

# Global Weekly Flash

Madrid, 15 March 2013  
Economic Analysis

## Financial Scenarios

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## Positive US macro data supports markets

Positive US labor market figures helped US equity to remain solid ahead next week's FOMC meeting. In the same line, volatility in equity markets decreased significantly. However, sovereign debt markets remain more cautious. Positive net inflows toward German Bund continued, due to ongoing eurozone uncertainties. Germany's 10Y yield inched down another 4bps, accumulating an 18bps fall in the month. US Treasury 10Y yields remained steady at levels of around 2%, while the spread between the 10 US Treasury and the German bund inched up 3pb (accumulating a 20bps increase in the last month).

- **Markets are watchful of the upcoming FOMC meeting.** The meeting is anticipated to focus on the efficacy and cost of the Large Scale Asset Purchase (LSAP), debating the short term action plan for its timing and quantities. The current pace of purchase is not expected to change in the March 20th FOMC Statement. In his last public appearance (March 1, 2013), Bernanke stated that "highly accommodative stance of monetary policy is likely to remain appropriate for a considerable time after the current asset purchase program ends." Federal Reserve Presidents and the Governors March speeches continued to elaborate on the factors for a "substantial improvement in the economy," stressing that the unemployment rate is a key determinant but not the sole indicator to assess. Further discussion on this topic is expected to carry into the Board Room on March 20th.
- **China's PBoC Governor emphasizes vigilance in containing inflation.** PBoC Governor Zhou Xiaochuan emphasized that prudence would be needed to prevent rising inflationary expectations. February's inflation was 3.2% YoY while government's M2 and inflation objectives for 2013 are 13.0% and 3.5%, respectively. Overall, Mr. Xiaochuan characterized the current policy stance as "neutral." These remarks are consistent with our view of no monetary policy changes this year, although a tightening bias may take hold in 2H13 to contain inflationary pressures.
- **Japan's parliament approves Haruhiko Kuroda** as the new head of the Bank of Japan. This has led to rising expectations of additional easing monetary measures, which include bringing forward the open-end asset purchasing program set to start in January 2014, as well as buying longer term bonds and other risk assets.
- **The EU Council meeting focuses on the Compact for Growth and Jobs Initiatives.** EU leaders took note of current social distress, admitting that there is no easy answer. The Council stressed the necessity of differentiated growth-friendly fiscal consolidation, including short-term targeted measures to boost growth and job creation. Although there was no specific mention to flexibility in fiscal targets, president Herman Van Rompuy said that they "also look behind the nominal fiscal targets at structural efforts." "Within the existing fiscal rules, the possibilities to deal with an economic downturn are there." Member states need to define measures to implement these initiatives before June, when EU leaders will jointly assess proposed policies at the national level.

