

Global Weekly Flash

Madrid, 26 April 2013
Economic Analysis

Financial Scenarios

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Markets bet on central-bank activism to curtail potential slowdown

The risk-on mood in financial markets continued this week despite data pointing to a slowdown in manufacturing across the main global economic areas. Expectations of lower growth have pressured down interest rates again. Moreover, high liquidity levels in financial markets, amid lower tail risks, continue to push investors into peripheral-bond markets. As a result, funding costs in peripheral bond countries fell sharply again this week. However, this trend has faded a little as investors have been taking profits, especially in the Italian debt market. Spain's 10Y yield fell 21 bp and Italy's ended the week flat, reducing the Spanish risk premium to 19 bp. Meanwhile, equity markets are affected by the interplay between two opposite forces: lower growth and lower interest rates. This week's surge in equity indices underscored a strong conviction that central banks will do what is necessary to counteract any slowdown in growth. What stands out in the end is the positive valuation effect of lower interest yield. Regarding FX emerging currencies continued outperform against the US Dollar, while the British pound surge after the BoE extend the FLS.

- **Mounting pressure on Central Banks to counteract a potential slowdown**
 - **Next week FOMC meeting is not likely to bring any big policy surprises.** Recent FOMC member's speeches reaffirm our projection that the current pace of purchases will continue through mid-2013, will begin tapering off in 3Q13. Opinions regarding the exit diverge along two possible paths. Fiscal policy poses lingers restraining on the economic growth and improvement in labor market, while monetary policy alone cannot address all the inefficiencies of the present labor market. Committee members are watchful of substantial improvements in the labor market outlook and are prepared to dial down the pace of QE3 if they detect any evidence of improved economic momentum or overheating of credit markets. However the FOMC is also ready to dial up the pace of QE3 if the negative impact of fiscal policy turns out to be stronger than expected.
 - **It is very likely that the ECB will soon cut its main policy rate by 25bps,** as recent economic data show worsening conditions spreading to core economies, including Germany and risks have increased to the downside. Despite the continued improvement in financial market conditions, April's Flash PMIs slightly disappointed and did not reverse the sharp fall of February and March. More importantly, peripherals bearish dynamics seem to be spreading further to Germany; while signs of some slowdown in other economic areas (China and US), together with the impact of Japan's aggressive policy move, add to the risk of lower exports and growth. Amidst this background, ECB's Governing Council members have recently used a more dovish tone, stating that a rate cut would be possible if the economic situation remains weak. The rate cut, more likely to occur at June's meeting, although it could be brought forward to May, would be justified on the above weaker-than-expected activity data and the risk it poses to the gradual recovery projected for the second half of the year. While a *refi* rate cut would work to reduce banks' funding costs, especially in peripheral countries where banks rely much more on ECB liquidity, we consider that the effect of this rate cut would be limited, as the credit channel of monetary policy is not functioning properly. More needs to be done from EU and national institutions to spur loans to SME's.

- **This week, the BoE extended the FLS until January 2015**, in its continuing effort to strengthen the banking-sector-transmission channel to the real economy. The measure increases benefits to bank for lending to SMEs and widens the range of financial companies being favored (which now include financial leasing corporations and factoring corporations).
 - **The BoJ maintained its plan to boost money supply, targeting an inflation of 1.9% in two-year time.** BoJ reaffirmed its plan to boost money supply at this week's monetary policy meeting. The monetary authority predicted consumer prices, excluding some volatile items, will rise to 1.9% in two year time. However, this goal seems to be demanding, and investors are considering that the BoJ would ease its monetary policy again in the second half of the year if inflation trend disappointed.
 - **In Mexico, latest data continues to be consistent with monetary pause.** The outlook incorporates a transitory inflation hike to 4.7% (objective range: 3% +/- 1) and moderate domestic activity. However, if domestic activity deteriorates significantly during the second half of the year, a situation of weaker activity, headline inflation below 4.0%, and core inflation around 3.0% could materialize. In this situation, Banxico could consider a change in its monetary policy stance.
 - **The Central Bank of Brazil Monetary Policy Committee (COPOM) is "vigilant"** with regard to the risks of high inflation continuing next year, according to the minutes of last week's monetary policy meeting. The statement is in line with our view that the monetary tightening cycle that started last week is aimed at anchoring medium-term inflation expectations and not to enforce the convergence of inflation to the 4.5% target. Even though the minutes sounded slightly more hawkish than we expected, we see no reasons to change our expectations of three additional 25bp hikes in the next three monetary meetings.
- **Recent data suggest a slowdown in manufacturing across main economic areas**
 - **After learning that China grew at a slower path than expected in 1Q13**, this week's weaker-than-expected HSBC Flash PMI has rose further questioning about Chinese growth momentum. Markets' pessimism about China's growth momentum has grown. Nevertheless, we expect growth to improve over the coming quarters in line with our full-year 8.0% GDP growth projection for 2013, as policies remain supportive and the external environment gradually picks up. In the meantime, we await the release of the official NBS PMI on May 1st (BBVA: 50.5; Previous: 50.9), which covers a larger sample of larger and more domestically-oriented firms.
 - **April's PMIs across the Eurozone disappointed a little**, as the recession in the periphery is also putting a brake in core economies. In April, Germany's private sector output fell below the crucial 50-points threshold for the first time since November 2012, while its IFO business climate unexpectedly fell. These figures (still very limited) point to a flat or a slight contraction in activity in the first half of the year in the eurozone as a whole, putting a downward bias to our assessment of a mild recovery in spring. On the other hand, this week, the ECB published its "Financial integration in Europe" report, which showed an improvement in financial market integration in the second half of 2012. However the report warned that the climate in the financial markets remains fragile, and signaled that further progress towards the establishment of a single supervisory mechanism will be a critical factor underpinning financial market performance this year. In Italy, the re-election of Giorgio Napolitano as Italian President may forge a grand coalition and end the Italian political deadlock, but political problems inside the Partito Democratico (Italy's center left party) might hamper economic reforms needed to restore growth and reduce gross debt levels.

