

# Global Weekly Flash

Madrid, 26 July 2013  
Economic Analysis

## Financial Scenarios

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## The eurozone steps up the pace

- **In the eurozone, July's Composite PMI has surprised to the upside, lifting expectations at the start of 3Q13**

- The rise in the index (50.4, BBVA Research: 49.9, consensus: 49.4) was sustained by improvements in both the manufacturing and services sectors. More importantly, the improved scenario includes both peripherals and core countries. These data are in line with our scenario of slight GDP growth in 2Q13, which would gain momentum in the second half of the year. However, we continue to expect a contraction in GDP for 2013 (at a rate similar to that in 2012) as our quarterly growth forecasts are not enough to offset the sharp decline observed in late 2012 and 1Q13. Others economic indicators have improved in line with expectations, reinforcing optimism in the eurozone: Germany's IFO Survey and the Eurozone Business Climate index have both improved in July (the latter 106.2, BBVA 106.3, consensus 106, previous: 105.9). In France, all broad PMI indicators have improved (services, manufacturing and composite), bordering the 50 points threshold. In Italy, consumer confidence has improved in July (+1.5 points to 97.3). Furthermore, Spain's unemployment fell more than expected in 2Q13 (26.3%, previous: 27.16%) -- although due to stationary causes and a reduction of the labor force --. Moreover, Spain's GDP moderated its contraction in 2Q13 (-0.1% / -1.8% YoY, previous -0.5% / -2 YoY), according to the Bank of Spain. Yet obstacles to growth still abound: credit to the private sector dropped in June (1.6% YoY, previous: -1.1%).

- **In the US economic data have been mixed, yet positive manufacturing data have set the tone**

- Despite an expected weak growth for 2Q13 (to be released next week), the outlook for manufacturing is posed to improve. Durable goods orders were pulled up in June by its transportation component (excluding this component, new orders were flat). Unfilled orders also increased, suggesting further improvement in manufacturing activity. While it may not be too significant, the 6.5% QoQ growth in durable goods (vs. 1% in 1Q13) may warrant better expectations. Overall, these results point to a manufacturing sector that is improving but still struggling. All in all, the economy is growing, as signaled by ISM figures rising above 50, federal reserve surveys conveying optimism and industrial production increasing in June. Housing sector indicators have been mixed: housing prices continued to increase in May (but slightly less than expected), and, more recently, new house sales improved more than expected while existing home sales fell below expectations in June. Lastly, ahead next week's payroll report, weekly jobless claims rose more than expected last week.

- **China's flash PMI points to increasing economic weakness, but activity should be close to hitting bottom. Some growth-supportive measures have been announced**
  - July's HSBC flash manufacturing PMI has declined more than expected (47.7). If the outturn stands its final revision (to be released August 1st, together with the more comprehensive official PMI), it would mark its lowest reading since September 2012. On the positive side, new export orders improved in June (47.7, previous: 44.9). Despite the disappointing flash HSBC PMI reading, we expect the official NBS PMI to remain above 50. Looking ahead, we expect output to pick up on an improving external demand and supportive government policies. Authorities have announced three growth-supportive measures to achieve the government's 7.5% growth target: (i) waiver of value-added and business taxes for select SMEs; (ii) support for exports through simplification of customs procedures, cuts in export taxes and fees, and maintenance of exchange rate stability; and (iii) promotion of public-private partnership to invest in railway and city subway systems.
  - Japan's outlook continues to improve, while the victory of Japan's government coalition has provided needed political stability to push through an ambitious program of structural reforms. Recent trade outturns have been used to indicate the effectiveness of the government's steps to stimulate GDP growth ("Abenomics"). In that regard, Japanese exports rose for a fourth consecutive month in June (but at a slightly lower pace than expected) while imports also increased, resulting in a trade deficit of USD 1.8 bn. In Korea, GDP growth increased in 2Q13 for a third consecutive quarter. The outturn beat market expectations thanks to private and government consumptions. In other Asian countries, economic data continued to disappoint: Taiwan's industrial output fell for a fifth straight month, Hong Kong June exports fell below expectations and Taiwan recorded relatively strong exports in June, but weak export orders. The trend is consistent with export readings previously released in other regional economies (e.g., China, South Korea and Singapore).
  - In Mexico, mid-July inflation surprised to the downside and leaves the door open for an interest rate cut in September. Besides, retail sales are back in positive territory with a better than expected performance in May (in line with a recovery for the second part of the year). Brazilian mid-July inflation declined more than expected, reinforcing our view that it had peaked in June and, together with June's employment data, supporting our call for an end to the monetary tightening cycle in October. Lastly, Brazil's current account deficit declined in June, and it is not expected to significantly deteriorate any further (among other reasons, thanks to a weaker exchange rate).
- **Net outflows from safe-haven bonds have followed upbeat economic data**
  - The German bund has registered strong falls after positive PMIs improved the economic outlook in the eurozone. The 10Y yield has surged by 15bps in the week. In the US, mixed economic data and positive company results have also prompted a weaker bond market. Emerging bond markets have also shown fresh net outflows this week. In the last five days 10Y-local yields have increased by 15pbs in Mexico, 29 bps in Colombia, 19.6 pbs in Poland and 43 pbs in Turkey. In contrast, peripheral bonds have improved or remained steady, tightening their risk premia. The reason is not only that improving economic expectations bode well for peripheral-debt dynamics, politics has also been a positive factor: Portugal's President Cavaco Silva has backed the government to stay in office until the end of its mandate in 2015, and Greece's Parliament approved the last measure required to receive the EUR 2.5 billion payment of the EU-IMF rescue program. However, increasing yields in the US and Germany have halted the recent positive trend

