

Global Weekly Flash

Madrid, 14 June 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

US

Shushanik Papanyan
shushanik.papanyan@bbvacompass.com

Indicators collaboration:

Europe
Agustín García Serrador
agustin.garcia@bbva.com
+34 91 374 79 38

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

Asia
George Xu
George.Xu@bbva.com.hk

All eyes on the FED

- **No changes to the highly accommodative monetary policy are expected during the upcoming June 18 - 19 FOMC Meeting**

The FOMC is projected to maintain monthly purchases at the current pace of \$40bn in mortgage-backed securities and \$45bn in long-term treasuries, and the target range for the federal funds rate of 0 to 1/4 percent. There are obvious pressures within the FOMC to dial down asset purchases in the near term, as some of the FOMC members agree that labor market improvements are sufficient to warrant a reduction in the pace of purchases. However, there remains a divided opinion on the issue due to the existing downward pressure on the inflation rate. The June 19th FOMC statement will reveal more on the stance of the Committee regarding the labor market outlook and the inflation path. We maintain our baseline projections of the dialing down of the pace of asset purchases starting in 3Q13, with the program ultimately ending by 1Q14.

- **Emerging markets FXs have been volatile since the Fed started reassessing its policy**

Authorities of several emerging countries have taken steps toward limiting currency volatility. Just a few days after the Brazilian government had eliminated the 6% IOF tax on foreign investment, it announced the removal of the 1% tax on increases in USD short positions. On the other hand, the Brazilian government is expected to announce some measures to tighten fiscal policy. In Asia, the Bank of Indonesia has also delivered an unexpected "preemptive" rate hike this week, increasing rates by 25bps (to 6.0%); this movement has come amidst severe downward currency pressures and rising inflation expectations. On the other hand, both Banxico and Bank of Korea have kept their policy rates unchanged at 4.0% and 2.5%, respectively. Moreover, they have reinforced their dovish tone despite recent currencies depreciations.

Bank of Japan has also remained on hold. Yet this decision has disappointed investors that had been expecting additional measures to curb the recent trend in debt markets and currency volatility.

- **High volatility has prevailed in financial markets, driven by concerns about the Fed's tapering**
 - Market expectations about the Fed's tapering of its monetary stimulus has raised the 10Y US yield up to a 14-month high, touching the 2.23% level. However, the sell-off in the US debt market has scaled back late in the week – ahead of next week's FED meeting. As investors started pricing-in the beginning of a Fed's exit strategy, implied inflation expectations have fallen (-17 bps. approx.) while real interest rates have surged (+70 bps. in TIPS); this may all, in turn, reduce expectations of an early QE exit. The yield spread between the German Bund and the US Treasury has been steady at around 60 bps. Risk premia in Spain and Italy have remained broadly unchanged, but in Greece and Portugal they have widened. In Spain, Moody's has backed the recommendations about the Spanish pension system suggested by an experts committee and S&P has kept the Spanish credit rating at BBB- with negative outlook. In equity markets, indexes have traded lower on average, but have shown some recovery at the end of the week. In particular, Japanese equity indexes fell strongly, underscoring doubts about the BoJ monetary policy. On average, emerging equity indexes have underperformed developed ones, as the ongoing deceleration in China weighs on investors – industrial commodities have also registered losses due to increasing worries about Chinese growth. In FX markets, the US dollar has weakened against major currencies, with EM currencies also recovering some ground against the US dollar.
- **China's growth momentum has continued to slow in Q2, according to a recent set of indicators released over the weekend**
 - Weak data has come after months of mixed indicators, implying that Q2 and full-year GDP growth may be ¼-½ ppts lower than our previous projection of 7.9% YoY and 8.0% respectively. In particular, industrial production decelerated more than expected; and exports and imports growth has fallen sharply. On a positive note, retail sales increased in May, suggesting that domestic demand is holding up, while investment held up relatively well. Yet credit aggregates decelerated in May, reflecting a combination of weaker demand and efforts by the government to curtail shadow bank lending. Lastly, CPI inflation slowed more than expected in May (to 2.1% YoY), providing room for limited further monetary easing if necessary.
 - According to the World Bank, world economic growth has echoed China's slowdown. The institution has cut its growth expectations for the global economy to 2.2% in 2013 (from 2.4% previously forecasted) and the Chinese 2013 GDP growth has been reviewed downward to 7.7% (from 8.4%). It has also lowered the economic growth for the eurozone, increasing the expected contraction to 0.6% from 0.1%. On the other hand, expectations on US and Japan's GDPs have been slightly upgraded.
- **In the US and in Europe, economic indicators suggest that economic recoveries are underway**
 - In the US, retail sales rose more than expected in May. Additionally, jobless claims have continued to fall, reinforcing a sound consumption recovery. On the other hand, the University of Michigan preliminary index of consumer sentiment has fallen below expectations. Moreover, May's industrial production and capacity utilization have also been weak, and the U.S. current account deficit rose by \$3.8 billion to \$106.1 billion in the first quarter, less than expected. Nevertheless, we remain optimistic that production will begin to pick up momentum in 2H13.
 - In the eurozone, industrial production grew more than expected in April, suggesting a positive economic growth for the area in the second quarter. Both German and French industrial productions showed strong signs of recovery, while industrial activity in the

