

Global Weekly Flash

Some profit-taking on disappointing data from China

There was a lack of event-driven news during this week. The risk-on mood in financial markets continued but there was some profit-taking driven by the disappointing data from China and lingering concerns in the Eurozone. Our BBVA Financial stress index has decreased by 29% its peak reached last June mainly due to a more flexible approach from the ECB, a sense of urgency from European authorities and better-than-expected US payroll figures for July. Yet, the rally in 2Y Spanish and Italian yields on ECB's pledge to reduce short-term borrowing costs came to a halt at the end of this week.

- Unlike in contrast with past episodes, Eurozone leaders and politicians are showing certain degree of alignment with the ECB proposal for tackling the European debt crisis. Last week, the ECB announced that they may intervene in debt markets but only after EU Member States facing high risk premium request aid from the EFSF/ESM to intervene in the primary bond market. Yet, up to today, none of the European peripheral countries have announced their intention to request the EFSF/ESM financial assistance, but some remarks seem to indicate that there is no clear opposition to the request.
- Expectations for the ECB intervention in the short end of the Spanish and Italian yield curves have fueled bond purchases in this part of the curve. In this regard, the 2Y Spanish yield fell by 93bps to 3.7% along the week, while the Italian 2Y decreased by 54.6bps to 3.16%. Yet, flows toward the short end of the yield curve have diminished somewhat at the end of the week. Additionally, the demand in the long end of the Spanish and Italian curves was more moderate than in the short end. As a result, the positive slope between the 10Y and 2Y Spanish yield has intensified significantly from 175bps to 305bps, which is well above of the German 10Y-2Y yield slope (150bps). This confirms that the subdued appetite for the long end of the Spanish curve.
- During the week, Spain fixed income funds registered inflows encouraged by Mr. Draghi's pledge to buy bonds. However, investment flows towards the German fixed income market have not showed any sign of recovery (outflows since early June) whereas there are steady flows to fixed income funds in the US, the UK and other developed countries such as Sweden (ie, with a currency not linked to the euro).
- The rating agency DBRS downgraded Spain from A (high) Under Review Negative to A (low) with a Negative trend and the Italian rating was downgraded from A(high) to A with a negative trend. Despite these downgrades, the actions have no effects on the ECB liquidity policy toward Spanish and Italian collateral, as the rating remains in the single-A grade.
- In the US, latest payroll figures increased the probability for a wait and see stance of the FED in September. Nevertheless, the intervention of the FED president, Mr. Bernanke, at Jackson Hole economic policy symposium will bring some clue about the likelihood of further QE.
- Elsewhere in China, investors are waiting for actions to stimulate growth. Recent economic data provides space for further policy easing, including 150bps of further cuts in the RRR, up to two more interest rate cuts, and a step-up in public investment projects.
- The 2-month rally in commodities prices (briefly?) paused this week after investors took profits on commodities assets due to weaker-than-expected Chinese export data. Since June 2012 the CRB Food index has rallied by 12% while the crude oil prices have surged by 20-27% in the same period. However, industrial raw materials have increased only by 3% since late July when they reversed their negative trend. Geopolitical issues and a drought in the US provide some support to crude oil and crop prices despite the global slowdown.

- **In China weak economic data increased the possibility of further monetary policy support. In the Eurozone, data for Q2-12 points to a mild contraction in GDP growth over the previous quarter**