- **The Troika approves a revision of Portugal's deficit target for 2013 and 2014.** Deficit targets were raised from 4.5% to 5.5% of GDP in 2013, and from 2.5% to 4% of GDP in 2014. The deficit target for 2015, set at 2.5% of GDP, is below the 3% excessive deficit threshold of the Stability and Growth Pact. On the other hand, the Troika and Greece failed to reach an agreement on the review of Greece's economic program. The disagreement has delayed the disbursement of the EUR 2.8bn loan tranche to Greece. The Troika plans to return to Athens in early April. Meanwhile, euro-area finance ministers are due to meet today in Brussels to try to find an agreement on financing a bailout of Cyprus. The Eurogroup will try to strike a deal before the weekend. Eurogroup President Jeroen Dijsselbloem said on Wednesday that the aim was to reduce the size of the aid from an expected €17bn to about €10bn.
- **Ireland advances on its path back to the markets while Italy's spreads widen.** Ireland issued EUR 5bn in a new 10Y benchmark bond (the first since the 2010 bailout). Demand was strong, with a yield of only 4.15%, well below the Italian 10Y yield (4.65%) and the Spanish one (4.86%). On the other hand, demand at the Italian 3Y bond auction was weak (it reached the low-limit of its EUR 2.5 -3.5bn issuance range and average yield was 18bp higher than in the previous month). The average yield of Italy's 12M T-bill auction also increased (by 19 bps relative to its previous auction). Early in the week, the Spanish Treasury sold EUR 5.8bn in 6M and 12M T-bills, topping the upper limit of the initial issuance target (EUR 4.5-5.5bn), with average yields below previous auctions. But on Thursday, Spain's Treasury sold EUR 0.8bn in three extra-long bonds with an average yield 8bps above that in the secondary markets before the auction. The purpose of these later auctions was not to cover funding needs, but to avoid a potential dysfunction in secondary markets.
- **US macro indicators continue to improve.** After February's increase of US payrolls, jobless claims unexpectedly fell for six consecutive week in a row, suggesting further labor market improvement. Additionally, retail sales increased by the most in five months.
- **Further decoupling in the Eurozone?** German exports rebounded more than expected in January, increasing 1.4% MoM while imports also surprised to the upside, rising 3.3% MoM. January's data were positive but not enough to cancel out bad data for November and December. However, economic data remained weak for the whole eurozone. Industrial output fell slightly less than expected in January after its surge in December (with the 3-month trend improving). But 4Q12 employment deteriorated.
- **In China, a batch of indicators points to modest growth.** Several indicators for the January/February period present a worsening picture for the current growth momentum: a weaker-than-expected industrial production and retail sales and slightly higher-than-expected inflation. The data are consistent with our cautious growth outlook of 8.0% for 2013 (8.2% in H1, 7.8% in H2), underpinned by supportive fiscal policy and monetary stance likely to stay on hold.
- **January's industrial production in Mexico surprises to the upside,** despite relative weakness in the manufacturing segment. S&P revised Mexico's rating outlook from stable to positive, and could upgrade this country within the next 18 months. The rationale behind this change was the record of prudent fiscal and monetary policy. In Chile, the Central Bank kept the reference interest rate at 5%, as expected. In its statement, the Central Bank stressed that local activity continues strong and domestic demand growth remains above that of GDP. In Colombia, there was increased intervention in FX in order to reduce currency appreciation. FX purchases in February amounted to USD820mn (the highest monthly purchase since 2000). This level (USD41mn/day on average) is above the expected average announced in late January, when BanRep committed itself to purchasing a minimum of USD3bn between February and May 2013.

**Next week:** there is March's FOMC meeting. In Europe the Flash PMI and the consumer confidence index for March will be released. Spain will sell T-Bill and bonds.

## Week March, 4 - March, 8

CC	Indicator	Period	Cons. E	Prior		Obs. *
United States	Industrial Production (MoM sa)	Feb	0.3%	-0.1%	↑	0.7%
	Jobless claims (Th)	09-Mar	350	340	↑	332
	Retail sales (MoM)	Feb	0.5%	0.1%	↑	1.1%
	Producer price index (MoM)	Feb	0.5%	0.2%	↑	0.7%
	Consumer prices (MoM)	Feb	0.5%	0.0%	↑	0.7%
Euro zone	Euro-Zone Ind. Prod. sa (MoM)	Jan	0.2%	0.7%	↑	0.4%
	Euro-Zone CPI (MoM)	Feb	0.4%	-1%	→	0.4%
	Eurozone Employment (QoQ)	4Q		-0.2%		-0.3%
Germany	Trade Balance (€bn)	Jan	13.9	12.0	→	13.7
	Imports SA (MoM)	Jan	0.6%	-1.5%	↑	3.3%
	Exports SA (MoM)	Jan	0.5%	0.3%	↑	1.4%
	CPI - EU Harmonised (MoM)	Feb F	0.8%	0.8%	→	0.8%
	CPI - EU Harmonised (YoY)	Feb F	1.8%	1.8%	→	1.8%
Spain	Budget balance (YTD €bn)	Feb		-51.10	↑	-12.73
China	Retail sales (YoY)	Feb	15%	14%	↓	12.3%
	Industrial Production YTD (YoY)	Feb	11%	10%	↓	9.9%
	Consumer price index (YoY)	Feb	2%	3%		3.2%
	Money supply-M2 (YoY)	Feb	15%	14.9%	→	15%
Mexico	Industrial Production (YoY)	Feb	1.30%	-1.1%	↑	1.7%
	Trade Balance (U.S\$ million)	Feb		-2,878	↑	-2,866
Brazil	Economic activity index(MoM sa)	Jan	0.85%	0.3%	↑	3.8%
	Retail sales (MoM)	Jan	0.40%	-0.5%	↑	0.6%