peripheral deteriorated further in April, proving that the dispersion among countries in the area has remained intact. Meanwhile, euro-zone inflation increased in May, driven by higher services prices. We expect higher inflation in June, but slowing again during the second half of the year.

- **Latin American shows sign of slowing down**

- In Mexico, April's industrial production has surprised strongly to the downside (-1.7% MoM sa), confirming and deepening the moderating trend seen in the first months of the year. Mexican CPI decreased 0.33% MoM in May, slightly less than our below-consensus forecast -- in annual terms, headline inflation remained mostly unchanged (at 4.63% YoY vs. 4.65% YoY in April). We expect inflation to converge toward the central bank's target (3.0%YoY) starting next month. Meanwhile Brazilian inflation remained unchanged in May (6.5% YoY). However, we expect inflation to increase in coming month, forcing the central bank to continue adjusting up the SELIC rate.

Next week: The FOMC meeting will be closely watched, as well as the Eurogroup and the ECOFIN meetings (ahead of end-June EU Council meeting). It is expected that European ministers will reach a general approach on a draft Directive on Banking Recovery and Resolution. Besides, as part of the European semester, the Council will approve recommendations on the 2013 national reform programs of the member states. The Council will also discuss excessive deficit procedures, following deficit/debt notifications by the member states in April and the publication by the Commission of its spring economic forecasts. Lastly, the Council will discuss priorities for boosting the financing of the economy and job creation in light of a report from the Commission and the EIB. Regarding economic indicators, the euro-zone manufacturing PMI and consumer confidence index for June will be published.

