Economic Research Department

BBVA

Global

Weekly Observatory

September 7, 2009

Financial markets: merger and acquisitions appear to be recovering

Liquidity strains continue easing amid news from the G-20 meeting in which policy makers are hinting non-standard policy measures will remain in place. Thus, 3-month US OIS spread declined 3 bp to 14 bps, a new low since the beginning of the financial turmoil. Apart from that, the acquisition of Marvel by Walt Disney, among other purchases, could signal better prospects for the activity of mergers and acquisitions(M&A). However, it is too early to confirm M&A activity is bottoming out. For further information see Flow Watch.

United States: ISM manufacturing index points to economic expansion, but weakness in labor market continues

August's ISM manufacturing index came in at 52.9, indicating that activity in that sector increased for the first time since January 2008. As a result, we could see an additional monthly increase in industrial production. Furthermore, the ISM came in at a level consistent with economic expansion for the fourth consecutive month, which is in line with our baseline scenario of GDP growth in 3Q09. Nevertheless, the ADP unemployment report illustrated the ongoing weakness in the labor market as job losses remain high even though they slowed from the previous month. These results support the expectation that a feeble job market will be a hindrance to a strong recovery. For further information, see US Weekly Observatory.

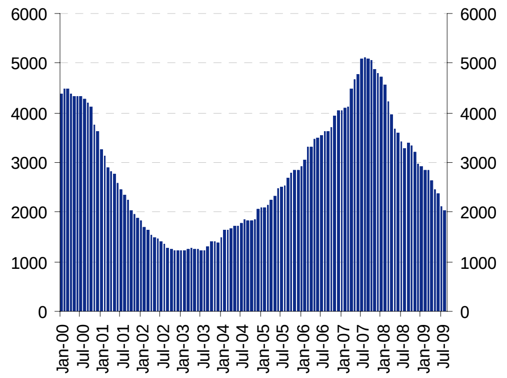
Euro area: the ECB maintains key rates and remains very cautious

The decomposition of euro area GDP growth for Q2, confirmed at -0.1% q/q, shows a mild recovery of consumption partly due to subsidies for car purchases and lower-than-expected falls in investment and exports, as demand from Asia was higher-than-expected. In August the unemployment rate rose by 0.1pp to 9.5% while retail sales remained weak, as expected. On a more positive note, PMI indicators were revised upwards. Inflation in August was -0.2% y/y, close to our forecast but higher than consensus expectations, with a sizeable positive surprise in Germany. Finally, the ECB maintains rates and were very cautious evaluating recent positive news, and raised their projections only moderately. In line with this, they suggested that the exit from stimulus measures is still far away, and announced that the next long-term auction will be held under unchanged (favorable) conditions. For further information, see Europe Weekly Observatory.

Asia: upside surprises in activity and inflation

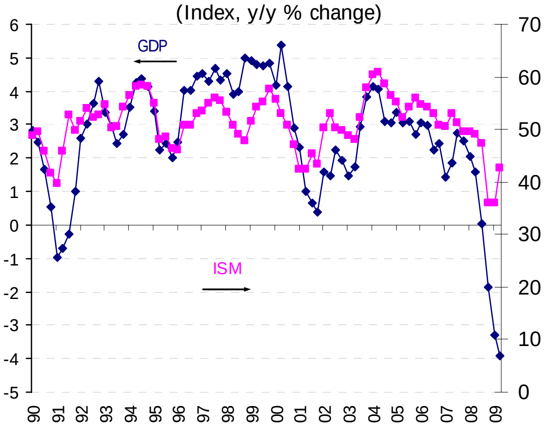
With most Q209 GDP reports and key data releases out of the way in Asia, positive surprises in economic activity are the common trend after the sharp declines of Q1. Australia, India and Korea reported stronger growth than forecast. China and Singapore's PMI readings in July reached recent peaks above the 50-mark, while industrial output in Japan and Korea continued rising on the month albeit at a slower pace. Furthermore, Australia's building approvals and retail sales in Hong Kong and Japan beat expectations and rose m/m. As a result, the disinflation process is slowing down across the region and central banks in Australia and Indonesia held rates steady. Japanese election results failed to surprise the markets which will focus on

Global M&A in $ bn (12-months cumulative)



Source: Thomson One and BBVA-ERD

US: ISM Manufacturing Index & GDP
(Index, y/y % change)



Source: ISM and BEA

EURO AREA GDP GROWTH (% q/q)	Q109	Q209
GDP	-2.5	-0.1
Private Consumption	-0.5	0.2
Public Consumption	0.7	0.4
Gross Fixed Capital Formati	-5.3	-1.3
Change in inventories (*)	-0.8	-0.7
Domestic Demand (*)	-2.1	-0.8
Exports	-8.8	-1.1
Imports	-7.8	-2.8
Net Exports (*)	-0.4	0.7

(*) Contributions to GDP growth
Source: Eutostat and ERD BBVA

the current account and business conditions data release. For further information, see Asia Weekly Observatory.

Latin America: Brazilian Central Bank stopped monetary easing path

After several reductions since early 2009, and against favorable Industrial Production (IP) data, Brazil opted for the pause on its monetary policy. The latest IP data in Chile also suggests a recovery. In Perú, GDP data for the second quarter intensified the contraction of 1Q09, mainly due to the poor performance of investment. Labor Markets give no clear signs of improvement, and latest data for Chile and Colombia yield mild increases on their unemployment rates. Next week await monetary policy meetings in Chile and Peru, and the August inflation report for Argentina and Brazil. For further information, see Latin America Weekly Observatory.