\* 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 (March, March 20<sup>th</sup>)

Forecast: 22.8	Consensus: -23.0	Previous: -23.6
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We expect consumer confidence to have increased slightly again in March, continuing the upward trend observed since late 2012. As a result, average consumers' sentiment in 1Q13 increased markedly, reverting to those levels registered by mid-2012, when private consumption was more resilient (-0.1% q/q) than in 4Q12 (-0.4% q/q). Nonetheless, households' sentiment remains at very low levels (around 1.5 standard deviation below its historical average), and combined with worsening labour market conditions and still tight credit conditions, suggest that households' spending will not boost economic growth in early 2013.

### Eurozone: Flash PMI Composite (March, March 21<sup>st</sup>)

Forecast: 48.2	Consensus: 48.3	Previous: 47.9
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We expect PMI composite to have increased again in March, offsetting the brief dip observed in February. After marked improvement observed in late 2012, these figures imply that the average level of PMI composite in 1Q13 could have reverted to that registered in early 2012, when the economy remain flat, and thus suggesting that the economic trough would be behind us. Including these projection in our models, they continue to estimate a slightly quarterly GDP growth in 1Q13 (around +0.2% q/q). However, these figures also imply an interruption in the upward trend of this indicator since last November, raising concerns about the economic recovery will gain traction throughout the year. By components, the manufacturing index is expected to increase again driven by the improvement in foreign demand from emerging markets. The service component is also expected to improve, but divergence across member states is likely to extend due to significant differences in domestic demand between core countries and the periphery.

### US: Housing Starts & Building Permits (February, March 19<sup>th</sup>)

Forecast: 918K, 926K	Consensus: 915K, 924K	Previous: 890K, 925K
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Housing starts for February are likely to grow moderately as demand continues to prompt more construction of single and multifamily homes. Declining by more than 80K in January, the start of year lull is likely to be reversed due to the increasing growth in demand for new homes. Consumer demand is likely to be bolstered by higher equity markets and a more stable employment situation for the first part of the year which will continue to put pressure on the housing market as existing homes are bought up and new home supply lags. Supply is at its lowest level since 2005 and with prices continuing their steady rise it is unlikely that construction firms are going to shy away from plot and development search either. With permits showing strength in January, the upward trend is unlikely to change as the aforementioned demand.

### US: Philadelphia Fed Survey (March, March 21<sup>st</sup>)

Forecast: -4.0	Consensus: -3.8	Previous: -12.5
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Although still in negative territory, we expect the Philly Fed Index to gain some momentum as manufacturing data for February shows broad expansion that will likely continue into March. Philadelphia's data last month made for an overall weak report as both general conditions and the new orders index fell further despite a call for positive figures from the Bloomberg consensus. However, based on overall manufacturing trends in the US, there is little evidence to support a further decline with the rest of the manufacturing areas growing at a modest pace for the beginning of the year. The underlying weakness for the Philadelphia was likely temporary, evidenced by the longer term outlook from the survey. Most respondents pointed to a better outlook for the coming six months with the general outlook index rising from 29.2 to 32.1 for the third consecutive increase.

### Taiwan Export Orders (February, March 20<sup>th</sup>)

Forecast: -3.4% y/y	Consensus: N/A	Previous: 18.0% 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 exports outturns in Asia have been mixed, with China's exports for the first two month of the year surprising to the upside, against disappointing readings from Korea and Taiwan. Against this backdrop, the export orders data will be watched to gauge the strength of external demand, which appears to be improving. Export orders have risen on a year-over-year basis for five consecutive months; however, we expect a small decline in February due to the Chinese New Year timing distortion, which resulted in fewer working days in February. If our forecast proves correct, it would still bring the combined outturn for January/February to around 7% y/y compared to 3.1% y/y in the H2 2012, underscoring a modest recovery of external demand in 2013.

