

Global Weekly Flash

Madrid, 25 October 2013
Economic Analysis

Financial Scenarios

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As data releases started catching up in the US, macro outturns continued to signal a soft recovery

- **The upcoming FOMC meeting scheduled for October 29-30 is not expected to be a policy changer**
 - The sixteen-day U.S. federal government shutdown coupled with a weak September U.S. payroll report point to an October decision by the Committee to continue the large scale asset purchases at its current \$85bn monthly pace. The “stay the course” stand point for the October meeting has all sides united, having even the support of the Committee’s more hawkish FOMC members (Richard Fisher, FRBD). While, “*open ended*” does not mean unending” (Powell, FRB Governor), the Fed’s taper-talk is likely to be postponed beyond the October meeting. The FOMC core decision factor remains the data-dependency of the LSAP pace. Whereas the federal shutdown is expected to affect negatively 4Q13 real growth, the economic data showed that the economy already lacked momentum leading up to the shutdown. As a result, markets have priced in a delay in the starting date of the Fed’s tapering program, delaying also the expected date for the Fed’s first rate hike and consequently reducing yields along the curve.
- **The ECB unveiled only few details about the upcoming comprehensive assessment on the eurozone banking sector**
 - The assessment will start in November 2013, and it will take 12 months to be completed. The process will be carried out in collaboration with national authorities of the Member States and will be supported by independent third parties. As expected, the assessment will consist of three elements: 1) a risk assessment of key risks (liquidity, leverage, and funding), 2) an Asset Quality Review (AQR) that focuses on the adequacy of assets, collateral evaluation and related provisions, and 3) a stress test. The common equity Tier 1 of 8% is set as a capital benchmark, calculated as the definition of the Capital Requirement Directive IC/Capital Requirement regulation, including transitional arrangements, so the fully loaded definition will not be applied. The document published lacks details such as the use of bail-ins or whether information provided will be enough as to replicate the results. Details about the stress test will be published in the near future.
- **The EU Council requested national governments to develop a coordinated European approach**
 - Comprising all possible arrangements (including national backstops), suggesting the need of partial bail-in before any government injection of capital (new state aid rules). They call the Council to communicate this approach by the end of November. They also call on the Eurogroup to finalize guidelines for European Stability Mechanism direct recapitalization so that the European Stability Mechanism can have the possibility to recapitalize banks directly in November 2014. Lastly the European Council calls on the legislators to adopt the Bank Recovery and Resolution Directive and the Deposit Guarantee Directive by the end of the year.

- **In stock markets, peripheral equity indices, particularly banks' stocks, were among this week's worst performers**
 - On the other hand, most G10 equity indices registered positive increases, supported by good company results and lower debt yields. In the eurozone, details about the ECB's comprehensive assessment dragged down banks' stocks, which ended as this week's worst performers within the European equity index. However, the announcement had only a mild impact on the banking sector's CDSs, which widened by only 2-3 bps. Elsewhere, emerging-market equity indices ended flat, with the exception of Asian equities which registered new falls. Sovereign debts ended higher, in line with lower-than-expected activity data published in the week: safe-haven and core yields ended around 10bps below last Friday's levels. On the other hand, peripheral yields ended flat (except for the Spanish yield, which also fell close to 10 bps). Emerging-market yields also fell across the board. Lastly, the US dollar lost ground against major currencies, except for those linked to commodities. In particular, the euro reached close to USD 1.38. Meanwhile, emerging-market currencies registered losses against the US dollar, on the back of their worsening economic outlook.
- **In the US, macro data disappoints**
 - The much anticipated employment report for September was finally released last Tuesday after a 2-week government shutdown delay. Nonfarm payrolls increased 148K in September following a 193K rise in August. Although job growth remained weak, the unemployment rate continued to fall, down to a recovery low of 7.2% in September. Moreover, initial jobless claims for the week fell less than expected. For October, the Richmond Fed Manufacturing index came out in line with market expectations. Meanwhile, the US Flash manufacturing PMI has decreased to a 12-month low, surprising to the downside. In the housing market, existing home sales contracted in September, yet less than expected (-1.9% MoM) as affordability ratios declined.
- **Eurozone PMI figures were slightly disappointing but consistent with a subdued recovery**
 - In the eurozone, the PMI composite index has declined in October, driven by lower confidence in the service sector. Poor figures in the service sector point to weakness in domestic demand, while the manufacturing sector is likely to keep afloat thanks to a still robust foreign demand (despite slowing growth rates in emerging countries). The decline in confidence was widespread across countries, yet remained in "expansionary territory". Although it is premature to read much into one month's data, these figures are in line with our projection of a slow recovery in the eurozone. Meanwhile, October's consumer confidence index has increased for an eleventh month in a row, in line with expectations. Moreover, business sentiment has also improved in France while it unexpectedly dropped in Germany after rising for five consecutive months. We have also learned that, earlier in August, Italy's industrial orders increased, topping market expectations. The Bank of Spain has announced that Spain's GDP grew 0.1% QoQ in 3Q13, ending a nine-quarter recession, exports and machinery and equipment investment are leading the recovery.

