

Global Weekly Flash

Pressure on EU leaders

The IMF has continued pointing to the eurozone crisis as the main threat to the macroeconomic scenario, while in Europe, the Eurogroup meeting delivered few developments

- Last week's Eurogroup meeting delivered few developments to ease the peripheral sovereign crisis, affirming a low-motion eurozone. The finance ministries granted Portugal an additional year, until 2014, to correct its excessive deficit, and they approved the disbursement of the loan tranche to it. Regarding Spain, the Eurogroup also welcomed the announcement of recent measures and reforms, which may indicate no additional conditionality for Spain in case it asks for financial assistance. They raised hopes of getting the first disbursement of financial assistance to Spanish banks by November. However, there was still a lack of clarification on whether the ESM can take direct responsibility on legacy assets and on any progress on Single Supervision. Both issues are important in breaking the pernicious circle between banks and sovereign bonds. Additionally, there was no decision on an extended aid package for Greece.
- Although Eurogroup agreements were somewhat uneventful, financial market reaction was initially quite mute. Even after the decision of S&P on Spain lowering its long-term sovereign credit rating on Spain to 'BBB-' from 'BBB+' had a moderated impact on debt markets. The rating agency also qualified the outlook on the long-term rating as negative. Among the arguments for such action they cited: "the deepening recession is limiting the Spanish government's policy actions" and "the doubts over some eurozone governments' commitment to mutualizing the costs of Spain's bank recapitalization". These reasons may serve as a warning to the Eurozone authorities ahead of the next week's EU Council meeting.

● **Regarding global economic growth, the IMF downgraded its outlook for the global economy in 2012 and especially in 2013**

- IMF world GDP projections were cut by 0.2 pp (to 3.3 percent) in 2012 and by 0.3 pp (to 3.6 percent) in 2013. Growth risk remains tilted to the downside as the IMF's projection turns on two assumptions: authorities in the US manage to avoid "the drastic automatic tax increases and spending cutbacks" (the fiscal cliff), and European leaders manage to implement decisive policies that ease financial tensions. The IMF points out that the eurozone crisis continues being the main threat to the baseline scenario. At the same time, it reckons that the ECB "has recently done its part" and that it is now up to governments to meet their commitments to activate the mechanisms. Nonetheless the institution also emphasized that the slowing economic growth makes more gradual fiscal consolidation appropriate, but countries must deliver signs of steady progress over the medium term. According to the World Economic Outlook report, the demand in advanced economies is being dragged down by fiscal consolidation programs and weak financial systems. They are now forecast to grow by just 1.5% in 2013 (down from 2% forecast in April). Meanwhile, emerging economies have been severely hit by headwinds through trade and financial channels. They are forecast to grow by 5.6% in 2013 (down from the April forecast of 6%).

● **Economic data released along this week suggested some stabilization**

- The Federal Reserve Beige Book revealed that the U.S. economy "expanded modestly" across all twelve Fed districts since the last report in August. Some improvements were seen in the manufacturing sector and housing market.
- In the Eurozone industrial production in August were better-than-expected in Germany, France and Italy. Yet lingering eurozone fears weigh on European growth expectation.
- The PBoC injected Rmb265bn into China's money markets as it has done over recent weeks to bring down lending rates in order to support growth as recent indicators show signs of stabilization but continue to come on the weak side. Additionally in Asia, the Bank of Korea cut its benchmark interest rate by 25bp to 2.75%.

Next week: investors will keep their eyes on the EU Council meeting on 18-19th. In Spain the Treasury will sell bills and bonds, and markets will keep watching if good demand at Spanish auctions remains. In China the Q3 GDP growth will be published, while In the US housing data and retail sales will be released.

