

Global Weekly Flash

It is up to governments to curtail the sovereign crisis and the global slowdown; central banks have done their part

It is hard to find any clue about risk-on or risk-off markets' expectations, judging by this week's financial market performance. On one hand, equity indexes have slightly increased this week, and risk premia in Spain and Portugal have decreased somewhat. In fact, Portugal managed to exchange EUR3.67bn in securities due in September 2013 for a note maturing in October 2015, while the demand for this week's Spanish bond auction was reasonable good. However, on the other hand, flows toward safe-haven assets, mainly to US Treasuries and the German bunds, have continued. This lack of definition of financial markets may respond to pending uncertainties about both the European crisis resolution mechanism and global growth expectations

- Despite decisive steps taken by European institutions to ease sovereign debt crisis, the true is that the eurozone continues to muddle through, introducing uncertainties about the crisis resolution mechanism. The Troika's decision on an extended aid package for Greece is still pending. On the other hand, there is no consensus on the timing of implementation of the Single Supervision Mechanism, which is a precondition to allow the ESM to recapitalize banks directly. Besides, there are different interpretations about the ESM direct bank recapitalization (an agreement taken in the June Summit). In fact, several ministers suggested that the ESM cannot take direct responsibility on legacy assets. In our opinion, maintaining the political consensus and take further steps to further integrate remains key to solve the European debt crisis, while in the meantime the ECB provides assurance (a "fully effective backstop") to stabilize markets and thus, give time to governments. The ECB's OMT programme is not exempt from risk of implementation given the conditionality attached to the programme. According with the latest ECB statement, the ECB will interpret conditionality in line with the Troika: "OMTs would not take place while a given programme is under review and would resume after the review period once programme compliance has been assured". Yet, the effect of the OMT on the long end of the yield curve is unknown, as the ECB intervention will be focused on the shorter part of the yield curve (up to three years). In the short-term, the ECB is ready to undertake OMTs (and maintain) but governments have to previously ask for a rescue under an appropriate EFSF/ESM programme i.e., "[...] the decision is with governments".

- **However, European woes are not the only factor weighing on investor appetite. The global slowdown is also a concern**

- Despite a bunch of positive data coming out in the US this week, growth risks remain tilted to the downside as the recent improvement is not seen as self-sustainable. Furthermore, the fiscal cliff posts a risk on the US growth, which is not going to be dispelled before the US elections and uncertainty could continue until early 2013. Regarding the employment figures, the ADP private sector payrolls increased by 162.000 in September, which topped expectations, and printed a good feeling for this afternoon's job creation figure. Additionally, the manufacturing ISM index surprisingly increased above 50 to 51.5 in September, while the non-manufacturing ISM index also posted a strong reading in September.
- In the Eurozone, the downturn in the PMI indexes eased somewhat though weakness remains. The German PMI rose to a six-month high but its level continues indicating a contraction in manufacturing activity. Furthermore, retail sales in the eurozone increase a modest 0.1% in August. Besides, producer prices in the Eurozone remained suffering the impact of the increase in energy prices. The only positive is that given this weakness in eurozone domestic demand, underlying price pressures are likely to remain moderate and the transitory increase in inflation should "not give rise to second-round effects".
- Disappointing Asian economic data confirms the ongoing slowdown in the region. In China, the official PMI for September, slightly rose to 49.8% below our and consensus expectations. The improvement was disappointing as the manufacturing index remained below 50. Meanwhile, the Korean exports showed a contraction for a third straight month in September, while the country reported inflation ticked up to 2.0% y/y in September on supply disruptions from a typhoon last month.

