

Global Weekly Flash

Madrid, 15 February 2013
Economic Analysis

Financial Scenarios

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The G20 meeting draws attention

Markets will closely monitor the discussion and subsequent official statement from the G20 meeting in Moscow, particularly in reference to currencies.

- In this regard, their communiqué of November 5, 2012, states that they "reiterate our commitments to move more rapidly toward more market-determined exchange rate systems and exchange rate flexibility to reflect underlying fundamentals avoid persistent exchange rate misalignments and refrain from competitive devaluation of currencies". " We reiterate that excess volatility of financial flows and disorderly movements in exchange rates have adverse implications for economic and financial stability". Since then, foreign exchange tensions have risen. The current debate is centered in the aggressive use of pro-growth monetary (and fiscal) policy in major developed economies, ultimately causing exchange rate depreciations. This time around, the BoJ (and the JPY) has taken the baton from the Fed (and the USD).
- The ECB has remained in the rear seat and has stuck to the G20 statement mentioned above. However, following its latest monetary policy meeting, it was announced that the BCE will monitor whether the appreciation is sustained and whether it will alter the risk assessment on price stability (while not imminent action should be expected considering recent assessments from Weidmann and Nowotny). The BoE recognized that they expect inflation rate to climb to 3.0% by this summer and to remain above the 2% target for two years; however, the Governor said that higher inflation expectations will not result in a tighter monetary policy. This week Banxico reaffirmed the dovish tone showed in the last statement and the minutes of the most recent monetary policy meeting. At a press conference, Banxico's governor highlighted that the decision to cut the monetary policy rate has not been made, but it depends on the inflation convergence towards the target. In addition, it made clear that if the rate cut materializes it would not be aimed towards controlling the foreign inflows.
- Ahead of next week's meeting, and following intensifying rhetoric on currency wars, the G-7 released a statement reaffirming its commitment with market determined exchange rates: "We reaffirm that our fiscal and monetary policies have been and will remain oriented towards meeting our respective domestic objectives using domestic instruments, and that we will not target exchange rates." However, this statement has not succeeded in reducing neither speculation nor exchange rate volatility. In the current context, with financial stress receding but economic recovery still fragile in most regions, it is imperative to dampen any source of volatility in global markets.

- **The recession in the Eurozone was confirmed in the 4Q12m, while the US posted mixed data at the beginning of the year**

- In the eurozone, national accounts data confirmed the recession in the 4Q12, but were worse than expected (-0.6% q/q against expectations of -0.4% by us and the consensus). The main surprises were in Germany (-0.6% q/q instead of the expected -0.4%), and Italy (-0.9% instead of -0.6%). France was more resilient (-0.3% q/q) whereas the drop in Portugal was much sharper than expected (-1.8% q/q against a projection of -0.9%). The main culprit of the negative surprise were exports, although detailed data by components has not been published yet for most countries. The main picture for the area, however, does not change, as we continue to expect a slow reversion for the eurozone already in the first quarter of this year, especially in Germany, as shown by the most recent soft indicators.

Still, the incoming data pose a negative risk for the GDP figure expected in 2013 (0.3%) because of the strong base effect implied by the Q4 data. Other data for the eurozone were mixed. Industrial output was positive (0.7% m/m) against expectations, pointing to the improvement of December data already observed in PMI indicators. German and Italian IP grew, while French output was mildly negative. In contrast, exports fell by -1.8% MoM in the eurozone in December.