Weekly Indicators

Week Juen, 10 - June, 14

	CC	Indicator	Period	Cons. E	Prior		Obs. *
United States		Wholesale inventories	Apr	0.2%	0.4%	→	0.2%
		Jobless claims(th)	08-Jun	345	346	↓	334
		U. Michigan Confidence	Jun-P	84.50	84.50	↓	82.70
		Retail sales	May	0.4%	0.1%	↑	0.6%
		Industrial production	May	0.2%	-0.5%	↓	0.0%
Euro zone		Ind. Prod. sa (MoM)	Apr	0.0%	1.0%	↑	0.4%
		CPI (MoM)	May	0.1%	-0.1%	→	0.1%
		Employment (QoQ)	1Q P	--	-0.3%		-0.3%
Germany		Consumer Price Index (MoM)	May F	0.40	0.40%	→	0.4%
		CPI - EU Harmonised (MoM)	May F	0.3%	0.3%	→	0.3%
Spain		Consumer Price Index (MoM)	May	0.2%	0.4%	→	0.2%
China		Consumer price index (YoY)	May	2.5%	2.4%	↓	2.1%
		Industrial Production (YoY)	May	9.4%	9.3%	↓	9.2%
		Trade balance (US\$ bn)	May	20.00	18.16	↑	20.43
		Retail Sales (YoY)	May	12.9%	12.8%	↑	12.9%
		Money supply- M2(YoY)	May	15.9%	16.1%	→	15.8%
Japan		Current account balance YoY%	Apr	5.7%	-4.3%	↑	100.8%
		GDP (QoQ)	1Q13	0.9%	0.9%	↑	1.0%
		GDP annualized	1Q13	3.5%	3.5%	↑	4.1%
Mexico		Trade Balance	Apr F	--	-1225.0M		-1226.9M
		Industrial Production (YoY)	Apr	5.30%	-4.90%	↓	3.30%
Brazil		Retail Sales (MoM)	Apr	1.20%	-0.10%	↓	0.5%
		FGV Inflation IGP-10 (MoM)	Jun	0.45%	-0.09%	↓	0.63%
		Economic Activity Indx MoM SA	Apr	0.85%	0.72%	→	0.84%
Peru		Trade Balance (INEI)	Apr	-\$382M	\$302M	↓	-\$378.4M
		Economic Activity Indx YoY NSA	Apr	7.10%	3.0%	↑	7.7%
		Unemployment	May	--	5.6%		5.7%

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

Calendar: Indicators

Eurozone: EC consumer confidence (June, June 20th)

Forecast: -21.5	Consensus: -21.5	Previous: -21.9
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Consumer confidence is likely to improve further in June, following the upward trend observed since early this year, but the indicator still remains at very low levels (somewhat more than one standard deviation below its long-term average). These figures combined with poor figures of retail sales as well as increasing unemployment suggest that private consumption will have remained subdued in 2Q13, raising concerns about the sustainability of the rebound registered in early 2013. Across countries, divergence in consumers' confidence between core economies and the periphery is likely to linger, although a further deterioration in the mood of consumers in core economies could not be ruled out, especially in France.

Eurozone: Flash PMI Composite (June, June 20th)

Forecast: 48.2	Consensus: 48.0	Previous: 47.7
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We expect PMI composite to have increased again in June for the third month in a row, although still remaining below 50 points and thus suggesting that the recovery is not yet assured. This contrasts with more upbeat news stemming from hard data in April. Across components, manufacturing index is set to have improved further, after the significant increase observed in May, and thus pointing to an incipient sectorial recovery driven by robust external demand. Instead, despite the improvement projected for Services PMI, the index should remain clearly in recessionary territory weighed down by the weakness of domestic demand.

US: Consumer Price Index, Ex Food & Energy (May, June 18th)

Forecast: 0.2% m/m, 0.2% m/m	Consensus: 0.2% m/m, 0.2% m/m	Previous: -0.4% m/m, 0.1% m/m
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Headline inflation for May has some upside potential as WTI energy spot prices have increased slightly while food prices also appear to be on the rise for the first time in months. While the price of natural gas dipped 3% in May, some petroleum prices reversed a multiple-month downward trend. Average WTI prices increased just enough to make up for April's decline, though prices remain lower compared to earlier in the year. Brent crude oil prices did decline for the third consecutive month, but only slightly. The Energy Information Administration publishes an index of all grades, areas and formulations of petroleum products and in May the average price rose slightly after declining the month prior. Food prices, according to the S&P Goldman Sachs Agriculture Index, rose for the first time on average since last August. Given the rise in both components, we expect the headline figure to show similar movement than the core inflationary figure for May. The potential rise in the price of autos and homes will help negate the effect of any fall in price that might befall apparel or recreation. Therefore, we expect the core rate to accelerate slightly in May.

