Global Weekly Flash

Risk-on market mood but investors are (still?) not selling safe-haven assets

Investors' sentiment has remained some what positive this week but the absence of outflows from safe haven assets highlight that risks continue on the downside. Positive surprises in economic data, solid demand in European bond auctions, heightened expectations of further resources from the IMF to prevent debt crisis contagion have compensated the rating downgrade of nine European countries, including the loss of AAA rating of France and the European Financial Stabilization Fund (EFSF), and the still pending resolution on Greece´s PSI.

- **New mechanisms to deal with the European debt crisis are increasingly expected**
  - The EFSF's downgrade highlights the lack of a real firewall mechanism in the Eurozone to contain sovereign debt contagion. Standard & Poor's downgraded the EFSF's credit rating to AA+ from AAA, expected after France and Austria lost their AAA rating, since the EFSF did not take any measure to increase its credit enhancement in order to retain the maximum rating qualification. The downgrade may not reduce the lending capacity of the EFSF but it could increase the funding cost and might reduce its leverage capacity (firepower). In this context, European authorities need to focus on bringing forward the ESM (the permanent mechanism), which still needs to be ratified and hereafter to be implemented.
  - Nevertheless, recent news suggest that members from Europe, the ECB and the IMF are trying to find new sources to contain crisis contagion, restore liquidity channels and spur growth. In this regard, the IMF has asked its member countries for an extra $500bn to combat sovereign debt crisis. This actions follows the agreement reached by the euro area at the December European Summit to provide €150bn of extra funding to the IMF to support European debt. However, it does not seem easy to achieve an agreement on this issue; both the US and Latin American countries are somewhat reluctant to increase IMF resources, while the UK might face some political pressures and China will ask for something in exchange. On the ECB, the press echoes the debate within the ECB to explore other solutions than buying banks' sovereign debt to restore liquidity channels. However, ECB's president Mr Draghi has thrown cold water into this issue as he said during the week he was unaware of any discussion about a program that would replace the ECB's SMP. Additionally, some (German) voices from the ECB have warned on a weak fiscal compact. Regarding pro-growth measures, top leaders seem to be more proactive than some months ago. Expectations could be overdone.
  - Against this background, the positive tone has continued in European bond markets. European sovereign debt auctions in Spain, Italy and France had a good demand and peripheral spreads have compressed in most countries, with the exception of Portugal after the downgrade of S&P to junk bonds..
  - Finally, on Greece, even considering that a final deal on Greek PSI Greece is expected to be reach, a lot of questions remain open. Among others, are the following: the rate of participation, the decision of ISDA on triggering a credit event, the debate on the retroactively introduction of CAC´s and, most importantly, the second bail-out program. The new program, or at least the IMF participation in it, should rely on an updated debt sustainability analysis, as economic conditions have further deteriorated over the last few months. Greece is once again short on time to deal with a bond maturity of EUR 14.4 bn in March.
- **Positive surprises in economic data unlikely to cause changes in Central bank's wording as uncertainty remains elevated**
  - Economic data in China allays worries of a hard landing in this economy. Chinese 4Q GDP growth of 8.9% y/y (consensus: 8.7%) brought China's full-year growth for 2011 to 9.2% y/y. Growth was underpinned by strong domestic consumption, which offset weakening exports. The release was accompanied by better-than-expected December data on retail sales and industrial production. Although there are downside risks from the uncertain external environment, our growth projection of around 8.5% for 2012 is broadly on track. We continue to expect policy easing in the months ahead.

