

Global Weekly Flash

Madrid, 11 January 2013
Economic Analysis

Financial Scenarios

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Global growth prospect lift investors' confidence

Equity indexes continued to outperform on the back of positive Chinese trade figures, which spurred investor confidence about global growth prospect. Meanwhile, the ECB unanimously decided to keep its interest rate unchanged, emphasizing the stabilization of several conjunctural indicators, significantly improved financial market confidence and reduced fragmentation. Finally, today the Japanese government has unveiled a new stimulus package (\$117bn) to boost growth, which also may contribute to boost risky assets. Yet, market risk-on mood might fade ahead of US banking sector 4Q12 earning result coming next week. Furthermore, although the US fiscal cliff was averted, uncertainties lingers as the US Congress still needs to agree on the debt ceiling, the continuing resolution, and a way to avoid sequestration cuts.

- Positive trade figures in China helped reduce global risk premium and boosted risky asset this week. Equity and commodity indexes rose, while equity implied volatility indexes decreased. At the same time, safe-haven assets registered outflows. This week, the 10Y US Treasury yield were flat, after an increase of 20 bps in a month, while the 10 German Bund yields increased by 4bps in the week and by 24bps in a month. Regarding peripherals spreads narrowed across the board. Particularly, Spanish government bonds advanced, pushing borrowing costs below 5% level, to 4.9%. The Euro appreciated against its major currency peers after the unanimity of the ECB's decision to hold its interest rates. Shares of European banks rose after some Basel rules were eased regarding liquidity requirements. Particularly, the Liquidity Coverage Ratio (LCR) will be introduced as planned on 1 January 2015, but the minimum requirement will begin at only 60%, rising in equal annual steps of 10 percentage points to reach 100% on 1 January 2019.

- **Chinese growth figures spurred global growth. Europe showed further signs of stabilization while Latam growth remained supportive. In the US, investors' attention turned to 4Q12 earning results**

- Chinese economic figures contributed to improve markets sentiment. Chinese December exports surprised to the upside, jumping by 14.1% y/y in December (consensus: 5.0%) from 2.9% y/y in November, adding to evidence of an economic rebound in Q4. Exports to ASEAN remained robust (30.0% y/y), and exports to the US also picked up, while demand from both Europe remained weak. Meanwhile, imports accelerated to 6.0% y/y (consensus: 3.5%) from 0.0% in November. As a result, the trade surplus widened to USD 31.6bn for the month. Separately, new RMB bank loans slowed to a disappointing RMB 454bn in December (consensus: RMB 550 bn) from 523bn in November; however, a broader measure of credit, "total social financing" surged to 1.63trn RMB from 1.14trn, as China's corporate sector and local governments turn to nonbank sources of funding. However, not only China released an improving in the economic conditions this week. Taiwan and Malaysia published better-than-expected export figures.

- The economic confidence in the euro area increased more than expected in December. Business and consumer sentiment indexes increased for the second month in a row to 87 from 85.7 in November (consensus 86.3). Economic sentiment in the euro area improved among consumers and across all sectors, except retail trade. By country, the economic sentiment improved significantly in Portugal (+4.6), Italy (+2.0), Germany (+1.0), and to a lesser extent in France (+0.4) and Spain (+0.3). The improvement showed by this index in November and December suggests that the worst of the recession may have been left behind and the European economy should stabilize in the first month of the current year. However, real economic data remained weak in the 4Q12, suggesting that the eurozone would contract by 0.2-0.3% qoq in the last quarter of 2012, after decreasing by 0.1% qoq in 3Q12. In this regard, the eurozone retail sales climbed 0.1% in November (m/m), which was worse than expected (+0.3%), while the jobless rate rose to a new high of 11.8% in November from 11.7% in October. Finally, in Germany, exports declined in November, as the largest economy in Europe remained vulnerable to economic weaknesses across the euro area. The country's exports dropped 3.4% in November (sa) from the previous month. The monthly decline was worse than expected (-0.5%). Meanwhile, monthly imports decline 3.7% (m/m) (Consensus: 0.5% m/m).
- In the US this week, investors have turned their eyes to the US 4Q12 earning result season, which kicked off with Alcoa result that met analysts' expectations. Earnings across the 500 companies listed on the Standard & Poor's Index are expected to grow by a paltry 2.4%, down from 9% estimated at the start of the fourth quarter.
- In Latin America, November's industrial production contracted in Brazil, revealing that the manufacturing sector remains weak and downplaying the chance of more robust GDP growth in 4Q12. Elsewhere in Latin-America, economic growth remained supportive. In Mexico, both consumer and producer confidence reached strong levels in December, reinforcing positive growth perspectives for the end of 2012. Meanwhile inflation ended 2012 at 3.57% YoY, within Banxico's official range.

