

# Global Weekly Flash

## Major Central Banks took actions to tackle the increasing concerns on the spreading weak global growth

**This week the ECB, the Bank of England (BoE) and the People Bank of China (PBoC) announced measures to counteract the renewed weakening of growth. These actions added to June's FOMC decision to extend its Operation Twist until the end of the year. The ongoing threat from the eurozone debt crisis has also contributed to the recent action or dovish tone from Central Banks.**

- The ECB decided to cut the main policy rate by 25bps to 0.75%, to historic low. It also cut the deposit rate (TO 0%) and marginal lending rate by 25bps, thus leaving unrevised the interest rate corridor (at +/-75bp). The monetary authority justified this movement because the "downside risks to the euro area economic outlook are now materializing and this would damp the price behavior". However, the ECB did not announce any further action regarding non-standard measures. We do not see further immediate actions in both standard and non-standard measures, beyond some fine tuning in collateral rules. However, more unconventional measures cannot be discarded if financial tensions escalate again in the months ahead.
  - Meanwhile, the BoE maintained the official interest rate at 0.5% but increased the size of its asset purchase programme by £50 billion, as expected, up to £375 billion. Among the reasons cited in the BoE's statement were the weak growth and the ongoing threat from the eurozone debt crisis.
  - Elsewhere, China's central bank announced an asymmetric cut in its benchmark one-year deposit and lending rates by 25bps and 31bps respectively, along with a further widening of the allowable lending rate discount to 30% (from 20%). This is the second interest rate cut within a month, and brings the deposit and lending rates to 6.00% and 3.00% respectively. We had been expecting another rate cut during the course of Q3, although the advanced timing of the cut, rather than an RRR cut as has been widely anticipated, came as a surprise. It may signal the authorities' awareness that next week economic data may be on the weak side. Given recent moderating trends in the pace of growth and inflation, and the authorities' resolve in stimulating activity, we believe that 2-3 more cuts in the RRR are likely during the remainder of the year, along with another 1-2 interest rate cuts depending on the evolution of the external environment (which would still leave rates above the lowest levels in 2008-09)..
- **Once again, the positive effect of the EU Summit faded quickly, as concerns on risk of implementation increases after the lack of a unified narrative in Europe just following the Summit**
    - Market did not react positively after the rate Chinese rate cut announcement. Actions taken by the ECB and BoE also failed to improve market sentiment as the credit channel of monetary policy is not functioning properly and the credit demand remains weak. In fact, in Europe the risk-on mood emerged after the last EU Summit has vanished over the week as doubts over the implementation of the agreements still linger. Moreover, after Central Banks actions, the Euro tumbled by a 1% dollar and the British Pound slightly weakened against the US dollar. European peripherals bonds registered outflows, while safe-haven asset, mainly the German bund, showed fresh inflows. The Spanish 10Y yield spread has widened by more than 60bps since last Thursday. The Italian 10Y spread has also deteriorated +34 bps since that date.
    - Notwithstanding the uncertainties over peripheral countries, Spain and Ireland passed their market test. Spanish Treasury sold EUR3bn in bonds maturing in Jul15, Oct16 and Jan22 meeting its issuance target; while bid-to cover ratios have been decreasing, still remain acceptable bit-to-cover ratios (around 2.28x-3.18x) and the average yields in the auction were in line with those in the secondary market (5.09% in the 2Y bond, 5.53% in the 3.4Y bond and 6.43% in the 9.6Y bond. Meanwhile, Ireland returned to international funding markets selling 0,5bn of 3Mo Treasury Bills. The average yield in the auction was 1.8%, below the Spanish 3M T-Bills average yield for 2012 (0.98%). Ireland expect to issue government bond in the first half of 2013 and the outcome of the 3M auction is a positive signal but markets may need to see more in the same direction.