Calendar: Indicators

Eurozone: HICP inflation (September, October 16th)

Forecast: 2.7% y/y	Consensus: n.a.	Previous: 2.6% y/y
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We expect headline inflation to be confirmed at 2.7% y/y in September, rising from 2.6% y/y in August. Underlying this increase should be higher inflation in both energy and service components, while inflation in both non-energy industrial goods and food could have slowed slightly. As a result, we think that core inflation is likely to have remained broadly stable at 1.7% y/y. Looking forward, higher prices of oil Brent combined with inflationary pressures stemming from higher indirect taxes in the periphery are the main driver of HICP inflation rates, which will be above the ECB's target in the remainder of the year, hovering around 2.5% y/y. Given the gloomy economic outlook for H212 together with the continuing deterioration of the labour market, we think that inflation pressures will remain subdued.

Eurozone: Trade balance, s.a. (August, October 16th)

Forecast: €8.1bn	Consensus: n.a.	Previous: €7.9bn
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We expect the trade balance to have widened in August, as exports are projected to have increased more than imports. In particular, exports are set to have rebounded in August, offsetting the significant fall observed in July and thus, increasing by around 0.6% in July-August over Q2 (+0.6% q/q). The expected increase in imports does not fully offset the significant fall observed in July, and thus imports could have fallen slightly by around -0.3% over Q2 (-1.5% q/q). Overall, these figures suggest that net exports contribution could have waned in Q3. Nonetheless, we expect net exports to remain as the main driver of the economy in coming quarters, not only because of the relative strength of exports, which could be adversely affected by the global slowdown, but also due to the weakness in imports.

US: Retail Sales (September, October 15th)

Forecast: 0.5%, 0.4%	Consensus: 0.8%, 0.6%	Previous: 0.9%, 0.8%
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Retail sales are expected to climb for the third straight month due to the seasonal retail push, though at a slower pace compared to August. September should prove to be a relatively positive month as fears from abroad lessen and consumers begin their holiday shopping agenda. The weekly surveys are not encouraging either way and lack any strong movement in positive or negative territory, but the trending holiday movement from retailers themselves should entice shoppers. Unit auto sales increased in September for the second consecutive month and could translate into a gain for nominal vehicle sales, but the two indicators do not always move hand in hand. Energy and food prices will not pose much of a catalyst as oil prices have stayed roughly the same since August and food prices are mostly consistent with the previous month.

US: Consumer Price Index (September, October 16th)

Forecast: 0.4%, 0.2% m/m	Consensus: 0.5%, 0.2% m/m	Previous: 0.6%, 0.2% m/m
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Headline inflation is expected to increase in September but at a slightly slower pace than in the previous month. Rising oil prices drove the energy component in August but likely had less of an impact in September given that Brent crude prices declined and WTI increased only slightly. Natural gas and commodity prices also increased for the month but at a relatively modest pace. Other upward pressures include food inflation, which we expect to continue at a steady pace throughout the coming months until the effects of the Midwest drought subside. Pass-through to core has been limited thus far and pressures from shelter and medical care services have not increased significantly.

China: China GDP (Q3, October 18th)

Forecast: 7.4% yoy	Consensus: 7.4% yoy	Previous: 7.6% yoy
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Growth momentum has continued to slow, as seen in recent monthly activity indicators including industrial production and PMI. As a result, expectations of Q3 GDP growth have weakened, and we expect a further moderation from Q2, driven by weak external demand and softening domestic consumption. While the authorities have stepped up policy support through increased spending on infrastructure and social housing, the scale so far has been less than expected, possibly due to caution ahead of the forthcoming leadership transition scheduled in November. We expect policies to turn even more growth supportive in the months ahead — including further cuts in the RRR and interest rates — which should lead to a pickup in growth in Q4 and 2013. In addition to GDP, a number of important monthly indicators will also be released next week, including industrial production, investment, retail sales, and credit aggregates. We expect these indicators to remain broadly stable from the August levels.