- In the US, economic data have continued showing that the economy gained momentum in 4Q. Industrial production increased by 0.4% m/m in December after falling 3% in November, led by manufacturing output, and initial claims dropped to 352k last week (from a revised 402k), the lowest level since Apr 2008 and the biggest drop since Sep 2005. Consumer prices were unchanged in December while Core CPI has continued easing due to excess resource slack, in line with our projections and with the Fed´s outlook on the economy.
- In Latam, the Central Bank of Brazil has cut the SELIC rate by 50bps to 10.50%, in line with expectations. By keeping the communiqué unchanged, the COPOM refrained from committing to a shorter cycle (i.e. only one additional 50bps cut in March, which is our current call) and, therefore, the chances of a longer cycle are now higher. The economic activity improved in the last part of 2011 in Brazil and Peru, while the labor market keeps improving in Mexico and Peru.
- No major news on the Eurozone. Inflation slowed in December to 2.7% y/y from 3%y/y, as expected, driven by the moderation in energy inflation. A lower slowdown in oil prices than anticipated combined with the depreciation of the euro and higher taxes an administrative prices suggest that inflation should remain slightly above the ECB target at the end of Q1. In Germany, the ZEW confidence indicator improved more than expected.

NEXT WEEK: the Eurogroup and the ECOFIN meetings will keep investor's interest, ahead of the Extraordinary EU Summit on January 30. An important issue will be any agreement of Greek PSI, whose further details are expected to be delivered on Monday. Additionally, FOMC meeting and the publication of the US 4QGDP11 figures will also catch market attention as well as Eurozone PMI

Next week's two-day FOMC meeting is likely to be very informative in terms of the Fed's new monetary policy communication. We expect that the FOMC will follow through on its commitment 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 the Summary of Economic Projections (SEP). The ranges of the interest rate forecast and the timing of the first rate hike will represent the main focus of market watchers in this meeting. In addition, we expect committee members to continue discussions on the best course of action for conveying long-term monetary goals to the public. However, continued disagreement in the ideology of various FOMC participants could be a challenge to further decisions on communication policy. Given that we have not seen serious changes in economic activity since the last meeting, we do not believe the FOMC members will significantly alter their economic outlook. Furthermore, we do not expect the FOMC to announce QE3 due to continued improvements in economic data. However, the Federal Reserve will remain focused on developments in Europe, which if poorly managed has the ability to trigger a risk scenario.

Calendar: Indicators

Eurozone: Flash PMI composite (January, January 24th)

Forecast: 48.8	Consensus: 48.5	Previous: 48.3

We expect the composite PMI to increase in January for the third month in a row, albeit slightly. This would confirm that the trough might be behind us. Nevertheless, the composite index will remain in contractionary territory and clearly below its long-term average (around 1 standard deviation below). January's PMI figures are especially relevant as they are the first sign for the current quarter, for which we expect another mild fall in activity, although more moderate than the one we expect for Q4. Across components, both manufacturing and services should have also increased slightly, but while the former will remain clearly in recession, the latter should come up the neutral level. However, an additional decline in confidence should not be ruled out as uncertainty remains very high. Across countries, we expect divergence between core and periphery to increase further.

Eurozone: M3 (December, January 27th)

Forecast: 2.1% y/y	Consensus: 2.3% y/y	Previous: 2.0% y/y

Lending data for December are expected to provide further signs of the weakness of credit to the private sector. Nevertheless, uncertainty in forecasting monetary aggregates has increased significantly after the ECB implemented non-standard measures of monetary policy. In particular, M3 annual growth is expected to remain stable, after the strong moderation observed in previous months. Across its counterparts, loans to households are projected to have increased slightly again, although they have contracted in Q4 as a whole after slowing sharply in Q3. These figures are consistent with the expected deterioration of private consumption. Loans to non-financial corporations are also expected to have increased again in December, after falling in November, confirming that credit to firms should have expanded at steady rates in Q4, but far from the pace observed before the crisis. Overall, these data are in line with our outlook of activity contraction in Q4, likely to continue over H1 2012.

US: Durable Goods Orders, Ex Transportation (December, January 26th)

Forecast: 1.5%, 0.5%	Consensus: 2.0%%, 1.0%	Previous: 3.8%, 0.3%

Durable goods orders are expected to increase in December but at a slower pace than in the previous month. November's growth was driven by a large jump in aircraft orders, while growth in most other components remained only moderately positive. Aircraft producers continue to report increasing demand, and outside of aircrafts, December's data point to persistent gains in manufacturing. Despite some weakness in the auto sector, regional Federal Reserve surveys and ISM indices have noted increasing new orders for the month.

