

Global Weekly Flash

2012: focus on European funding

- **2012 brings some improvement in economic data. The Federal Open Market Committee (FOMC) agreed to release the future path of the Federal Funds Target Rate aiming to reduce uncertainty**
 - Better than expected December manufacturing data was released this week on both sides of the Atlantic, giving a relief in economic sentiment. In Europe, the final manufacturing PMI was revised upwards to 46.9 from 46.4, improving economic sentiment in Europe. Additionally, the eurozone composite index improved significantly, reaching 48.3 compared with 47.0 in November. December PMI data, however, still remains below 50, suggesting that the euro area is in a mild recession. In Germany, unemployment data surprised positively as the number of people out of work fell by 22,000 (seasonally adjusted) to reach 2.89 million. The adjusted jobless rate dropped to 6.8%, its lowest level since 1991. As for inflation in the eurozone, it fell from 3% to 2.8% due to base effects, as expected, and should continue falling in coming months. In the US, the ISM factory index rose to 53.9 in December from 52.7 a month earlier, which is the strongest reading in six months. Regarding Asia, in China, PMI data rose in December up to 50.3 from 49 in November. Other Asian countries (Japan, Australia, India and Taiwan) have also experienced increases in their manufacturing PMIs with respect to a month earlier.
 - On Tuesday, the release of the minutes of Federal Open Market Committee's (FOMC) December meeting revealed few changes in terms of the Federal Reserve's economic outlook, but suggested important changes to the Federal Reserve's communication of monetary policy. Many of the persistent drags on the economy highlighted in previous statements and minutes remain in place. While indicators of economic activity over the past two months support moderate GDP growth, the fragility of the recovery remains an issue alongside potential shocks from a worsening European debt crisis. FOMC participants regard inflation as moderating and expect it to eventually converge to a rate at or below the Fed's mandate given persistent excess resource slack. In total, committee members noted that their overall economic assessment had not changed appreciably since the last meeting. The most important development in the minutes relates to monetary policy communication. The FOMC agreed to release the future path of the Federal Funds Target Rate, a long-run level of the rate, and a timing of the first rate increase as part of January's forthcoming Summary of Economic Projections. The decision to include new forecasts represents a costless improvement to monetary policy. The result may or may not be expectations of a later first rate hike, but the purpose of the policy is to provide more transparency to the financial markets of the FOMC's thinking and reduce uncertainty. A side effect of the decision will be to lower interest rate volatility or interest rate option volatility. FOMC participants are still deciding on the best course of action for conveying their long-term monetary policy goals to the public. As such, we expect these to feature as questions to Chairman Bernanke during the press conference and also to feature in the minutes released in February. For further information see [Fed Watch](#).
- **European funding tensions are in the spotlight, as the hoarding by banks continues. In a quarter in which sovereigns face important debt maturities, some European countries performed good results in the first auctions of the year**
 - The ECB liquidity continues under the spotlight. The eurozone banking system starts the new year with record levels of liquidity. Few signs, however, that institutions are prepared to lend to each other. Most of the three-year funds borrowed from the ECB have been placed the ECB's deposit facility, which reached a new record of EUR 453.2bn this week. Additionally, as another sign that European funding tensions are far from easing, the marginal lending facility continued at high levels, around EUR 15 bn during the week, after last Thursday reached to EUR 17 bn. However, levels return to EUR 4.8 bn yesterday, signalling that it was a temporary shortage of liquidity of one institution. Regarding the SMP program, the central bank increased the amount of government bond purchases last week to 462 million euros, compared to a small 19 million euros of purchases announced on Dec. 23.

- The first week of the year was good in terms of sovereign auctions, with maximum targets achieved and costs falling in the most cases. Portugal sold EUR 1 bn of 3-month bills, in line with the maximum target, and its borrowing costs drop from 4.346% to 4.873% at the previous auction on December 7. On Tuesday, Belgium sold almost EUR 2.44 bn of three-month and six-month treasury bills, more than those 2.2 bn euros it had planned to raise, so costs declined strongly to the lowest level in 18 months. On its side, Germany sold 10-year bonds and the country faced better demand levels than in November. Bids were slightly higher than the offered amount however, and were still below last year's average. On the other hand, on Tuesday, France sold EUR 8.7 bn of bills with yields increasing slightly from low levels seen in the latest auctions in late 2011. Today, France sold EUR 7.96 bn of debt and its borrowing costs slightly rose amid threats of a downgrade of its AAA rating.
- Yesterday, the Spanish economy minister said that it was essential that the banks clean up their balance sheets. Particularly he said that banks will need to find an extra EUR 50bn to cover potential losses from property assets.

