Economic Research Department

**BBVA**

Global

# Weekly Observatory

April 5, 2010

## Financial markets: Greek had very limited success in its attempt to close part of its financing gap

Greece tried to take the opportunity given by the relative calm in financial markets to close part of its financing gap by auctioning a 7-year bond of €5 billion, but got a very low bid-to-cover ratio. Consequently, Greece's 5-year sovereign spread rose to 397 bp, while the "safe heaven" German 10-year bond yield fell below 3.10%. Regarding Central Banks, the ECB performed its last 6-month auction with very low demand, as its "indexed-rate" discouraged the precautionary demand that aims to hedge against official rate rises and as the liquidity remains very high in the Eurozone. In the US, the FOMC meeting could announce additional details about the path of exit from the accommodative monetary policy. The 10-year US bond yields rose and are very close to the 4% threshold, supported by better-than-expected macro data. As a consequence of all the mentioned above, the euro consolidated below $1,36 and speculative positions suggest that this situation will persist in the near future. It is also worth-mentioning in the FX market the continuation of the appreciating trend of the Mexican peso, which reached a 18-month low. For further information, see Flow Watch (in Spanish).

**EMU: 5-yr sovereign spreads against Germany**

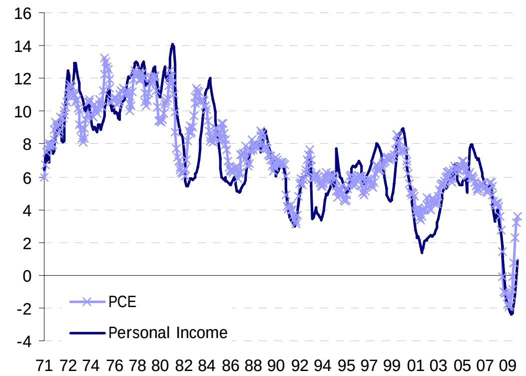
| | CDS 01/04/2010 | Cash 01/04/2010 | Change in CDS Last week | Change in Cash Last week |
|---|---|---|---|---|
| Greece | 347 | 397 | 52 | 62 |
| Ireland | 146 | 101 | 19 | 7 |
| Portugal | 146 | 112 | 14 | -2 |
| Spain | 118 | 68 | 12 | 5 |
| Italy | 116 | 55 | 12 | 3 |
| Austria | 57 | 33 | 5 | 1 |
| Belgium | 56 | 54 | 4 | 1 |
| France | 46 | 13 | 4 | 1 |
| Holland | 35 | 8 | 3 | 0 |
| Finland | 23 | -11 | 2 | 0 |

Source: Datastream and Bloomberg

## US: March data points to strength in supply and demand side components

Consumer spending remained resilient in February by rising 0.3% even though personal income remained unchanged. Other economic releases this week indicate that consumption is also poised to increase in March. For example, March's auto sales jumped to 11.8M from 10.4M, which could bode well for retail sales. In addition, consumer confidence rebounded to 52.5 after slipping 10.1 points in February. Nevertheless, consumer confidence's steady trend over the past eleven months highlights the fact that consumers remain concerned about the labor market. On the supply side, manufacturing activity remained strong in March as the ISM moved to the highest level since July 2004. The strength of both the supply and demand side components throughout 1Q10 supports our expectation of GDP growth. For further information, see US Weekly Observatory.

**USA: Personal Consumption Expenditures and Personal Income**
(yoy % change of 3mma)

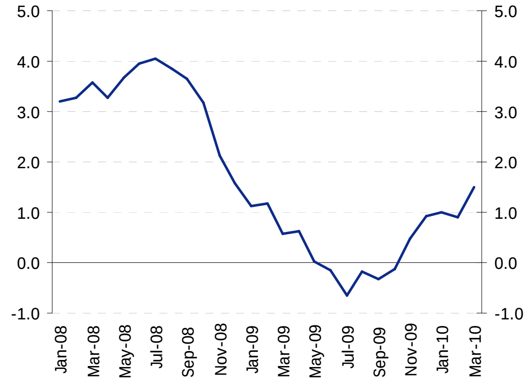



Source: BEA

## Eurozone: HICP flash inflation jumped in March to 1.5% y/y, while confidence indicators pointed to stronger demand

The flash estimate of euro zone inflation indicates that prices jumped in March to 1.5% y/y, well above expectations, suggesting acceleration in core prices. Confidence indicators such as PMIs for manufacturing and the sentiment indicator from the European Commission also pointed to stronger demand, especially the first one which is approaching pre-crisis maximums. On the labor market, the euro zone unemployment rate hit 10% in February, as expected. On the ECB side, Mr. Weber said he does not see a risk of accelerating inflation and that the economic situation of the euro zone is "patchy", whereas Mr. Orphanides made particularly dovish remarks on interest rates. For further information, see Europe Weekly Observatory.

**Eurozone: HICP**
(% y/y)




Source: Eurostat

## Asia: further indicators of strong output are mounting

Further indicators of strong output are mounting, led by China's March PMI and exports in Korea. An exception in the past week is Australia, which reported weaker-than-expected retail sales and building approvals, causing markets to become less aggressive on their outlook for further interest rate hikes. Meanwhile, March inflation in Korea, Indonesia, and Thailand all came in lower than expected, which should, at least temporarily, allay concerns of rising price pressures across the region. Next week will feature March inflation, trade and, confidence indicators for several countries (Singapore, Indonesia, Hong Kong, Thailand, China, Vietnam). For further information, see Asia Weekly Observatory.

