



Weekly Observatory

May 4, 2009

Financial markets: the FOMC statement marks of the week

The FOMC acknowledgement of the existence of signs of stabilization has caused US Treasuries prices to fall, pushing 10-year yields to a five-month high, as the Fed refrained from increasing its purchases of Treasuries and mortgage securities. As for banks, market participants are still waiting for next week's stress test announcements. Meanwhile, Deutsche Bank announced its return to profitability on 1Q09. The Euro advanced this week against the Dollar and the Yen as risk aversion moderates. For further details, see [Flow Watch](#) (in Spanish).

United States: first quarter GDP results show ongoing contraction in economic activity

GDP declined 6.1% in 1Q09, a slightly slower rate than the 6.3% drop in 4Q08, but still more than expected due to a surprisingly large adjustment in inventories. In contrast, PCE rebounded 2.2% following two consecutive quarterly declines. Both residential and non-residential investment posted sharp declines and government spending fell for the first time since 4Q05 due to lower spending on national defense. On the other hand, a steeper decline seen in imports than that of exports resulted in a positive contribution of net exports to GDP. The positive PCE results indicate that the worst could be over for consumer spending; however, the outlook for investment and international trade remains gloomy and imposes downward risks on an eventual recovery. For further information, see [US Weekly Observatory](#).

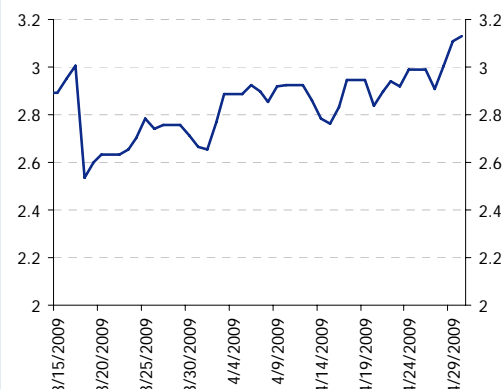
Euro area: confidence data continue to improve, but labour market worsens rapidly

Incoming confidence indicators published this week (EC survey) continue to point to a less grim outlook for the second quarter, following the line of PMIs and country level data recently released. Unemployment data for March recorded a significant deterioration in the labour market, as expected, although the upward revision of data for past months implies the unemployment rate is now at 8.9% for the euro area as a whole. On prices, the flash estimate for HICP was 0.6% y/y, one decimal point below expectations, pointing to further disinflation. The ECB is expected to lower the refi rate to 1% next week and to announce further measures, although these are unlikely to be of substantial quantitative easing. For further information, see [Europe Weekly Observatory](#).

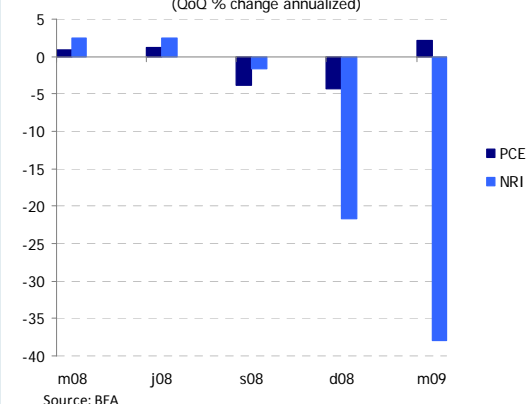
Asia: industrial production recovers slightly in two of Asia's main economies

Industrial production in Japan and Korea as well as exports in Hong Kong showed signs of recovery in March. Although year-on-year factory output continued declining at double digit rates on a month-on-month basis, Japan posted its first positive IP growth in 6 months. While Korea maintained its positive 3 month growth streak, Hong Kong's exports fell once more in March, albeit at a much slower pace than in previous months. Singapore's unemployment rate hit a 4 year high of 3.5% in 1Q09 although this figure is

U.S. 10-year Treasury Bond Yields

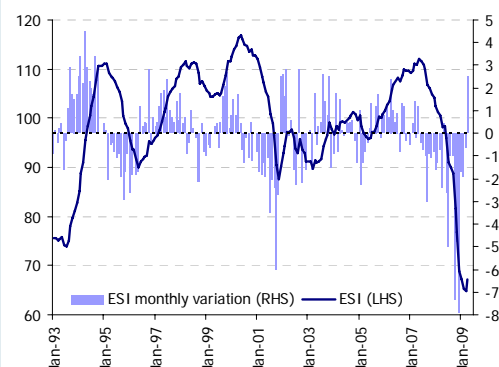


Source: Bloomberg

US: PCE and Non-Residential Investment
(QoQ % change annualized)

Source: BEA

Euro zone: Economic Sentiment Indicator



Source: European Commission and BBVA ERD

still relatively low even for the export-led country's standards. Meanwhile, Malaysia decided to leave its interest rate unchanged. Next week, attention will be focused on Thailand's central bank monetary policy meeting and Australia's central bank quarterly policy statement. For further information, see [Asia Weekly Observatory](#).