- **In the US, latest data also hinted a deterioration of its manufacturing sector.** Richmond Fed manufacturing index for April fell and March's durable goods orders fell strongly, as spending cuts and weak capital goods sapped demand and. The advanced report for real GDP growth in 1Q13 fell short of consensus expectations, coming in at 2.5% on a QoQ seasonally-adjusted annualized rate (SAAR) as opposed to the expected 3.1%. In line with our forecasts, the slower growth emerged from a mixture of government spending cutbacks and a sluggish global economy that resulted in reduced demand for exports. However, the bright spot in the report was clearly personal consumption, which surged 3.2% in 1Q13 after a rather weak 1.8% in 4Q12.
- **In Latin America, data also showed moderation in economic activity.** In Mexico, retail sales suggested that private consumption is losing steam while the unemployment rate increased above our expectations.

Next week: The ECB and the FED monetary policy meetings will keep investors' attention. However, many economic indicators will also be published. In the US, payrolls, ISM, Chicago PMI, consumer confidence for April and personal income and spending for March. In China the official PMI figure will be closely watched, as to confirm the weak reading showed by May's HSBC Flash PMI. In the eurozone, the European Commission will release its 2013 spring forecast, besides the publication of industrial and consumer confidence and the CPI for April. Importantly, Cyprus's Parliament will vote on the bailout deal. In Spain, 1Q13 GDP data will be released.

Weekly Indicators

Week April, 22 - April, 26

CC	Indicator	Period	Cons. E	Prior		Obs. *
United States	Durable good orders	Mar	-3.0%	5.7%	↓	-5.7%
	Jobless claims(th)	19-Apr	354	352	↑	339
	Existin home sales (million)	Mar	5.0	4.98	↓	4.9
	New home sales (th)	Mar	418	411	↓	417.00
	GDP (QoQ annualized)	1Q13	3.0%	0.4%	↓	2.50%
	Consumer sentiment	Apr-F	73.50	78.60	↑	76.40
Euro zone	Govt Debt/GDP Ratio	2012		87.3%	↓	90.6%
	M3 s.a. (YoY)	Mar	3.0%	3.1%	↓	2.6%
	PMI Manufacturing	Apr A	46.7	46.8	↓	46.5
	PMI Services	Apr A	46.5	46.4	↓	46.6
	PMI Composite	Apr A	46.5	46.5	→	46.5
Germany	IFO - Business Climate	Apr	106.2	106.7	↓	104.4
	IFO - Current Assessment	Apr	109.5	109.9	↓	107.2
	IFO - Expectations	Apr	103.0	103.6	↓	101.6
	PMI Manufacturing	Apr A	49.0	49.0	↓	47.9
	PMI Services	Apr A	51.0	50.9	↓	49.2
UK	GDP (QoQ)	1Q A	0.1%	-0.3%	↑	0.3%
Spain	Unemployment rate (Survey)	1Q13	26.5%	26.0%	↓	27.1%
China	HSBC Manufacturing PMI	Apr	51.40	51.60	↓	50.50
Japan	CPI (YoY)	Mar	-0.4%	-0.3%	↓	-0.5%
Mexico	Retail sales	Feb	0.5%	1.8%	↓	-2.6%
Brazil	Unemployment rate	Mar	5.9%	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: HICP inflation (April, April 30th)