Markets Data

			Close	Weekly change	Monthly change	Annual change	
Interest rates (changes in bps)	US	3-month Libor rate	0.34	-1	-6	-6	
		2-yr yield	0.27	1	2	-1	
		10-yr yield	1.71	-3	1	-47	
	EMU	3-month Euribor rate	0.21	-1	-5	-136	
		2-yr yield	0.05	-1	0	-58	
		10-yr yield	1.51	-1	-3	-60	
	Exchange rates (changes in %)	Europe	Dollar-Euro	1.294	-0.8	0.7	-6.1
			Pound-Euro	0.81	-0.1	0.9	-7.7
			Swiss Franc-Euro	1.21	-0.1	0.2	-2.2
America		Argentina (peso-dollar)	4.71	0.1	1.1	11.8	
		Brazil (real-dollar)	2.04	0.3	1.0	16.3	
		Colombia (peso-dollar)	1797	0.1	0.0	-5.5	
		Chile (peso-dollar)	473	-0.2	-0.4	-6.4	
		Mexico (peso-dollar)	12.87	0.6	-0.9	-4.2	
		Peru (Nuevo sol-dollar)	2.59	-0.2	-0.8	-5.1	
Asia		Japan (Yen-Dollar)	78.52	-0.2	1.0	2.1	
		Korea (KRW-Dollar)	1114.35	0.3	-1.2	-3.6	
		Australia (AUD-Dollar)	1.028	0.9	-1.5	0.9	
Comm. (chg %)		Brent oil (\$/b)	116.0	3.5	0.5	4.4	
		Gold (\$/ounce)	1772.7	-0.4	2.3	6.3	
		Base metals	519.2	-1.6	-0.5	-3.7	
Stock markets (changes in %)	Euro	Ibex 35	7741	-2.7	-2.4	-13.4	
		EuroStoxx 50	2491	-1.6	-2.6	6.8	
	America	USA (S&P 500)	1441	-1.3	0.5	19.8	
		Argentina (Merval)	2411	-3.0	0.2	-7.1	
		Brazil (Bovespa)	59288	1.2	-0.2	8.6	
		Colombia (IGBC)	14265	-0.6	0.6	7.2	
		Chile (IGPA)	20814	-0.3	2.2	8.1	
		Mexico (CPI)	41649	-0.7	4.1	20.4	
		Peru (General Lima)	21433	-1.5	3.5	15.1	
	Asia	Venezuela (IBC)	351001	-13.0	18.0	251.0	
		Nikkei225	8547	-3.6	-3.0	-3.1	
		HSI	20999	-0.1	5.7	11.9	
	Credit (changes in bps)	Ind.	Itraxx Main	133	7	6	-45
Itraxx Xover			556	25	52	-209	
CDS Germany			51	1	-2	-43	
CDS Portugal			477	22	-49	-658	
Sovereign risk		CDS Spain	360	9	-20	-14	
		CDS USA	41	-1	5	---	
		CDS Emerging	228	13	16	-82	
		CDS Argentina	1010	96	-28	53	
		CDS Brazil	115	3	-2	-42	
		CDS Colombia	106	4	5	-50	
		CDS Chile	84	1	2	-45	
		CDS Mexico	105	5	8	-49	
		CDS Peru	110	4	1	-50	