US: Housing Starts & Building Permits (May, June 18th)

Forecast: 940K, 970K	Consensus: 950K, 985K	Previous: 853K, 1017K
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Given the potential for momentum in housing construction, prefaced by stronger than expected building permits over the past few months, we expect housing starts to rise in May as inventories remain low. The decline in April's housing starts was led primarily by multifamily units which have grown significantly since the housing recovery began. Single family units also declined but by a smaller fraction and given the high demand for homes we expect the figure to reverse itself as it attempts to fuel the market demand for new construction. A recovery in the multifamily figure is likely to occur as well due to the demand for rental properties whose prices have remained resiliently high despite the growing shift toward homeownership. Nevertheless, we expect the significant decline in housing starts to have been a rare occurrence in the current recovery and we therefore expect the figure to rebound in May.

Taiwan Export Orders (May, June 20th)

Forecast: -1.5% y/y	Consensus: N/A	Previous: -1.1% y/y
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Taiwan's export orders are closely watched as a leading indicator of regional export trends given the economy's position in the global supply chain. Recent export readings for Asia have been mixed, with China surprising to the downside in May (1.0% y/y), Taiwan remaining weak (0.9% y/y) and Korea faring slightly better (3.2% y/y). We expect growth of Taiwan's export orders to remain weak, but to inch up marginally on a sequential basis. Demand from the US is improving, but China's processing imports and manufacturing activity in May were disappointing, which may weigh on new orders. A weaker-than-expected outturn would reinforce concerns of a fragile recovery of external demand for the remainder of this year, posing downside risks to our full year growth forecast.

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.27	0	0	-20
		2-yr yield	0.27	-3	3	0
		10-yr yield	2.13	-4	20	56
	EMU	3-month Euribor rate	0.21	1	1	-45
		2-yr yield	0.13	-5	10	6
		10-yr yield	1.51	-3	13	8
Exchange rates (changes in %)	Europe	Dollar-Euro	1.333	0.9	3.5	5.5
		Pound-Euro	0.85	0.0	0.4	5.6
		Swiss Franc-Euro	1.23	-0.7	-1.2	2.3
		Argentina (peso-dollar)	5.33	0.6	1.9	18.6
	America	Brazil (real-dollar)	2.14	0.5	5.9	4.4
		Colombia (peso-dollar)	1884	-0.4	2.1	5.6
		Chile (peso-dollar)	493	-1.8	3.0	-1.5
		Mexico (peso-dollar)	12.70	-0.5	4.0	-8.8
		Peru (Nuevo sol-dollar)	2.72	-0.3	3.6	2.6
	Asia	Japan (Yen-Dollar)	94.20	-3.4	-7.9	19.6
		Korea (KRW-Dollar)	1126.25	0.8	1.0	-3.4
		Australia (AUD-Dollar)	0.959	1.0	-3.1	-4.8
	Comm. (chg %)	Brent oil (\$/b)	106.3	1.7	2.5	8.9
Gold (\$/ounce)		1388.7	0.4	-0.3	-14.7	
Base metals		527.0	-0.1	0.5	2.0	
Stock markets (changes in %)	Euro	Ibex 35	8071	-2.4	-6.0	20.1
		EuroStoxx 50	2667	-2.1	-5.1	22.3
	America	USA (S&P 500)	1625	-1.1	-2.0	21.0
		Argentina (Merval)	3212	-6.9	-13.7	41.3
		Brazil (Bovespa)	49657	-3.8	-9.6	-11.5
		Colombia (IGBC)	13098	-2.0	-1.3	-5.7
		Chile (IGPA)	19820	-2.8	-5.7	-4.6
		Mexico (CPI)	39403	-2.1	-6.0	4.4
		Peru (General Lima)	16405	1.8	-4.2	-20.5
	Venezuela (IBC)	878996	8.3	19.0	259.4	
	Asia	Nikkei225	12687	-1.5	-16.0	48.0
HSI		20969	-2.8	-9.0	9.0	
Credit (changes in bps)	Ind.	Itraxx Main	113	9	19	-62
		Itraxx Xover	471	35	85	-204
	Sovereign risk	CDS Germany	29	4	-6	-75
		CDS Portugal	380	37	42	-646
		CDS Spain	254	7	23	-346
		CDS USA	28	0	-2	---
		CDS Emerging	303	3	62	17
		CDS Argentina	3737	166	927	2502
		CDS Brazil	147	-12	27	-4
		CDS Colombia	118	-6	39	-22
		CDS Chile	93	2	24	-25
		CDS Mexico	112	-6	34	-27
CDS Peru	121	-6	30	-35		