- **To bolster growth expectations and to regain confidence, a more forceful set of fiscal and monetary policies should not be ruled out in China, while in the US and Europe is now up to governments, as central banks have done their job already**
 - Following the economic weakness registered in the main Asian economies, we expect supportive policy actions in the region. In China, once the forthcoming leadership transition is formally settled at the National People's Congress, scheduled to begin on November 8. In Korea recent data will place further pressure on the Bank of Korea to deliver a rate cut at their next policy meeting on October 11.
 - In the case of Europe, this week the ECB held policy steady and gave no hints on what it would do if economic conditions worsen further. Also it insisted that it is ready to undertake OMTs but is up to governments: "The ECB is there to make an environment that is conducive to reforms, but the decision is with governments", Draghi said.
 - Finally the FOMC minutes of the September 12-13th meeting revealed a majority agreement with the announcement of the QE3 and the extension of the interest policy guidance. Most members agreed that the risk related to this policy were manageable. In our view, now that the FOMC has maximized its policy accommodation for the time being, we do not expect much to come out of the October session. Furthermore, Bernanke and his colleagues made it very clear that without some sort of compromise in Congress, monetary policy will be unable to prevent the economy from sliding into recession in 2013.

Next week: investors will keep interest on the Eurogroup/Ecofin meeting on 8-9th of October. Additionally, EU Parliament panel will debate banking union proposals. Besides, in the coming week EU officials (Van Rompuy, Barroso and Monti) will be very active. Regarding the world economy, the IMF and World Bank meeting will take on October 12th; and early in the week the IMF will release both the world economic outlook and the global financial stability reports.

Calendar: Indicators

Germany: Trade balance, s.a. (August, October 8th)

Forecast: €15.5bn

Consensus: €15.6bn

Previous: €16.1bn

We expect the trade balance to have narrowed in August for the second month in a row, as exports have likely declined while imports are set to increase further. This is in line with the slowdown in global growth, especially in some emerging countries, while robust domestic demand should have supported imports. Therefore, we see the net exports contribution to fade further in the third quarter, as it was observed in Q2.

Eurozone: Industrial production (August, October 12nd)

Forecast: -0.2% m/m

Consensus: -0.3% m/m

Previous: 0.5% m/m

Industrial output is expected to have declined slightly in August, offsetting partly the rebound observed in July. As a result, industrial production could have remained virtually flat over Q2, in contrast with the gloomier outlook painted by soft data. Both the EC and PMI surveys point to a significant contraction in industrial activity in Q3, driven not only by a weaker domestic demand but also by a broader softening of global economic growth. Nonetheless, these surveys were not conclusive, as the former showed a continuing downward trend in industrial activity, while the latter showed some stabilization in the pace of deterioration. Given the high correlation between industrial output and the economic cycle, all these figures are in line with our projection of a GDP fall in Q3 for the second quarter in a row.

US: International Trade Balance (August, August 11th)

Forecast: -\$43.0B

Consensus: -\$44.4B

Previous: -\$42.0B

The US trade deficit is expected to grow slightly in August for the second straight month given continued slowing in the global economy. Figures for July exports show a 1.0% decline from June, and various manufacturing indicators for new export orders tell the same story, still in decline. Export prices in August increased which may inflate the value of total exports even though we expect a monthly decline in volume. While the decline in the balance may be cushioned by weaker import growth, we expect that rising import prices will offset gains from the export side.

US: Consumer Sentiment (October, August 12th)

Forecast: 77.9

Consensus: 77.5

Previous: 78.3

As food prices and rising price per barrel loom, University of Michigan's Consumer Sentiment Index stands to worsen as consumers' uncertainties grow about their income and expenses. The Midwest drought has moved food prices higher, and consumers fear paying more not only for their grains and meats, but for their fuel as well. Oil prices in September were higher than levels seen earlier in the summer but remain lower than the significant price gains in the beginning of the year. Both scenarios translate to higher gas prices at the pump and then a higher bill once consumers reach the grocery store. With the Fed announcing QE3 and the unemployment rate still high at roughly 8.2%, the government's attempt to bolster sentiment and increase employment won't be realized just yet and the aforementioned commodity price increases won't make it any easier.

Singapore: Third quarter GDP (October 11-18)

Forecast: 0.1%, q/q, s.a.

Consensus:

Previous: -0.7 q/q, s.a.