- **In China, manufacturing data confirmed growth momentum, yet risks persist**

- In China, the HSBC flash PMI ticked up on rising production and new orders. The private sector HSBC/Markit flash manufacturing PMI estimate for October rose to 50.9 (up from a disappointing 50.2 in September). Preliminary data for the quarter may suggest that growth momentum is continuing into the fourth quarter, after Q3 GDP growth came in at a robust 7.8%. Nevertheless, questions remain about the sustainability of the growth pickup, given September's signs of a moderating trend in activity, and market jitters to signs of monetary tightening (the latter associated to the PBoC's effort to tighten liquidity and slow credit growth). Improving external demand and the government's current growth targets lead us to expect a full-year growth rate of 7.7% in 2013 and 7.6% in 2014. Meanwhile, housing prices continued to rise in September, raising concerns about the affordability and financial stability of this market. This poses a dilemma for the PBoC, as it seeks to support growth through an accommodative monetary stance on the one hand, while curbing credit growth and curtailing rising financial fragilities on the other.

- **Latam's soft patch**

- In August, economic activity in Mexico, as measured by the IGAE index, increased less than expected, pointing to an only "gradual" economic recovery. Retail sales in August have also pointed to continued weakness in the economy. Moreover, the ANTAD index (another retail sales measure) has not done any better. In addition, the unemployment rate increased in September as we forecasted, further suggesting that a recovery in 3Q13 is still uncertain. On prices, the inflation report confirmed that core inflation has remained subdued. Against this backdrop, Banxico cut interest rates, as expected, by 25 bps to 3.5%. The board envisages an "incipient recovery" in the third quarter and considers that "it would not be advisable to have additional reductions in the target reference interest rate for the foreseeable future." In Brazil, yearly inflation eased at the beginning of October. Meanwhile, unemployment figures in Brazil have remained close to all-time lows, supporting our view that private consumption will be one of the main positive contributions to growth in 3Q13. In Colombia, retail sales expanded and industrial production declined in August, reinforcing the downward bias to our 3Q13 GDP estimate. Nonetheless, business confidence recovered in September.

Next week: markets will focus on the FOMC meeting of October 29-30th. In the macro calendar: the US is expected to release August's housing prices and September's industrial production, retail sales and consumer price index. Furthermore, October's consumer confidence, the ISM, the Chicago PMI index and the ADP employment report will be also published. In the eurozone, October's consumer confidence, industrial confidence and consumer prices will be published. Meanwhile, September's unemployment rate will be also released. China is expected to release September's industrial profits and October's Manufacturing PMI and HSBC Manufacturing PMI..

