

Global Weekly Flash

Madrid, 1 February 2013
Economic Analysis

Financial Scenarios

Cristina Varela Donoso

cvara@bbva.com
+34 91 537 7825

María Martínez Álvarez

maria.martinez.alvarez@bbva.com
+34 91 537 66 83

Alejandro Neut

robertoalejandro.neut@bbva.com

Ignacio Santiago Llorente

i.santiago.llorente@bbva.com
+34 91 537 76 80

Indicators collaboration:

Europe

Agustín García

agustin.garcia@bbva.com
+34 537 79 36

US

Alejandro Vargas

alejandro.vargas@bbvacompass.com
+1 713 831 7348

Asia

Fielding Chen

fielding.chen@bbva.com.hk
+852 2582 3297

Risk-on mood fades slightly due to lower-than-expected US GDP figures

The FED left monetary policy unchanged. We expect the ECB to remain on hold. Meanwhile, central banks in some emerging countries are cutting rates.

- This week's FOMC statement did not change the US monetary policy outlook, which continues to postpone the slowing of asset purchases to mid-2013 or later. Recent data have not been strong enough to shift FOMC policy decisions. But before their next meeting, we will see another employment report that may encourage a quicker end to QE3. The statement did not mention policy uncertainty or the current fiscal situation, suggesting that the committee is satisfied with the January 1st deal in Congress. ([Fed Watch](#)).
- In the same vein, we expect the ECB monetary policy to remain broadly unchanged. Soft economic data for January suggested that activity in the euro area should stabilize in 1Q13, in line with what the ECB pointed out at its last meeting. Financial strains continued to loosen in peripheral countries; and in an effort to further regain market confidence, European banks are opting for an early repayment of 3Y LTROs, by a total amount higher than expected. Nonetheless, we still consider that it is too early to change the ECB downward bias, as fragmentation in the euro area remains at high levels and tight credit conditions still persist, according to euro area bank lending survey.
- Meanwhile, central banks in emerging countries continued to show activism, in an effort to reduce the currency appreciation impact of capital inflows. This week, the Peruvian, Colombian and Indian central banks cut interest rates. In addition, the Colombian central bank extended its dollar purchases to an average of USD37.5mn a day, while Peru announced a debt buyback program to take some pressure off the Peruvian Nuevo Sol (PEN).
- European equity indices were dragged by the financial sector, due to the Bank Monte di Paschi di Siena (MPS) turmoil and the announcement of poor earnings in several European banks. The financial problems of MPS should not spread to the whole European financial sector. However, there are uncertainties about its impact on the Italian political scene, which faces elections in February. The MPS case could affect the prospects of the leading party in the polls, thus increasing the probability of a hung Parliament after February. Against this background, the risk-on mood in financial markets has slightly eased while waiting for the Italian elections.
- European peripheral spreads marginally widened this week, but graduality was due to an increase in German bond's yields rather than little increase in peripherals' risk premia. The MPS turmoil undoubtedly increased markets' risk perception for Italy. Its 10Y yield increased by 20bps in the week, while the Spanish 10Y yield only rose by 3bps. The 10Y Bund yield increased by 4bps to 1.67% supported by this week's encouraging German macro data. Other safe-haven assets also continued to exhibit outflows: the US 10Y yield reached the 2% mark, its highest level since mid-April.

Nonetheless, the Euro rallied this week, boosted by the positive announcements on euro area's measures of sentiment and worse-than-expected US GDP figures (below). As a result, concerns about loss of competitiveness are being raised in different European quarters.

