

Global Weekly Flash

The US fiscal-cliff and European Single Supervisor key issues this week

- **The still unresolved fiscal cliff issue, the differences between EU finance ministers over the design of a single supervisor for European banks and the downward projections for the Eurozone by the ECB have damped market mood this week. Yet, markets are little changed**
 - Following last week's Eurogroup meeting, where euro area authorities struck a deal on Greece's funding gap, this week Greece announced a debt buyback programme. The buyback will take the form of an exchange tender auction, with EUR10bn of 6M EFSF notes to be exchanged for Greek bonds (maturing from 2023 through 2042). The terms of the auctions set a minimum price range (30.2%-38.1%) of nominal value and a maximum price range (32.2-40.1%). These prices offer an average premium of 18% from those traded on November 23 (the maximum price that Eurogroup pre-announced for the buyback). Assuming a buyback average price of around 30%, the debt relief would be around 30bn (10bn/0.3). However, the Greek government will have to repay the borrowed EUR 10bn from the EFSF. Thus, the Greek debt relief would be around EUR20bn. The buyback offer run-off today but at a time this report is written none announcement was done. According with our forecasts, taking into account all the measures approved by the Eurogroup on November 27 and assuming a 30 bn buyback scheme, the Greek gross debt would be close to 124% of GDP in 2020, which would be enough to maintain the IMF in the program, although the issue of Greek debt sustainability will be probably reopened before the end of 2013, when an eventual Official Sector Involvement could be considered.
 - Apart from the Greek woe, next week the European leaders will hold an important Summit to reach an agreement on the Single Supervisor framework. However, the year-end deadline to agree on the structure of a single bank supervisor for Europe might prove optimistic judging by the different points of views among the EU officials over the structure of the mechanism. Germany's objections have not changed. Wolfgang Schäuble raised concerns about compromising ECB's independence and giving it a widespread supervision mandate of single banking supervisor in euro area.
- **The ECB maintained interest rates on hold, while extended the full allotment until mid-2013. The FED may further accommodate at the next week's monetary policy meeting**
 - As expected, the ECB holds policy rates and extended the fixed full allotment in the MRO (at least until July 9 2013) and in the 1 and 2M LTROs (at least until the end of 3Q13). However, Mario Draghi recognized that they discussed "widely" an interest rate cut. The probability of a rate cut has increased but the ECB is expected to remain on hold unless economic indicators deteriorate further (it is not our baseline scenario). The priority for the ECB is still restoring the transmission mechanism of monetary policy ie, to further reduce financial fragmentation. More surprisingly, not for the direction but for the magnitude, the ECB's staff significantly revised down its 2013 growth projections. They expect the eurozone GDP growth to contract again in 2013 by 0.3%, against a previously projected increase of 0.5%. These projections are well below our forecast 2013 GDP growth forecast of +0.3%. The ECB also cut its 2013 CPI forecast to 1.3% and to 1.4% in 2014.
 - The Euro reacted negatively after the ECB cut eurozone growth forecast, while other financial assets, broadly flat in the week, remained focus in the US budget negotiations. The euro registered 1.2% losses against the dollar. Yet, peripheral debt markets mood deteriorated over the week. Country risk premia increased across the board over the week. The Spanish 10Y yield spread against the German bond is again above the 400bp, after widened by 30 in the week, while the Italian 10Y spread widened by 23bp linked to increasing noise on the political scene and ahead of the crucial election to be held next Spring.