The third quarter GDP release will be closely watched, in tandem with the Monetary Authority of Singapore's (MAS) next semi-annual meeting in mid-October. Singapore's growth momentum has slowed sharply since Q4 2011 as weak exports have been having knock-on effects to domestic demand. There is risk of a technical recession, following a -0.7% q/q, s.a. GDP contraction in the second quarter on both weak external and domestic demand. We expect the MAS to ease monetary policy at their upcoming meeting, through a re-centering of the exchange rate band at a more depreciated level and/or a flattening of the appreciation slope (the MAS uses the exchange rate as its principal monetary policy instrument). At its last meeting in April the MAS tightened policy to contain inflation by increasing the appreciation slope (to 2% per year based on our estimates). An easing of the monetary stance, however, is not without risks given that inflation is still somewhat high (3.9% y/y in August).

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.37	-2	-6	1
		2-yr yield	0.26	1	0	5
		10-yr yield	1.78	-8	9	-5
	EMU	3-month Euribor rate	0.23	-2	-8	-131
		2-yr yield	0.05	-6	4	-35
		10-yr yield	1.60	-10	14	-14
	Europe	Dollar-Euro	1.304	-0.7	4.0	-3.4
		Pound-Euro	0.80	-1.1	1.4	-8.4
		Swiss Franc-Euro	1.21	-0.5	0.8	-0.9
Exchange rates (changes in %)	America	Argentina (peso-dollar)	4.68	0.2	1.4	11.4
		Brazil (real-dollar)	2.02	0.6	0.4	10.4
		Colombia (peso-dollar)	1794	0.0	-1.0	-5.8
		Chile (peso-dollar)	471	0.1	-2.3	-9.0
		Mexico (peso-dollar)	12.81	0.8	-2.0	-5.5
		Peru (Nuevo sol-dollar)	2.60	0.3	-0.4	-6.0
	Asia	Japan (Yen-Dollar)	78.21	-0.2	-0.5	2.1
		Korea (KRW-Dollar)	1119.23	0.2	-1.5	-4.1
		Australia (AUD-Dollar)	1.051	-0.4	0.0	7.5
Comm. (chg %)		Brent oil (\$/b)	111.1	-4.7	-3.3	6.9
		Gold (\$/ounce)	1787.1	0.9	8.0	7.9
		Base metals	528.2	0.3	2.8	-2.8
Stock markets (changes in %)	Euro	Ibex 35	8125	-0.4	10.7	1.6
		EuroStoxx 50	2569	-1.0	4.8	26.8
	America	USA (S&P 500)	1460	-0.4	3.3	28.5
		Argentina (Merval)	2501	-1.7	2.7	0.7
		Brazil (Bovespa)	62114	0.0	4.6	16.7
		Colombia (IGBC)	14308	-1.3	0.4	10.3
		Chile (IGPA)	20501	0.1	0.4	11.5
		Mexico (CPI)	40500	-0.5	1.2	24.3
		Peru (General Lima)	21695	-1.2	6.9	15.3
		Venezuela (IBC)	303279	2.5	3.8	201.3
	Asia	Nikkei225	9110	-0.5	-0.2	6.4
		HSI	20735	0.5	4.3	17.4
Credit (changes in bps)	Ind.	Itraxx Main	127	9	-14	-69
		Itraxx Xover	527	66	-48	-312
	Sovereign risk	CDS Germany	47	-2	-12	-62
		CDS Portugal	484	29	-182	-675
		CDS Spain	370	27	-91	-45
		CDS USA	29	-1	-11	---
		CDS Emerging	212	19	-33	-156
		CDS Argentina	931	-4	-209	-103
		CDS Brazil	103	2	-24	-105
		CDS Colombia	94	3	-17	-118
		CDS Chile	76	-2	-18	-68
		CDS Mexico	91	3	-16	-123
		CDS Peru	100	1	-16	-116