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
EMU	06/13/2013	> Europe Economic Outlook. Second Quarter 2013 (Chinese Version)
	06/12/2013	> Europe Flash: Industrial production in the Eurozone improves in April Industrial production suggests that business activity is already recovering in the second quarter of the year (Spanish version)
	06/12/2013	> Portugal Economic Watch: the recession eased in 1Q13 GDP contracts by -0.4% q/q in 1Q13, in line with expectations (Spanish version) (Portuguese version)
	06/10/2013	> Unión bancaria, Gestión de Crisis, Bail-in y Garantía de Depósitos ¿Hacia dónde vamos? El end-game
Spain	06/13/2013	> Presentación "Situación Consumo. Primer semestre 2013" El efecto duradero del aumento del IVA, la continuación del desapalancamiento y la debilidad de sus fundamentos seguirán lastrando el consumo privado en 2013. El ajuste finalizará en 2014
	06/13/2013	> Situación Consumo. Primer semestre 2013 El efecto duradero del aumento del IVA, la continuación del desapalancamiento y la debilidad de sus fundamentos seguirán lastrando el consumo privado en 2013. El ajuste finalizará en 2014
	06/13/2013	> Situación y Perspectivas de la Economía Mundial y de España El crecimiento global se mantiene robusto, aunque se incrementa la dispersión entre áreas geográficas, especialmente en los países desarrollados.
	06/12/2013	> Flash España: "IPC de mayo" La inflación se aceleró en mayo debido al aumento de los precios de los servicios y de los alimentos elaborados, pero también a la menor presión a la baja del componente energético
	06/11/2013	> Presentación "Situación Madrid. Primer semestre 2013" Madrid, que volverá a tener un diferencial positivo con España, tocará fondo en 2013 y crecerá en 2014
	06/11/2013	> Situación Madrid. Primer semestre 2013 Madrid, que volverá a tener un diferencial positivo con España, tocará fondo en 2013 y crecerá en 2014
	06/11/2013	> Flash España: Compraventa de viviendas en abril de 2013: la demanda continúa débil Las ventas registradas en abril volvieron a deteriorarse tras corregir las variaciones estacionales propias del mes, manteniendo las ventas en niveles mínimos.
	US	06/13/2013
06/13/2013		> U.S. Housing Watch. Home Prices Rising at Double Digit Rate Existing home inventory still down 14% over the year, but are up 22% in three months as more homes are going up for sale
06/10/2013		> U.S. Weekly Flash. Manufacturing Activity Contracts on Weak New Orders and Output in May Falling below 50 in May for the first time since last November, the ISM manufacturing index posted its lowest monthly figure since June 2009 (Spanish version)

