



Weekly Observatory

February 8, 2010

Financial markets: another week of high financial tensions

Stock markets felt in the week due to increasing fears about fiscal and debt problems in some European countries that might affect activity recovery, while sovereign Spreads reached new maximums in several of these countries (notably Greece and Portugal). This contrasted with the fall in Germany and US yields due to their usual role as safe-heaven. The BoE kept its official rate unchanged, but announced that it will not extend its QE program, and the ECB also maintained the official rate unaltered. Regarding FX market, the mentioned fears were also reflected in the FX market, with the euro continuing its depreciation against the dollar (8-month minimum) and the yen (1-year). The high volatility which is usually dollar-positive and the non-commercial positions suggest that the strength of the US currency might persist in the near future. For further information, see [Flow Watch](#).

US: subdued wage growth to slow consumer spending recovery

Growth in consumer spending slowed to 0.2% in December and while consumption of services rose, spending on non-durable goods dropped and that on durable goods remained flat. The personal income report indicated that consumption growth could remain sluggish and although total personal income rose by 0.4%, it was largely driven by proprietors' and rental income. The 0.1% increase in wages indicates that the weak employment situation is continuing to keep wage pressures subdued. On a positive note, the ISM indicated that manufacturing activity is expanding at an accelerated pace and will continue to do so in upcoming months due to growth in new orders. Furthermore, activity in the non-manufacturing sector picked up moderately following two months of declines. For further information, see [US Weekly Observatory](#).

Eurozone: Activity data below expectations this week

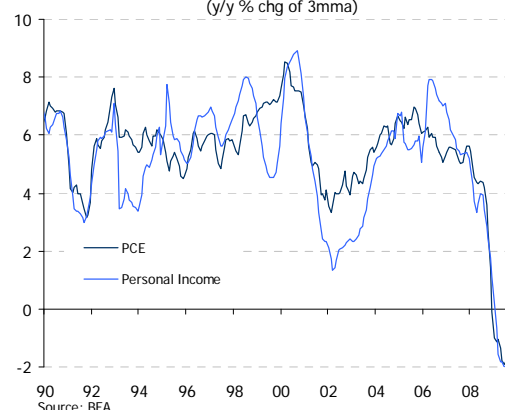
Once again, hard economic data for December failed to fully reflect the improvement observed in confidence. Euro area retail sales were flat and they suggest that private consumption should remain stagnant in 4Q09, in line with our projections. In addition, both industrial orders and production in Germany confirmed that growth has been lower in the last quarter of 2009 than in Q3. Overall, data available for Q4 continued to be consistent with a small but positive quarterly growth in the euro zone. For the current quarter, final PMI data pointed to a slowdown of the recovery, which remains driven by the manufacturing sector. On monetary policy, the ECB did not provide any clues on what they will do in March on non-standard measures, but the tone continues to be dovish given the market turmoil linked to the fiscal crisis. For further information, see [ECB Watch](#) and [Europe Weekly Observatory](#).

Asia: regional inflation putting pressure on interest rates

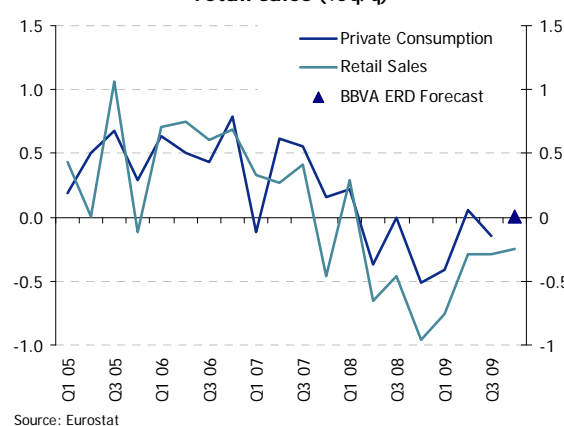
While inflation across the region remains in check, rising food prices are causing monthly rates to rise above expectations in some cases. Together with further indicators of strong output and exports, the possibility of interest rate hikes over the coming months is increasing in some countries. That said, Australia's central bank surprised markets this week by pausing

CDS (5-year, spread vs. Germany)

	Current level (bp)	Change since:	
		Last 2 days	Last 2 weeks
Greece	381	22	71
Portugal	182	25	69
Ireland	125	1	6
Spain	124	9	24
Italy	105	12	26
Austria	56	0	5
Belgium	25	-2	-4
France	18	2	2
UK	54	2	8

US: Personal Consumption Expenditures and Personal Income
(y/y % chg of 3mma)

Euro zone: Private consumption and retail sales (% q/q)



on interest rate hikes after retail sales and new building construction data showed that domestic demand weakened as a result of the three previous rate increases. Meanwhile, Indonesia's monetary authority left rates unchanged as expected and despite an upturn in January inflation. Strong export performance across the region suggests that external demand continues to strengthen. On the supply side, PMI reveal that manufacturing continues to expand albeit at a slower pace. In the coming week, markets will focus on Korea's monetary policy statement; and Indonesia will release 4Q09 GDP figures. For further information, see [Asia Weekly Observatory](#).