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
UEM	10/04/2012	➤ ECB Watch: A "fully effective backstop" is in place, the decision is up to governments A "fully effective backstop" is in place, the decision is up to governments
Spain	10/04/2012	➤ Series enlazadas de los principales agregados nacionales de la EPA, 1964-2009 Recopilación y extensión de varias series históricas de los principales agregados nacionales de la EPA y construcción de nuevas series anuales homogéneas de las mismas variables (1964-2009)
	10/04/2012	➤ Observatorio Murcia Murcia necesita mejorar su productividad relativa y aumentar su internacionalización a mercados más dinámicos para acelerar la salida de la crisis (Presentación)
	10/02/2012	➤ Flash España: "Afiliación a la Seguridad Social y desempleo registrado en septiembre" La ocupación se redujo en septiembre en línea con nuestras expectativas. La destrucción de empleo se concentró principalmente en el sector servicios
	10/02/2012	➤ Flash España: cuentas no financieras trimestrales de los sectores institucionales. 2T2012 La necesidad de financiación de la economía española al segundo trimestre de 2012 se situó, en acumulado anual, en el 2,6% del PIB, ligeramente por encima de lo previsto (-2,1%).
	10/01/2012	➤ Flash España: "Matriculaciones de turistas de septiembre: caída de dos dígitos por el adelanto de compras ante el aumento del IVA" Al corregir los datos brutos de la estacionalidad propia del mes, las estimaciones de BBVA Research indican que el número de turistas matriculados en septiembre disminuyó el 25,1% m/m
US	10/04/2012	➤ Fed Watch. FOMC Minutes: September 12-13th Details Reveal Individual Ideologies but a Common Goal
	10/01/2012	➤ US Weekly Flash. Final Estimate for 2Q12 GDP Growth Revised Down to 1.3% The final estimate for real GDP growth in 2Q12 came in at 1.3% on a QoQ seasonally-adjusted annualized basis, lower than both the advance and preliminary estimates of 1.5% and 1.7%, respectively (Spanish version)
Latam		
Brazil	10/02/2012	➤ Flash: Industrial production grew at the fastest pace in more than a year in August Industrial production expanded by 1.5%/m/m in August, the most since May/2011 (Spanish Version)
Chile	10/03/2012	➤ Banco Central se mantiene neutral aunque con tono levemente más hawkish BC mantiene su postura neutral para el corto y mediano plazo ante el balance de riesgos internos al alza y riesgos externos a la baja para el escenario doméstico.
	10/01/2012	➤ Presupuesto 2013 El Proyecto de Ley Presupuesto 2013 considera un crecimiento de 5% respecto al gasto estimado para 2012. Los mayores aumentos se concentrarían en Educación y Salud.
Peru	10/03/2012	➤ Inflación anual se incrementó nuevamente en setiembre La inflación del mes fue 0,5%, en línea con lo estimado por BBVA y el Consenso. Con ello, la tasa interanual aumentó por segundo mes consecutivo, ubicándose en setiembre en 3,7%.
Mexico	10/04/2012	➤ Flash Bancario México. Crédito al sector privado: mantiene crecimiento de dos dígitos En agosto de 2012 la tasa de crecimiento nominal anual del crédito total otorgado al sector privado por la banca comercial fue de 14.6%
	10/01/2012	➤ Mexico Migration Flash. August marked the second consecutive month that remittances decrease In August remittances declined 11.6% annually in dollar terms. Since the first quarter of 2010, it has not been seen since a decrease of over 11% (Spanish version)

- 10/04/2012 ➤ **Asia Daily Flash | 04 October 2012: BoJ meeting tomorrow; retail sales sluggish in Australia; Korea's inbound FDI at record this year**
Bank of Japan preview: further QE not likely for now;
- 10/03/2012 ➤ **Asia Daily Flash | 03 October 2012: China, Korea show ongoing slowdown; Australia cuts interest rates**
During the two-day holiday in Hong Kong, a slew of regional data was released, mostly revealing an ongoing slowdown (see below).

Publications on October 5, 2012 to 10:56, Madrid time

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

Javier Amador Díaz
javier.amador@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
Agustín García
agustin.garcia@bbva.com
+34 537 79 36

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

Asia
Jeffrey Cantwell
jeffrey.cantwell@bbva.com.hk
+852 2582 3162



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

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