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
UEM	10/07/2012	▶ Agenda europea en otoño La mejor noticia del verano fue el anuncio del BCE de su disponibilidad para intervenir en los mercados de deuda soberana, lo que supone un cambio radical en la gestión de la crisis de deuda
Spain	10/10/2012	▶ Una mejor fiscalidad para más y mejor ahorro Las sociedades occidentales envejecen y España no es ajena al proceso
	10/10/2012	▶ 25 años de crecimiento. ¿Toca ahora austeridad? El crecimiento en España se explica por una acumulación de factores de producción, cuyas principales características difícilmente se repetirán
	10/09/2012	▶ Flash España: "Compraventa de viviendas en agosto de 2012" En agosto las compraventas de viviendas ascendieron a 27.708 operaciones, un 3,5% más que en el mes anterior tras corregir la serie de variaciones estacionales y efectos de calendario
	10/09/2012	▶ Observatorio Económico España: "3T12: Caída similar a las observadas en 1S12 en un entorno de intensificación del ajuste fiscal" La información conocida del tercer trimestre de 2012 apunta a una nueva contracción de la actividad económica
	10/10/2012	▶ Una mejor fiscalidad para más y mejor ahorro Las sociedades occidentales envejecen y España no es ajena al proceso
US	10/11/2012	▶ U.S. Monthly Outlook Slides October 2012
	10/10/2012	▶ U.S. Economic Watch. Job Openings and Labor Turnover A rise in separations upsets an otherwise quiet August
	10/08/2012	▶ U.S. Weekly Flash. Unemployment rate falls to 7.8% aided by payroll revisions Employment figures released for September show surprisingly positive movements from the economy in both the private and public sector (Spanish version)
Latam		
Brazil	10/11/2012	▶ Brazil Flash: "After a last adjustment, the monetary easing cycle is now over" In line with our call, but surprising many analysts, the Central Bank of Brazil decided to cut the SELIC rate by 25 bpsto 7.25% (Spanish version)
Chile	10/10/2012	▶ Sin evidencia de burbujas en el sector inmobiliario Existen fundamentos de oferta y demanda que validan el aumento de los precios del sector inmobiliario en el último tiempo.
	10/08/2012	▶ Actividad Económica anota fuerte crecimiento en agosto El Índice Mensual de Actividad Económica (IMACEC) creció 6,2% a/a en agosto. Este aumento se explica principalmente por el crecimiento de las actividades del comercio la minería y los servicios.
	10/08/2012	▶ Inflación de septiembre supera las expectativas y llega a 0,8% La variación superó nuestras expectativas y las del mercado, y se explica en gran medida por un mayor incremento en las divisiones Transporte y Alimentos.
	10/08/2012	▶ Volver a los diecisiete Entre 2006 y 2007, el gasto del Gobierno alcanzaba el 17% del PIB y la cuenta corriente tuvo un superávit promedio de más de 5% del producto. Cinco años después, este gasto representó el 22%
Mexico	10/09/2012	▶ Mexico Inflation Flash. Septembers Inflation: Reaching its Annual Peak due to Non Core Shocks General: Actual: 0.44% m/m vs. BBVA: 0.45% m/m Consensus: 0.45% m/m. Core: Actual: 0.18% m/m, vs. BBVA:0.19% m/m, Consensus:0.19% m/m (Spanish version)
EAGLEs	10/10/2012	▶ Economic Watch: Emerging markets key for the automobile sector A BBVA Research model for long-term automobile projections

Asia

- 10/11/2012 ➤ **Asia Daily Flash | 11 October 2012: Korea cuts rates as expected; Indonesia leaves rates unchanged; Healthy job creation in Australia**
Asian equities continued to trend downward today on concerns about the global growth outlook, the diplomatic dispute between China and Japan, and spillovers from Spain's downgrade.
- 10/10/2012 ➤ **Asia Daily Flash | 10 October 2012: S&P: India faces potential downgrade; Korea's unemployment rate holds steady; BoK rate cut expected tomorrow**
Japan's Nikkei index led declines in the region today (-2.0%), followed by the Kospi (-1.6%), on weak auto sales in China, as worries continue over the China-Japan diplomatic spat and slow growth
- 10/09/2012 ➤ **Asia Daily Flash | 9 October 2012: Singapore grants first two licenses to Chinese banks; ASEAN Finance Ministers gather at Hong Kong**
Asian equities finished mixed today, with Shanghai at one extreme (+2.0%) and the Nikkei at the other (-1.1%).
- 10/08/2012 ➤ **Asia Daily Flash | 8 October 2012: World Bank: Asia to rebound in 2013; India announces measures benefiting the bond market; Taiwan's exports surprise to the upside**
Chinese stock markets fell today after re-opening from a week-long holiday. The Shanghai Composite edged down 0.6%, in line with the trends observed elsewhere in region today

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