Weekly Indicators

Week October, 21 - October, 25

CC	Indicator	Period	Cons. E	Prior		Obs. *
United States	Existing Home Sales (Million)	Sept	5.3	5.48	→	5.3
	Existing Home Sales (MoM)	Sept	0.55%	1.70%	↓	-1.90%
	Change in Nonfarm payrolls ('000)	Sept	180	169	↓	148
	Unemployment rate	Sept	7.3%	7.3%	↓	7.2%
	Initial Jobless Claims ('000)	19 Oct	340	358	↑	350
	Continuing Claims ('000)	12 Oct	2865	2859	↑	2874
	Durable Goods Orders (MoM)	Sept	2.3%	0.2%	↑	3.7%
	Durable Goods Orders, Ex Transportation	Sept	0.5%	-0.4%	↓	-0.1%
	U. Michigan Consumer Sentiment	Oct	75	75	↓	73.2
Eurozone	Govt Debt/GDP Ratio	2012	-	90.6%		90.6%
	PMI Manufacturing	Oct A	51.4	51.1	↓	51.3
	PMI Services	Oct A	52.2	52.2	↓	50.9
	PMI Composite	Oct A	52.4	52.2	↓	51.5
France	Business Confidence	Oct	98	97	→	98
	PMI Manufacturing	Oct P	50.1	49.8	↓	49.4
	PMI Services	Oct P	51.3	51	↓	50.2
Germany	PMI Manufacturing	Oct A	51.4	51.1	↓	51.5
	PMI Services	Oct A	53.7	53.7	↓	52.3
	IFO Business Climate	Oct	108.4	107.7	↓	107.4
	IFO Current Assessment	Oct	111.4	111.4	↓	111.3
	IFO Expectations	Oct	104.5	104.2	↓	104.2
Italy	Consumer Confidence Index	Oct	100.6	101.1	↓	97.3
	Retail Sales MoM	Aug	0.00%	-0.30%	→	0.00%
UK	Rightmove House Prices MoM	Oct	-	-1.5%		2.8%
	GDP QoQ	3Q A	0.8%	0.7%	→	0.8%
Japan	Trade Balance SA (Billion JPY)	Sept	-1127.4	-729.4	↑	-1091.3
	Exports YoY	Sept	15.6%	14.7%	↓	11.5%
China	HSBC/Mkt Flash Manufacturing PMI	Sept	50.4	50.2	↑	50.9
Mexico	Retail Sales YoY	Aug	1.20%	1.30%	↓	-2.20%
	Trade Balance (Million USD)	Sep P	-256.6	-234.2	↑	659
	Economic Activity IGAE YoY	Aug	1.87%	1.69%	↓	0.84%
Brazil	Unemployment Rate	Sep	5.40%	5.30%	↓	5.30%
	Current Account Balance (Million USD)	Sep	-2300	-5492	↓	-2629

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

Calendar: Indicators

Eurozone: HICP inflation (October, October 31st)

Forecast: 0.9% y/y	Consensus: 1.1% y/y	Previous: 1.1% y/y
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We expect headline inflation to have slowed again in October by 0.2pp to 0.9% y/y, mainly driven by a further drop in energy prices (in line with recent gasoline prices) as well as a more moderate growth in prices of unprocessed food. These two components should equally explain the slowdown in headline inflation. We continue to see HICP inflation increasing slightly by year-end to 1.2% y/y in December, partly reflecting a lower base effect of energy prices. In contrast, core inflation is expected to remain broadly stable at 1.2% y/y over the last quarter, being this performance widespread across its components. Overall, September's negative surprises in more volatile components could pose some downside risks to our forecast for headline inflation for both 2013 and 2014, implying an annual average inflation of around 0.1pp lower to 1.4% and 1.3%, respectively. Regarding core inflation, it is likely to average 1.3% in both years.

Eurozone: Unemployment rate (September, October 31st)

Forecast: 12.0%	Consensus: 12.0%	Previous: 12.0%
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The unemployment rate is expected to have remained unchanged at 12% in September, remaining broadly stable so far this year and thus showing further evidence of stabilization in the labour market, after rising by around 0.3pp per quarter since mid-2011. Though we think that a mild economic recovery is on track, the unemployment rate is unlikely to decline in the short run, given the lag between activity and employment as well as the economic slack. Overall, we maintain our assessment that slowly improvement in the labour market is not expected before the second half of next year.

US: S&P Case-Shiller HPI (August, October 29th)

Forecast: 12.56% y/y	Consensus: 12.40% y/y	Previous: 12.39% y/y
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Home prices have been rising consistently throughout the past year, approaching annual growth rates last seen prior to the recession. Constrained supply and a declining share of distressed sales have boosted home prices across the country. However, levels remain extremely low compared to the pre-crisis peak, with the S&P Case-Shiller HPI barely up 30% from the low point in early 2009. Still, this index is pointing to strong improvements in the near future, and we expect the upward trend to continue in August. Other home price data, such as the Core Logic and FHFA indices, suggest steady gains for the month. In the mid to longer run, our baseline scenario assumes that these double-digit annual growth rates are not sustainable, and we expect that home prices will soon decelerate to a more stable pace.

US: Motor Vehicle Sales (October, November 1st)

Forecast: 15.70M	Consensus: 15.40M	Previous: 15.21M
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Auto demand has been a strong factor driving consumer lending and spending since the crisis, with lower financing options creating an attractive market. Total auto sales have nearly approached pre-recession levels, with domestic outweighing the imported products. In September, auto sales declined slightly as is typical for this time of year when manufacturers and dealers are preparing to introduce updated models. With the holiday shopping season approaching, we expect that special offers and the low cost of borrowing will continue to attract consumers. Furthermore, buying plans for autos have certainly been on the rise throughout the past year and suggest continued gains in total auto sales for the next six months, at least.