in of their equity indices, which now fluctuate close to record highs. On the other hand, peripheral equity has improved on positive economic data.

**Next week** investors will focus on the FOMC and ECB meetings, US payroll and China's PMI.

- **We expect the ECB to keep its current accommodative policy, reiterating that it will keep rates at current or lower levels for an extended period.** Despite recent economic data in the euro area surprising to the upside, the ECB is likely to continue signaling the possibility of an additional rate cut, along the lines of its latest meeting. The main focus will be in the press conference after the meeting, with questions demanding a better insight into the functioning of the ECB's new policy strategy of forward guidance. The rationale behind this new strategy has been to halt tightening financial conditions. We expect that the ECB will remain on hold maintaining the bias to cut rates, which are now dependent on data and global financial market conditions too.
- **No changes to monetary policy are expected from the upcoming July 30-31<sup>st</sup> FOMC meeting.** We project the FOMC to maintain the current pace of purchases of \$40bn in mortgage-backed securities and \$45bn in long-term treasuries. Chairman Bernanke's Congressional testimony emphasized that the pre-announced plan of tapering the monthly pace of purchases "later this year" remains entirely data-driven and that the "markets are beginning to understand (the FOMC's) message." While Bernanke took a dovish stance re-stating that the highly accommodative monetary policy is "needed for the foreseeable future," we expect the deflationary concerns within the FOMC to ease. Thus, we maintain our baseline scenario of the Fed announcing tapering later in 3Q13 and will be on the lookout for the September 18<sup>th</sup> announcement and the Chairman's press conference.
- **Some macroeconomic data will also be in the spotlight.** In the US, releases will include July's ISM manufacturing, nonfarm payrolls and the unemployment rate, and the advanced 2Q13 GDP. In the eurozone, releases will include July's finals PMIs, consumer confidence and the CPI, and June's unemployment rates. Spain and Italy will also sell bonds. In China, July's non-manufacturing PMI will be released.

## Weekly Indicators

Week July, 22 - July, 26

Country/Region	Indicator	Period	Cons. E	Prior		Obs. *
United States	Existing Home Sales (Million)	Jun	5.25	5.18	↓	5.08
	FHFA Hoyse Price Index	May	0.8%	0.7%	↓	0.70%
	New Home Sales ('000)	Jun	484	476	↑	497
	Initial Jobless Claims ('000)	19 Jul	340	334	↑	343
	Continued Claims	13 Jul	2980	3114	↑	2997
	Durable Goods Orders (MoM)	Jun	1.1%	3.6%	↑	4.20%
	Durable Goods Ex. Transport (MoM)	Jun	0.5%	0.7%	↓	0.00%
	U. Michigan Consumer Sentiment	Jul F	84	83.9	↑	85.1
Euro zone	Euro-Zone Consumer Confidence	Jul A	-18.2	-18.8	↑	-17.4
	PMI Manufacturing	Jul A	49.0	48.8	↑	50.1
	PMI Services	Jul A	48.6	48.3	↑	49.6
	PMI Composite	Jul A	49.4	48.7	↑	50.4
Germany	PMI Manufacturing	Jul A	49.10	48.60	↑	50.30
	PMI Services	Jul A	50.80	50.40	↑	52.50
	IFO - Business Climate	Jul	106.10	105.90	↑	106.20
	IFO - Current Assessment	Jul	109.70	109.40	↑	110.10
	IFO - Expectations	Jul	102.70	102.50	→	102.4
Spain	Unemployment rate (%)	2Q	27.20	27.10	↓	26.6
Italy	Retail Sales s.a. (MoM)	May	0.00%	-0.10%	↓	-1.1%
	Consumer Confidence Index	Jul		95.80		97.3
UK	GDP (QoQ)	2Q A	0.60%	0.30%	→	0.60%
	GDP YoY	2Q A	1.40%	0.30%	→	1.40%
France	Business Confidence	Jul	94	93	↑	95
	PMI Manufacturing	Jul P	48.8	48.4	↑	49.8
	PMI Services	Jul P	47.5	47.2	↑	48.3
	Consumer Confidence Indicator	Jul	79	78	↓	0
Japan	Exports (YoY)	Jun	10.0%	10.1%	↓	7.4%
	Imports (YoY)	Jun	13.8%	10.0%	↓	11.8%
China	HSBC Flash PMI	Jul	48.2	48.2	↓	47.7
Mexico	Retail Sales (INEGI)	May	1.0%	2.5%	↓	0.0
	Bi-Weekly CPI	Jul	0.1%	-0.05%	↓	0.0%
Brazil	Current Account - Million \$	Jun	-5200	-6420	↑	-3953
	FIPE CPI - Weekly	July	0.1%	0.0%	↓	-0.16%
	Unemployment Rate	Jun	5.90%	5.8%	↑	6.0%