Latam

- 06/14/2013 ➤ **Latam Daily Flash: Peru and Chile kept their policy rates unchanged albeit with a more dovish tone in the latter**
There were no major surprises yesterday in terms of policy rates in Peru and Chile as both CBs kept their rates unchanged.
- 06/13/2013 ➤ **Estimation of potential GDP. Comments about Latin America and a focus on Mexico**
Despite the last global recession, potential GDP is expected to accelerate in Latin America countries. But, be careful always with potential, as GDP forecast is key in its estimation
- 06/13/2013 ➤ **Latam Daily Flash: Brazilian government eliminated the IOF tax on USD derivatives**
- 06/12/2013 ➤ **Latam Daily Flash: IP surprised negatively in Mexico**
In Mexico, the industrial production data surprised strongly to the downside in April, posing a downward bias to our 2Q GDP growth forecast.
- 06/11/2013 ➤ **Latam Daily Flash: Trade surplus narrowed and public spending moderated in Peru**
Today the markets will mostly focus on the industrial production data in Mexico, looking to confirm an expected slight upturn in April.
- 06/10/2013 ➤ **Latam Daily Flash: In Mexico inflation declined slightly less than expected while Banxico reinforced its dovish tone**

Colombia

- 06/12/2013 ➤ **Flash Colombia. Se confirma el liderazgo de la infraestructura en el crecimiento del PIB de 2013.**
Indicador de obras civiles creció 18% anual en 1T13, impulsado por construcciones para minería (25,4% anual). Resultado redujo incertidumbre sobre crecimiento de PIB entre enero y marzo (2,3%e anual).

Peru

- 06/13/2013 ➤ **Flash Perú. Sin sorpresas: la tasa de política monetaria se mantiene en 4,25%**
El comunicado que acompañó a la decisión fue muy similar al del mes pasado, enfatizando que la inflación se ubica dentro del rango meta y que el producto crece al ritmo del potencial.
- 06/12/2013 ➤ **Una cuantificación de los factores que afectan a la inclusión financiera en el Perú**
Es importante identificar las barreras a la inclusión financiera por estratos de población, para enfocar las políticas más adecuadas
- 06/10/2013 ➤ **Observatorio Económico: Actividad se desaceleró en el primer trimestre: ¿bache transitorio o cambio en tendencia?**
El ritmo de avance del producto disminuyó a 4,8% interanual a principios de año, luego de que a fines de 2012 se ubicara más cerca de 6%

Mexico

- 06/11/2013 ➤ **Mexico Flash. Industrial production, with sharp drop in April. Confirms and amplifies the negative trend**
Far below expectations, industrial production showed relapse in April, due to the contraction in three of its four components, manufacturing and construction particularly relevant
(Spanish version)
- 06/11/2013 ➤ **Mexico Real Estate Flash. Some oxygen for the construction sector**
Partly due to a seasonal effect, construction grows again in April
(Spanish version)
- 06/10/2013 ➤ **Mexico Real Estate Flash. Construction in energy, ahead on its own**
Third month of the year and third fall in production value. The employment factor continues on a downward path
(Spanish version)

Country Risk

- 06/14/2013 ➤ **Country Risk Quarterly Report Second Quarter 2013**
Developed economies continue to navigate in different cyclical conditions.

Asia

- 06/14/2013 ➤ **India Flash: May WPI inflation softens further, but currency pressures likely to keep RBI on hold next week**
India's WPI softened further in May to 4.7% y/y (consensus: 4.8%; prior 4.9%), the lowest level since Aug 2009, as easing demand pressures and lower fuel prices offset higher food inflation.
- 06/13/2013 ➤ **Asia Flash | 13 June 2013: Bank Indonesia delivers an unexpected "pre-emptive" rate hike; Fitch upgrades India's outlook to stable**
Market volatility was in full force across Asian markets today, amidst a broader global EM selloff. The downdraft in equity markets was led by the Nikkei (-6.4%) and the Philippines (-6.7%).
- 06/10/2013 ➤ **Asia Flash | 10 June 2013: China's disappointing May activity indicators point to slowing growth; Japan's final Q1 GDP revised up, raising optimism for Abenomics**
Markets in the region advanced following the positive lead from Friday's US jobs report and a better-than-expected final Q1 GDP outturn in Japan.
- 06/10/2013 ➤ **China Flash : Disappointing May activity indicators point to slowing growth**
Disappointing May activity indicators point to slowing growth

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