Forecast: 1.4% y/y	Consensus: 1.6% y/y	Previous: 1.7% y/y
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We expect inflation to moderate further in April, slowing by -0.3pp from 1.7% y/y and driven by moderation in energy prices, but also due to the downward effect of Easter holidays on services prices. Core inflation is also likely to have slowed down this month to 1.4% y/y. The evolution of inflation over recent months shows downward pressures on prices, reflected both in headline and core inflation. Looking forward, we expect inflation to remain under the 2% ECB objective throughout the whole year, hovering around 1.5 in the second half. However, we consider a slight pick-up to around 1.6-1.7% y/y is likely in May.

Eurozone: Unemployment rate (March, April 30th)

Forecast: 12%	Consensus: 12.1%	Previous: 12%
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According to our forecasts, the unemployment rate would have remained stable in March, stabilizing at 12% for the second month in a row after the almost continuous growth registered since June-2011. Confidence surveys on the labour market point to a slight drop in employment expectations in the coming months. Notwithstanding this, we expect unemployment to show some resilience in the eurozone, though the uneven performance across countries will persist.

US: Personal Income & Spending (March, April 29th)

Forecast: 0.4%, 0.2% m/m	Consensus: 0.4%, 0.1% m/m	Previous: 1.1%, 0.7% m/m
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Despite the year's volatile beginning, personal income is expected to continue growing, albeit at a muted pace, as incomes are less hindered by policy implications. However, given the implied budget reductions that were put forth in the sequester, it is unlikely that we will see much growth in incomes as furloughs remain common and wage pressures from the business side are subdued. Employment for March also reflects some slowdown in the labor market which will do little to extend wage increases as companies continue to sit on holdings, hiring employees at a slower pace. On the spending side, we expect the data to show a modest slowdown in consumer activity, following the trend already outlined for the month. Retail sales declined in March, even excluding the impact from lower gas prices, which evidences a slight pull back from the consumer as the first quarter came to a close. Spending on larger ticket items like vehicles and home furnishings also declined in March, an unwelcome sign for consumer spending as they are both high value items and usually a large portion of the consumption figure for the month. Consumer confidence surveys for March indicate a decline in plans for big-ticket spending, with most respondents expecting income levels to stay the same or decline slightly in the next six months. In general, this does not point to a very strong outlook for consumption for 2Q13.

US: Unemployment Rate & Nonfarm Payrolls (March, May 3rd)

Forecast: 7.6%, 160K	Consensus: 7.6%, 150K	Previous: 7.6%, 88K
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Nonfarm payrolls are expected to rise in April after posting pretty dismal numbers in March. While we expect the 88K figure to be revised upward, the implications are clear: March saw a strong slowdown in employment growth. A portion of this decline was in the retail sector, which failed to grow in March, pointing toward a possible continuation in job shedding for the sector. The spending and budget cuts which are taking place both directly, in federal programs, and indirectly, through sectors that interact with those programs, are likely to deal a blow to payroll growth as well. The Federal Reserve Manufacturing surveys are mixed with some showing labor growth and others hinting at relatively unchanged conditions in terms of hiring. With March's data as low as it was, April has the potential to return to payroll growth closer to the 150K range, in line with consensus expectations, or emerge lower in which case the Fed may have to re-evaluate its timeline for monetary policy accommodation. Given the latest sharp drop in unemployment, we do not expect that payroll growth will suffice to bring the rate down again from 7.6% for April.

China: NBS PMI (April, May 1st)

Forecast: 50.5	Consensus: 50.9	Previous: 50.9
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China's official NBS manufacturing PMI will be closely watched following a disappointing Q1 GDP outturn, weaker-than-expected March activity indicators and, more recently, an unexpectedly low HSCB Flash PMI released on April 23 (50.5, down from 51.6 in February). We expect the official PMI to edge lower in April, but to remain firmly above the 50 expansion threshold. While growth momentum has slowed somewhat over the past quarter, it has not collapsed, and policies remain growth-supportive as evidenced by continued strong credit growth. We expect GDP growth to rise gradually during the rest of the year, in line with our full-year GDP growth projection of 8.0%.