- In the case of the US Federal Reserve, the Federal Open Market Committee (FOMC) is hoping for a miracle from the Congress and the new administration as concerns elevate on the fiscal cliff and the European debt crisis. With the Operation Twist scheduled end in December, the FOMC is likely to accommodate with additional Treasury purchases and discuss other tools throughout the first half of 2013 as necessary. The possibility of a full fiscal cliff resolution is becoming smaller by the day, and the FOMC has already acknowledged the impact of uncertainty leading up to a potential deal. Thus, we expect that the FED will not significantly adjust its policy accommodation even in the off chance that Congress fully addresses the fiscal cliff by the end-of-year deadline.
- **The US fiscal-cliff weighs on economic data, while new Chinese leader are tilted toward promoting growth. In Europe, the Bundesbank confirms that European sovereign debt crisis weigh on German growth**
 - In the US, the main downside risk to 2013 growth comes from the fiscal side. Recent economic reports suggested that incredible fiscal uncertainty has weighed on US activity. Both business and consumer are anxious about future tax reform and income. In this regard, the ISM decreased more than expected in November to 49.5, from 51.7 in October, pointing that manufacturing is in the contraction territory. Furthermore, the Michigan Consumer Sentiment index fell to 74.5 in December from 82.7 in the in November. Most of the drop was due to longer-term expectations. On the positive side, the non-Manufacturing PMI index slightly increased to 54.7 in November and US productivity continued improving. Finally, Despite the hurricane Sandy, payrolls rose by 147.000 in November, more than our forecast (120.000) and consensus expectation (90.000).
 - The outlook for the eurozone remains gloomy among mixed signals. On the positive side, final PMI figures for November were significantly better than previously published flash estimates, with the Composite index raising from 45.8 to 46.5 supported by a better services component. This adds to recent good figures for November on some national confidence indicators, and to growing German factory orders published this week. On the negative side, the Bundesbank significantly revised down its 2013 German GDP growth forecast (to 0.7% from a previous 1.6%) and German industrial production dropped in October by 2.6% m/m (s.a.), against expectations of stability.
 - In China, the official PMI reading for November rose for a fourth consecutive month, to 50.6 (BBVA forecast: 50.9; Consensus: 50.8) and was above the 50 expansion threshold for a second month in a row. While slightly below expectations, the outturn confirms an economic pickup in Q4 after bottoming out in Q3. The positive data, however, failed to stem the downward momentum of China's stock market, on investor concerns about the market's transparency and uncertainty over the pace and extent of forthcoming stimulus measures. In this regard, the statement after the first Politburo meeting suggested the continuity with the current policy stance of cautious monetary and fiscal easing. Over the medium term, urbanization will be a top priority, along with increasing domestic demand. The government is likely to set its 2013 GDP growth target (most likely in the 7.0-7.5% range) in the coming annual Central Economic Work Conference in mid-December. No talks were reported regarding further stimulus, though we cannot rule this out if the external environment were to worsen.

Next week: In Europe, the Ecofin and EU council summit will try to achieve a deal on the roadmap for further integration in Europe, particularly in the banking supervision. Concerning peripherals, Italy will issue bills and 3Y bonds, meanwhile Spain will come back to the market with bonds. In Germany, the ZEW survey will unveil. In the US, the debate on the fiscal cliff will be closely monitored. Regarding China, WTO China General council.

Calendar: Indicators

Germany: Trade balance, s.a (October, December 10th)

| | | |
|-------------------|--------------------|-------------------|
| Forecast: €18.1bn | Consensus: €15.8bn | Previous: €17.1bn |
|-------------------|--------------------|-------------------|

The German trade surplus is expected to have widened in October, driven by a larger increase in exports than in imports. In particular, we expect exports to have increased significantly enough to offset the strong fall observed in September, thus suggesting that they could continue to grow at the steady rates observed during the previous two quarters (around 1.5% q/q). Imports should have remained subdued, but still robust domestic drivers suggest that they are likely to gain some traction in Q4 as compared to those observed in the past half year. Overall, these figures combined, with recent weakness of exports orders suggest that the contribution of net exports to economic growth is likely to ease further by year-end, as already observed in Q3 (0.3pp after 0.7pp in Q2).