NEXT WEEK

- Regarding steps to solve the European crisis, French President and German Chancellor will meet in Berlin on January 9th, and two days later Angela Merkel will hold talks with Italian Prime Minister, Mario Monti.
- ECB and BoE meetings will be held.
- After this good week in terms of sovereign auctions, next week will be a busy one as well. On Monday, Germany will sell EUR 4bn in bills while France EUR 7.5bn. On Tuesday, Greece will sell EUR 1.25bn in 6M bills. On Wednesday, Germany will sell EUR 4bn in 5Y bonds. On Thursday, Italy will sell EUR 8.5bn in 12M bills while Spain will sell EUR 3.5bn in 3y bonds. By the end of the week, on Friday, Italy will sell EUR 7.5bn in 3,4 and 15Y bonds. Apart from that, Greece to face maturities for EUR 2bn coming week.

Calendar: Indicators

Eurozone: Industrial production index (November, January 12th)

Forecast: -0.3% m/m

Consensus: n.a.; m/m

Previous: -0.1% m/m

After the moderate decline of the industrial production index in the Eurozone in October, we expect a further decline in November, in line with the deterioration of manufacturing PMIs in October and November. Industrial activity remains hesitant in its recovery, showing divergences across countries, with those in the periphery showing weaknesses and Germany slowing down.

US: Retail Sales, Ex Auto (December, January 12th)

Forecast: 0.1%, 0.2%

Forecast: 0.2%, 0.3%

Forecast: 0.2%, 0.2%

Retail sales were less-than-expected in November, marking a relatively weak start to the holiday shopping season. Various sales reports have noted that the weakness continued throughout December, though last-minute spending likely intensified demand in the latter half of the month. Soft demand for seasonal goods and declining gas prices may have weighed on nominal retail sales. Furthermore, auto sales, which make up close to one-fifth of total sales, were relatively unchanged in December. Thus, we expect only modest retail sales growth for the month.

US: International Trade Balance (November, January 13th)

Forecast: -\$44.0B

Forecast: -\$45.0B

Forecast: -\$43.5B

The international trade balance is expected to widen slightly in November after narrowing in October for the fourth consecutive month. Exports are expected to rebound from a slight decline in October, although continued weakness stemming from Europe will limit significant growth. Imports also dropped in the previous month but are likely to recover at a stronger pace than exports given a surge in auto demand for the month. Continued appreciation of the US dollar may hinder export demand, highlighting a growing impact from the fragile situation in Europe.

China: CPI Inflation for December (January 9-13)

Forecast: 14.1% yoy

Forecast: xx% yoy

Forecast: 4.2% yoy

For much of 2011 inflation was the dominant policy concern in China. Inflation peaked in July at 6.5% y/y, and has been falling ever since due to the central bank's monetary restraint, declining food and commodity prices and, more recently, slowing growth momentum. Together with the uncertain global environment, the latter has given rise to worries of a hard landing, tempered by the authorities' perceived willingness to relax the monetary stance to support growth. We expect inflation to ease further in December, to just above the authorities 4% comfort range, which would help pave the way for further cuts in the required reserve ratio in the current quarter. An expected further decline, to around 3% by mid-year, should provide additional scope for monetary easing in the months ahead. Meanwhile, to gauge the pace of activity, markets will be watching for a batch of other important indicators in the coming two weeks, including GDP, retail sales, industrial output, and investment.