- **Eurozone data showed strong deterioration in German confidence indicators, while in the US the slowdown in activity continued**

- Manufacturing continued unchanged at the contractive level 45.1 in June. In Germany the index dropped further to 45 from 45.2. Furthermore, Germany was the only country where the PMIs registered a further fall to 48.1 in June from 49.3 previously. Similarly, retail trade was by 0.6% m/m stronger in Eurozone in May, after contracting by 1.4% m/m the previous month. Yet, a decrease was observed in Germany (-0.3%). Unemployment in Eurozone hit a record high of 11.1% in May, up 0.1pp compared with April. Nevertheless, labor market in Germany remain strong.
- In the US economic data came mixed. Manufacturing activity fell into the contraction territory in June. The manufacturing ISM fell to 49.7 in June from 53.5 in the previous month, as new orders collapsed. The non-manufacturing ISM also decreased to 52.1 in June from 53.7 in May, showing a slowdown in the pace of the expansion. On the positive side, construction spending increased in May confirming the positive data of the housing sector published before. However market will focus in the Junes' payrolls figures due to on Friday. Labor market data published this week (ADP National Employment report and Jobless Claims) have been moderately positive.
- In China relevant economic data is due to next week, including Q2 GDP, and June retails sales, industrial production investment and export. Yet, the data came out during this week suggests that Chinese economy is bottoming out. China's non-manufacturing purchasing managers' index for June rose to a three-month high of 56.7% from 55.2% in May, while China's official manufacturing PMI in June moderated slightly to 50.2%.
- In Latam, activity indicators continued resilient with the exception of Brazil. Brazilian Manufacturing PMI deepened in the contraction territory falling to 48.5 in June from 49.6 May. Nevertheless Services PMI rose to 53 in June, levels above the expansion territory. In Mexico, Imef manufacturing index increased to 55.7 in June from 54.3 in the previous month while the non-manufacturing decreased to 53.3 in June but remained above the expansion threshold (50)..

**Key events next week:** attention will remain in Europe with Eurogroup (Monday) and ECOFIN (Tuesday) The MoU of the aid packaged to recapitalize the Spanish banking sector is not yet expected to be signed (but later on in an extraordinary Eurogroup). The Spanish government is also expected to announce fiscal measures in the coming days/weeks. In China, a batch of important activity data for June will be released next week.

# Calendar: Indicators

## Germany: Trade Balance, s.a. (May, July 9th)

Forecast: €16.0bn

Consensus: n.a.

Previous: €16.1bn

The trade balance is expected to have remained broadly stable in May, after increasing sharply in April driven by a decline in imports that was much larger than the one observed in exports. We expect both exports and imports to have increased in May at a moderate pace, but not enough to offset the previous fall. Although exports could have lost some momentum, the expected larger decline in imports could have resulted in other positive contribution of net exports, although not so long as that 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.

## Eurozone: Industrial production (May, July 12nd)

Forecast: 0.1% m/m

Consensus: 0.0% m/m

Previous: -1.1% m/m

Industrial output is expected to have remained flat in May, after falling significantly in April, mainly dragged by depressed domestic demand. Manufacturing confidence, both from PMIs and the European Commission indicator, also showed gloomy prospects for the industrial sector in Q2, with the former remaining clearly in contractionary territory and the latter below its long-term average. Nevertheless, messages from these surveys are different, as PMIs suggested some stabilization in industrial output while the EC indicator pointed to a decline. Overall, May's forecast implies that industrial output could have declined by around -1% over Q1, but also that the deterioration should not be as deep as the one registered in Q4 2012 (-2.0% q/q). Given the high correlation between the industrial output and the economic cycle, all these figures point to another GDP fall in Q2, after stagnant at the beginning of the year. In particular, our MICA model estimates a GDP decline of around -0.2% q/q in Q2.

## US: Consumer Credit (May, July 9th)

Forecast: \$9.0B

Consensus: \$8.0B

Previous: : \$6.5B

Total outstanding consumer credit is expected to increase in May for the ninth consecutive month. Strength in student loans continues to drive nonrevolving credit growth, and we expect that this trend will continue throughout the year. Increased demand for auto loans has boosted the figure in recent months, but the chances of this being a constant driver are unlikely. In regards to revolving credit, weakening consumer attitudes throughout 2Q12 likely limited individuals' willingness to take on additional debt. In general, we expect that consumer credit growth in May will be similar to the average monthly growth seen in the first quarter.

## US: International Trade Balance (May, July 11th)

Forecast: -\$49.5B

Consensus: -\$48.3B

Previous: -\$50.1B

The international trade balance has deteriorated thus far in 2012 compared to mid-2011 levels. In April, the gap improved only slightly from the downwardly revised figure in March, with export growth declining for the first time in five months. Exports are finally beginning to reflect signs of slowing demand in Europe and China, and various manufacturing reports have noted weaker new export orders for the month. Import growth is also likely to slow again for the third time in four months given deteriorating business confidence regarding future demand conditions.