\* 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 (July, July 31<sup>st</sup>)

Forecast: 1.6% y/y	Consensus: 1.7% y/y	Previous: 1.6% y/y
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We expect headline inflation to have remained broadly stable in July at 1.6% y/y, instead of the slightly moderation estimated previously, as the recent increases in oil prices in recent weeks point to slower moderation in energy inflation. Regarding core inflation, we expect it to have declined slightly to 1.2% y/y, driven by the moderation in non-energy industrial goods's prices, while inflation in services should have remained virtually unchanged. However, this moderation is set to have been offset by the higher prices projected for food prices. Looking forward, we continue to expect a moderation in headline inflation after July to hover around 1.3% y/y during the rest of the year, while core inflation, after some volatility stemming from changes in Easter last year, could remain relatively stable at 1.3% y/y in the second half of the year.

### Eurozone: Unemployment rates (June, July 31<sup>st</sup>)

Forecast: 12.3%	Consensus: 12.2%	Previous: 12.2%
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The unemployment rate is expected to have remained unchanged at 12.2% in June, showing further evidence of stabilization in the labour market. These figures mean that the unemployment rate might have increased by around 0.1pp over 1Q13, after rising by around 0.3pp per quarter since mid-2011. Though we already see a mild economic recovery by now in 2Q13, the unemployment rate is likely to increase slightly in coming quarters to around 12.4% by year end and to decline slowly in the second half of next year, given the lag between activity and employment, combined with the reversion of labour hoarding that has taken place during the crisis.

### US: GDP Advance (2Q13, July 31<sup>st</sup>)

Forecast: 1.0% saar	Consensus: 1.3% saar	Previous: 1.8% saar
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The advance figure for 2Q13 real GDP growth is expected to decelerate compared to 1Q13 as consumer spending and investment have not improved much since the end of March and government spending reduction weighs heavily on growth. While the first quarter was expected to show stronger private consumption and a slightly better manufacturing situation prior to the final estimate, the sentiment for 2Q13 has been decidedly weak since the beginning of the year. Personal consumption remains the significant driving force behind growth in the U.S. and we expect the weaker consumption figure in April may be bolstered by a stronger June report as consumers continue to benefit from rising asset prices and the ensuing wealth effect. However, barring any stellar growth from consumers, the remaining indicators like production, investment and government spending will look to be creating quite a drag on 2Q13 growth. Stronger durable goods growth may help alleviate the minimal rise in industrial production, which gained only 0.1% from 1Q13. With regards to the trade deficit, the recent figures for April and May are strongly negative for the quarter with the deficit increasing to its highest level since November, causing further drag. Consistent with our forecasts for 2Q13, the largest drag on real GDP will be the deceleration of government spending due to the sequester. We expect the decline in spending at the federal, state and local level to create a proportionally larger drag on GDP than in the first quarter as the brunt of the fiscal policy took effect throughout this period.

