany	Unemployment rate	Oct	6.9%	6.9%	→	6.9%
	CPI (YoY)	Oct P	1.4%	1.4%	↓	1.2%
	CPI Harmonized (YoY)	Oct P	1.5%	1.6%	↓	1.3%
	Retail sales (YoY)	Sep	1.1%	0.4%	↓	0.2%
	Consumer confidence GfK	Nov	7.2	7.1	↓	7.0
	Import prices (YoY)	Sep	-2.80%	-3.40%	→	-2.80%
Italy	Business Confidence	Oct	96.00	96.80	↑	97.30
Spain	Retail sales WDA (YoY)	Sep	2.1%	-4.4%	↑	2.2%
	GDP QoQ	3Q A	0.1%	-0.1%	→	0.1%
Japan	Industrial production (MoM)	Sept P	1.80%	-0.90%	↓	1.50%
	Exports YoY	Sept	15.6%	14.7%	↓	11.5%
China	Industrial profits YTD (YoY)	Sept		13%	↑	14%

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

## Calendar: Indicators

### Eurozone: Retail sales (September, November 6<sup>th</sup>)

Forecast: -0.5% m/m	Consensus: -0.5% m/m	Previous: -0.7% m/m
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We expect retail sales to have declined in September, but not enough to offset the significant rises observed in the previous two months. As a result, the average retail sales in 3Q13 should have gained momentum (0.6% q/q) over the previous quarter (0.3% q/q), suggesting that private consumption is likely to have grown again in this period (0.1% q/q in 2Q13 after falling for a year and a half). These figures combined with the ongoing improvement in consumers' confidence, supported by the stabilization of the labour market as well as the moderation in inflation, are consistent with our macroeconomic scenario that envisages a modest but steady quarterly growth for private consumption in coming quarters.

### Germany: Industrial production (September, November 7<sup>th</sup>)

Forecast: -0.5% m/m	Consensus: 0.0% m/m	Previous: 1.4% m/m
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Industrial production should have declined in September, but not enough to offset the significant increase observed in August, suggesting that the sector's output could have slowed in 3Q13 to around 0.7% q/q, after rebounding by 1.5% q/q in 2Q13 supported by construction activity. In addition, confidence data point to further growth of industrial output in coming quarters, likely at these more moderate rates, mainly driven by the strong domestic demand rather than orders from abroad. Overall, these figures suggest that quarterly GDP growth could have slowed in 3Q13, as the strong gain in the previous quarter (0.7% q/q) was driven by a temporary rebound in investment in construction after adverse weather conditions.

### US: GDP, Advance Estimate (3Q13, November 7<sup>th</sup>)

Forecast: 2.3%	Consensus: 1.9%	Previous: 2.5%
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Real GDP growth has been quite sluggish throughout the past few quarters as both domestic and global headwinds linger. In 2Q13, we saw a relatively strong growth rate coming off a very low 4Q12 and 1Q13, despite the fact that underlying economic data were not so encouraging. For 3Q13, we have limited data available as the government shutdown caused a significant delay in economic releases. However, from what we can see, the quarter did not get off to a great start. Real personal consumption is on track to almost match 2Q13's figure, but hesitant consumer spending leading up to the government shutdown most likely limited growth for the end of 3Q13. Export growth declined in both July and August, while import growth was mostly subdued. Private investment and business inventory growth were also soft for the first part of the third quarter. Based on these less optimistic expectations for 2H13 growth, we revised down our real GDP forecast from 1.8% to 1.6% for 2013.

### US: Nonfarm Payrolls and Unemployment Rate (October, November 8<sup>th</sup>)

Forecast: 135K, 7.2%	Consensus: 125K, 7.3%	Previous: 148K, 7.2%
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Employment growth was anything but encouraging in September, and the outlook for October is no better. The government shutdown is obviously the big factor for the month, weighing on total nonfarm payroll growth. Government payrolls actually increased in August and September, while private payrolls decelerated rather significantly, falling farther from the 200K mark. Aside from the shutdown, other sectors most likely stepped back from hiring in October, particularly manufacturing. Various regional surveys for the month suggest that manufacturers reduced the rate of hiring but increased employee hours. Furthermore, temporary help has been on the rise as many employers adjust to the new healthcare laws in place, especially for small businesses. Despite this discouraging job growth, the unemployment rate continues to fall, but we expect that this trend will slow in the next few quarters as the employment outlook improves and more people re-enter the workforce.

### China: Exports (October, November 8<sup>st</sup>)

Forecast: 1.5% y/y	Consensus: 0.9% y/y	Previous: -0.3% y/y
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An improvement in external demand has been one of the factors leading to an upturn in China's near term growth momentum. However, September exports were disappointing, with a surprise contraction of -0.3% y/y due in part to weaker demand from ASEAN economies which were hit hard in previous months by expectations of QE tapering in the US. Beyond that, exports have become increasingly difficult to interpret due to a distorted base effect from over-invoicing last year, which has given rise to lower year-over- export growth rates. Looking ahead, we expect exports to improve gradually in line with our outlook for the global economy. The coming week will also feature important monthly indicators, including industrial production, retail sales, investment, and inflation (November 9) and credit aggregates (November 10-15).