## 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	0	-2	-10
		10-yr yield	2.00	-4	-3	-30
	EMU	3-month Euribor rate	0.20	0	-2	-65
		2-yr yield	0.05	-4	-18	-29
		10-yr yield	1.45	-7	-22	-60
Exchange rates (changes in %)	Europe	Dollar-Euro	1.307	0.5	-2.9	-0.8
		Pound-Euro	0.86	-0.9	-0.2	3.8
		Swiss Franc-Euro	1.23	-0.8	-0.5	1.8
		Argentina (peso-dollar)	5.09	0.5	1.8	16.8
	America	Brazil (real-dollar)	1.98	1.7	0.6	9.9
		Colombia (peso-dollar)	1804	0.2	1.5	2.5
		Chile (peso-dollar)	472	0.0	0.2	-2.2
		Mexico (peso-dollar)	12.44	-1.5	-1.9	-1.8
		Peru (Nuevo sol-dollar)	2.59	-0.2	0.8	-3.0
	Asia	Japan (Yen-Dollar)	95.26	-0.8	2.0	14.2
		Korea (KRW-Dollar)	1110.95	1.9	2.2	-1.3
		Australia (AUD-Dollar)	1.041	1.7	0.3	-1.7
Comm. (chg %)		Brent oil (\$/b)	109.8	-0.9	-7.5	-12.7
		Gold (\$/ounce)	1593.3	0.9	-3.0	-4.0
		Base metals	543.9	0.7	0.4	-0.7
Stock markets (changes in %)	Euro	Ibex 35	8588	-0.5	3.4	1.2
		EuroStoxx 50	2723	-0.2	2.5	4.4
	America	USA (S&P 500)	1561	0.6	2.7	11.2
		Argentina (Merval)	3513	5.7	6.2	27.0
		Brazil (Bovespa)	57288	-2.0	-1.9	-15.4
		Colombia (IGBC)	14290	-1.4	-5.1	-4.0
		Chile (IGPA)	21709	-1.9	-3.1	-0.3
		Mexico (CPI)	43186	-2.6	-2.1	12.9
		Peru (General Lima)	20062	-1.6	-7.2	-12.6
		Venezuela (IBC)	629322	1.9	8.1	268.6
	Asia	Nikkei225	12561	2.3	11.6	24.0
		HSI	22533	-2.4	-2.9	5.7
Credit (changes in bps)	Ind.	Itraxx Main	104	0	-8	-15
		Itraxx Xover	403	0	-32	-126
	Sovereign risk	CDS Germany	34	-3	-9	-34
		CDS Portugal	369	-1	-9	-911
		CDS Spain	270	20	14	-129
		CDS USA	37	-4	-5	---
		CDS Emerging	238	-1	5	16
		CDS Argentina	2740	-230	413	2004
		CDS Brazil	129	6	8	10
		CDS Colombia	89	-5	-9	-18
		CDS Chile	64	0	-6	-22
		CDS Mexico	90	-4	-10	-22
		CDS Peru	88	-6	-8	-32