Latin America: moderation of Brazilian Industrial Production

Activity data shows conflicting messages about the strength of the recovery in the region: while the Brazilian industrial production index fell slightly, the confidence data remained expansive in Chile. In Peru, the confidence indicator turned to the pessimistic side due to an upturn in inflation. In Argentina, an upturn in tax collection was observed as the Argentine President appointed a new Central Bank President. For further details, see [Latin America Weekly Observatory](#).

Spain: waiting for 4Q09 GDP flash estimate

The most important data release in Spain this week featured an increase in registered unemployment of 125K persons in January, 75K fewer than a year ago. Seasonally adjusted, monthly unemployment growth is estimated to have been broadly around zero. Nonetheless, Social Security affiliation fell by 257,800 in January, or 37K s/a; a figure above the previous months' falls, but still below the employment destruction figures registered at the beginning of 2009 (-130,800 in January). Industrial production dropped by 1.4% y/y wda in December, following the recent trend towards lower activity decline rates (-5.6% in November). Next week's data will include: the flash estimate of the GDP for 4Q09 (Previous: -0.3% q/q) and the January CPI (HPCI flash estimate: 1.1% y/y).

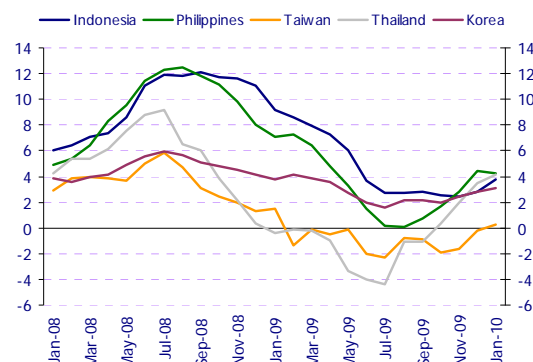
Mexico: consumer confidence up in January

Consumer confidence grew 3.1% m/m in January, reaching 81.5 pts (s/a). There was improvement in all five components, suggesting that consumers began 2010 with a more optimistic outlook, which will contribute, hand-in-hand with employment evolution, to the push consumption recovery. In January, the IMEF manufacturing index reached 52.5 pts, which has also been the average of the past four months. An index higher than 50 is consistent with an expansion in manufacturing, however its lateral trend shows a mild recovery path from last year's recession. Since industrial inventories have nearly recovered, the lateral trend might continue for a few more months. Next week, January inflation will be released, and will reflect the pressure from tax changes and public prices. For further information, see [Mexico Weekly Observatory](#) (in Spanish).

Commodities: four weeks of continuous easing in commodity markets

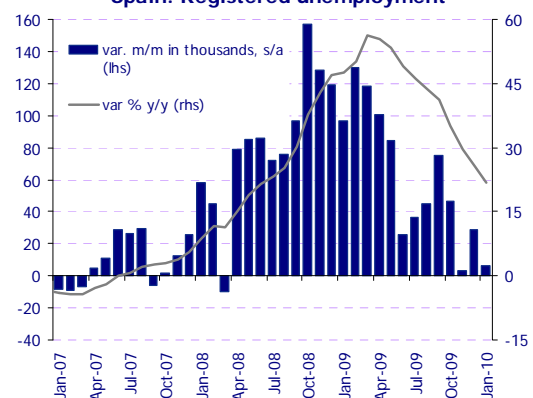
A stronger US dollar, the negative tone in financial markets, as well as the lack of evidence of a solid recovery in physical demand have all contributed to another week of downward correction in commodity prices. Oil, copper and most grain prices have lost more than 10% in the last month while the prices of some metals, such as lead and zinc, have dropped more than 20% in the period. Inventories in metals exchanges expanded significantly in December. For more information, see [Commodities Observatory](#).

Selected Asian Countries: Inflation



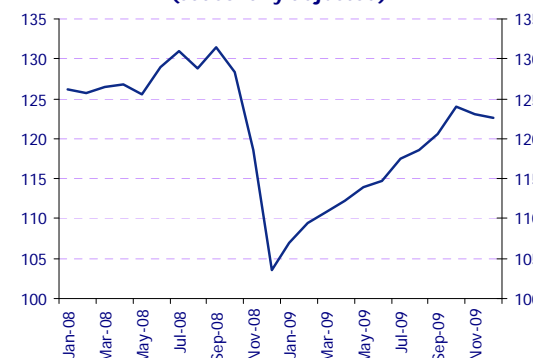
Source: BBVA-ERD and national sources

Spain: Registered unemployment



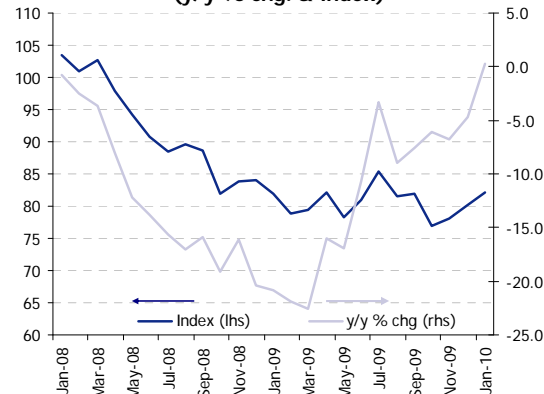
Source: BBVA ERD and INEM

Brazil: Industrial Production Index (seasonally adjusted)



Source: IBGE

Mexico: Consumer Confidence Index (y/y % chg. & index)



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