China: NBS manufacturing PMI for October (November 1st)

Forecast: 51.3% y/y	Consensus: 51.1% y/y	Previous: 51.1% y/y
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After a pickup in Q3 GDP to 7.8%y/y from 7.5% in Q2, induced in part by mini stimulus measures, the lingering question is how sustainable the rise in growth momentum will be in the coming quarters. An indeed September activity indicators shows a slight moderating trend. Against this background, the official manufacturing PMI will be closely watched as an early indicator of growth momentum in Q4. Based on the latest HSBC flash PMI for October, which rose to 50.9 from 50.2 the previous month, we expect to see a further rise in momentum. Looking further ahead, however, the strength of the recovery may be constrained by the government's efforts to slow down credit growth and curtail financial risks. On this basis, we expect a modest slowdown in GDP growth to 7.6% y/y in Q4, bringing full-year growth for 2013 to 7.7%. We expect growth of 7.6% in 2014, with downside risks.

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.24	0	-1	-8
		2-yr yield	0.30	-1	-4	1
		10-yr yield	2.50	-7	-12	76
	EMU	3-month Euribor rate	0.23	0	1	3
		2-yr yield	0.19	1	-1	13
		10-yr yield	1.76	-8	-7	22
Exchange rates (changes in %)	Europe	Dollar-Euro	1.380	0.8	2.0	6.6
		Pound-Euro	0.85	0.8	1.5	6.2
		Swiss Franc-Euro	1.23	-0.1	0.3	2.0
	America	Argentina (peso-dollar)	5.88	0.5	1.9	23.7
		Brazil (real-dollar)	2.19	0.9	-1.9	8.0
		Colombia (peso-dollar)	1881	0.0	-0.6	2.9
		Chile (peso-dollar)	506	1.8	0.9	5.2
		Mexico (peso-dollar)	12.88	0.2	-1.0	-0.8
		Peru (Nuevo sol-dollar)	2.75	-0.5	-0.4	5.8
	Asia	Japan (Yen-Dollar)	97.47	-0.3	-1.0	22.4
		Korea (KRW-Dollar)	1062.06	0.1	-1.4	-3.2
		Australia (AUD-Dollar)	0.957	-1.1	2.2	-7.7
Comm. (chg %)		Brent oil (\$/b)	106.4	-3.2	-1.8	-2.9
		Gold (\$/ounce)	1348.5	2.5	1.1	-21.2
		Base metals	513.8	-0.1	-0.9	2.3
Stock markets (changes in %)	Euro	Ibex 35	9816	-1.9	6.2	26.2
		EuroStoxx 50	3035	0.0	3.7	21.6
	America	USA (S&P 500)	1753	0.5	3.6	24.2
		Argentina (Merval)	5581	2.1	16.3	134.5
		Brazil (Bovespa)	54288	-2.0	0.0	-5.2
		Colombia (IGBC)	14297	-0.7	0.9	-5.6
		Chile (IGPA)	19100	0.7	-0.3	-8.3
		Mexico (CPI)	40216	-0.5	-3.6	-3.9
		Peru (General Lima)	16183	1.8	1.1	-22.8
		Venezuela (IBC)	2097327	7.8	13.4	482.8
	Asia	Nikkei225	14088	-3.3	-3.6	57.7
		HIS	22698	-2.7	-2.2	5.4
Credit (changes in bps)	Ind.	Itraxx Main	86	1	-12	-43
		Itraxx Xover	347	4	-40	-188
	Sovereign risk	CDS Germany	23	3	-2	-1
		CDS Portugal	369	-18	-138	-116
		CDS Spain	188	-8	-35	-119
		CDS USA	30	-4	2	---
		CDS Emerging	262	6	-13	32
		CDS Argentina	1743	-280	-641	455
		CDS Brazil	162	12	0	54
		CDS Colombia	125	6	4	25
		CDS Chile	84	3	-3	3
		CDS Mexico	106	3	-5	7
		CDS Peru	132	4	-5	31