- In the US, retail sales suggest that consumers were less affected by the payroll tax increase than expected. Sales managed to grow a modest 0.1% in January, as the hit to disposable personal income was compensated by other factors, as higher equity levels, rising home prices and continued improvement in the labor market. We can expect modest growth in February's figure as economic conditions and confidence indicators (Michigan confidence) continue to improve, but headwinds from the payroll tax may still have some effect. In this regard, President Obama urged Congress to come up with a solution for the \$ 1.2 trillion in spending cuts that will take place on March 1st. In the supply side, industrial production surprised on the downside, -0.1% MoM in January (vs +0.2 consensus forecast); while the Empire manufacturing survey posted a larger-than-expected 17.8 point gain in February, rising to +10.0 (vs consensus -2.0).
- In Mexico, industrial production fell more than expected in December -2.1% MoM (vs. BBVA 0.1% and consensus -0.1%). The sharpest decline was in construction at -2.7% MoM. The less dynamic manufacturing (-0.9% YoY) is explained by a slowdown in vehicle production towards the end of the year. In the same line, retail sales in January posted the weakest annual growth in almost two years, 0.5% YoY (vs. 2.3% and 7.1% in December and November respectively). We expect a slightly better performance in coming months driven by the latest increase in consumer confidence. We are still expecting GDP growth of 3.9% for 2012 and some moderation for the beginning of 2013.

• Tensions in periphery spread eased, while concerns on Italian elections persist

- Peripheral sovereign debt performed well, boosted by successful Spanish and Italian auctions, and the Standard & Poor's revision of the outlook on Ireland from negative to stable. Spanish and Italian 10Y yields dropped both by 25bps. In the 2Y benchmark, the Spanish yield improved more than the Italian one, dropping 25bps and 16 bps respectively. Irish 2y bond spread versus Germany reached 86 bps. Nonetheless, investors are pricing the uncertainty of the upcoming Italian elections. In Italy, voting polls are no longer allowed ahead of the elections on February 24-25, but the latest results confirm the lead of the centre-left by 5pp with respect to the coalition led by Berlusconi. However, uncertainty persists, as the lead has been narrowing recently due to the Monte dei Paschi scandal and to Berlusconi's promises to withdraw a controversial real estate tax and to give back to taxpayers the proceeds of it corresponding to 2012. The share of undecided voters is also very high. The key remains the results for the senate in Lombardy and Sicily, the two largest regions. Under current voting intentions, the centre left would need Monti's coalition to obtain a senate majority, although a hung parliament (lack of majority in the senate even with Monti's contribution) is unlikely.

Next week: on February 20, Fed will release minutes from January 29-30 FOMC meeting. The winter 2013 European Economic Forecast will be published on 22 February by the European Commission. Mario Draghi will speak in Brussels on Monday. Spain will issue 3M and 9M bills on Tuesday and bonds on Thursday.

Week February, 11 - February, 15

CC	Indicator	Period	Cons. E	Prior	Obs. *
United States	Retail sales (MoM)	Jan	0.0	0.5%	0.1%
	Jobless claims (th)	Feb 2W	360	366	341
	Industrial production (MoM)	Jan	0.2%	0.3%	-0.1%
Euro zone	Ind. Prod. sa (MoM)	Dec	0.2%	-0.3%	0.7%
	GDP s.a. (QoQ)	4Q A	-0.4%	-0.1%	-0.6%
	GDP s.a. (YoY)	4Q A	0.0%	-1%	-0.9%
	Trade Balance sa (€bn)	Dec	11.5	11	12
	Trade Balance (€bn)	Dec	13.1	13.7	11.70
Germany	GDP s.a. (QoQ)	4Q12	-0.5%	0.2%	-0.6%
	GDP wda (YoY)	4Q12	0.5%	0.9%	0.4%
Spain	Harmonized CPI (YoY)	Jan	2.8%	2.8%	2.8%
	Harmonized CPI (MoM)	Jan	-1.9%	0.0%	-1.8%
France	GDP (QoQ)	4Q12	-0.2%	0.1%	-0.3%
	GDP (YoY)	4Q12	-0.2%	0.0%	-0.3%
Japan	GDP s.a. (QoQ)	4Q12	0.1%	-0.9%	-0.4%
Mexico	Trade balance (million)	Dec	961	961	961
	Industrial production (YoY)	Dec	2%	2.80%	-1%

* Forecast: Orange- Below consensus forecast. Green-Above consensus forecast.
Source: Bloomberg and BBVA Research

Calendar: Indicators

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

Forecast: -23.3	Consensus: -23.1	Previous: -23.9
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We expect consumer confidence to have increased slightly again in February for the third month in a row, as sustained the reduction in financial strains and uncertainty around Europe crisis is lifting consumers' mood. Nonetheless, consumers' sentiment remains at very low levels, around 1.5 standard deviations below its historical average, and we do not see any rapid improvement in sentiment in the short-term as labour market conditions could deteriorate further in coming months. Overall, this suggests that private consumption will not boost economic growth in early 2013.