## China: GDP(Q2, July 13th)

Forecast: 7.4% y/y

Consensus: 7.8% y/y

Previous: 8.1% y/y

China's Q2 GDP outturn will be watched in order to gauge the extent of the ongoing growth slowdown. Recent high frequency indicators such as PMI and industrial production have been somewhat weaker-than-expected, prompting downward revisions to the growth outlook. We currently expect Q2 GDP growth to have weakened to 7.4% y/y from 8.1% in Q1. Nevertheless, we expect growth momentum to pick up during the rest of the year on supportive fiscal and monetary policies—including further cuts in the RRR and interest rates—leading to full-year GDP growth of around 8%, although the outlook is, admittedly, subject to downside risks due to the weak external environment. In addition to GDP, a number of important monthly indicators will also be released next week, including industrial production, investment, retail sales, and credit aggregates.

# Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.46	0	-1	21
		2-yr yield	0.28	-2	2	-11
		10-yr yield	1.58	-6	-8	-145
	EMU	3-month Euribor rate	0.55	-10	-11	-104
		2-yr yield	-0.01	-13	-8	-146
		10-yr yield	1.37	-21	4	-146
Exchange rates (changes in %)	Europe	Dollar-Euro	1.238	-2.3	-1.6	-13.2
		Pound-Euro	0.80	-1.2	-1.9	-10.3
		Swiss Franc-Euro	1.20	0.0	0.0	0.7
	America	Argentina (peso-dollar)	4.53	0.1	0.8	9.9
		Brazil (real-dollar)	2.02	0.5	-0.7	29.2
		Colombia (peso-dollar)	1776	-0.5	-0.4	0.9
		Chile (peso-dollar)	496	-1.1	-2.2	7.1
		Mexico (peso-dollar)	13.44	0.6	-4.2	15.6
		Peru (Nuevo sol-dollar)	2.65	-0.7	-1.4	-3.5
	Asia	Japan (Yen-Dollar)	79.87	0.1	0.9	-1.0
		Korea (KRW-Dollar)	1137.99	-0.6	-3.1	7.7
		Australia (AUD-Dollar)	1.027	0.3	3.4	-4.5
Comm. (chg %)		Brent oil (\$/b)	99.4	1.7	-1.2	-16.0
		Gold (\$/ounce)	1594.8	-0.2	-1.5	3.3
		Base metals	506.6	0.9	-0.9	-16.0
Stock markets (changes in %)	Euro	Ibex 35	6858	-3.4	6.8	-31.0
		EuroStoxx 50	2272	0.3	6.3	-18.6
	America	USA (S&P 500)	1368	0.4	4.0	1.8
		Argentina (Merval)	2381	1.5	7.2	-31.4
		Brazil (Bovespa)	56379	3.7	4.1	-8.3
		Colombia (IGBC)	13824	3.0	-1.9	0.6
		Chile (IGPA)	21181	0.5	2.9	-6.3
		Mexico (CPI)	40041	-0.4	7.4	9.7
		Peru (General Lima)	20662	2.3	-1.7	3.7
		Venezuela (IBC)	248429	-1.4	3.8	205.6
	Asia	Nikkei225	9021	0.2	5.7	-11.0
		HSI	19801	1.8	6.9	-12.9
Credit (changes in bps)	Ind.	Itraxx Main	165	-1	-11	52
		Itraxx Xover	664	2	-47	240
		CDS Germany	98	-5	-7	52
	Sovereign risk	CDS Portugal	810	5	-322	-213
		CDS Spain	552	21	-37	238
		CDS USA	48	0	-1	---
		CDS Emerging	267	-18	-39	58
		CDS Argentina	1126	-126	-142	525
		CDS Brazil	147	-10	-13	39
		CDS Colombia	133	-10	-19	27
		CDS Chile	109	-7	-13	35
		CDS Mexico	128	-13	-22	21
		CDS Peru	152	-10	-10	25