- **The US economy contracted more than expected in 4Q12. This time, the positive news came from the euro area, where economic sentiment improved across sectors in January**
 - In the US, it was announced that 4Q12 GDP dropped 0.1% yoy, its worst performance since the second quarter of 2009, as government spending declined by 6.6%. Exports and imports plummeted by 5.7% and 3.2% respectively, while good performance in consumption and both residential and non-residential investments partially countered the drop. Pundits are in quiet agreement, with this being the first of 3 estimates, that a revision upwards is highly likely. ([U.S. GDP Flash](#)). Meanwhile, the US nonfarm payroll figures for January and December suggested that the employment is gathering momentum.
 - In China, the official NBS PMI for January disappointed to the downside but remains above the 50 expansion/contraction threshold. While the outturn was well below consensus expectations, it was only marginally lower than our forecast and in our view is still in line with a moderate recovery ahead ([China flash](#)).
 - The Economic Sentiment Indicator released by the European Commission confirms that confidence has been increasing in the euro area since October, as foreshadowed by PMI indicators previously released. Based on this information, our GDP forecast for 4Q12 remains intact. Our MICA-BBVA model points to a 4Q12 contraction in the 0.2%-0.3% range, with 1Q13 GDP growing close to 0.2%. Nevertheless, we think that 4Q12 GDP growth was slightly more negative, as several economic activity indicators for that quarter continue to come out significantly worse than sentiment yardsticks ([Europe flash](#)).

Next week: In the US several economic indicators will be released: Non-Manufacturing ISM, 4Q12 Nonfarm productivity and Trade balance for December. In the eurozone: industrial production and final Composite PMI will be also released, the ECB will hold its monetary policy meeting, and by the end of the week EU leaders will try to reach a deal on a seven-year EU budget. Spain will issue bonds on Thursday.

Week January, 28 - February, 1

CC	Indicator	Period	Cons. E	Prior	Obs. *
USA	Chicago manufacturing PMI	Dec	50.5	51.6	55.6
	GDP(QoQ saar)	4Q2012	1.1%	3.1%	-0.1%
	Consumer spending (MoM)	Dec	0.3%	0.4%	0.2%
	Durable goods orders(MoM)	Dec	2.0%	0.7%	4.6%
	Unemployment Rate (s.a)	Jan	7.80%	7.80%	7.90%
	ISM manufacturing	Jan	50.7	50.7	53.1
	Pending home sales (MoM)	Dec	0%	1.7%	-4.3%
	Consumer Confidence		64.0	65.1	58.6
Euro zone	M3 s.a. (YoY)	Dec	3.9%	3.8%	3.3%
	CPI Estimate (YoY)	Jan	2.3%	2.2%	2.0%
	Unemployment Rate	Dec	11.9%	11.7%	11.7%
	PMI Manufacturing	Jan F	47.5	47.5	47.5
	Economic Confidence	Jan	88.2	87.8	89.2
Germany	Unemployment Rate (s.a)	Jan	6.90%	7%	7%
	PMI Manufacturing	Jan F	48.8	46.0	49.8
	Retail Sales (MoM)	Dec	-0.20%	0.9%	-1.70%
	GfK Consumer Confidence	Feb	5.7	5.7	5.8
Spain	Retail Sales (YoY)	Dec		-10.20%	-7.8%
	GDP(QoQ)	4Q2012	-0.6%	-0.3%	-0.7%
China	Industrial profit(YoY)	Dec		3.0%	5.3%
	Manufacturing PMI	Jan	51.0	50.6	54.0
Brazil	Unemployment Rate (s.a)	Dec	4.5%	4.90%	4.60%
	PMI manufacturing	Jan		51.1	53.2
Chile	Manufacturing production	Dec	1.0%	0.8%	-2.5%

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

Calendar: Indicators

Eurozone: Retail sales (December, February 5th)

Forecast: 0.1% m/m	Consensus: -0.2% m/m	Previous: 0.1% m/m
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Retail sales are expected to have increased slightly in December, at a similar pace to that observed in the previous month, but not enough to offset the sharp drop observed in October. As a result, they could have declined around 1.2% t/t in Q4 as whole, suggesting that private consumption could contract sharply in late 2012. This is consistent with our economic outlook that envisages the stronger fall of household spending as the main driver of the expected deepening recession late last year. Looking forward, as consumers' confidence for January improved markedly and there is less uncertainty about the European debt crisis, private consumption is likely to prove more resilient at the beginning of the year. Across countries, we think that the divergent trend in households' spending will persist in coming quarters, falling sharply in the periphery and mildly supporting economic growth in core countries, especially in Germany.