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	0.22	-1	-3	-4
		10-yr yield	1.66	-4	-18	-27
	EMU	3-month Euribor rate	0.21	0	-1	-51
		2-yr yield	0.00	-2	2	-10
		10-yr yield	1.21	-4	-6	-49
Exchange rates (changes in %)	Europe	Dollar-Euro	1.302	-0.2	1.9	-1.8
		Pound-Euro	0.84	-1.8	-0.4	3.2
		Swiss Franc-Euro	1.23	0.7	0.7	2.2
		Argentina (peso-dollar)	5.18	0.2	1.1	17.2
	America	Brazil (real-dollar)	2.00	-0.5	-0.5	6.0
		Colombia (peso-dollar)	1835	-0.1	0.5	4.0
		Chile (peso-dollar)	473	-0.8	0.1	-2.2
		Mexico (peso-dollar)	12.16	-0.9	-1.5	-6.3
		Peru (Nuevo sol-dollar)	2.64	1.7	1.8	0.0
	Asia	Japan (Yen-Dollar)	97.94	-1.6	3.7	22.0
		Korea (KRW-Dollar)	1112.01	-0.4	0.0	-2.0
		Australia (AUD-Dollar)	1.029	0.1	-1.5	-1.8
	Comm. (chg %)		Brent oil (\$/b)	102.9	3.3	-6.2
		Gold (\$/ounce)	1454.3	3.6	-9.4	-12.5
		Base metals	527.1	-0.4	-2.4	-2.9
Stock markets (changes in %)	Euro	Ibex 35	8297	4.8	5.0	16.1
		EuroStoxx 50	2683	4.2	2.7	14.5
	America	USA (S&P 500)	1579	1.5	1.0	12.5
		Argentina (Merval)	3716	7.9	9.9	63.6
		Brazil (Bovespa)	54308	0.7	-3.1	-12.0
		Colombia (IGBC)	13474	1.2	-4.7	-11.0
		Chile (IGPA)	21084	-0.1	-2.8	-3.6
		Mexico (CPI)	42026	-1.8	-4.7	6.9
		Peru (General Lima)	18029	0.7	-9.2	-21.3
	Venezuela (IBC)	651402	1.2	5.1	151.8	
	Asia	Nikkei225	13884	4.3	11.1	45.8
HSI		22548	2.4	0.4	8.7	
Credit (changes in bps)	Ind.	Itraxx Main	106	-7	-23	-32
		Itraxx Xover	429	-29	-64	-215
	Sovereign risk	CDS Germany	35	1	-2	-49
		CDS Portugal	382	-21	-17	-595
		CDS Spain	252	-13	-48	-223
		CDS USA	34	-1	-3	---
		CDS Emerging	238	-2	-29	-15
		CDS Argentina	2275	1	-1215	1327
		CDS Brazil	115	-6	-25	-7
		CDS Colombia	87	-5	-13	-24
		CDS Chile	69	0	2	-27
		CDS Mexico	85	-6	-13	-34
		CDS Peru	85	-8	-13	-39

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
EMU	04/23/2013	➤ Europe Flash: "April PMIs suggest a bumpy exit of the recession" Faltering confidence at the beginning of 2Q13
	04/21/2013	➤ Chipre, entre el surrealismo y la dinámica política Los actores olvidaron que Europa había acordado proteger los depósitos cubiertos
Spain	04/25/2013	➤ Flash España: EPA del primer trimestre de 2013: continúa el ajuste del mercado de trabajo Aunque la evolución del mercado laboral durante el 1T13 debe ser valorada negativamente, se observa un deterioro menor que el registrado en el 4T12
	04/24/2013	➤ Flash España: Hipotecas sobre vivienda febrero 2013: comienza a desinflarse la recuperación En febrero de 2013 se concedieron 24.197 hipotecas sobre vivienda, lo que supone, tras corregir la serie de variaciones estacionales propias del mes, un incremento del 1,4% respecto al mes de enero
US	04/24/2013	➤ U.S. Flash. Durable Goods Fall As Budget Cuts Take Effect New orders for durable goods reversed prior gains, dropping 5.7% in March. Excluding transportation, new orders fell for the second straight month, down 1.4%
	04/23/2013	➤ U.S. Housing Flash. New Home Sales Rise In March As Supply Remains Low Sales of new homes in March rose to 417K, up from February's 411K figure. Supply remains at 4.4 months, with new homes for sale rising only 3K
	04/22/2013	➤ Flash Semanal EEUU. La inflación general cae debido a que los precios de la energía se moderan en marzo Con una caída de 0.2%, el índice de precios al consumidor (IPC) cae a medida que los precios invierten el repunte de febrero al normalizarse los suministros de petróleo
	04/22/2013	➤ U.S. Housing Flash. Existing Home Sales Emerge Slightly Weaker in March Existing home sales fell to 4.92M in March as the share of distressed sales dropped. The supply of existing homes rose to 4.7 months but remains far lower than last year
	04/22/2013	➤ U.S. Weekly Flash. Headline inflation declines as energy prices soften in March Down 0.2%, the headline consumer price index (CPI) fell as energy prices reversed from the February surge as petroleum supplies normalized
Latam	04/26/2013	➤ Latam Daily Flash: COPOM: "vigilant" and focused on 2014; activity decelerates in Mexico
	04/25/2013	➤ Latam Daily Flash: Colombia's rating upgraded to BBB by S&P; annual inflation soars but core remains anchored in Mexico
	04/24/2013	➤ Latam Daily Flash: More tax cuts in Brazil
	04/23/2013	➤ Latam Daily Flash: Retail sales performed weaker than expected in Mexico; vehicle sales decreased in Colombia Yesterday was a quiet start to the week in Latin America.
	04/22/2013	➤ Latam Daily Flash: Inflation surprises upwards in Brazil; unemployment raises in Mexico; mixed signs on activity in Colombia
Brazil	04/25/2013	➤ Brazil Flash: COPOM: ¿vigilant¿ and focused on 2014 The minutes of last week's monetary policy meeting revealed that the Monetary Policy Committee (COPOM) is "vigilant" to minimize the risks that high inflation persists next year
	04/25/2013	➤ Flash Brasil: COPOM: "vigilante2" y centrado en 2014 Las minutas de la pasada reunión del COPOM revelan que este se mantendrá "vigilante" en cuanto a la inflación, dados los riesgos que existen de que esta persista elevada hasta el próximo año.