## Latin America: Brazil's industrial activity surpassed expectations during February

Various activity indicators show a mixed tone for the region: In Chile, the recent earthquake left its mark over various leading indicators during February. Industrial production in Brazil, on the other hand, registered a very dynamic behaviour during the same month, beating expectations. Labour data was unambiguously positive, with increases in employment in both Chile and Colombia. In Argentina, the latest court ruling eased the way for the government to use Central Bank reserves to repay debt. Next week we expect March inflation data in Brazil, Venezuela, Chile and Colombia. For further information, see Latin America Weekly Observatory.

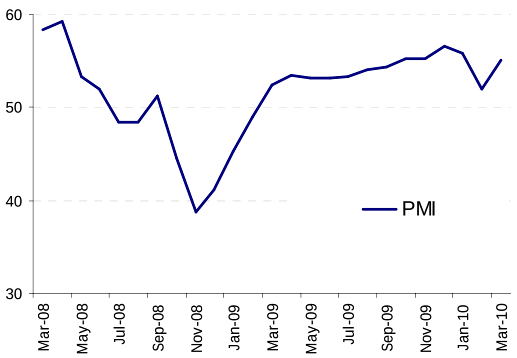
## Spain: The adjustment in domestic demand continues

The most important data release in Spain this week featured an increase in industrial confidence in March to –16.6, figure still below its long-term average (-8.9) but well above levels seen in 2009 (-31.2 in average). In contrast, the confidence indices released by the European Commission showed that the recovery in consumer confidence lost some pace again in March (-21.8 vs. –18.8 in February and its long-term average: -12.6), although the consumer index remains above the levels registered during the previous year (-28.2 in average). On the other hand, retail sales fell by 1.4% y/y in February (wda), showing a 0.2% m/m increase (wda) once seasonally adjusted. Finally, the HCPI flash suggests that headline inflation may have risen by 0.5 pp to 1.4% y/y in March, mainly due to a base effect in energy prices. Next week's data will include: Social Security affiliation and registered unemployment for March, as well as the Industrial Production Index for February (Prior: -4.6% y/y).

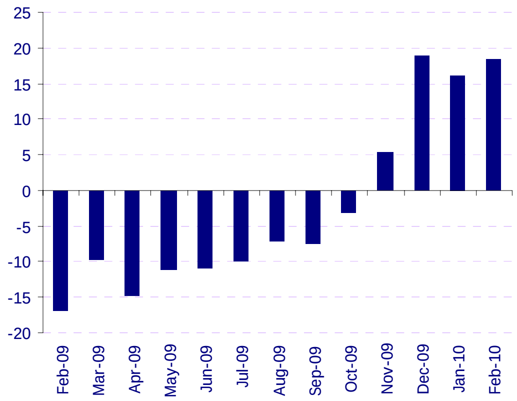
## Mexico: Public revenues recover during January and February

During January and February 2010, the fiscal surplus was 22.9 billion pesos, excluding Pemex´s direct investment the surplus was 63.9 bp. This figure is in line with the fiscal program approved for this year. Budget revenues rose 8.1% a/a in real terms, supported by higher oil revenues (+20.7%) and non-oil revenues (+3.6%). On the other hand disbursements grew 1.4% a/a in real terms (the lowest expansion since July of 2007), this was caused by higher non-budgeted spending, s.a. interests, (11.4%) and lower budgeted spending (-1.9%), particularly current expenditure dropped 4.1% and capital expenditure increased 8.4%. The recovery in tax revenues boosted by the fiscal reform and economic recovery, and the normalization in disbursements after counter-cyclical measures, will contribute to ease the transitory deficit after recession. For further information, see Mexico Weekly Observatory (in Spanish).

**China's PMI**

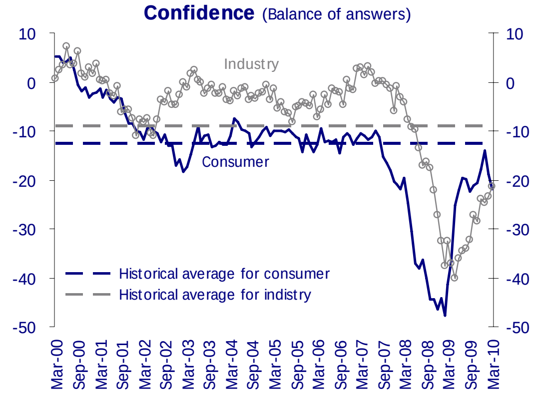



**Brazil: Industrial Production (y/y %)**



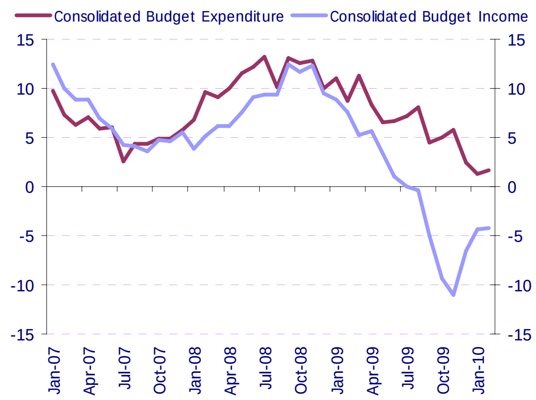
Source: Bloomberg

**Spain: Industrial and Consumer Confidence** (Balance of answers)




Source: European Commision and BBVA ERD

**Mexico: Budget Income & Expenditure (% y/y real chg, PM)**

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