Germany: Industrial production (December, February 7th)

Forecast: 0.4% m/m	Consensus: 0.1% m/m	Previous: 0.2% m/m
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We expect industrial production to have increased slightly in December, but not enough to offset the sharp decline observed in previous months, especially in October. Despite this estimated increase, this would imply that output could fall about -3% q/q over 3Q, when it grew by 0.9% q/q. Given the strong correlation between this variable and the economic cycle, these figures would be consistent with a significant German GDP fall in late 2012 (around -0.4% q/q in Q4). Nonetheless, confidence surveys available for January were encouraging and suggest that the German economy is gathering momentum again in early 2013; although it will be more reflected in the services sector than in the industrial sector, which could contract further.

US: ISM Non-Manufacturing Index (January, February 5th)

Forecast: 55.8	Consensus: 55.5	Previous: 55.7
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After accelerating to 55.7 in December to finish 2012 off on a strong note, the ISM Non-Manufacturing Index is expected to increase again in January. Now that businesses have a better grasp of their financial situation, in terms of taxes, we have seen a slight uptick in activity coming into January as the housing market continues to pull up construction spending and trade has been recovering slightly. However, consumer confidence indicators for the month suggest a modest downturn in personal spending plans for the coming months, most likely reflecting the new year's hit to disposable income. Still, the overall sentiment is that retail and communications, along with the rebound in construction, should continue to push the services index higher as the economy as a whole begins firing on more cylinders.

US: International Trade (December, February 8th)

Forecast: \$-47.8B	Consensus: \$-46.5B	Previous: \$-48.7B
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Following November's significant increase in the trade deficit, we expect the balance to improve only slightly in December, remaining much higher than levels seen between June and October. Considering that the end of 4Q12 was not teeming with optimistic data about global demand, both imports and exports likely took a hit during the month, though with a definite chance for growth in 2013. As China and the U.S.'s other large trade partners continue to recover, we expect exports to increase at a modest pace; it is unlikely that exports will have enough demand to significantly reduce the deficit in the coming report. Parallel to the export side is imports which have seen a rise as consumers in the U.S. were focused on holiday spending. However, it is unlikely that imports will increase much after the large gain seen in November. With little influence from export and import prices for December, it is likely that the two components mostly offset each other to result in only a slight narrowing of the trade deficit.

China: CPI Inflation (January, February 8th)

Forecast: 2.0% y/y	Consensus: 2.1% y/y	Previous: 2.5% y/y
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Although recent inflation outturns in China have been mild, an uptick in December, supply disruptions from an unusually cold winter, and the ongoing economic recovery are raising concerns about inflation later in the year. For the time being, however, we do not see inflation as a threat. We expect the CPI outturn for January to fall due to base effects from the Chinese New Year (CNY) effect -- the week-long holiday occurred last year in January, and begins this year on February 10. Thereafter, we expect inflation to rise above 3.0% y/y in February (on reverse base effects) and to drift gradually higher to 3.8% by end-year as demand pressures increase. As such, inflation may act as a constraint on further policy easing as the year progresses (no further rate cuts are expected). We will also be watching for January credit and trade data during the week of February 8, while the remaining set of monthly indicators will be delayed to March, when the authorities typically combine two months of data to avoid CNY distortions.

