

Global Weekly Flash

ECB's response... only when pieces fall into place

During the whole week investors were waiting for the ECB's response to support the euro and tackle the high risk premium in peripheral countries. Besides, some investors were also waiting for the FED to hint additional QE. However, neither the Fed nor the ECB announced imminent actions. Yet they suggested they are ready to act if needed. Importantly, the ECB open the door for a big bang of more detailed announcements and policy actions as from September. But ECB help is contingent on actions from others.

- The ECB left interest rates unchanged and signalled that it stood ready to intervene in sovereign bond markets (addressing its seniority status) if "necessary conditions" are satisfied. The conditions for an ECB response that may prove substantial are that countries first apply to the eurozone EFSF/ESM rescue funds and accept "strict and effective conditionality" and the Eurogroup activates the funds for bond market purchases. Only then will the ECB be ready to reactivate bond purchases. A guidance of measures was announced (although the ECB will design the modalities over the coming weeks) and by doing so they sent a strong signal that the ECB would do whatever necessary to preserve the common currency. The decision was unanimous with one reservation. To sum up, ECB's bite may end up being as loud as its bark subject to governments and eurogroup actions. But just not yet.
- Just after the ECB meeting, in a press conference neither the Italian Prime minister nor the Spanish president hinted the activation of the EFSF/ESM.
- Financial markets reacted negatively to the absence of short-term actions. However, Mr. Draghi words are influencing the short end of the yield curves. The 2Y yields are decreasing by 54bps in Spain and 53bps in Italy, while falls in the long end of yield curve are smaller.
- Before the ECB council, Spain managed to sell a total of ER3.13bn of bond maturing in 2014, 2016 and 2022, reaching the upper side of its issuance target. Averaged yields were below secondary markets: 4.774% in the 2Y, 5.971% in the 4Y and 6.647% in the 10Y.
- Meanwhile, the FOMC statement did not feature any additional monetary policy announcement but instead highlighted a weaker economic outlook, as recent data have shown. Throughout the intermeeting period, economic data have deteriorated but not quite enough to convince all committee members that further action is necessary. Our monthly activity index points to weak economic growth in the coming months, which increases the probability for additional monetary easing. The Fed is also waiting for Congress to address the looming fiscal cliff, and we foresee that QE3 will become more and more attractive as time passes by without any fiscal progress. Overall, we believe that the Fed is seriously considering further action but needs to see more data with additional time to discuss. The addition of July employment data, which will be released this afternoon, and the upcoming Jackson Hole meeting will provide a chance for the Fed to better discuss further policy action. We expect that the Fed will take action in September or the following meeting if economic conditions deteriorate further, with the most likely scenario additional quantitative easing. The Fed will probably implement its options one at a time, rather than in combination. Other options on the table are less likely at this point, such as a change in monetary policy guidance or a reduction in the interest rate on reserves.
- In China, economic data showed that further monetary and fiscal easing is needed. On the monetary side, such support is likely to include another 150bp cuts in the RRR in the coming months, and up to two interest rate cuts. Fiscal support is also being stepped up at both the local and national level through increased infrastructure spending. Regional markets, which remain focused on possible actions by the ECB and US Fed, took the news in stride through mid-day, with the Shanghai composite rising on expectations of further domestic policy easing.

- **The PMI manufacturing indexes showed the effects of slowing external demand across all economies**

- All the PMI indexes in the main economic areas are either in contraction territory (ie, below the 50 threshold level) or hovering around it. Export new orders fell in both the US and China in July affected by the ongoing global slowdown. Chinese and Eurozone indexes showed higher deterioration among its components compared with the previous month, while the US registered some stabilization but in weak levels.
- In the eurozone, the downturn in manufacturing sector gathered momentum at the start of the third quarter. The rates of contraction in output, new orders and employment all accelerated during July. The final Manufacturing PMI fell to a 37-month low of 44.0, down from 45.1 in June and below the earlier flash estimate of 44.1. Almost all of the national PMIs are below 50. Only Ireland bucked the trend, seeing improved business conditions as its PMI hit a 15-month high. However, not only the PMI but also other confidence indicators point to slow activity going forward. In this regard, the Economic confidence in Eurozone decreased further in July (-2.0p to 87.9), in all sectors, with the fall being more pronounced in industry (-2.2p) and among consumers (-1.7p). Germany Economic confidence index was also dragged by lingering uncertainties. Business climate in Eurozone decreased by 0.3p to -1.3, driven by deteriorations in all five components, but especially by the increased pessimism in managers' assessment of past production and export order books.
- Economic data in the US were somewhat mixed. The ISM index was practically unchanged in July (moving to 49.8 from 49.7 in June), while new orders slightly rose to 48, suggesting slow activity going forward. However, the consumer confidence index rose 3.2 points to 65.9 in July against expectation of a drop, drove by employment and business expectations components but for higher expectation of personal income. Meanwhile personal income expectation edged up by 0.5% in June after declined by 0.3% in May.
- In China, the official NBS Purchasing Managers Index (PMI) declined to a weaker-than expected 50.1% in July (BBVA: 50.7%; Consensus: 50.5%), from 50.2% in June. The decline is broad-based, suggesting both soft domestic and external demand. While the outcome casts some doubt on whether the recent deceleration in growth momentum is stabilizing in line with expectations, other indicators are more positive and provide some comfort that supportive policies are working to stabilize growth in H2. For example, in addition to the recent pickup in loan growth, the private-sector (Markit) PMI, also released today, turned upward in July to its highest level in five months on signs that small and medium-sized enterprises (SMEs) are benefitting from policy support. On balance, we continue to believe that growth momentum is stabilizing, but that further policy support will be needed to maintain growth at near 8% for the full year.