- In the eurozone, data available for Q2 points to a mild contraction in GDP growth. Both European Commission and PMI confidence indicators deteriorated sharply in April and May, falling back to end-2011 levels, when GDP contracted 0.3% q/q, although June's readings indicate that the pace of decline eased towards the end of the second quarter. Our short-term model (MICA) estimates a contraction in GDP of around 0.2% q/q in Q2-2012, although our macroeconomic outlook points to a slightly larger contraction, of 0.3% q/q, as do the rest of our models. This is because the indicators used in the short-term model could be factoring in a certain delay in the fiscal adjustment and the spike in financial stress. Across countries, short-term indicators for Germany and France suggest that GDP could have slowed with respect Q1, by 0% q/q and -0.1%, respectively, while the periphery is expected to remain in negative territory. Once again, uncertainty about the resolution of the European crisis remains very high, and thus downside risks continue to be biased downwards. See our latest [Europe Economic Outlook](#).
- In China, inflation and activity indicators were on the weak side, indicating that the hoped-for pickup in growth momentum has not yet occurred. China's trade growth plunged sharply in July in a new sign of global economic weakness. Exports rose just 1% over a year earlier, down from June's 11.3 %. Import growth fell to 4.7% from the previous month's 6.3%. Moreover lending by Chinese banks fell sharply in July. In addition growth of July Industrial production and retails sales were lower than-expected at 9.2% y/y and 13.1% y/y respectively (consensus: 9.7% and 13.5%, respectively), while other indicators were closer in line with expectations, including fixed asset investment (20.4% vs. consensus: 20.6%) and CPI inflation (1.8% vs. consensus: 1.7%). We believe that inflation has now bottomed out, and should gradually pick up to 2-3% during the remainder of the year, still below the authorities' 4% tolerance level. Together with weak growth momentum, this should provide space for further policy easing, including 150bps of further cuts in the RRR, up to two more interest rate cuts, and a step-up in public investment projects. These policies should sustain GDP growth in line with our full-year 7.8% projection, as detailed in our just-released [Asia Outlook](#).
- In the US, Q2 nonfarm productivity rise more than expected, +1.6%, versus consensus expectation of 1.4%. Unit labor cost rise (ULC) more than expected +1.7% (versus +0.3% expected), and Q1 was revised up significantly. All in all, year on year growth of ULC remains weak.
- Regarding Latam, this week some countries released inflation data. In Brazil inflation increased to 5.2%/y/y in July from 4.9%/y/y in June. This was the first time inflation moved up since Sep/2011 when it reached 7.3%/y/y. We expect domestic economic recovery, less supportive base effects and more pressures from food prices to prevent inflation from declining significantly in the remainder of the year. In Mexico, Inflation rose again in July due to supply shocks and depreciation of the peso. July inflation increased 0.56% m/m, accelerating year on year from 4.3% in June to 4.4%. Core inflation rose 0.31% m/m and accelerated annual 3.5% y/y in the previous month to 3.6% in July. In Colombia with monthly inflation below expectations, -0.02% m/m (0.07% consensus and BBVA Research), annual inflation in July reached 3.03%, reaching the mid-point of the inflation target. We forecast inflation to remain near the mid-point of the inflation target during the second part of the year, providing additional space for the central bank to continue easing the monetary policy stance. In Chile, monthly inflation was 0% in July; in a yearly basis, inflation rate fell to 2.5%, while core inflation measures recorded annual increases of 2.4% and 2.3%. On activity, the Monthly Economic Activity Index in Chile grew 6.2% y/y in June, + 0.4% m/m, well above both our and market expectations and largely explained by the performance of retail sales and other services, together with the favourable behaviour of electricity production. By July, we forecast activity to grow by 4.9% y/y.

Next week: Investor will keep attention on GDP figures for 2Q in the EZ and Japan, while in the US retail sales and industrial production for July will be published.

Calendar: Indicators

Eurozone: HICP inflation (Jul, Aug 16th)

Forecast: 2.4% y/y

Consensus: 2.4% y/y

Previous: 2.4% y/y

We expect headline inflation to be confirmed at 2.4% y/y in July, remaining unchanged from June. With regards inflation of other components, our forecast suggests that they should remain broadly unchanged, resulting in the stabilization of core inflation at 1.8% y/y. We expect a slowing inflation for the Eurozone as a whole over the coming months before ending the year slightly below the ECB's target of 2% y/y. For 2012 we have lowered our forecast for average annual inflation by 0.1pp to 2.3%, largely due to lower oil prices. This contrasts with our estimate from three months ago of rising prices. Given weak domestic demand, core inflation will also continue to ease over the coming months to end the year at around 1.7% y/y, resulting in an annual average of 1.8%.