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	
		Japan (Yen-Dollar)	92.24	1.5	5.6	20.4	
	Asia	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
EMU	01/30/2013	➤ Eurozone Flash: Economic sentiment improves in the eurozone France and Italy fail to join Germany on the path towards recovery in January (Spanish version)
	01/28/2013	➤ Artículo de Opinión: La eurozona empieza 2013 con buen pie La salida de la recesión en la eurozona podría llegar ya en este primer trimestre del año
Spain	01/31/2013	➤ Flash España: Avance del IPC de enero El indicador adelantado del IPC de enero sorprende a la baja mostrando una desaceleración de tres décimas en la inflación anual
	01/31/2013	➤ Flash España: Balanza de pagos de noviembre 2012 El déficit de la balanza por cuenta corriente en el acumulado a 12 meses de noviembre se reduce considerablemente con respecto al acumulado a 12 meses del mes anterior
	01/31/2013	➤ Flash España: Visados de construcción de vivienda de obra nueva noviembre 2012 La evolución de los visados de construcción de vivienda nueva se mantiene similar a la del mes anterior
	01/30/2013	➤ Flash España: Avance de la contabilidad nacional trimestral del 4T12 Tal como se esperaba, el avance del INE señala que la economía española habría vuelto a contraerse en el 4T12, encadenando 5 trimestres consecutivos de caída. En 2012 la actividad se contrajo un 1,4%
	01/30/2013	➤ Flash España: Confianza industrial y del consumidor en enero El año 2013 comienza con una corrección de las expectativas de los agentes económicos
	01/29/2013	➤ Flash España: Ventas reales del comercio al por menor de diciembre: continúa la atonía del consumo El retroceso de las ventas reales del comercio minorista en diciembre anticipa una contracción significativa del gasto en consumo de los hogares durante el último trimestre del año
	01/28/2013	➤ Financial Systems Flash: Household and business deposits and promissory notes were up €28bn in December and €21bn in 2012 Although total deposits fell by €18bn in December, deposits from households and businesses increased by €19bn, and remained virtually steady throughout 2012 (-€3bn, -0.3%). (Spanish version)
	01/28/2013	➤ Flash España: Hipotecas sobre vivienda noviembre 2012 Durante el mes de noviembre se concedieron 19.115 hipotecas sobre vivienda, lo que supone una caída del 7,2% respecto al mes anterior, lo que mantiene el nivel de hipotecas en mínimos históricos
	US	01/31/2013
01/30/2013		➤ Fed Watch. FOMC Statement: January 29-30th Recent Data Not Enough to Shift FOMC Policy Decisions, Yet (Spanish version)
01/30/2013		➤ U.S. GDP Flash. Significant Drop In Federal Spending Reigns In GDP Growth Real GDP shrank in 4Q12 by 0.1% as government spending declined by 6.6%. Consumption accelerated while residential and nonresidential investment jumped
01/29/2013		➤ U.S. Banking Watch. Deposit growth to moderate as economy expands January outflows of domestic commercial bank deposits top \$103bn. Declining policy uncertainty and financial volatility are behind this trend (Spanish version)
01/28/2013		➤ U.S. Flash. Across-the-Board Gains Drive New Durable Goods Orders Durable goods orders increased 4.6% in December and 1.3% excluding transportation. Transportation was the lion's share of the increase, with aircraft orders up 23.2%
01/28/2013		➤ U.S. Weekly Flash. Existing and new home sales fall as supply remains tight, causing prices to rise Despite the rising trends in housing demand throughout the latter part of 2012, both new and existing home sales declined in December (Spanish version)