### US: Nonfarm Payrolls & Unemployment Rate (July, August 2<sup>nd</sup>)

Forecast: 186K, 7.6%	Consensus: 183K, 7.5%	Previous: 195K, 7.6%
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Nonfarm payroll growth in July is expected to be marginally less than June's figure as the employment situation has not shown much indication of drastic improvement. Compared to June, we expect the goods-producing sectors like manufacturing and construction to show stronger jobs growth, with housing activity continuing to improve and Federal Reserve Manufacturing Surveys positing better employment conditions. We continue to expect service-based payrolls to grow as the retail and wholesale sector are benefitting from the increase in consumer spending. Also, given the influx of graduates into the labor force as of early summer, we may see continued growth in sectors such as professional, financial and IT services where young talent is in continuous demand as of late. We expect government payroll growth to remain negative as the sequester puts pressure on all levels to lean themselves. With that in mind, we believe the unemployment rate will remain stable as payroll growth is mitigated by the recent rise in the labor force and participation rate.

### China: NBS PMI for (July, August 1<sup>st</sup>)

Forecast: 50.0	Consensus: 49.8	Previous: 50.1
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China's manufacturing activities likely slow further in July, as suggested by the weaker-than-expected flash HSBC PMI (47.7; consensus and prior: 48.2). That said, bigger firms and SOEs, which the official NBS PMI surveys, may hold up relatively well, especially in view that the government has been introducing growth-supportive measures since late July. Therefore, the NBS manufacturing PMI may manage to stay around the 50-expansion threshold in July, and we expect output to pick up gradually on an improvement in external demand and supportive government policies through the second half year.

## Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.27	0	-1	-18
		2-yr yield	0.32	2	-6	8
		10-yr yield	2.57	8	3	102
	EMU	3-month Euribor rate	0.23	1	0	-19
		2-yr yield	0.15	7	-5	18
		10-yr yield	1.67	15	-10	27
Exchange rates (changes in %)	Europe	Dollar-Euro	1.327	1.0	2.0	7.7
		Pound-Euro	0.86	0.3	1.6	10.4
		Swiss Franc-Euro	1.23	-0.3	0.4	2.6
		Argentina (peso-dollar)	5.48	0.3	2.1	19.8
	America	Brazil (real-dollar)	2.25	0.3	3.0	11.5
		Colombia (peso-dollar)	1886	0.2	-2.3	5.3
		Chile (peso-dollar)	507	0.7	0.2	4.7
		Mexico (peso-dollar)	12.70	1.3	-3.6	-4.1
		Peru (Nuevo sol-dollar)	2.79	0.6	0.1	6.4
	Asia	Japan (Yen-Dollar)	98.23	-2.4	0.5	25.2
		Korea (KRW-Dollar)	1111.33	-0.9	-3.7	-2.4
		Australia (AUD-Dollar)	0.924	0.7	-0.4	-11.9
Comm. (chg %)		Brent oil (\$/b)	106.9	-1.1	5.1	0.4
		Gold (\$/ounce)	1318.0	1.7	7.5	-18.8
		Base metals	522.5	0.4	0.9	4.8
Stock markets (changes in %)	Euro	Ibex 35	8338	5.0	6.6	26.0
		EuroStoxx 50	2737	0.8	5.2	18.9
	America	USA (S&P 500)	1677	-0.9	4.6	21.0
		Argentina (Merval)	3424	0.4	15.4	40.6
		Brazil (Bovespa)	48771	2.9	3.4	-13.8
		Colombia (IGBC)	13410	-0.5	6.9	-3.2
		Chile (IGPA)	19010	-0.5	-2.0	-7.5
		Mexico (CPI)	40906	2.5	5.4	-1.4
		Peru (General Lima)	15269	-1.0	0.9	-23.0
		Venezuela (IBC)	1268644	1.2	22.7	417.8
	Asia	Nikkei225	14130	-3.2	10.1	64.9
		HSI	21969	2.8	8.0	14.0
Credit (changes in bps)	Ind.	Itraxx Main	103	3	-16	-59
		Itraxx Xover	416	17	-71	-225
	Sovereign risk	CDS Germany	28	-2	-5	-45
		CDS Portugal	449	-50	39	-388
		CDS Spain	256	-19	-29	-295
		CDS USA	23	-1	-5	---
		CDS Emerging	292	13	-43	47
		CDS Argentina	2571	177	-488	1433
		CDS Brazil	179	13	-10	42
		CDS Colombia	127	8	-21	3
		CDS Chile	91	6	-11	-17
		CDS Mexico	121	9	-18	6
		CDS Peru	133	10	-17	-1