- **Central banks hold monetary policy**

- The ECB left interest rates unchanged at 0.75%, as widely expected. The decision was unanimous and, unlike December's ECB meeting, a rate cut was not discussed. After last month's dovish tone (linked to the significant downward revision of its economic forecasts), this time Mario Draghi emphasized the stabilization of several conjunctural indicators, the significant improvement of financial market confidence and a reduced fragmentation. However, he added that the baseline scenario of economic projections was not change and that the real economy is responding in accordance to ECB projections released in December. Regarding the exit strategy, Mr. Draghi emphasized that the ECB will not undertake any exit strategy as long as they see signs of significant fragmentation, clarifying that before the bank draws up an exit strategy for its emergency measures they have to see some signs of recovery. In our view, the probability of additional rate cuts has decreased and we stand by our forecast of steady rates. Furthermore, it seems that a rate cut would require a very significant worsening of the outlook. In the coming weeks, the focus will be on the early repayment of LTRO's from the European banks, as the ECB mentioned, the estimated range of repayment is very wide. The Bank of England also decided to leave its interest rate at 0.5 percent, and held its program of economic stimulus at £375 billion, or \$600 billion.
- In Asia, Bank Indonesia and Bank of Thailand left their benchmark interest rates unchanged at 5.75% and 2.75% respectively.

- **Issuers took advantage of the improving market confidence, both private and sovereign issuers were very active at the start of the year**
 - Sovereigns issued bonds and Treasury bills this week amounting to EUR 49bn in the eurozone and USD 191bn in the US. The Spanish Treasury also benefited from improved market confidence. Spain's Treasury sold EUR 5.814bn in a new 2Y bond, 5Y bond and an off-the-run bond (5.9% Jul 2026), topping the initial issuance target (EUR 4-5bn). Average yields were below those in the secondary market yields before the auctions and lower than in previous auctions. Average yields were 2.476% in the 2Y, 3.99% in the 5Y bond and 5.55% in the 15Ybond. There was no price effect related to the introduction of CAC's in the new 2Y bond. Regarding private investors, the better tone across financial markets has helped issuance pick up since 2013 started with especially good performance of Spanish institutions this week. However, it is only a partial reopening of debt markets. Funding conditions, mainly for banks and companies in peripheral countries, are still not normalized.

Next week: week investors will focus on the Chinese 4Q12 GDP figures, the US 4Q12 earning season. In Europe the industrial production for November and the inflation in December will be released.

Calendar: Indicators

Eurozone: Industrial production (November, January 14th)

Forecast: 0.0% m/m	Consensus: 0.2% m/m	Previous: -1.4% m/m
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We expect industrial output to have been stable in November after the significant fall observed in previous months, although national data from Germany and especially France suggest that a slight output improvement could not be ruled out. This forecast implies that industrial output in the eurozone up to November could have contracted by around -2.5% over Q3, showing further evidence that economic downturn could deepened at the end 2012 (around -0.3% t/t after -0.1% t/t in Q3). Looking forward, the recent improvement in the EC confidence data both in November and December points to a slight better outlook for this sector in coming months, though the industrial PMI suggests a somewhat less optimistic outlook. It all depends on the strength of foreign demand. Summing up, all these figures are in line with our view that the economic trough could have been behind us, with a smooth and very gradual recovery in 2013.

Eurozone: HICP inflation (December, January 16th)

Forecast: 2.2% y/y	Consensus: 2.2% y/y	Previous: 2.2% y/y
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Headline inflation is expected to be confirmed at 2.2% y/y in December. Although energy inflation should have moderated slightly again, this could be offset by higher prices in food, due to seasonal effects, while inflation in both services and non-energy industrial goods is likely to have remained unchanged. As a result, core inflation might have remained stable at 1.6% y/y. Overall, headline inflation will average 2.5% and core inflation 1.8% in 2012. Looking forward, inflation is likely to slow more rapidly at the beginning of 2013 as a result of a significant base effect in energy prices, suggesting that HICP inflation could fall below the ECB's target earlier than previously expected.