Mexico

- 04/24/2013 > **Flash Inflación México. 1QAbr: La inflación general sigue aumentando gracias a persistentes choques de oferta, mientras la subyacente se mantiene en 3%**
General: Observada: -0.09% q/q vs. BBVA: -0.12% q/q Consenso: -0.09% q/q. Subyacente: Observada: 0.05% q/q vs. BBVA: 0.05% m/m Consenso: 0.08% m/m.
- 04/24/2013 > **Flash México. Banxico: El incremento de la inflación ancla la tasa monetaria**
La reciente alza en la inflación y las perspectivas de crecimiento económico moderado son consistentes con una pausa monetaria.
- 04/24/2013 > **Mexico Flash. Banco de México: Inflation hike anchors the monetary policy rate**
Recent inflation hike and moderate economic growth perspectives are consistent with a monetary pause.
- 04/24/2013 > **Mexico Inflation Flash. April's biweekly CPI: Headline Inflation Soars Driven by Persistent Supply Shocks, While Core Remains Near 3%**
General: Actual: -0.09% f/f vs. BBVA: -0.12% f/f Consensus: -0.09% f/f. Core: Actual: 0.05% m/m, vs. BBVA:0.05% f/f Consensus:0.09% f/f.
- 04/22/2013 > **Mexico Economic Watch. Room for accumulating reserves in view of the strength of the exchange rate**
Favorable risk-adjusted returns, increase in global liquidity and expectations of domestic reforms have contributed to recent inflow of foreign investment in the country and strengthening the currency.
- 04/22/2013 > **Observatorio Económico México. Espacio de acumulación de reservas ante la fortaleza cambiaria**
Rendimiento ajustado por riesgo favorable, aumento de liquidez global y expectativa de reformas domésticas han contribuido a reciente entrada de flujos extranjeros al país y a apreciación cambiaria.

EAGLEs

- 04/25/2013 > **Energy trends: The emerging world at the centre of supply and demand**
Rapid economic growth and higher purchasing power are behind the substantial increase of energy demand in emerging economies.

Asia

- 04/25/2013 > **Asia Flash | 25 April 2013: Korea's Q1 GDP surprises to upside; China's Q1 current account records a surplus**
Among today's economic data releases was an upside surprise for Korea's Q1 GDP growth, helping to lift sentiment following a string of recent disappointing IP and GDP outturns in much of Asia.
- 04/24/2013 > **Asia Flash | 24 April 2013: Australia to diversify FX holdings in RMB; Australia Q1 inflation lower than expected; Vietnam inflation eases**
Australia announces plans to diversify FX holdings in RMB; Australia's lower-than-expected Q1 inflation raises chances of a rate cut; Vietnam inflation eases on lower food prices.
- 04/23/2013 > **Asia Flash | 23 April 2013: China Flash PMI adds to growth concern; Southwestern China is struggling in earthquake aftermath; India pegs GDP growth at 6.4%; Taiwan's IP and export orders disappoint**
Another disappointing activity indicator in China -today's Flash HSBC PMI (below)- sent Asian markets downward. The commodity-sensitive Australian dollar also fell to around 1.025 against the USD.

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