Eurozone: Flash PMI Composite (February, February 21st)

Forecast: 49.2	Consensus: 49.0	Previous: 48.6
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We expect the PMI composite index to have increased again in February, confirming the upward trend observed since last November and suggesting that the economic trough would be behind us. Nonetheless, the headline index will still remain slightly below 50 points, consistent with our view that the recovery will be smooth and very gradual in 2013. On the one hand, January-February average should be similar to the PMI composite observed in 1Q12, when the economy remained flat. On the other hand, including these projections in our models, they already estimate a slight quarterly GDP growth in early 2013 (around +0.2% q/q). All in all, hard data in December, such as production output, improved somewhat more than anticipated, suggesting that they are likely to follow the amelioration observed in soft indicators. By components, the manufacturing index is expected to increase again driven by the marked improvement in foreign orders observed last month combined with recent signs suggesting the still robust demand from emerging markets. The service component is also expected to improve, but we see the divergence across countries to increase due to significant differences in domestic demand performance between core member states and the periphery.

US: Consumer Price Index, Core (January, February 21st)

Forecast: 0.2%, 0.2%	Consensus: 0.1%, 0.2%	Previous: 0.0%, 0.1%
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Headline inflation for January is expected to increase at a moderate pace as agricultural and energy prices tick upward after a relatively quiet end of the year figure. Consumer prices were subdued throughout the past few months, declining 0.3% in November and holding unchanged in December. For January, we expect that energy prices will be a main driver, showing some upward pressure during the month as crude prices rose considerably according to the WTI and Brent figures. Agricultural prices have also increased: crops showed the larger increase in prices over livestock, mostly due to harvest and some lingering drought effects. Additionally, housing prices and rising rents will continue to push shelter prices higher while medical and transportation services are unlikely to put as much pressure as the aforementioned factors. Overall, we expect a stronger headline figure for January due to rising energy prices while the core figure should accelerate only slightly from the end of 2012.

US: Existing Home Sales (January, February 21st)

Forecast: 4.96M, 0.0%	Consensus: 4.94M, 0.0%	Previous: 4.94M, -1.0%
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Existing home sales are expected to remain mostly unchanged in January to continue the slow-moving trend we have seen in recent months. Even as more homes come onto the market and the uncertainty that plagued the December decline has mostly dissipated, consumers have not been as aggressive about home buying plans. Inventory remains low and the shadow inventory of homes is still being dumped, albeit at a slow rate, into the market, limiting opportunities for potential homebuyers of existing properties. With home prices on the rise, we can expect home buyers to continue to demand the more affordable existing homes at an accelerated pace given the seemingly sustainable market recovery. However, given that incomes have fallen due to the expiration of the payroll tax cut, the headwind from a decline in perceived wealth might deter some from purchasing a home to start off 2013. Therefore, we expect that existing home sales will be mostly flat in January as headwinds in the form of declining incomes have the chance to put downward pressure on sales along with the lacking inventory to support high demand.