US: Retail Sales, Ex Auto (December, January 15th)

Forecast: 0.1% m/m, 0.2% m/m	Consensus: 0.2% m/m, 0.3% m/m	Previous: 0.3% m/m, 0.0% m/m
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Retail sales for December are expected to be weaker in comparison to last year's holiday season as indicators show less than enticing sales growth. The ICSC Goldman figures show a modest 0.6% rise for the week ending on the 29th and most large retailers reported similarly disappointing estimates: sales were slow at the beginning of the month but then rose as the month came to a close. Gasoline prices will have done little to boost the headline figure with WTI and crude prices remaining relatively stable throughout the month. Total vehicle sales were down slightly from the month prior but were still strong compared to the 12 months prior. The ex-auto figure could struggle to show pronounced growth as retail sales seem to be relatively dim throughout the holiday season even as early shoppers tried to snag the bargains in November, raising retail sales by 0.3%. Despite the dismal estimates we still expect, knowing its holiday season, that retail sales, although weak, should increase despite falling energy prices and a slow start to the shopping season in December.

US: Consumer Price Index, Core (December, January 16th)

Forecast: 0.0% m/m, 0.1% m/m	Consensus: 0.0% m/m, 0.2% m/m	Previous: -0.3% m/m, 0.1% m/m
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The headline figure for CPI in December is expected to be relatively unchanged after a -0.3% fall in November. Energy price pressures are mostly subdued, with natural gas costs falling nearly 6.0% for the month and crude oil prices increasing only slightly. Food inflation continues to rise, in part due to the recent drought in the U.S., but at a slower pace than previously expected. In regards to core CPI, shelter prices will continue to be one of the sole upward pressures due to the growing multifamily housing market and the demand for rental properties. In addition, the price of medical services should continue to rise, although most likely continuing its volatile trend. Vehicle prices will also do very little to affect CPI core figures along with little pressure from transportation services. Therefore, we expect a soft headline CPI reading for December and a slight uptick at the core level.

China's Q4 GDP growth (January 18th)

Forecast: 7.8% y/y	Consensus: 7.8 y/y	Previous: 7.4% y/y
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Activity indicators since September have been trending up, confirming an economic rebound. As such we believe the economy bottomed out in Q3, and that Q4 should register an upturn. The rebound is due to stronger domestic demand, facilitated by monetary and fiscal easing measures over the past year, with more recent support from firming exports. The anticipated Q4 outturn would bring full-year GDP growth to 7.7% for 2012 from 9.3% in 2011. Looking ahead, we expect growth in 2013 to increase marginally on continued momentum in domestic demand. We will also be monitoring a set of activity indicators for December to be released along with the Q4 growth outturn, including industrial production, investment, and retail sales.