## Markets Data

			<b>Close</b>	<b>Weekly change</b>	<b>Monthly change</b>	<b>Annual change</b>
<b>Interest rates</b> (changes in bps)	<b>US</b>	3-month Libor rate	0.24	1	0	-7
		2-yr yield	0.31	1	-2	2
		10-yr yield	2.55	4	-10	83
	<b>EMU</b>	3-month Euribor rate	0.23	0	1	3
		2-yr yield	0.12	-7	-6	10
		10-yr yield	1.67	-8	-13	22
<b>Exchange rates</b> (changes in %)	<b>Europe</b>	Dollar-Euro	1.360	-1.5	0.5	5.0
		Pound-Euro	0.85	-0.8	1.4	5.5
		Swiss Franc-Euro	1.23	-0.1	0.5	2.0
	<b>America</b>	Argentina (peso-dollar)	5.91	0.5	1.9	23.9
		Brazil (real-dollar)	2.24	2.2	0.8	10.0
		Colombia (peso-dollar)	1892	0.5	-0.1	3.6
		Chile (peso-dollar)	514	1.5	1.9	7.3
		Mexico (peso-dollar)	13.03	1.2	-1.0	0.2
		Peru (Nuevo sol-dollar)	2.78	0.6	-0.2	7.0
	<b>Asia</b>	Japan (Yen-Dollar)	98.29	0.9	0.3	22.7
		Korea (KRW-Dollar)	1060.73	-0.1	-1.2	-2.9
		Australia (AUD-Dollar)	0.947	-1.2	0.7	-9.0
<b>Comm.</b> (chg %)	Brent oil (\$/b)	109.2	2.2	1.2	1.0	
	Gold (\$/ounce)	1324.2	-2.0	2.8	-22.8	
	Base metals	516.9	0.5	-0.3	3.3	
<b>Stock markets</b> (changes in %)	<b>Euro</b>	Ibex 35	9908	0.9	6.1	25.6
		EuroStoxx 50	3068	1.1	4.6	21.1
	<b>America</b>	USA (S&P 500)	1764	0.2	4.1	23.6
		Argentina (Merval)	5225	-5.4	6.5	122.3
		Brazil (Bovespa)	54172	0.0	1.9	-7.2
		Colombia (IGBC)	14074	-1.7	-0.3	-3.1
		Chile (IGPA)	19242	0.7	1.5	-8.0
		Mexico (CPI)	40958	0.7	-0.9	-1.9
		Peru (General Lima)	16282	0.5	3.1	-21.7
	Venezuela (IBC)	2609685	23.8	46.2	626.1	
	<b>Asia</b>	Nikkei225	14328	1.7	-1.1	60.1
HIS		23206	2.2	1.5	6.3	
<b>Credit</b> (changes in bps)	<b>Ind.</b>	Itraxx Main	85	-2	-14	-43
		Itraxx Xover	344	-5	-53	-168
	<b>Sovereign risk</b>	CDS Germany	23	0	0	-5
		CDS Portugal	382	8	-90	-117
		CDS Spain	187	-3	-32	-117
		CDS USA	30	-7	-1	--
		CDS Emerging	270	9	-17	27
		CDS Argentina	1829	49	-656	-201
		CDS Brazil	166	3	-5	55
		CDS Colombia	124	0	-8	23
		CDS Chile	80	-1	-9	-1
		CDS Mexico	104	-1	-15	3
		CDS Peru	129	-1	-15	28