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Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.58	0	4	28
		2-yr yield	0.26	2	0	-41
		10-yr yield	1.96	9	-12	-143
	EMU	3-month Euribor rate	1.30	-5	-17	31
		2-yr yield	0.16	1	-19	-74
		10-yr yield	1.87	4	-32	-104
Exchange rates (changes in %)	Europe	Dollar-Euro	1.285	-0.9	-4.1	-1.4
		Pound-Euro	0.83	-1.0	-3.9	-1.6
		Swiss Franc-Euro	1.22	0.2	-1.9	-3.0
	America	Argentina (peso-dollar)	4.30	-0.1	0.6	8.4
		Brazil (real-dollar)	1.84	-1.5	2.3	8.8
		Colombia (peso-dollar)	1890	-2.5	-2.3	1.3
		Chile (peso-dollar)	513	-1.3	0.1	3.5
		Mexico (peso-dollar)	13.73	-1.4	1.7	12.3
		Peru (Nuevo sol-dollar)	2.70	0.2	-0.1	-3.8
	Asia	Japan (Yen-Dollar)	76.83	-0.2	-1.1	-7.6
		Korea (KRW-Dollar)	1155.48	-0.3	2.3	2.9
		Australia (AUD-Dollar)	1.028	0.2	0.4	3.1
Comm. (chg %)		Brent oil (\$/b)	114.1	6.2	2.9	20.7
		Gold (\$/ounce)	1613.7	3.2	-6.6	17.7
		Base metals	519.5	0.5	-1.5	-10.8
Stock markets (changes in %)	Euro	Ibex 35	8409	-1.8	-3.5	-13.3
		EuroStoxx 50	2323	0.3	-1.4	-18.1
		USA (S&P 500)	1277	1.6	1.5	0.3
	América	Argentina (Merval)	2715	10.3	3.8	-24.6
		Brazil (Bovespa)	59365	4.6	-0.3	-15.9
		Colombia (IGBC)	12935	2.1	2.1	-13.8
		Chile (IGPA)	20213	0.4	2.0	-13.4
		Mexico (CPI)	37388	0.8	0.9	-3.1
		Peru (General Lima)	19940	2.4	-0.7	-14.4
		Venezuela (IBC)	116142	-0.8	1.7	76.5
	Asia	Nikkei225	8489	0.4	-1.0	-19.4
		HSI	18813	2.1	-0.7	-20.9
Credit (changes in bps)	Ind.	Itraxx Main	173	0	0	64
		Itraxx Xover	745	-10	19	315
	Sovereign risk	CDS Germany	104	0	11	48
		CDS Portugal	1092	-1	46	585
		CDS Spain	438	45	79	90
		CDS USA	50	-1	0	---
		CDS Emerging	304	-3	15	103
		CDS Argentina	882	-40	-52	318
		CDS Brazil	158	-3	13	51
		CDS Colombia	150	-6	8	43
		CDS Chile	127	-6	9	46
		CDS Mexico	149	-4	6	39
		CDS Peru	170	-2	20	62

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
Spain	01/04/2012	➤ Observatorio Económico: "2011 se despidió con una caída del PIB en el cuarto trimestre y un crecimiento anual promedio del 0,7%" La información conocida del cuarto trimestre de 2011 anticipa una contracción de la actividad económica.
	01/03/2012	➤ Flash España: " Matriculaciones de turismos de diciembre: estancamiento en línea con lo esperado" Cuando se corrigen los datos brutos de matriculaciones de la estacionalidad propia del mes y del efecto calendario, las estimaciones de BBVA Research indican que el número de turismos matriculados en diciembre creció un 0,5% m/m. En el conjunto del 4T11, la disminución de las matriculaciones se ralentiza.
	01/03/2012	➤ Flash España: "Afiliación a la Seguridad Social y desempleo registrado en diciembre" El mercado laboral continuó destruyendo empleo en diciembre pero a un ritmo inferior al de los dos meses precedentes.
	01/02/2012	➤ Flash España: "España: cuentas no financieras trimestrales de los sectores institucionales. 3T2011" Los datos de las CNFSI correspondientes al tercer trimestre de 2011 indican que las necesidades de financiación con el exterior se situaron en el 3,5% del PIB, un punto porcentual menos que el trimestre anterior.
US	01/03/2012	➤ FED Watch: "FOMC Minutes: December 13" New Developments in Communication.
	01/02/2012	➤ Weekly Flash: "Home prices continue to decline while housing activity gains some ground" Housing activity indicators for 4Q11 continued to be better-than-expected while home prices keep falling.
Latin America		
Peru	01/02/2012	➤ Flash Perú: "Crédito mantiene niveles de deterioro históricamente bajos" En diciembre, la inflación de Lima Metropolitana fue 0,27% (m/m), en línea con lo pronosticado (BBVA: 0,28%; Consenso: 0,30%). Con ello, la inflación interanual de 2011 finaliza en 4,74%.
Mexico	01/02/2012	➤ Flash México: "En los últimos 4 meses, se han observado los mayores incrementos de las remesas en 2011" Today Banco de México reported that Remittance inflows to Mexico were \$1,773.58 millions in November (<i>English version</i>).
Other countries	01/03/2012	➤ Situación Automotriz Panamá 2011: " Sales of vehicles in Panama reach historic levels in 2011" <ul style="list-style-type: none"> • Free Trade Agreement with the United States poised to favor supply of new cars • Low interest rates will increase access to credit over the coming years (<i>English version</i>).

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