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.30	0	-1	-26
		2-yr yield	0.24	-2	0	2
		10-yr yield	1.89	-1	19	3
	EMU	3-month Euribor rate	0.20	0	1	-104
		2-yr yield	0.11	3	16	-4
		10-yr yield	1.56	3	23	-20
Exchange rates (changes in %)	Europe	Dollar-Euro	1.327	1.6	1.5	4.7
		Pound-Euro	0.82	1.2	1.7	-0.6
		Swiss Franc-Euro	1.22	0.6	0.4	0.7
	America	Argentina (peso-dollar)	4.94	0.3	1.4	14.5
		Brazil (real-dollar)	2.03	0.1	-1.8	13.9
		Colombia (peso-dollar)	1763	-0.5	-1.8	-4.2
		Chile (peso-dollar)	472	-0.4	-0.6	-6.3
		Mexico (peso-dollar)	12.63	-0.9	-0.9	-7.2
		Peru (Nuevo sol-dollar)	2.55	0.2	-0.6	-5.3
	Asia	Japan (Yen-Dollar)	89.00	1.0	6.9	15.6
		Korea (KRW-Dollar)	1054.69	-0.8	-1.9	-8.2
		Australia (AUD-Dollar)	1.057	0.9	0.1	2.4
Comm. (chg %)		Brent oil (\$/b)	110.4	-0.8	0.8	0.0
		Gold (\$/ounce)	1668.0	0.7	-2.6	1.8
		Base metals	532.5	0.4	1.3	1.0
Stock markets (changes in %)	Euro	Ibex 35	8648	2.5	8.3	2.3
		EuroStoxx 50	2714	0.2	3.2	16.1
		USA (S&P 500)	1472	0.4	3.1	14.2
	America	Argentina (Merval)	3114	3.9	19.3	13.1
		Brazil (Bovespa)	61476	-1.7	3.4	3.9
		Colombia (IGBC)	14740	-0.7	0.8	12.3
		Chile (IGPA)	21760	1.4	5.0	7.3
		Mexico (CPI)	44860	0.7	3.9	22.7
		Peru (General Lima)	21902	3.2	8.0	7.0
		Venezuela (IBC)	474003	0.5	1.6	302.7
	Asia	Nikkei225	10802	1.1	12.7	27.1
		HSI	23264	-0.3	3.4	21.1
Credit (changes in bps)	Ind.	Itraxx Main	103	-1	-11	-69
		Itraxx Xover	424	-5	-39	-303
	Sovereign risk	CDS Germany	42	2	8	-62
		CDS Portugal	386	6	-76	-703
		CDS Spain	247	-22	-46	-161
		CDS USA	41	2	3	---
		CDS Emerging	214	20	3	-98
		CDS Argentina	1705	300	193	817
		CDS Brazil	110	8	2	-51
		CDS Colombia	96	5	1	-59
		CDS Chile	68	1	-5	-61
		CDS Mexico	96	5	2	-57
		CDS Peru	93	3	-1	-90

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
Global	01/08/2013	➤ A mixed splicing procedure for economic time series This note develops a flexible methodology for splicing economic time series that avoids the extreme assumptions implicit in the procedures most commonly used in the literature.
	01/10/2013	➤ ECB Watch: "ECB on a wait-and-see stance" Rates unchanged. The decision was unanimous. Mr. Draghi emphasized the stabilization of several conjunctural indicators and the significant improvement of financial market confidence.
Spain	01/11/2013	➤ Flash España: "Producción industrial en noviembre" La evolución al alza de los indicadores cualitativos en diciembre permite albergar cierto optimismo respecto a la actividad en los próximos meses.
	01/09/2013	➤ El sistema de financiación regional: la liquidación de 2010 y algunas reflexiones sobre la reciente reforma La liquidación del sistema de financiación de las comunidades autónomas de régimen común correspondiente a 2010 marca la madurez del nuevo modelo acordado en 2009
	01/09/2013	➤ Flash España: "Cuentas no financieras trimestrales de los sectores institucionales. 3T2012" La necesidad de financiación de la economía española se situó en el tercer trimestre de 2012, en acumulado anual, en el 1,8% del PIB, ligeramente por encima de lo previsto (-1,3%)
	01/08/2013	➤ Flash España: "Confianza industrial y del consumidor en diciembre" En línea con lo observado en los últimos meses, los datos cualitativos observados en diciembre revelan movimientos opuestos en la confianza de los agentes económicos
US	01/10/2013	➤ U.S. Economic Watch. Job Openings and Labor Turnover Labor Market Inert as Fiscal Cliff Affects Employment
	01/08/2013	➤ U.S. Banking Watch. Consumer Credit: Monthly Situation Report November's seasonally-adjusted consumer credit gain of \$16.0B, far above economists' estimates, reflects another significant increase in nonrevolving credit as student loans remain the driving factor
	01/08/2013	➤ U.S. Monthly Outlook Slides Jan13
	01/07/2013	➤ U.S. Weekly Flash. Unemployment remains at 7.8% while nonfarm payrolls climb 155K in December December's figures show a slight rise to 7.8% following an accumulated 0.4% drop throughout the past six months (Spanish version)
Latam	01/11/2013	➤ Latam Daily Flash: 2012 Inflation well above target in Brazil; No surprises in the monetary policy meeting in Peru
	01/10/2013	➤ Latam Daily Flash Mexico: inflation within range and reform agenda for 2013; Consumer confidence increases in Chile In Mexico: inflation within range and reform agenda for 2013; Consumer confidence increases in Chile
Brasil	01/10/2013	➤ Flash: Inflation closes 2012 at 5.8%, well above target Inflation reached 5.8% YoY in December, closing another year ¿ the third in a row- above the 4.5% target, although within the 2.5%-6.5% official range. (Spanish version)
Chile	01/10/2013	➤ Situación Automotriz Chile 2012 Ventas de vehículos nuevos aumentó 1,4% en 2012, a pesar de negativos pronósticos. Para 2013, producto de la favorable evolución de los determinantes de ventas se proyecta que estas lleguen a 357 mil.
	01/08/2013	➤ IIPC anota variación nula en diciembre, con incremento de 1,5% a/a en 2012 La inflación mensual alcanzó a 0% en diciembre, levemente por debajo de nuestra expectativa de 0,1%.
	01/07/2013	➤ Actividad económica se mantiene dinámica en noviembre El Imacec aumentó 5,5% a/a en noviembre. La cifra se situó algo por arriba de lo esperado por el mercado. Los sectores que lideraron este incremento fueron comercio, minería y servicios.