Spain: unemployment rises but lower fall in affiliation surprises

In August, Social Security affiliation fell by 142,200 people, less than expected. Construction and services comprised most of the drop, though all sectors performed above expectations. Seasonally adjusted, affiliation fell by 60,000, about half the job loss rate of the beginning of the year, which seems to show employment drops stabilizing. The number of unemployed recorded its first monthly increase since April, as expected. Seasonally adjusted, monthly unemployment growth is estimated at around 50,000, a slight acceleration on unemployment increases seen in previous months. In September, the gradual termination of the public works included in the Local Investment Fund (Plan E) means the positive effects could begin to run out, but a return to start of the year job loss rates is not expected (for further details see Labour Market Observatory). June´s current account figures showed that the strong reduction of the current account deficit continues. In June, the current account recorded a deficit of €3.3 bn (€79.9 bn in the last 12 months, 7.5% of GDP).

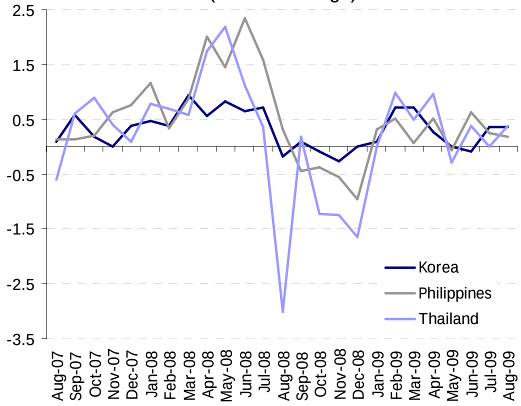
Mexico: IMEF manufacturing index in the expansion zone

The IMEF's manufacturing production index reached in August its highest level (51.5 pts) in 12 months, growing 1.3% m/m. The indicator's ascending trend started in January 2009 but this was only the second time this year it crossed over the 50 point threshold that separates expansive phases from recessive ones. The INEGI's Aggregate Trend Indicator, which captures the opinion of corporate upper management, fell 0.8% m/m in August, showing that despite the better economic outlook, uncertainty persists in the corporate sector. Next week August inflation data will be published, we expect it to continue it's moderating trend despite some risks associated with agricultural prices. For further information see Mexico Weekly Observatory (in Spanish).

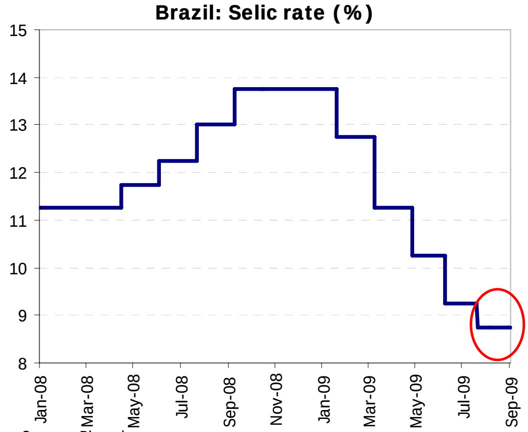
Commodities: widespread price declines

Commodity prices eased during the week, following the lead of stock exchanges, despite encouraging indicators on economic activity, especially in the United States. Oil came back below USD 70/bd, as gold prices rose against the general trend, despite a somewhat firmer USD. For further information, see Commodities Observatory.

Selected Asian countries: Headline CPI
(m/m % change)

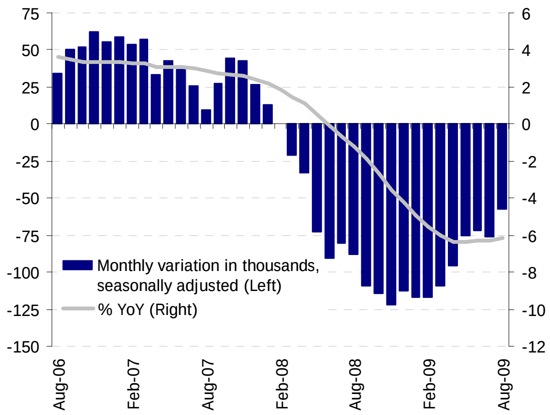


Brazil: Selic rate (%)



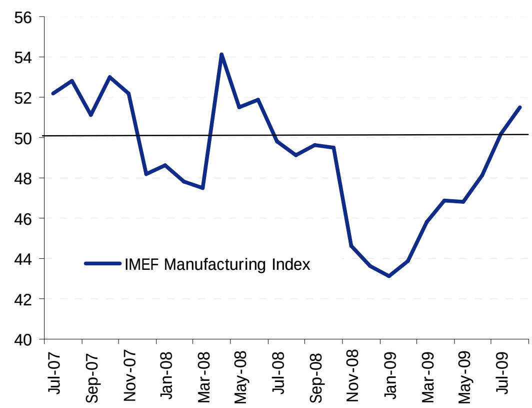
Source: Bloomberg

Spain: Social Security Affiliation



Source: BBVA ERD, using data from the Ministry of Labour and Inmigration

Mexico: IMEF Manufacturing Index



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