Eurozone: HICP inflation (November, December 14th)

| | | |
|--------------------|---------------------|--------------------|
| Forecast: 2.2% y/y | Consensus: 2.2% y/y | Previous: 2.5% y/y |
|--------------------|---------------------|--------------------|

We expect headline inflation to be confirmed at 2.2% y/y in November, slowing from 2.5% y/y in October, in line with our below-consensus previous expectation. November's slowdown should have been driven by a significant moderation in the growth of energy prices, with stabilization widespread across the rest of components. As a result, our forecasts suggest that core inflation should have also remained unchanged at 1.6% y/y in November. Looking forward, we expect inflation to hover around 2.2% y/y by year end, slowing more rapidly at the beginning of 2013 as a result of a significant base effect in energy prices after increasing sharply a year ago. In particular, headline inflation is likely to be slightly below the ECB's target by the second quarter. Thereafter, the slowdown of both core and headline inflation will be slower.

U.S. Trade Balance (October, December 11st)

| | | |
|--------------------|--------------------|--------------------|
| Forecast: -\$42.8B | Forecast: -\$42.5B | Forecast: -\$41.5B |
|--------------------|--------------------|--------------------|

The trade deficit is expected to increase in October after falling to a two-year low in September. The third quarter closed on stronger-than-expected export growth, mostly related to petroleum products. However, various business surveys have noted a slowing in both export and import demand as we moved into the fourth quarter. Demand from our largest trading partners, despite last September's increase and a weaker dollar, doesn't seem sustainable given the downward pressures on global growth. With the holiday season approaching, October's figures could reflect rising domestic demand and business needs to import consumer goods. Import prices increased slightly in October and could push the nominal value slightly above that of exports, resulting in a slight worsening of the trade balance. Still, the increasing anxiety as the fiscal cliff approaches will surely keep trade levels subdued throughout 4Q12.

U.S.: Industrial Production (November, December 14th)

| | | |
|----------------|----------------|-----------------|
| Forecast: 0.4% | Forecast: 0.3% | Forecast: -0.4% |
|----------------|----------------|-----------------|

Industrial production was hit hard in October as Hurricane Sandy shut down businesses for several days toward the end of the month. Despite various economic indicators noting a negative spillover to November, manufacturing surveys have reported increasing production for the month. The production component of the ISM accelerated in November despite a decline in the overall index, while the production jump in the Chicago survey may indicate strength in areas that were unaffected by the storm. Auto sales did jump significantly in November and could signal a positive contribution to the production figure. Overall we expect there to be an increase in the production data based on the recovering Northeast along with nationwide manufacturing and production increases.

China industrial output for November (December 9th)

| | | |
|---------------------|---------------------|--------------------|
| Forecast: 10.0% y/y | Consensus: 9.8% y/y | Previous: 9.6% y/y |
|---------------------|---------------------|--------------------|

Against the backdrop of improving economic indicators over the past few months, we expect industrial production (IP) to have risen modestly in November, backed by robust PMI readings, which have shown strength in production and new orders. The IP release will be part of a batch of monthly indicators to be issued during December 9-15, including inflation (BBVA: 2.1% y/y vs. 1.7% prior), fixed asset investment (BBVA: 21.0% ytd vs. prior: 20.7%), retail sales, exports ((BBVA: 9.8% y/y vs. prior: 11.7%, and credit aggregates. While we expect inflation to have ticked up in November on rising food prices, price pressures generally remain contained, well within the authorities' 4% comfort level. All told, the November data should be consistent with a rebound in Q4 GDP growth to the 7.5%-8.0% range, after bottoming out at 7.4% in Q3. On the policy front, all eyes will be on the annual Central Economic Work Conference to be held in the coming 1-2 weeks, in which the 2013 growth target will be set, most likely between 7.0-7.5% (compared to the 2012 target of 7.5%). Indications so far suggest that China's new leadership will maintain the current policy mix, with only modest further easing of the fiscal and monetary policy settings in coming months.