Source: Bloomberg and Datastream

## Weekly Publications

Country	Date	Description
Spain	03/14/2013	➤ <b>Flash España: Ventas reales del comercio al por menor de enero: ligero aumento tras el cambio de base</b> Una vez corregidas las variaciones estacionales propias del mes, las ventas reales del comercio minorista crecieron en enero (0,9% m/m)
	03/13/2013	➤ <b>Flash España: IPC en febrero</b> El dato del IPC de febrero muestra una aceleración moderada del crecimiento de los precios al consumo (hasta el 2,8%)
	03/12/2013	➤ <b>Flash España: Compraventa de viviendas en enero de 2013</b> En enero de 2013 se observa un incremento importante del registro de ventas de viviendas
US	03/13/2013	➤ <b>U.S. Flash. Retail Sales Emerge Strong Despite Payroll Tax Rise</b> Retail Sales up 1.1% on higher gasoline prices and vehicle sales in February. Excluding autos and gas retail sales grew by 0.4%, higher than expected.
	03/11/2013	➤ <b>U.S. Weekly Flash. U.S. trade deficit widens on a surge in oil imports</b> The U.S. international trade deficit rose in January after a hefty decline in the prior month, pointing more toward a shift in the petroleum balance than a general slowdown in demand from abroad (Spanish version)
Latam	03/14/2013	➤ <b>Latam Daily Flash: Chile's monetary policy is expected to remain unchanged</b>
	03/13/2013	➤ <b>Latam Daily Flash: SandP revises Mexico Outlook from stable to positive while IP surprises positively in January</b>
	03/12/2013	➤ <b>Latam Daily Flash: Telecom reform in Mexico; CB accelerates its FX purchases in Colombia</b>
	03/11/2013	➤ <b>Latam Daily Flash: Interest rates cut in Mexico; Increasing inflation in Brazil might lead to a monetary tightening</b>
	03/14/2013	➤ <b>Latam Daily Flash: Chile's monetary policy is expected to remain unchanged</b>
Brazil	03/14/2013	➤ <b>Flash Brazil: A cautious COPOM</b> According to the Monetary Policy Committee (COPOM), inflation pressures could imply 'the accommodation of inflation at a higher range' (Spanish version)
Chile	03/14/2013	➤ <b>Banco Central mantiene tasa de interés y muestra preocupación</b> Banco Central mantiene la tasa de interés de política en 5% en su reunión de marzo y muestra alguna preocupación por el dinamismo de la demanda doméstica y la apreciación multilateral del peso.
Mexico	03/12/2013	➤ <b>Mexico Flash. Industrial production rebounded in January, 1.1% m/m, positively highlights the construction industry</b> The rise above expectations mainly due to the good dynamics in the construction industry (3.7% m/m) and a slight improvement in manufacturing (0.1% m/m)(Spanish version)
	03/12/2013	➤ <b>Mexico Real Estate Flash. Construction activity remains flat</b> With a minimum, but positive rate, construction grew 0.1% year-on-year and 3.7% in monthly terms. The indicators confirm declining in the construction activity(Spanish version)
	03/11/2013	➤ <b>Flash Bancario México. Crédito al sector privado: sigue creciendo a tasa de dos dígitos</b> En enero de 2013 la tasa de crecimiento nominal anual del crédito total otorgado por la banca comercial al sector privado fue 12.3%
Asia	03/14/2013	➤ <b>Asia Daily Flash   14 March 2013: China formally announces new President; Korea leaves rates on hold; India WPI rises</b> China elected new President today. Shanghai Composite and Hang Seng index were both up 0.3%. Nikkei rose by 1.2% after PM Shinzo Abe's nomination of BoJ's governor was approved by the lower house.
	03/13/2013	➤ <b>Asia Daily Flash   13 March 2013: China PBoC Governor emphasizes vigilance on inflation; Korea unemployment ticks up</b> Asian shares fell for a second straight day led by Hang Seng (-1.4%) and Shanghai Composite (-1.0%). Kospi bucked the trend (+0.3%) on hopes of more policy stimulus ahead of tomorrow's BoK meeting.

- 03/12/2013 ➤ **Asia Daily Flash | 12 March 2013: India's IP picks up as CPI inflation stays flat; Philippines exports disappoint**  
The yen traded at well above 96/USD until late in the day when Japan's opposition party announced to reject the nomination of Iwata. Kospi was down -0.5%, Shanghai Composite -1.0% and Hang Seng -0.9%
- 03/11/2013 ➤ **Asia. China Flash: A mixed batch of activity indicators points to a modest growth trajectory in 2013**  
Activity indicators show mixed picture of growth momentum. Inflation is higher on base effects and CNY. Credit aggregates fall short of expectation as authorities seek to curtail excessive loan growth
- 03/11/2013 ➤ **Asia Daily Flash | 11 March 2013: mixed batch of China indicators; Japan: disappointing machine orders; Thailand upgraded by Fitch**  
A mixed set of Chinese economic indicators weighed on regional sentiment, but was partially offset by the strong US jobs data. Shanghai Composite slid by 0.3%; Nikkei rose 0.5% amid yen's depreciation

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Publications on March 15, 2013 to 10:21, Madrid time

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