



Weekly Observatory

August 10, 2009

Financial markets: The Bank of England expands its QE program, while the ECB persists in its "wait and see" policy

The BoE expanded this week its asset purchases program from £125 billion to £175 billion, aiming to guarantee a sustained recovery of the economy. This decision has surprised the market, as the BoE sent mixed signals in previous weeks about the end of its QE program, and the yields on the treasury bonds (Gilts) fell by 20 bps after the announcement. This behavior contrasts with that of the ECB, which decided to maintain the official interest rate at 1%. Bank results for Q209 published this week were heterogeneous. For further information see [Flow Watch](#) (in Spanish).

United States: ADP Employment and ISM data signal economic contraction is easing

The past week's data presented signs that the economy remains weak, but also that contraction could ease further in the third quarter. While the ISM manufacturing index indicated that the manufacturing industry continues to contract, the level was consistent with growth in the overall economy. In addition, the ADP employment data reported that the labor market remains weak, but companies are shedding jobs at a slower pace. Nevertheless, the personal income and outlays report was a reminder that risks to the recovery of consumption remain as real disposable income dropped in June, following the one time Social Security transfers administered in April and May, and real PCE fell, indicating that consumers are still reluctant to spend. For further information, [US Weekly Observatory](#).

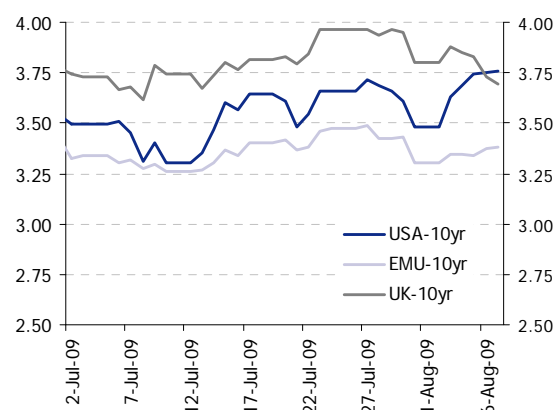
Euro area: final July PMI figures show signs of stabilization

Both manufacturing and services final PMIs for July have been revised slightly upward and continue to increase, showing signs of stabilization. One of the most surprising indicators this week has been the jump in German factory orders and the unexpected decline of Industrial Production after the upshoot registered in May, pointing out that the recovery is not consolidating. With regard to prices, the industrial producer prices in the euro area registered a positive monthly change, after 9 months in the red. This increase was mainly driven by the climbing energy prices. As expected, the ECB left its repo rate unchanged at 1% (see our latest ECB Watch). For further information, see [Europe Weekly Observatory](#).

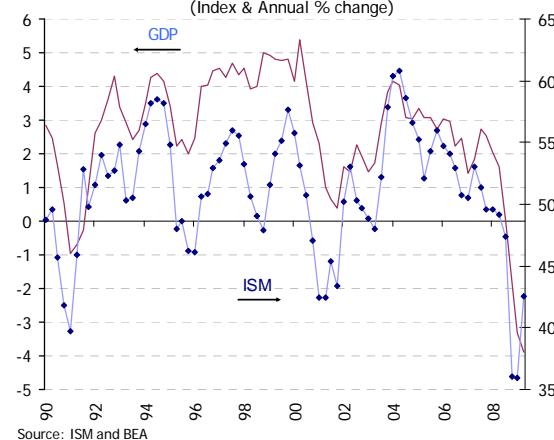
Asia: positive surprises in external activity

Exports in Korea and Malaysia fell by less than forecasted year-on-year and rose on a monthly basis, signaling that the worst of their declines is likely over. Retail sales contracted in Hong Kong and Australia, but the fall slowed down in Hong Kong whereas Australia's real sales for the quarter are still up and supporting economic growth. Despite the expansion of Japan's monetary base, a record drop in Japanese wage cash earnings may accelerate deflation going forward. Consumer prices continue falling on last year in Taiwan, Indonesia and Philippines, although prices are rising on a sequential basis. Indonesia probably reached the end of the easing cycle with a rate cut of

10 year bond yields

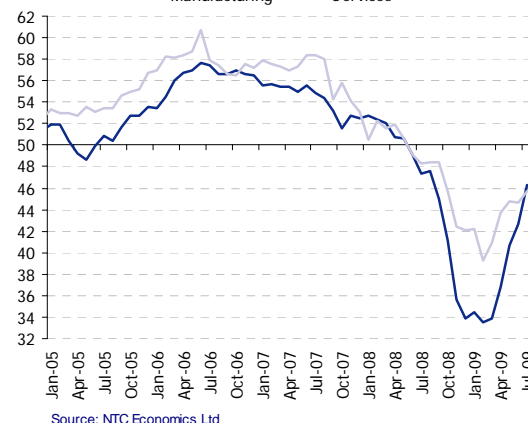


US: Manufacturing ISM & GDP (Index & Annual % change)



Source: ISM and BEA

Euro Area: PMI Index — Manufacturing — Services



Source: NTC Economics Ltd

25bps. Next week, markets will focus on the Bank of Japan monetary policy meeting decision. For further information, see [Asia Weekly Observatory](#).

Latin America: inflation continues to recede in the region

Inflation continues to recede in Latin America as economic activity remains weak despite some recent signs of recovery. In both Chile and Colombia prices dropped 0.4% m/m in July, positively surprising the markets. In Peru the expansion of inflation was slightly below the markets' expectations. Some data released this week reinforced the view that economic activity in the region has already bottomed out: Brazilian industrial production expanded for the sixth month in a row; Chilean activity index displayed solid growth in June; and Argentinean tax collection came out better than expected by the markets. In Peru, the Central Bank's Board reduced the policy rate by 75bp (1.25%), a year-to-date decrease of 525bp. For further information, see [Latin America Weekly Observatory](#).

Spain: new signs of stabilization, but at low levels

The most important data released in Spain this week featured a new fall in unemployment of the order of 21,000 people in July (-55,000 people in June). The drop in unemployment constitutes the third monthly fall in a row. Seasonally adjusted, we estimate, however, that monthly unemployment rose by about 45,000 people. Affiliation to Social Security (monthly average) augmented by 45,600 people in July (-5,500 people in June), mainly due to a sharp employment increase in the services sector (79,200 people). Nevertheless, once seasonally adjusted, affiliation fell by about 66,000 people. Further evidence of stabilization stems from the industrial production for June, which dropped by 16.2% y/y wda (-20.5% y/y in June), with all components pushing down the general index but, this time, at a lower pace, and from Spain's car sales registrations for July which fell by 10.9% y/y (-15.9% y/y in June).

Mexico: consumer confidence improves in July

This week the Consumer Confidence Index was published, it fell (-)3.3% on an annual basis. The contraction was caused by reductions in three of its five components, particularly the indicator about the possibility of currently buying durable goods which fell (-)16.7%. The CCI seasonally adjusted series grew 3.7% m/m thanks to an improvement in all its components, in particular expectations on the household economic situation a year from now which grew 6.5% and the possibility of buying durable goods grew by 6.0%. The monthly improvement on the CCI implies that consumers feel the recession has bottomed out. Next week May's investment will be published, it will show further deterioration due to the influenza pandemic. For further information see [Mexico Weekly Observatory](#) (in Spanish).

Commodities: rosy outlook boosts commodities

Commodity prices increased this week as markets focused on the improvement of macroeconomic perspectives, equities expansion and dollar debility. The oil price rose more than 3% in spite of more news on inventories accumulation in United States. For further information, see [Commodities Observatory](#).

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