Colombia	01/10/2013	Situación Automotriz Colombia 2012 En 2013 y 2014 se venderán 315 mil y 325 mil vehículos. Esperamos una recuperación de las transacciones de autos particulares, al tiempo que se de una ligera reducción de ventas de vehículos de carga.
	01/08/2013	Flash Colombia. Inflación en diciembre se ubicó en 2,44% tras menor presión de regulados, alimentos y parcialmente efectos de demanda La inflación al consumidor se redujo a 2,44% interanual en diciembre (2,77% en noviembre).
Peru	01/10/2013	Reunión de política monetaria en enero: sin novedades El Banco Central mantuvo en enero la tasa de referencia en 4,25%, en línea con lo esperado.
	01/08/2013	Lineamientos para impulsar el Crédito y el Ahorro en el Perú Este estudio identifica un conjunto de elementos que condicionan el desarrollo de la bancarización, enfatizando en los factores de carácter macroeconómico, estructural e institucional.
	01/07/2013	Situación Inmobiliaria Perú 2012 Se espera una moderación en el ritmo de aumento de los precios de vivienda, en línea con la mayor holgura del mercado y la menor rentabilidad por alquiler.
Mexico	01/10/2013	Flash Bancario México. Crédito al sector privado: sigue creciendo a tasa de dos dígitos En noviembre de 2012 la tasa de crecimiento nominal anual del crédito total que la banca comercial le concedió al sector privado fue de 13.1%
	01/09/2013	Mexico Inflation Flash. December's Inflation: Inflation Reaches 3.6% and Ends 2012 In Line with Banxico's Expectation General: Actual: 0.23% m/m vs. BBVA: 0.20% m/m Consensus: 0.34% m/m. Core: Actual: 0.12% m/m, vs. BBVA:0.11% m/m, Consensus:0.22% m/m (Spanish version)
EAGLEs	01/07/2013	EAGLEs Economic Watch. Inclusive growth in emerging markets? Rapid poverty reduction but increasing inequality Sustained high growth is taking a large share of population out of very low income levels.
Asia	01/11/2013	Asia Daily Flash 10 January 2013: Upbeat trade and credit data in China; Indonesia holds rates Strong December export data from China boosted regional sentiment, and sent Asian shares higher, led by Taiwan and Korea.
	01/09/2013	Asia Daily Flash 9 January 2013: Australia's retail sales fall; Fitch maintains negative outlook on India; Thailand holds rates Markets were generally up today (Nikkei: +0.7%, Kospi: +0.5%) before two more regional monetary policy meetings are held this week: Indonesia's (tomorrow) and Korea's (Friday).
	01/08/2013	Asia Daily Flash 8 January 2013: Shanghai stock exchange seeks to boost dividend payouts Asian equity markets continued to trend lower for a second straight day throughout Asia following their sharp rise at the start of 2013
	01/07/2013	Asia Daily Flash 7 January 2013: Taiwan's exports rise, inflation remains steady Asian stock markets were lower today, most notably Japan's Nikkei (-0.8%) following its recent, sharp rising trend since mid-November.

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