Next week: investors will keep attention on Chinese July's figures for CPI, Industrial production, retail sales and trade balance. In the eurozone the ECB will publish its monthly report. Additionally Germany and France will publish their industrial production and trade balance for June. Finally, the US will release the trade balance for June, and Fed president Mr. Bernanke will speak on "economic measurement".

Calendar: Indicators

Germany: Trade Balance, s.a. (Jun, August 8th)

Forecast: €15.2 bn	Consensus: n.a.	Previous: €15.3 bn
--------------------	-----------------	--------------------

The trade balance surplus is expected to continue to contract mildly in June, after stabilizing its increasing trend in May. The sharp increase registered in exports was accompanied with a similar rise in imports. However, exports are expected to lose momentum in the second quarter in line with the decline in economic activity of Germany's main trade partners. On the other hand, imports are expected to decline but softly in line with the still resilient domestic demand. All in all, this could have resulted in another quarterly positive contribution of net exports, although not as important as the one recorded in Q1 (+0.9pp). These figures would confirm that the German economy could have slowed in Q2, rising concerns about the pace of the recovery in coming quarters.

US: Consumer Credit (June, Aug 7th)

Forecast: \$10.5B	Consensus: \$11.0B	Previous: \$17.1B
-------------------	--------------------	-------------------

Total outstanding consumer credit continues to surpass expectations as a result of growing issuance of student loans rather than an increase in underlying consumer activity. Nonrevolving credit is driven in large part by increasing student loans, yet when excluding this government component, it has been mostly flat throughout the recovery period. Revolving credit has been a volatile component recently but jumped \$8.0B in May, the strongest gain since November 2007. Weaker consumer spending data for June suggest that consumers were probably more hesitant to take on credit card debt compared to the previous month, a sentiment that is also reflected in the latest confidence reports. In general, we expect that total consumer credit will grow at a slightly slower pace compared to the previous month.

US: International Trade Balance (June, August 9th)

Forecast: -\$48.3B	Consensus: -\$48.0B	Previous: -\$48.7B
--------------------	---------------------	--------------------

The international trade deficit is expected to narrow slightly in June after improving more than expected in May. Although slowdowns in Europe and China have raised concerns of deteriorating demand for US goods, lower oil prices should continue to help in the overall improvement of the trade balance. Export growth did rebound in May but will likely remain sensitive to external slowing, and we expect some monthly volatility through the second half of 2012. Various manufacturing surveys have hinted at slowing new export orders in recent months, pointing to reduced shipments ahead. The uncertain business outlook will continue to limit import orders, offsetting some potential weakness from export growth.

China: Industrial output for July (August 9th)

Forecast: 9.9% yoy	Consensus: 9.7% yoy	Previous: 9.5% yoy
--------------------	---------------------	--------------------

With the government tuning up its stimulus measures to counter the economic slowdown, July industrial production will be watched for further signs of stabilization in the growth outlook. Manufacturing PMI released for July presented a mixed picture, showing a weak outlook for large enterprises but strengthening for SMEs. In line with our expectations of a gradual rebound in growth during the second half of the year, we expect industrial production to pick up slightly from the previous month, as the authorities' recent policy measures boost domestic demand. Similarly, we expect other indicators to be released during the coming week, including credit growth, to show similar trends. Markets will also be watching for data in the coming week on July inflation, retail sales, and investment.