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
Global	10/22/2013	➤ Global recovery: here to stay? The global recovery, although slow and subdued, is here to stay. (Spanish version)
	10/24/2013	➤ Europe Flash: October PMI figures were somewhat disappointing...but consistent with an ongoing subdued recovery in the eurozone PMI composite declined in October driven by falling confidence in service sector, against expectations
Spain	10/24/2013	➤ Flash España: La EPA del 3T13 confirmó que lo peor quedó atrás, pero que lo mejor se hará esperar La evolución del mercado laboral en el 3T13 estuvo en línea con la esperada.
	10/24/2013	➤ Situación y perspectivas de la economía de Aragón La economía aragonesa tocará fondo en 2013 y volverá a crecer en 2014, gracias a un menor esfuerzo fiscal y a una demanda externa sólida
	10/23/2013	➤ Flash España: Balanza comercial de agosto 2013 El déficit de la balanza comercial acumulado a 12 meses de agosto ascendió a 15,7 mil millones de euros, reduciéndose en 1,3 miles de millones respecto al acumulado del mes anterior.
	10/23/2013	➤ Jornada Econòmica a Lleida A Lleida, la major especialització en el sector primari ha suposat un avantatge relatiu
	10/23/2013	➤ Presentación "Situación Comunitat Valenciana. Segundo semestre 2013" La C. Valenciana tocará fondo en 2013. El crecimiento en 2014 estará apoyado por una demanda externa sólida y la menor contribución negativa de algunos desequilibrios
	10/23/2013	➤ Situación Comunitat Valenciana. Segundo semestre 2013 La C. Valenciana tocará fondo en 2013. El crecimiento en 2014 estará apoyado por una demanda externa sólida y la menor contribución negativa de algunos desequilibrios
	10/22/2013	➤ La meta del acceso universal al sistema financiero La universalización de la inclusión financiera es una clara señal de la importancia que el Banco Mundial da al sistema financiero para mejorar el bienestar de las familias.
	10/21/2013	➤ U.S. Weekly Flash. Congress Agrees to End Government Shutdown and Increase Debt Ceiling, For Now... As expected, policymakers in Washington finally came to a last-minute agreement to end the government shutdown and increase the debt ceiling (Spanish version)
Latam	10/25/2013	➤ Latam Daily Flash: Interest rates to be cut by 25bp in Mexico and to be left unchanged in Colombia
	10/24/2013	➤ Latam Daily Flash: Peru's sovereign debt rating upgraded Fitch upgraded Peru's sovereign rating to BBB+ to reflect positive growth prospects and limited fiscal, external and economic policy risks.
	10/23/2013	➤ Latam Daily Flash: Import data in Colombia anticipates a slow recovery in the manufacturing sector Lower industrial purchases and imports of consumer goods anticipate further weakness in the manufacturing sector and a significant reduction in trade inventories in the third quarter.
	10/22/2013	➤ Latam Daily Flash: Consumption index in Mexico continues to signal weakness
	10/21/2013	➤ Latam Daily Flash: Weaker than expected activity data in Mexico and Colombia In Mexico, the unemployment rate increased in September instead of easing as we forecasted, suggesting that a recovery in 3Q13 is still uncertain.
Mexico	10/24/2013	➤ Mexico Inflation Flash. October's bi-weekly inflation Headline: Actual: 0.40% FoF (BBVAe: 0.51%; consensus: 0.37%). Core: Actual: 0.13% FoF (BBVAe: 0.14%; consensus: 0.13%) (Spanish version)

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Asia

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- 10/24/2013 ➤ **Presentation: Emerging Trends in Developing Countries**
Inaugural Lecture at Master of Development, Institutions and Economic Integration (Universidad de Valencia)
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- 10/24/2013 ➤ **Asia Flash | 24 Oct 2013: China HSBC flash PMI ticks up on rising production and new orders; Rise in China interbank rates signals minor effort to tighten liquidity**
China HSBC flash PMI ticks up on rising production and new orders; Rise in China interbank rates signals minor effort to tighten liquidity
- 10/23/2013 ➤ **India Banking Watch: A review of foreign bank performance and retail prospects in India**
As part of the larger reform effort to promote economic openness and encourage foreign investment, the Indian authorities are taking steps to liberalize the nation's banking sector.
- 10/22/2013 ➤ **Asia Flash | 22 Oct 2013: Continued rise in China's housing prices poses dilemma for PBoC; Singapore gets another boost as an RMB center.**
Continued rise in China's housing prices poses dilemma for PBoC; Singapore gets another boost as an RMB center.
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