Markets Data

| | | | Close | Weekly change | Monthly change | Annual change |
|----------------|------------------|----------------|-------------------------|---------------|----------------|---------------|
| Interest rates | (changes in bps) | US | 3-month Libor rate | 0.31 | 0 | -22 |
| | | | 2-yr yield | 0.25 | -2 | 0 |
| | | | 10-yr yield | 1.61 | -8 | -42 |
| | | EMU | 3-month Euribor rate | 0.19 | 0 | -128 |
| | | | 2-yr yield | 0.01 | 1 | -29 |
| | | | 10-yr yield | 1.37 | -6 | -76 |
| Exchange rates | (changes in %) | Europe | Dollar-Euro | 1.300 | 0.2 | 0.3 |
| | | | Pound-Euro | 0.81 | 0.1 | 0.8 |
| | | | Swiss Franc-Euro | 1.20 | 0.0 | -0.2 |
| | | America | Argentina (peso-dollar) | 4.83 | 0.3 | 1.4 |
| | | | Brazil (real-dollar) | 2.11 | 1.2 | 3.8 |
| | | | Colombia (peso-dollar) | 1815 | -0.5 | -0.9 |
| | | | Chile (peso-dollar) | 479 | 0.0 | -0.4 |
| | | | Mexico (peso-dollar) | 12.92 | -0.4 | -1.4 |
| | | | Peru (Nuevo sol-dollar) | 2.58 | -0.3 | -0.6 |
| | | Asia | Japan (Yen-Dollar) | 82.68 | 0.3 | 3.6 |
| | | | Korea (KRW-Dollar) | 1082.85 | -0.3 | -0.7 |
| | | | Australia (AUD-Dollar) | 1.042 | -0.4 | 0.5 |
| Comm. | (chg %) | | Brent oil (\$/b) | 110.8 | -0.5 | 1.9 |
| | | | Gold (\$/ounce) | 1730.2 | -1.3 | 0.6 |
| | | | Base metals | 512.4 | 1.0 | 2.6 |
| Stock markets | (changes in %) | Euro | Ibex 35 | 7950 | 0.5 | 1.4 |
| | | | EuroStoxx 50 | 2589 | 1.2 | 3.4 |
| | | America | USA (S&P 500) | 1416 | 0.5 | 0.3 |
| | | | Argentina (Merval) | 2408 | 2.9 | 3.6 |
| | | | Brazil (Bovespa) | 57836 | 0.5 | 1.3 |
| | | | Colombia (IGBC) | 14144 | -0.3 | -4.3 |
| | | | Chile (IGPA) | 20325 | -0.2 | -2.8 |
| | | | Mexico (CPI) | 42091 | 0.4 | 1.1 |
| | | | Peru (General Lima) | 20165 | -0.3 | -3.0 |
| | | | Venezuela (IBC) | 408272 | 6.1 | 13.4 |
| | | Asia | Nikkei225 | 9446 | 0.8 | 5.8 |
| | | | HSI | 22030 | 0.5 | 1.8 |
| Credit | (changes in bps) | Ind. | Itraxx Main | 123 | 2 | -7 |
| | | | Itraxx Xover | 497 | 1 | -30 |
| | | Sovereign risk | CDS Germany | 30 | 0 | 4 |
| | | | CDS Portugal | 496 | -29 | -3 |
| | | | CDS Spain | 283 | -35 | -15 |
| | | | CDS USA | 36 | 0 | 7 |
| | | | CDS Emerging | 235 | -17 | -2 |
| | | | CDS Argentina | 2329 | -736 | 594 |
| | | | CDS Brazil | 107 | 3 | -6 |
| | | | CDS Colombia | 100 | 0 | -3 |
| | | | CDS Chile | 78 | 0 | -3 |
| | | | CDS Mexico | 100 | 0 | -2 |
| | | | CDS Peru | 100 | 0 | -4 |