Source: Bloomberg and Datastream

## Weekly Publications

Country	Date	Description	
EMU	10/31/2013	➤ <b>Europe Flash: "Eurozone inflation surprises on the downside in October"</b> According to the Eurostat flash estimate, the decline in inflation was mainly driven by a further drop in energy prices as well as a more moderate growth in food prices	
	10/29/2013	➤ <b>Economic Watch Financial Systems: What are the determinants of loan interest rates in EMU countries?</b> Heterogeneous transmission of monetary policy in the Eurozone ( <a href="#">Spanish version</a> )	
Spain	10/31/2013	➤ <b>Flash España: Balanza de pagos de agosto 2013</b> El saldo de la balanza por cuenta corriente acumulado a doce meses registra en agosto un nuevo superávit.	
	10/31/2013	➤ <b>Flash España: "Visados de construcción de vivienda de obra nueva agosto 2013: nueva caída de la actividad"</b> En agosto se firmaron 1.585 visados para la construcción de vivienda de obra nueva en España	
	10/30/2013	➤ <b>Flash España: Avance de la contabilidad nacional trimestral del 3T13</b> La economía inició la fase expansiva del ciclo dejando atrás nueve trimestres en números rojos.	
	10/30/2013	➤ <b>Flash España: Avance del IPC de octubre</b> La inflación general se redujo en octubre debido al agotamiento del efecto base del aumento de las tasas universitarias y los precios de la energía hace un año, así como la bajada de los alimentos.	
	10/30/2013	➤ <b>Flash España: Confianza industrial y del consumidor en octubre</b> La evolución de las expectativas de los agentes durante la apertura del tercer trimestre fue claramente negativa.	
	10/29/2013	➤ <b>Flash España: "El déficit público se habría mantenido en torno al 4,8% hasta agosto 2013"</b> Este incremento del déficit es consecuencia fundamentalmente del deterioro observado tanto en la Seguridad Social como en la Administración Central	
	10/29/2013	➤ <b>Flash España: Ventas reales del comercio al por menor de septiembre: reducción esperada que cierra un trimestre positivo</b> Una vez corregidas las variaciones estacionales propias del mes, las ventas reales del comercio minorista disminuyeron en septiembre en línea con lo esperado.	
	10/28/2013	➤ <b>Flash España: "Hipotecas sobre vivienda agosto 2013: la caída se modera"</b> El registro de hipotecas sobre vivienda vuelve a mostrar una evolución peor que las operaciones de compraventa de viviendas	
	10/28/2013	➤ <b>Observatorio Económico España: "Un análisis de la evolución y los determinantes del saldo por cuenta corriente en España"</b> En el período 1950-2012, la economía española registró, en promedio, un déficit del 1,9% del PIB en sus cuentas anuales con el exterior	
	10/28/2013	➤ <b>Reforma de pensiones, sistema público sostenible y complementariedad</b> El sistema público de pensiones es una pieza fundamental del Estado de bienestar y, por lo tanto, necesita tener garantizada su sostenibilidad	
	US	10/30/2013	➤ <b>Fed Watch. FOMC Statement: October 29 - 30th</b> Pace of Purchases Kept Unchanged Awaiting Better Data
		10/28/2013	➤ <b>U.S. Auto Industry Chartbook Fourth Quarter 2013</b> Pent-up demand supports vehicle sales in the short-run
10/28/2013		➤ <b>U.S. Weekly Flash. Delayed Employment Report Finally Released, but Should Have Been Left a Mystery</b> The much anticipated September employment report was finally released today after a 2-week government shutdown delay. ( <a href="#">Spanish version</a> )	
Latam		➤ <b>Latam Daily Flash: In Peru the Prime Minister resigned and could trigger additional changes in the Cabinet</b>	
		➤ <b>Latam Daily Flash: Activity data in Chile was in line with our forecast</b>	

> [Latam Daily Flash: Today activity data by sector in Chile will confirm dynamic retail sales](#)

> [Latam Daily Flash: Banxico cut rates and closed the door on further easing, while Banrep left monetary conditions unchanged](#)

> [Observatorio Alianza del Pacífico: "Integración financiera en la Alianza del Pacífico: alta potencialidad y grandes desafíos para una integración exitosa"](#)  
Alta potencialidad y grandes desafíos para una integración exitosa

## Mexico

> [Mexico Real Estate Flash. Mortgage loans in the banking system continue to grow](#)  
The public institutions continue to decline. The banks continue to focus on the more expensive segments. Encouraging news for the sector. [\(Spanish version\)](#)

## Chile

10/29/2013 > [Indicadores sectoriales apuntan a Imacec de 3,9% a/a en septiembre](#)  
Producción Minera creció 5,4% a/a en septiembre mientras que Producción manufacturera se contrae 1% a/a y Ventas minoristas crecen 7% a/a, mostrando signos de desaceleración.

10/28/2013 > [Banco Central no bajaría la TPM en su reunión de noviembre. Recortes adicionales podrían incluso postergarse hasta entrado el 2014](#)  
Creemos que el Banco Central se irá muy lento esperando que se concrete el escenario de riesgo, y mirando de reojo el preocupante apalancamiento de hogares de ingresos medios.

10/28/2013 > [Implicancias fiscales del programa de Gobierno de Michelle Bachelet](#)  
Hemos analizado las implicancias económicas de los programas de gobierno de distintos candidatos. Ahora, conocido el detalle del programa de MB, reflexionamos sus implicancias en el gasto fiscal 2014.

## Colombia

10/29/2013 > [BanRep conserva optimismo sobre recuperación local.](#)  
Con un panorama de recuperación y reconociendo una dinámica fiscal y monetaria expansivas, el Emisor, en su reunión del viernes pasado, decidió por unanimidad mantener su tasa de intervención.

## Asia

10/30/2013 > [Asia Flash | 30 Oct 2013: China eye housing supply before the Third Plenum; Korea industrial output disappoints in September; Japan remains a bright spot on strong September activity data](#)  
Ahead of the conclusion of the US Fed's monetary policy meeting and earnings reports, Asian markets closed higher today.

10/29/2013 > [India Flash: RBI hikes repo rate for a second consecutive month to stem inflation](#)  
In its ongoing bid to, "curb mounting inflationary pressures and manage inflation expectations in a situation of weak growth", RBI announced a 2nd successive repo rate increase of 25 bps to 7.75%.

10/28/2013 > [Asia Flash | 28 Oct 2013: Hopes of economic reforms in China rise after release of think tank report; RBI rate decision awaited amidst high inflation and slowing growth](#)  
Hopes of economic reforms in China rise after release of think tank report; RBI rate decision awaited amidst high inflation and slowing growth.

Publications on October 31, 2013 to 16:32, Madrid time



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