Latam	01/31/2013	➤ Latam Daily Flash: Peru raises reserve requirements again; fiscal targets met in Chile, Mexico and Brazil
	01/30/2013	➤ Latam Daily Flash: Industrial output moderated in Chile; mixed confidence results in Colombia; fuel prices hiked in Brazil
	01/29/2013	➤ Latam Daily Flash: BanRep cut policy rate by 25bp and enhanced FX intervention; foreign debt buyback in Peru
	01/28/2013	➤ Latam Daily Flash: Lending expanded, NPLs declined and at the end of 2012 in Brazil; an unexpected trade surplus in Mexico
Brasil	01/30/2013	➤ Brazil Economic Watch: The macro mix in Brazil: a new fiscal regime, to a new monetary policy The dramatic decrease of real interest rates in Brazil will provide significant room for the government to lower its primary deficit target ahead
Chile	01/31/2013	➤ Tasa de desempleo cierra 2012 en 6,1% Tasa de desempleo alcanzó 6,1% al cierre de 2012. Enseñanza, minería, industria manufacturera y construcción lideran creación de empleos en 2012.
	01/30/2013	➤ Producción manufacturera cae junto con minería y ventas minoristas mantienen dinamismo La producción manufacturera y minera disminuyeron 2,5% a/a y 2,6% a/a en diciembre, respectivamente. Por su parte, las ventas minoristas anotaron un incremento de 11% a/a
	01/29/2013	➤ Chile Automobile Market Outlook 2012 New vehicle sales rose 1.4% in 2012, despite the negative forecasts. We expect that the favorable performance in key factors for car sales should lead to 357 thousand units being sold in 2013.
Colombia	01/28/2013	➤ Flash Colombia. Banco Central reduce nuevamente su tasa de intervención en 25pbs a 4,0% y amplía intervención cambiaria Continuando con su apoyo a la actividad y ante el espacio inflacionario reciente, el Banco Central decidió recortar su tasa de intervención en 25 pbs
Peru	01/31/2013	➤ Expanding Credit and Savings in Peru The study also offers some recommendations aimed at promoting credit and savings in Peru
Mexico	01/31/2013	➤ Flash Migración México. En 2012 México habría recibido menos remesas que en 2011 El Banco de México publicará el próximo viernes 1º de febrero las cifras sobre flujos de remesas familiares que se recibieron en México durante el pasado mes de diciembre
EAGLEs	01/29/2013	➤ Economic Watch: Emerging middle class in "fast-track" mode An explosive process is already underway, the middle-class boom will accelerate this decade
Asia	02/01/2013	➤ China Flash: January PMI disappoints, but recovery remains intact The official PMI for January declines on lower production and CNY distortions; The next set of meaningful indicators will be released in March, with combined January and February outturns
	01/31/2013	➤ Asia Daily Flash 31 January 2013: Positive Taiwan, Philippines Q4 GDP outturns; Japan IP misses forecast Strong GDP data in Taiwan and the Philippines failed to lift Asian equities, which fell in reaction to the downtrend in overseas markets following the weaker-than-expected Q4 GDP reading in the US
	01/31/2013	➤ India Flash: India's path to fiscal consolidation: are the targets achievable? The government's commitment to fiscal consolidation is credible, but the numbers are not likely to add up
	01/30/2013	➤ Asia Daily Flash 30 January 2013: Sluggish retail sales in Japan; deepen cross-strait ties; improved Korean IP Asia shares were higher driven by positive corporate earnings in Japan and China. The Nikkei up 2.3% while the yen down -0.7%. Hang Seng and Shanghai Composite also registered gains of 0.7% and 1.0%

- 01/29/2013 > **Asia Daily Flash | 29 January 2013: RBI cuts repo rate, signaling an increased focus on growth**
Taiwan's index up 1.1% on expectations of a possible expansion in China's QFII and RQFII program that could increase portfolio flows. India's rupee gained 0.4% while shares ended down -0.6%
- 01/29/2013 > **India Flash: RBI cuts repo rate, signaling an increased focus on growth**
RBI slashes growth and inflation projections; It is important to better manage India's twin deficits risks
- 01/28/2013 > **Asia Daily Flash | 28 January 2013: Japan releases FY13 budget, ups 2013 GDP forecast; Rising China industrial profits boost sentiment**
China, Hong Kong and Taiwan's shares all advanced on strong Industrial Profits data released in China. Japan's Nikkei ended down (-0.9%) on questions about the pace of further yen depreciation

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