Latin America: Brazil sends the Selic to a historic low

The week has brought further examples of the monetary easing spree unfolding in the region. On this occasion, the meeting of the Central Bank of Brazil ended with a cut of 100 bps in the Selic, sending this benchmark to its lowest level since 1999. The latest activity data supports the falling strength of activity that we expect for 1Q09. Colombia's consumer confidence index recorded another fall in March and currently stands at a level not seen since 2003. In Peru, we highlight the new bilateral trade accord signed with China and recent statements by the Finance Minister suggesting that Peru may follow the example of Mexico and Colombia and request the new Flexible Credit Line developed by the IMF. Highlights for next week include the monetary policy meeting in Chile and Brazilian and Colombian inflation data. For further information, see [Latin America Weekly Observatory](#).

Spain: data confirms recent trends

Retail sales fell in March by 8.2% y-o-y (wda), a sign that the adjustment in domestic demand continues but also that the deterioration has lost some pace. Further evidence of this can be found in the Consumer and Industrial Confidence indices released by the European Commission, that show some stabilization (even a rebound in case of the consumer), although at relatively low levels. Lastly, the HCPI flash showed that inflation may have remained constant on a y-o-y basis in April at -0.1%. This is in line both with our monthly and yearly average forecast (-0.2% y-o-y).

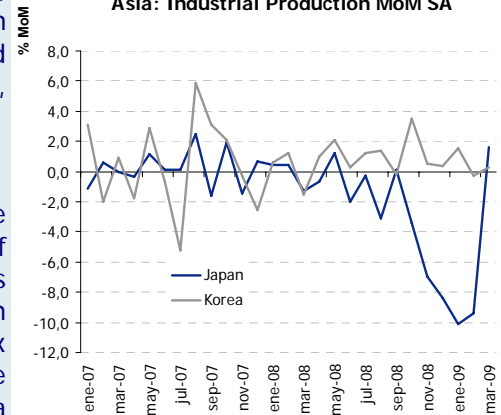
Mexico: hints of stabilization amid negative outlook revisions

This week the IGAE monthly activity indicator was released showing a 10.8% y/y fall in February. The seasonally adjusted series decreased 7.2% y/y which was less dramatic than January's fall; a sign of stabilization in the rate of decline in activity and the first positive m/m variation since last June. Banxico published a downward revision of its 2009 growth forecast from a range of -0.8% and -1.8% to between -3.8% and -4.8%, and this without considering the potential economic impact of the swine flu outbreak. Additionally, Banxico increased its expected inflationary range for the rest of 2009 by 25 bps, for 2Q09 from a range of 5.25-5.75% to 5.5-6.0%. This forecast is likely to gain merit when April inflationary figures are released next week. For further information see [Mexico Weekly Observatory](#) (in Spanish).

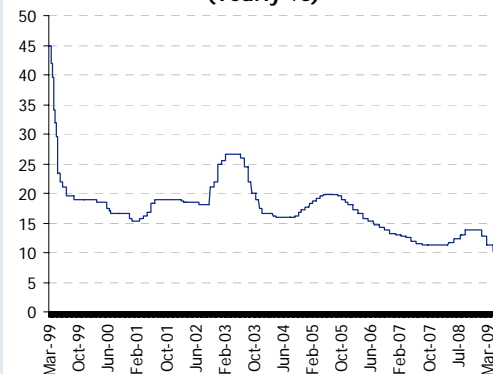
Commodities: markets cautious of swine flu effect

Oil prices were relatively stable this week as concerns regarding the impact of the swine flu virus on commodities markets were counterbalanced by the expansion of equities markets and the USD depreciation in the final days of the week. Livestock commodity prices were also negatively affected by swine flu fears. For further information, see [Commodities Observatory](#).

Asia: Industrial Production MoM SA



Brazil: SELIC (Yearly %)

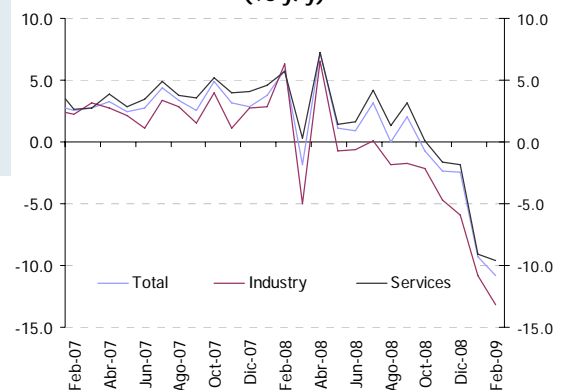


Spain: industrial and consumer confidence (Balance of answers)



Source: European Commission

Mexico: IGAE, Monthly Activity Indicator (% y/y)



Source: INEGI

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