Eurozone: Flash GDP (Q2-12, Aug 14th)

Forecast: -0.3% q/q

Consensus: -0.2% q/q

Previous: 0.0% q/q

Data available for Q2-12 points to a mild contraction in GDP growth over the previous quarter. Both European Commission and PMI confidence indicators deteriorated sharply in April and May, falling back to end-2011 levels, when GDP contracted 0.3% q/q, although June's readings indicate that the pace of decline eased towards the end of the second quarter. Our short-term model (MICA) estimates a contraction in GDP of around 0.2% q/q in Q2-2012, although our macroeconomic outlook points to a slightly larger contraction, of 0.3% q/q, as do the rest of our models. This is because the indicators used in the short-term model could be factoring in a certain delay in the fiscal adjustment and the spike in financial stress. Across countries, short-term indicators for Germany and France suggest that GDP could have slowed with respect Q1 (by -0.1% q/q in France and 0% in Germany), while the periphery is expected to remain in the red. Once again, uncertainty about the resolution of the European crisis remains very high, and thus downside risks continue to be biased downwards.

US: Retail Sales, Ex Auto (July, August 14th)

Forecast: 0.2%, 0.3% m/m

Consensus: 0.4%, 0.4% m/m

Previous: -0.5%, -0.4% m/m

Total retail sales are likely to improve only slightly in July after being dragged down by falling gasoline and auto sales in June. Gas prices have rebounded somewhat and are therefore less likely to drag down nominal retail sales in July. However, a drop in unit auto sales for the month could weigh on the total. In addition, weekly retail sales surveys were volatile throughout July and suggest only modest monthly improvement. Ultimately, consumer confidence remains weak and recent gains in personal income have yet to boost consumer spending.

US: Consumer Price Index, Core (July, August 15th)

Forecast: 0.2%, 0.2% m/m

Consensus: 0.2%, 0.2% m/m

Previous: 0.0%, 0.2% m/m

Inflation concerns have been minimal in recent months as a result of declining energy prices, yet core inflation continues to rise. Crude oil prices in July have only partially recovered from previous declines but should put some upward pressure on headline inflation for the month. While food prices are not having an immediate impact on inflation, we expect to see added pressure from this component later in the year. Excluding food and energy, core inflation has been steady near 0.2% for four consecutive months, with most of the pressure coming from shelter and medical care services.

Japan: GDP growth (Q2-12, August 13th)

Forecast: 0.8% q/q saar

Consensus: 2.0% q/q saar

Previous: 4.7% q/q saar

Japan's economy is expected to have decelerated in the second quarter after expanding 4.7% q/q saar in Q1. Recent activity indicators, especially industrial production and exports point to a slowdown from global headwinds that are suppressing exports. At the same time, post-quake reconstruction as well as rising domestic auto sales due to government subsidies should sustain growth in the coming quarters. We expect full-year growth to reach 2.4% in 2012, as the economy bounces back from last year's disruptions from the earthquake and tsunami, with risks on the downside due to global uncertainties.

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.44	0	-2	15
		2-yr yield	0.27	3	1	8
		10-yr yield	1.63	7	12	-62
	EMU	3-month Euribor rate	0.35	-2	-16	-118
		2-yr yield	-0.08	-6	-6	-77
		10-yr yield	1.37	-5	10	-96
Exchange rates (changes in %)	Europe	Dollar-Euro	1.227	-0.9	0.3	-13.9
		Pound-Euro	0.79	-0.7	-0.4	-10.2
		Swiss Franc-Euro	1.20	-0.1	0.0	8.3
	America	Argentina (peso-dollar)	4.60	0.2	1.3	10.5
		Brazil (real-dollar)	2.01	-0.7	-1.1	24.9
		Colombia (peso-dollar)	1789	0.1	0.2	0.2
		Chile (peso-dollar)	475	-1.3	-3.5	0.9
		Mexico (peso-dollar)	13.16	0.2	-1.1	6.9
		Peru (Nuevo sol-dollar)	2.62	-0.2	-0.7	-4.6
	Asia	Japan (Yen-Dollar)	78.44	0.0	-1.7	2.3
		Korea (KRW-Dollar)	1130.45	-0.4	-0.9	4.7
		Australia (AUD-Dollar)	1.052	-0.5	2.6	1.6
Comm. (chg %)		Brent oil (\$/b)	111.9	2.7	11.6	3.5
		Gold (\$/ounce)	1609.4	0.4	2.1	-7.9
		Base metals	510.9	2.7	2.2	-10.1
Stock markets (changes in %)	Euro	Ibex 35	7043	4.2	3.5	-18.6
		EuroStoxx 50	2418	1.9	7.6	4.8
	America	USA (S&P 500)	1403	0.8	4.6	19.0
		Argentina (Merval)	2381	-0.6	0.8	-19.7
		Brazil (Bovespa)	58797	2.7	9.8	10.0
		Colombia (IGBC)	13669	1.3	0.0	1.9
		Chile (IGPA)	20158	-0.7	-3.8	-0.7
		Mexico (CPI)	40677	-0.8	1.1	21.9
		Peru (General Lima)	19748	0.1	-1.7	-0.9
		Venezuela (IBC)	248276	0.5	-0.3	149.4
	Asia	Nikkei225	8891	3.9	0.5	-0.8
		HSI	20136	2.4	3.7	2.6
Credit (changes in bps)	Ind.	Itraxx Main	147	-2	-20	-2
		Itraxx Xover	581	-12	-78	-47
		CDS Germany	65	-3	-27	-15
	Sovereign risk	CDS Portugal	776	-70	-65	-68
		CDS Spain	501	-35	-57	147
		CDS USA	42	-3	-8	---
		CDS Emerging	248	0	-19	-28
		CDS Argentina	1126	14	-67	369
		CDS Brazil	126	-3	-23	-24
		CDS Colombia	114	-3	-19	-36
		CDS Chile	97	-6	-15	-5
		CDS Mexico	112	-1	-15	-41
		CDS Peru	119	-4	-31	-44