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.44	0	-2	17
		2-yr yield	0.23	-1	-7	-6
		10-yr yield	1.51	-3	-12	-105
	EMU	3-month Euribor rate	0.38	-4	-27	-119
		2-yr yield	-0.05	-3	-13	-82
		10-yr yield	1.32	-7	-13	-102
Exchange rates (changes in %)	Europe	Dollar-Euro	1.227	-0.5	-2.1	-14.1
		Pound-Euro	0.79	0.6	-2.0	-9.6
		Swiss Franc-Euro	1.20	0.0	0.0	9.6
	America	Argentina (peso-dollar)	4.59	0.3	1.4	10.4
		Brazil (real-dollar)	2.05	1.4	1.0	30.0
		Colombia (peso-dollar)	1791	-0.1	1.3	0.0
		Chile (peso-dollar)	484	0.1	-2.5	4.1
		Mexico (peso-dollar)	13.27	0.2	-0.5	10.6
		Peru (Nuevo sol-dollar)	2.63	0.2	-0.8	-4.2
	Asia	Japan (Yen-Dollar)	78.30	-0.2	-2.0	-0.1
		Korea (KRW-Dollar)	1134.85	-0.3	-0.1	6.3
		Australia (AUD-Dollar)	1.052	0.4	2.4	0.8
Comm. (chg %)		Brent oil (\$/b)	106.8	0.3	7.0	-2.4
		Gold (\$/ounce)	1595.9	-1.7	-1.2	-4.1
		Base metals	494.8	-0.7	-2.1	-14.9
Stock markets (changes in %)	Euro	Ibex 35	6510	-1.6	-9.2	-24.9
		EuroStoxx 50	2307	0.3	-0.2	-2.9
	America	USA (S&P 500)	1365	-1.5	-0.7	13.8
		Argentina (Merval)	2376	-2.5	-2.1	-22.6
		Brazil (Bovespa)	55520	-1.8	-1.0	4.9
		Colombia (IGBC)	13486	-2.7	-1.7	1.8
		Chile (IGPA)	19990	-2.8	-5.5	2.3
		Mexico (CPI)	40759	-1.7	1.0	21.0
		Peru (General Lima)	19283	-2.7	-6.9	-4.4
		Venezuela (IBC)	247073	0.8	-0.5	165.8
	Asia	Nikkei225	8555	-0.1	-6.0	-8.0
		HSI	19666	2.0	-0.2	-6.1
Credit (changes in bps)	Ind.	Itraxx Main	168	5	9	32
		Itraxx Xover	648	7	4	97
		CDS Germany	71	-2	-24	-3
	Sovereign risk	CDS Portugal	850	14	74	-68
		CDS Spain	573	22	58	168
		CDS USA	47	0	-2	---
		CDS Emerging	255	10	-7	6
		CDS Argentina	1141	3	37	461
		CDS Brazil	134	-4	-11	3
		CDS Colombia	120	-3	-10	-7
		CDS Chile	103	-5	-4	25
		CDS Mexico	115	0	-11	-13
		CDS Peru	126	-8	-23	-16

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
EMU	08/02/2012	<p>> ECB Watch: "ECB paves the way for large-scale bond buying - the EFSF/ESM bailout fund must act first" The ECB is likely to resume bond purchases but countries have to ask the EFSF/ESM bailout fund for support and the fund needs to intervene in markets first.</p>
Spain	02/08/2012	<p>> Flash España: "Afiliación a la Seguridad Social y desempleo registrado en julio" Tras la sorpresa positiva de junio, los registros del mercado de trabajo retomaron su senda descendente en julio.</p>
	01/08/2012	<p>> Flash España: "Matriculaciones de turistas de julio: peores de lo esperado" Cuando se corrigen los datos brutos de la estacionalidad propia del mes, las estimaciones de BBVA Research indican que el número de turistas matriculados en julio se redujo un 11,8% m/m.</p>
	31/07/2012	<p>> Flash España: "Ventas reales del comercio al por menor de junio: mejores de lo esperado" Una vez corregidas las variaciones estacionales propias del mes, las ventas reales del comercio minorista cayeron un 0,2% en junio, menos de lo previsto.</p>
	31/07/2012	<p>> Flash España: "Balanza de pagos de mayo 2012" El déficit de la balanza por cuenta corriente en el acumulado a 12 meses de mayo se reduce notablemente con respecto al acumulado a 12 meses del mes anterior.</p>
	30/07/2012	<p>> Flash España: "Confianza industrial y del consumidor en julio" Los datos cualitativos de julio arrojan señales mixtas: mientras la confianza industrial avanzó marginalmente pese al incremento de la incertidumbre, la de los consumidores retrocedió.</p>
	30/07/2012	<p>> Flash España: "Avance de la contabilidad nacional trimestral del 2T12" En línea con nuestras expectativas, el avance del INE señala que la economía española habrá vuelto a contraerse en el 2T12, encadenando tres trimestres consecutivos de caída.</p>
	30/07/2012	<p>> Flash España: "Avance del IPC de julio" El indicador adelantado del IPC de julio sorprende al alza con una aceleración de los precios hasta el 2,2%.</p>
US	01/08/2012	<p>> Fed Watch. Declaración del FOMC: 31 de julio – 1 de agosto Continúa el debate sobre el QE3 entre los miembros del FOMC. (English version).</p>
	30/07/2012	<p>> Flash Semanal EEUU. El impulso económico se desacelera en el 2T12; las perspectivas para el 2S12 se mantienen sin cambios La Oficina de Análisis Económicos confirmó la desaceleración económica del 2T12 con la publicación de la tasa de crecimiento adelantada del PIB, que se sitúa en el 1,5% intertrimestr. anualizado y desestacionalizado (English version).</p>
Latin America		
Chile	31/07/2012	<p>> Chile Flash: "Empleo junio 2012" Tasa de desempleo disminuye levemente a 6,6% .</p>
	30/07/2012	<p>> Chile Flash: 'Banco Central mantiene tono de cautela' La minuta de la última reunión de política del Banco Central mantiene la línea de la discusión del mes previo</p>
	30/07/2012	<p>> Chile Flash: 'Producción manufacturera registra fuerte desaceleración en junio' La producción manufacturera anotó un aumento de 1,1% a/a, mostrando signos de desaceleración en el margen.</p>
Peru	01/08/2012	<p>> Perú Flash: "Inflación de julio estuvo en línea con lo esperado" La inflación del mes fue 0,09% (BBVA: 0,12% y Consenso: 0,11%), con lo que la tasa interanual se redujo de manera significativa, a 3,3%, desde el 4,0% que marcó en junio</p>
Mexico	30/07/2012	<p>> Flash Inmobiliario México. La actividad hipotecaria se reorienta hacia nuevos productos de financiamiento, pero toman por sorpresa a la oferta El desempeño del sector hipotecario durante el primer semestre del año nos da una clara lectura de algunos cambios en la demanda de los consumidores. (English versión)</p>