Source: Bloomberg and Datastream

Weekly Publications

| Country | Date | Description |
|----------|------------|---|
| EMU | 12/02/2012 | <p>> Barreras regulatorias en Europa Diversos factores explican cómo una crisis iniciada en el mercado hipotecario norteamericano ha terminado arrastrando a Europa</p> |
| Spain | 12/07/2012 | <p>> Spain Economic Watch: “The Internationalisation of Spanish Firms” The variation in the world export share and the internationalisation process that the Spanish economy has experienced since the establishment of EMU have been determined by a broad set of factors (Spanish version)</p> |
| | 12/07/2012 | <p>> The Internationalisation of Spanish Firms The variation in the world export share and the internationalisation process that the Spanish economy has experienced since the establishment of EMU have been determined by a broad set of factors (Spanish version)</p> |
| | 12/05/2012 | <p>> Flash España: “Producción industrial en octubre” A pesar de que la sorpresa al alza de la producción industrial en octubre se valora positivamente, dichos resultados deben ser evaluados con cautela</p> |
| | 12/04/2012 | <p>> Flash España: “Afiliación a la Seguridad Social y desempleo registrado en noviembre” Corregido el efecto de los cambios normativos que afectan a los datos de noviembre, se observa un deterioro del empleo en línea con lo observado en meses precedentes</p> |
| | 12/03/2012 | <p>> Flash España: “Matriculaciones de turistas de noviembre: crecimiento provocado por el PIVE” Tras corregir los datos brutos de la estacionalidad propia del mes, las estimaciones de BBVA Research indican que el número de turistas matriculados en noviembre aumentó el 8,4% m/m</p> |
| US | 12/07/2012 | <p>> U.S. Monthly Outlook Slides December 2012</p> |
| | 12/06/2012 | <p>> U.S. Economic Outlook Fourth Quarter 2012 Housing finally makes a comeback, although asymmetrically across states</p> |
| | 12/04/2012 | <p>> U.S. Economic Watch. Monthly US Outlook: December Holiday Cheer Not Helping to Calm Fears Over the Fiscal Cliff (Spanish version)</p> |
| | 12/03/2012 | <p>> U.S. Flash. Manufacturing Activity Contracts on Weak Demand in November The ISM Manufacturing Index dropped to 49.5 in November due to slower domestic and foreign demand, in addition to the impact from Hurricane Sandy</p> |
| | 12/03/2012 | <p>> U.S. Weekly Flash. Higher Inventories and Lower Trade Deficit Drive GDP Revision After a modest advanced report for 3Q12 GDP, the revised figures for the second estimate show better than expected growth in exports and inventories offsetting slower consumption (Spanish version)</p> |
| Latam | | |
| Brazil | 12/06/2012 | <p>> Brazil Flash. COPOM reinforces messages of stability for a prolonged period of time and non-linear convergence The monetary policy minutes released today maintained practically unchanged the main messages included in previous official communication (Spanish version)</p> |
| Chile | 12/05/2012 | <p>> Actividad económica mantuvo dinamismo en octubre El Imacec aumentó 6,7% a/a en octubre. Según el BC, los sectores que explicaron este crecimiento fueron manufactura y comercio. No obstante la serie desestacionalizada registró una caída de 0,5% m/m.</p> |
| Colombia | 12/05/2012 | <p>> Flash Colombia. Inflación de Noviembre se ubicó muy por debajo de las expectativas en -0.14% m/m, explicado por factores de oferta La inflación al consumidor a Noviembre se ubicó en 2,77% (-0,14% m/m), muy por debajo de nuestras expectativas (BBVAe: 0,13%) y del consenso del mercado (0,15%)</p> |
| | 12/04/2012 | <p>> Flash Colombia. ¿Qué tan positivos son los datos de desempleo de octubre? La extraordinariamente baja tasa de desempleo Nacional de octubre podría estar encubriendo una realidad laboral poco alentadora</p> |

| | | |
|------|------------|--|
| Peru | 12/06/2012 | ➤ Banco Central mantuvo su tasa de política sin cambios en un entorno de menor inflación La tasa de política monetaria para diciembre se mantuvo en 4,25%, en línea con lo esperado. |
| | 12/03/2012 | ➤ Inflación anual retornó al rango meta Este resultado reflejó la reversión de los choques de oferta domésticos que afectaron el precio de los alimentos en meses pasados. |