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
Global	07/08/2012	➤ Situación Global. Tercer trimestre 2012 El crecimiento global ganará tracción sólo si se implementan a tiempo medidas decisivas de política económica. El área del euro, principal riesgo a la baja en el entorno global (English Version)
EMU	07/08/2012	➤ Situación Europa. Tercer trimestre 2012 La zona euro debería crecer ligeramente en 2013. Si se aplican las medidas previstas en la cumbre europea y por el BCE, los problemas de financiación deberían comenzar a remitir después del verano. (English Version)
Spain	07/08/2012	➤ Situación España. Tercer trimestre 2012 Las tensiones financieras extenderán a 2013 la caída del PIB. La recuperación dependerá de la credibilidad del ajuste fiscal, la eficacia de las reformas y el respaldo de las instituciones europeas.
	08/08/2012	➤ Flash España: "Producción industrial en junio" Pese a que la evolución de la producción industrial en el segundo trimestre del año debe ser valorada negativamente, no se observó una aceleración del deterioro en la parte final del trimestre.
US	06/08/2012	➤ Observatorio Económico EEUU. Situación mensual EEUU Evaluación de riesgos económicos en la segunda mitad de 2012. (English version)
	06/08/2012	➤ Flash Semanal EEUU. Tasa de desempleo sube a 8.3% en julio pese al mayor crecimiento del empleo no agrícola El informe sobre el empleo de julio fue un tanto heterogéneo, el crecimiento del empleo no agrícola fue superior a lo esperado pero la tasa de desempleo volvió a 8.3% (English version)
	08/07/2012	➤ U.S. Economic Watch. Job Openings and Labor Turnover June Report Suggests More Dynamic Labor Market in 2Q12
	08/10/2012	➤ U.S. Monthly Outlook Slides August 2012 US Monthly Update
Latin America		
Latam	08/08/2012	➤ Situación Latinoamérica. Tercer trimestre 2012 América Latina crecerá 3,2% en 2012 y 3,7% en 2013, apoyada en la demanda interna. La región está preparada para soportar una nueva crisis global, pero con menor espacio para políticas contracíclicas
	08/08/2012	➤ Latam: Resistencia en un entorno global incierto-Situación Latinoamérica. Tercer trimestre 2012 América Latina crecerá 3,2% en 2012 y 3,6% en 2012 impulsada por la demanda interna y los altos precios aún elevados de las materias primas. Está preparada para soportar una nueva crisis global
Brasil	08/08/2012	➤ Brazil Flash: "Inflation rises for the first times in ten months" Inflation increased to 5.2%/y in July from 4.9%/y in June. This was the first time inflation moved up since September 2011 when it reached 7.3%/y. We expect domestic economic recovery
Chile	08/08/2012	➤ Flash ChileInflación mensual nula en julio Continúa el fuerte contraste entre transables (-0,5% m/m) y no transables (0,5% m/m). En 12 meses la inflación retrocedió a 2,5% y las medidas de inflación subyacente crecieron 2,4% y 2,3% anual.
Colombia	06/08/2012	➤ Flash Chile: Fuerte dinamismo de la actividad económica en junio ➤ Flash Colombia. La inflación alcanza el punto medio del rango meta en julio Con dato mensual un poco menor al esperado, -0,02% m/m (0,07% consenso y BBVA Research), la inflación anual en julio se ubicó en 3,03%, logrando el punto medio del rango meta fijado por banco central
Perú	09/08/2012	➤ Situación Perú Tercer Trimestre 2012 Revisamos a la baja nuestra previsión de crecimiento para 2012 a 5,6% por una demanda externa más débil y una moderación del gasto privado en la segunda parte del año.