Asia

- 08/02/2012 ➤ [Asia Daily Flash | 2 August 2012: Australia and Hong Kong post better-than-expected retail sales](#)
A pair of positive retail sales outturns today in Australia and Hong Kong underscored the robustness of the region's domestic demand and resilience to the weakening global environment
- 08/01/2012 ➤ [Asia Daily Flash | 1 Aug 2012: China's weak PMI shows challenges lie ahead; more signs of a growth slowdown in Korea](#)
A flurry of data outturns today shows the region continuing to slow, weighed down by the weak external environment.
- 08/01/2012 ➤ [China Flash: Weak PMI underscores challenge to restore growth momentum](#)
The official NBS Purchasing Managers Index (PMI) declined to a weaker-than expected 50.1% in July (BBVA:50.7%; Consensus: 50.5%), from 50.2% in June.
- 08/01/2012 ➤ [Press article: "RMB-ization"](#)
China's currency strategy hints it is preparing for a distant future when it becomes a net debtor, writes BBVA economist
- 07/31/2012 ➤ [Asia Daily Flash | 31 July 2012: Taiwan's 2Q GDP contracts; Korea's IP falls; India keeps rates on hold](#)
Disappointing growth and production outturns were the headlines of the day, with Taiwan 2Q GDP shrinking and Korea posting a contraction in industrial production
- 07/30/2012 ➤ [Asia Daily Flash | 30 July 2012: Japan's industrial production fell unexpectedly](#)
On a day with very little in the way of economic news, a majority of Asian stock markets extended their rally which began on last Thursday.

EAGLEs

- 01/08/2012 ➤ [EAGLEs Flash: Choques de oferta alertan otra vez de inflación en alimentos](#)
El maíz y la soja alcanzan nuevos precios récord por la sequía en los EE.UU., mientras el trigo es también afectado por recortes de suministro en otros grandes productores. [\(English version\)](#) [\(Chinese version\)](#)
- 08/02/2012 ➤ [EAGLEs Flash: Rising middle classes drives car boom in EAGLEs and reinforces emerging production leadership](#)
Supply and demand for autos shift from developed to emerging economies [\(Chinese version\)](#)

Publications on August 3, 2012 to 12:00, Madrid time

Sonsoles Castillo
s.castillo@bbva.com
+34 91 374 44 32

Cristina Varela Donoso
cvarela@bbva.com
+34 91 537 7825

Javier Amador Díaz
javier.amadord@bbva.com
+34 91 374 31 61

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

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

Indicators collaboration

Europe
Elvira Prades
elvira.prades@bbva.com
+34 537 79 36

US
Kim Fraser
Kim.Fraser@bbvacompass.com
+1 713 881 0655

Asia
Zhigang Li
zhigang.li@bbva.com.hk
+852 2582 3162

BBVA | RESEARCH



| Pº Castellana 81, Floor 7, 28046 Madrid | Tel.: +34 91 374 60 00 | www.bbva.com

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The content of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.