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.30	0	-1	-23
		2-yr yield	0.27	-1	1	4
		10-yr yield	2.00	5	17	8
	EMU	3-month Euribor rate	0.23	2	5	-87
		2-yr yield	0.27	1	24	6
		10-yr yield	1.69	6	25	-24
Exchange rates (changes in %)	Europe	Dollar-Euro	1.367	1.5	3.7	3.9
		Pound-Euro	0.86	1.5	6.6	3.9
		Swiss Franc-Euro	1.24	-0.8	2.2	2.4
		Argentina (peso-dollar)	4.98	0.3	1.1	14.9
	America	Brazil (real-dollar)	1.99	-1.9	-2.6	15.9
		Colombia (peso-dollar)	1775	-0.3	0.7	-0.5
		Chile (peso-dollar)	471	-0.1	-0.7	-1.6
		Mexico (peso-dollar)	12.75	0.4	0.1	0.7
		Peru (Nuevo sol-dollar)	2.58	0.6	0.9	-4.2
	Asia	Japan (Yen-Dollar)	92.24	1.5	5.6	20.4
		Korea (KRW-Dollar)	1097.38	2.2	3.2	-1.9
		Australia (AUD-Dollar)	1.037	-0.5	-1.3	-3.7
Comm. (chg %)		Brent oil (\$/b)	115.6	2.1	2.8	0.9
		Gold (\$/ounce)	1665.1	0.4	-1.3	-3.5
		Base metals	545.1	0.7	3.1	-1.0
Stock markets (changes in %)	Euro	Ibex 35	8263	-5.3	-2.2	-6.8
		EuroStoxx 50	2714	-1.1	0.1	7.9
	America	USA (S&P 500)	1498	-0.3	2.4	11.4
		Argentina (Merval)	3462	3.7	17.3	23.2
		Brazil (Bovespa)	59761	-2.3	-4.5	-8.4
		Colombia (IGBC)	14982	-0.1	1.8	7.4
		Chile (IGPA)	22168	0.9	4.3	6.0
		Mexico (CPI)	45278	-0.7	2.2	18.9
		Peru (General Lima)	21435	0.7	2.0	-6.5
		Venezuela (IBC)	494772	0.9	4.9	300.3
	Asia	Nikkei225	11191	2.4	7.7	26.7
		HSI	23722	0.6	1.8	14.3
Credit (changes in bps)	Ind.	Itraxx Main	113	8	5	-15
		Itraxx Xover	443	23	5	-105
	Sovereign risk	CDS Germany	42	1	2	-43
		CDS Portugal	394	14	-38	-892
		CDS Spain	270	15	-14	-84
		CDS USA	44	0	6	---
		CDS Emerging	230	17	35	-26
		CDS Argentina	2069	35	653	1330
		CDS Brazil	118	11	14	-21
		CDS Colombia	97	6	6	-34
		CDS Chile	71	3	0	-39
		CDS Mexico	99	7	7	-37
		CDS Peru	96	6	5	-62