Mexico

- 08/08/2012 ➤ [Situación México Tercer Trimestre 2012](#)
México se desacopla positivamente del entorno global gracias a sus fortalezas domésticas. A pesar de la revisión a la baja del escenario global, se mantiene el crecimiento previsto para México en 3.7%
- 08/08/2012 ➤ [Presentación Situación México Tercer Trimestre 2012](#)
México se desacopla positivamente del entorno global gracias a estabilidad y competitividad
- 09/08/2012 ➤ [Flash Inflación México. La inflación volvió a aumentar en Julio gracias a choques de oferta y la depreciación del peso](#)
General: Observada: 0.56% m/m vs. BBVA: 0.63% m/m Consenso: 0.58% m/m. Subyacente: Observada: 0.31% m/m vs. BBVA: 0.33% m/m Consenso: 0.32% m/m ([English versión](#))
- 06/08/2012 ➤ [Flash Bancario México. Crédito al sector privado: continúa creciendo a dos dígitos](#)
Consumo: en junio su crecimiento volvió a ser de 23% nominal anual. Empresas: favorable desempeño dado por crecimiento de casi 15%. Vivienda: su tasa de crecimiento promedio del 1S12 fue de 10.7% ([English versión](#))

Asia

- 08/08/2012 ➤ [Asia Economic Outlook: Third Quarter 2012](#)
Asian growth is slowing under pressure from the weak external environment
- 08/10/2012 ➤ [China Economic Outlook: Third quarter 2012](#)
China's GDP growth has slowed by more than previously expected, giving rise to an increasingly forceful policy response to support domestic demand.
- 08/10/2012 ➤ [Asia Daily Flash | 10 August 2012: Weak China data increases the likelihood of policy easing; Hong Kong's GDP grows less than expected](#)
The negative data outturns released in China today, especially the slowdown in exports, abruptly ended a week-long rally in Asian equities.
- 08/09/2012 ➤ [Asia Daily Flash | 9 August 2012: China's July indicators weaken; Central banks stay on hold in Asia; India's IP contracts](#)
Today's batch of inflation and activity indicators in China were on the weak side, while central banks in Japan, Korea and Indonesia stayed on hold as expected.
- 08/09/2012 ➤ [China Flash: July indicators weaken, bolstering the likelihood of more policy support](#)
Today's batch of inflation and activity indicators were on the weak side (charts below), indicating that the hoped-for pickup in growth momentum has not yet occurred.
- 08/08/2012 ➤ [Asia Daily Flash | 8 August 2012: Important monetary policy meetings in Asia as well as data releases in China coming tomorrow](#)
Asian markets gained for a third consecutive day, with Korea and Japan each up by 0.9%, just a day ahead of their respective monthly monetary policy meetings, along with Indonesia.
- 08/07/2012 ➤ [Asia Daily Flash | 6 August 2012: Australia keeps policy rate unchanged; Taiwan's July exports fall](#)
On a day with very little in the way of economic news, a majority of Asian stock markets extended their rally which began on last Thursday.
- 08/06/2012 ➤ [Asia Daily Flash | 6 August 2012: Indonesia posts stronger-than-expected GDP growth; Taiwan's inflation reaches a new high](#)
The week opened with strong gains in Asian stock markets - led by the Kospi and Nikkei, both up 2.0% - following Friday's strong rally in Europe and the US.
- 06/08/2012 ➤ [Artículo de Prensa: "El crecimiento es un seguro contra la protesta" Entrevista de Alicia García-Herrero](#)
Opina que el Gobierno chino teme la falta de control y no ve a corto plazo un cambio de modelo que prime la propiedad privada sobre la pública

Publications on August 10, 2012 to 12:00, Madrid time

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