Source: Bloomberg and Datastream

## Weekly Publications

Country	Date	Description
EMU	07/24/2013	<a href="#">Europe Flash: Positive surprise from July PMIs further points to a recovery in the eurozone</a> Growing confidence at the beginning of 3Q13 was widespread across the region (Spanish version)
	07/25/2013	<a href="#">Financial Systems Flash: New increase in June of deposits held by households and businesses resident in Spain</a> For the second month in a row, deposits held by households and businesses resident in Spain are up. (Spanish version)
Spain	07/25/2013	<a href="#">Flash España: La EPA del 2T13 sugiere que lo peor ha quedado atrás</a> La evolución del mercado laboral en el 2T13 fue mejor que la esperada. La creación de empleo, por causas estacionales, se vio acompañada por una disminución notable de la población activa
	07/24/2013	<a href="#">Flash España: Hipotecas sobre vivienda mayo 2013: se modera la contracción</a> Después de dos meses de intensas contracciones la caída de hipotecas sobre vivienda registrada en el mes de mayo se modera
	07/25/2013	<a href="#">U.S. Flash. Durable Goods Orders Grow for the Third Consecutive Month</a> New orders for durable goods rose 4.2% on continued growth in aircraft orders. Excluding transportation, new orders were unchanged; defense, up significantly
US	07/23/2013	<a href="#">U.S. Banking Watch. Detroit Files Chapter 9 Bankruptcy on \$18bn in Debt</a> Largest municipal bankruptcy in U.S. history by more than fourfold. Declining population and infrastructure crippled the cities revenue (Spanish version)
	07/22/2013	<a href="#">U.S. Weekly Flash. Retail sales decelerate as spending growth was stunted by a handful of weaker sectors</a> Retail sales for June were slightly disappointing, showing modest improvement in certain sectors while a handful of others dragged the overall figure downward (Spanish version)
	07/25/2013	<a href="#">Latam Daily Flash: Inflation falls in Mexico; labor market loses steam in Brazil</a>
Latam	07/24/2013	<a href="#">Latam Daily Flash: Decline in Brazil external account deficit, FDI remains strong.</a> Today's focus will be on inflation: bi-weekly data for Mexico, surveys for Chile.
	07/23/2013	<a href="#">Latam Daily Flash: Signs of recovery in Mexican domestic demand; reduction in reserve requirements in Peru</a> Today, Brazil's monthly current account deficit is expected have increased slightly in June.
	07/22/2013	<a href="#">Latam Daily Flash: Inflation in Brazil peaked in June; industrial production falls in Colombia</a> Today, signs of an incipient recovery are expected in Mexico with the retail sales data for May
	07/22/2013	<a href="#">Más allá de la firma de los TLC.</a> La semana pasada el ministro de Hacienda anunció que se está cerrando el ciclo de firmas de tratados comerciales y que ahora debemos concentrarnos en la política industrial.
Colombia	07/23/2013	<a href="#">La inclusión financiera en el Perú</a> En un país donde sólo el 20% de la población manifiesta tener una cuenta en una institución financiera, el potencial de desarrollo se encuentra limitado.
Peru	07/24/2013	<a href="#">Mexico Inflation Flash. July's biweekly inflation: general inflation surprises to the downside as a result of a very low core inflation</a> General: Actual: 0.0% f/f vs. BBVA:0.23% f/f Consensus: 0.15% f/f. Core: Actual: 0.04% f/f, vs. BBVA:0.16% f/f Consensus: 0.15% f/f (Spanish version)
Mexico	07/22/2013	<a href="#">Flash Bancario México. Captación bancaria: su desaceleración ha sido gradual</a> Captación a la vista: su menor crecimiento en línea con el menor crecimiento del PIB. Captación a plazo: la desaceleración económica influirá en su desempeño

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Asia

- 07/25/2013 ➤ **Asia Flash | 25 Jul 2013: China announces growth-supportive measures; Korea's Q2 GDP beats expectation**  
China's government tilts toward growth-supportive measures; South Korea Q2 GDP beats expectations
- 07/24/2013 ➤ **Asia Flash | 24 Jul 2013: China flash PMI declines; India takes measures to curb currency volatility; Japan exports rise; Indonesia investment increases**  
China flash PMI shows further weakness, but bottom may be in sight; Additional measures in India to curb currency volatility; Japan exports rise in June.
- 07/22/2013 ➤ **Asia Flash | 22 Jul 2013: China removes lending rate floor; Japan's governing coalition wins upper house election**  
Market sentiment across the region was favorable today, following the victory of Japan's governing coalition in the upper house election China's announcement of interest rate liberalization measures
- 07/22/2013 ➤ **China Flash : PBoC's removal of lending rate floor: little immediate impact, but good in the long run for interest rate liberalization**  
The People's Bank of China (PBoC) late on Friday announced the removal of the lending rate floor, an important, but by no means final step, toward interest rate liberalization in China.
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