Mexico

- **Anuario de Migración y Remesas México 2013**
Creciente importancia que la migración internacional mantiene en distintos ámbitos: económico, cultural, demográfico, político, entre otros
- **Presentación Anuario de Migración y Remesas México 2013**
Migración mundial. Emigración e inmigración internacional de México. Migrantes mexicanos en Estados Unidos. Migración interna en México. Las remesas
- **Presentación Situación Migración México. Noviembre 2012**
¿Qué ocurre con el empleo de los migrantes mexicanos en EEUU?
- **Situación Migración México Noviembre 2012**
Migrantes mexicanos en EEUU, con menores niveles de escolaridad e ingresos que migrantes de otras regiones con gran presencia en ese país
- **Mexico Migration Flash. Remittances accumulate 4 consecutive months with decreases**
In October, remittances to Mexico declined 7.1% y/y in dollar terms ([Spanish version](#))

EAGLEs

- **EAGLES Quarterly Report. Fourth Quarter 2012**
External headwinds dragged down growth in Q3 especially through trade channels from the Euro zone.

Asia

- 12/07/2012 ➤ **Asia Daily Flash 7 December 2012: China points to stable policy path in 2013; Taiwan's exports fall short of expectations; Malaysia's exports fall**
Capping a volatile week in Chinese equity markets, the Shanghai Composite ended on a strong note today (+1.6%) ahead of Sunday's release of the next batch of monthly economic indicators.
- 12/06/2012 ➤ **Asia Daily Flash | 6 December 2012: Australia's unemployment rate declines; India votes "yes" to FDI in retail sector**
Most Asian stock markets were little changed (the Shanghai Comp. and Hang Seng both declined by -0.1%, after yesterday's 2.9% and 2.2% increases). The Nikkei was an outlier today, rising by +0.8%
- 12/05/2012 ➤ **Asia Daily Flash | 5 December 2012: Australia's 3Q GDP slows; China's Politburo signals continuity in policy; Investors eye Indian retail sector FDI vote; Inflation slows in Taiwan and the Philippines**
Asian equities rallied today, led by a sharp rebound in the Shanghai Composite (+2.9%) and Hong Kong (2.2%) on optimism of continued policy support following yesterday's Politburo meeting
- 12/04/2012 ➤ **Asia Daily Flash | 4 December 2012: Australia cuts interest rates; Korea and China to tap bilateral currency swap agreement**
Following the release of positive PMI data in China over the past few days, Australia became the focus today, as the Reserve Bank of Australia delivered a 25bps interest cut.
- 12/04/2012 ➤ **Presentation of "The Century of China with a Latin American touch"**
Growing economic relations between China and Latam but also challenges. What to expect from the Latin American economies in the next couple of years?
- 12/04/2012 ➤ **Presentation of "Where is the world heading? Risks and opportunities for China"**
China continues to face a difficult external situation, which could even become hostile. More opening-up from China and the rest of the world is the only way forward.
- 12/03/2012 ➤ **Asia Daily Flash | 3 December 2012: China's PMI affirms economic pickup; Korea's exports rise; Inflation falls in Korea, Indonesia and Thailand; India raises FII limit**
Today brought a batch of November data throughout the region, with several economies reporting inflation outturns that were lower than expected. At the same time, PMI outturns were mixed.
- 12/03/2012 ➤ **China Flash: November PMI affirms gradual economic pickup**
China's official PMI for November rose for a fourth consecutive month, to 50.6 (BBVA forecast: 50.9; Consensus: 50.8) and was above the 50 expansion threshold for a second month in a row

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