Source: Bloomberg and Datastream

# Weekly Publications

Country	Date	Description
USA	07/03/2012	➤ <b>Observatorio Económico EEUU. Situación mensual de EEUU</b> ¿Tomará impulso la actividad económica en el 2S12?
	07/06/2012	➤ <b>ECB Watch: "Refi rate to record-low of 0.75% as recession spreads to core eurozone".</b> As expected, the ECB decided to cut the main policy rate by 0.25% to 0.75%, to historic low at today's monetary policy meeting.
EMU	07/04/2012	➤ <b>Europe Flash: "PMI Services improved in June, but dismal Q2 overall".</b> Private sector activity continued falling in Eurozone, but with a milder downturn in the services sector, as reflected in higher PMI figures, leading to a more positive ending of Q2.
	07/03/2012	➤ <b>Flash España: Afiliación a la Seguridad Social y desempleo registrado en junio</b> A pesar de que los registros del mercado laboral sorprendieron positivamente en junio, el conjunto del trimestre se cerró con un deterioro ligeramente superior al registrado en el 1T12.
Spain	07/03/2012	➤ <b>Flash España: "España: cuentas no financieras trimestrales de los sectores institucionales. 1T2012".</b> La necesidad de financiación de la economía española a primer trimestre de 2012 se situó, en acumulado anual, en el 3,2% del PIB, en línea con lo previsto.
	07/02/2012	➤ <b>Flash España: "Matriculaciones de turistas de junio: caída en línea con lo esperado que anticipa un consumo a la baja en 2T12"</b> El dato del junio cerró un trimestre caracterizado por la contracción significativa de la demanda de turistas, lo que sugiere una aceleración del retroceso del gasto en consumo de los hogares.
Latin America		
Chile	07/05/2012	➤ <b>Flash Chile. Actividad económica creció 5,3% a/a en mayo, sorprendiendo al alza al mercado</b> El Índice Mensual de Actividad Económica (IMACEC) creció 5,3% a/a en mayo, con un incremento de 0,4% m/m en la serie desestacionalizada, levemente por sobre nuestra expectativa.
	07/03/2012	➤ <b>Banco Central recorta encajes para el financiamiento de operaciones de comercio exterior</b> Desde julio este requerimiento será de 25%, disminuyendo desde el 60% anterior.
Peru	07/02/2012	➤ <b>Inflación negativa en junio por menores precios de alimentos</b> En junio, la inflación fue negativa en 0,04%, por debajo de lo estimado (BBVA: +0,05%, Consenso: +0,10%). Con ello, la tasa de inflación interanual se situó en 4,0%, menor a la del mes previo (4,1%).
	07/05/2012	➤ <b>Flash Inmobiliario México. La actividad hipotecaria continúa creciendo, pero ¿también se está transformando?</b> El contexto económico fortalece la expansión del crédito. No obstante, hay señales de transformación en el mercado. El crecimiento a futuro podría ser más pausado, pero con mejores fundamentos
Mexico	07/03/2012	➤ <b>Mexico Banking Flash. Bank loans to the private sector: positive double-digit growth</b> In May 2012 the commercial bank lending to the private sector continued to expand, notching up 26 consecutive months of positive nominal annual growth rates ( <a href="#">Spanish version</a> )
	07/02/2012	➤ <b>Mexico Migration Flash. Remittance inflows to Mexico at its highest level since almost four years</b> In May, remittances inflow to Mexico totaled 2.336 million dollars, a figure not seen since October 2008. This represents an annual growth of remittances of 7.8% in dollar terms ( <a href="#">Spanish version</a> )

- 07/06/2012 ➤ **China Flash: Latest interest rate cut signals authorities, resolve in arresting growth slowdown**  
China's central bank announced late yesterday an asymmetric cut in its benchmark one-year deposit and lending rates by 25bps and 31 bps respectively
- 07/05/2012 ➤ **Asia Daily Flash | 5 July 2012: China cuts interest rates; S&P upgrades the Philippines; Malaysia holds rates**  
The PBoC late today announced a 25bp cut in its benchmark one-year deposit rate to be effective July 6.
- 07/04/2012 ➤ **Asia Daily Flash | 4 July 2012: Taiwan to allow domestic companies to issue RMB bonds overseas; Malaysia's exports increase**  
After posting strong gains in recent days, Asian stock markets today reverted to a wait-and-see mode ahead of tomorrow's closely watched ECB meeting
- 07/03/2012 ➤ **Asia Daily Flash | 3 July 2012: Chinese PMIs suggest a bottoming out may be at hand; Australia holds rates; Hong Kong's retail sales sluggish**  
While recent indicators continue to show a slowdown, the latest PMI figures show signs of stabilizing trends in China.

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