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
Global	02/13/2013	➤ Global Economic Outlook First Quarter 2013 The global economic outlook improved thanks to the decline in financial tensions in Europe and the agreement avoiding the "fiscal cliff" in the US.
	02/14/2013	➤ Flash GDP 4Q12 13/02/14 Eurozone GDP fell somewhat more than expected in 4Q12.
EMU	02/14/2013	➤ Observatorio Económico: "Ajustes fiscales y crecimiento económico en Europa" Uno de los temas más controvertidos desde el inicio de la crisis económica ha sido el efecto de las políticas fiscales sobre el crecimiento económico.
	02/14/2013	➤ Situación Europa. Primer trimestre 2013 Se consolida la reducción de las tensiones financieras en la eurozona, con lo que mantenemos nuestra previsión de ligero crecimiento en 2013, liderado por Alemania.
	02/11/2013	➤ Flash España: "Compraventa de viviendas en diciembre de 2012" En el último mes del pasado año se efectuaron 23.523 ventas de viviendas, un 2,9% más que en el mes de noviembre.
Spain	02/13/2013	➤ Situación España. Primer trimestre 2013 El descenso de la incertidumbre mejora las perspectivas de la economía global. En 2013 la economía española tocará fondo, y hay razones para pensar que 2014 traerá un crecimiento moderado.
	02/11/2013	➤ U.S. Flash. Retail Sales Rise in January Despite Payroll Tax Increase Although depressed by the expiration of the payroll tax cut, retail sales rose 0.1%.
US	02/13/2013	➤ U.S. Policy Flash. President Obama Outlines His Next, Difficult, 4 Years SOTU emphasizes Obama's resolve to bolster the middle class. Notions such as minimum wage and free trade re-enter Washington's lexicon.
	02/11/2013	➤ U.S. Weekly Flash. ISM Non-Manufacturing slows slightly but signs of growth are still abound The ISM Non-Manufacturing Index declined in January, easing to 55.2 from 55.7 in December. (Spanish version)
	02/15/2013	➤ Latam Daily Flash: "In Chile, as expected, the Central Bank kept its rates unchanged"
Latam	02/14/2013	➤ Latam Daily Flash: "Inflation report shows the balance of risks improved in Mexico; Colombia changes its external financing"
	02/13/2013	➤ Latam Daily Flash: "Some weakness in the Mexican labor market in 4Q12; consumer confidence remains at high levels in Colombia"
	02/12/2013	➤ Latam Daily Flash: "Industrial production in Mexico declined more than expected in December; exports and imports fell in Peru"
	02/11/2013	➤ Latam Daily Flash: Inflation surprised up in Chile; in Colombia it was shown to be one of the determinants for the rate cut
	02/14/2013	➤ Situación Chile Primer Trimestre 2013 En Chile, se anticipa alguna moderación en los factores que han estado detrás del dinamismo de la demanda interna, con lo que el crecimiento del PIB alcanzaría a 4,8% tanto en 2013 como en 2014.
Chile	02/14/2013	➤ Situación Colombia Primer Trimestre 2013 La economía colombiana acelerará su tasa de crecimiento en 2013 y 2014 a 4,1% y 5,0%, respectivamente, después de haber tocado fondo a finales del año pasado.
Colombia	02/14/2013	

Mexico

- 02/13/2013 ➤ **Banxico Flash. Banxico confirms its dovish tone**
The inflation convergence towards the target remains as the main factor behind the possible rate cut.
- 02/13/2013 **Flash Banxico. Banxico reafirma su tono acomodaticio**
La convergencia de la inflación, el principal factor detrás del posible recorte
- 02/12/2013 **Mexico Economic Watch. National Housing Policy: changes on the horizon**
The new policy will introduce major changes to housing support programs.
- 02/11/2013 **Flash Bancario México. Crédito al sector privado: sigue creciendo a tasa de dos dígitos**
En diciembre de 2012 la tasa de crecimiento nominal anual del crédito total otorgado por la banca comercial al sector privado fue 11.6%.
- 02/11/2013 **Flash Inmobiliario México. Sorpresiva caída de la actividad en la construcción**
En diciembre la actividad industrial en la construcción cae 5.0% anual y 2.6% mensual.
- 02/11/2013 **Flash México. Sorpresa negativa en producción industrial a final del 2012: -2.1% m/m, -1.1% a/a**
El retroceso en la industria obedeció a la caída en los cuatro componentes que la integran.
- 02/11/2013 **Mexico Banking Flash. Private-sector credit: continues to grow at double-digit rates**
In December 2012, the nominal annual rate of growth of the total balance of commercial bank lending to the private sector was 11.6%.
- 02/11/2013 **Mexico Flash. Negative surprise in industrial production at the end of 2012 -2.1% mom, -1.1% yoy**
The decline in the industry due to the fall in the four components that make it up.
- 02/11/2013 **Mexico Real Estate Flash. Unexpected fall in activity in the construction sector**
In December, industrial activity in the construction sector fell by 5.0% in annual terms and 2.6% month-on-month.

Asia

- 02/14/2013 ➤ **WPI inflation falls in January, providing scope for further monetary easing**
India's wholesale price inflation eased by more than expected in January to 6.6% y/y (consensus: 7.0%), its lowest in three years, from 7.2% in December.

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