US: Gross Domestic Product, advance (4Q11, January 27th)

Forecast: 3.1%	Consensus: 3.0%	Previous: 1.8%

Current macroeconomic indicators in the US continue to indicate stronger growth in 4Q11 compared to 3Q11, and we expect GDP growth near 3.1% annualized for the quarter. Manufacturing has shown significant improvements over the previous quarter, with strength in durable goods and growing inventories pointing to a stronger economy. The housing sector has also been gaining momentum, although construction spending was revised down significantly in October. Personal consumption expenditures grew in October and November, and recent increases in consumer confidence suggest that spending will be similar in December. Although larger-than-expected declines in exports led to a widening of the trade balance in November, we expect that gains in most other components should offset this weakness.

Australia: CPI (Q4, January 25th)

Forecast: 3.4% y/y	Consensus: --% y/y	Previous: 3.5% y/y

We expect Australia inflation to have eased further as global headwinds weigh on growth momentum. While the Q4 inflation outturn at this level would exceed the official target of 2-3%, it is unlikely to have a material effect on preventing the Reserve Bank from cutting interest rates in the coming months. Given weakening external conditons, the RBA has been paying closer intention to the "trimmed-mean" rate of inflation (a measure of underlying or core inflation), which is expected to stay low at around 2.0% in Q4. At a time when the medium-term inflation remains benign while the growth outlook is worsening, the RBA's monetary policy is expected to become more pro-growth. The RBA has already cut interest rates for two consecutive months in November and December, by a total of 50 bps to 4.25%. We expect further rate cuts, including at the next policy meeting on February 7.

Markets Data

				Close	Weekly change	Monthly change	Annual change
Interest rates	(changes in bps)	US	3-month Libor rate	0.56	-1	-1	26
			2-yr yield	0.23	0	-4	-38
			10-yr yield	1.96	10	-1	-144
		EMU	3-month Euribor rate	1.20	-4	-22	17
			2-yr yield	0.20	5	-3	-109
			10-yr yield	1.85	9	-8	-132
Exchange rates	(changes in %)	Europe	Dollar-Euro	1.292	1.9	-1.2	-5.2
			Pound-Euro	0.84	0.9	0.3	-1.9
			Swiss Franc-Euro	1.21	0.0	-1.1	-7.5
		America	Argentina (peso-dollar)	4.32	0.2	0.6	8.5
			Brazil (real-dollar)	1.77	-1.2	-5.1	5.2
			Colombia (peso-dollar)	1826	-0.8	-5.5	-0.9
			Chile (peso-dollar)	491	-2.6	-6.2	-0.5
			Mexico (peso-dollar)	13.27	-2.4	-4.2	10.0
			Peru (Nuevo sol-dollar)	2.69	-0.1	-0.1	-2.9
		Asia	Japan (Yen-Dollar)	77.26	0.4	-0.9	-6.4
			Korea (KRW-Dollar)	1134.21	-1.2	-1.2	0.9
			Australia (AUD-Dollar)	1.039	0.6	3.1	5.0
Comm.	(chg %)		Brent oil ($/b)	111.2	0.7	3.2	13.9
			Gold ($/ounce)	1648.8	0.9	2.2	22.7
			Base metals	532.1	0.9	3.4	-10.8
Stock markets	(changes in %)	Euro	Ibex 35	8597	1.7	2.6	-20.6
			EuroStoxx 50	2432	4.0	8.4	-18.1
		America	USA (S&P 500)	1315	2.0	5.7	2.4
			Argentina (Merval)	2882	4.7	18.1	-21.0
			Brazil (Bovespa)	61927	4.7	9.3	-10.4
			Colombia (IGBC)	13477	2.7	6.2	-9.9
			Chile (IGPA)	20515	1.2	1.8	-11.0
			Mexico (CPI)	37680	3.1	2.9	1.0
			Peru (General Lima)	21007	2.6	8.5	-3.0
			Venezuela (IBC)	120955	2.8	3.1	83.4
		Asia	Nikkei225	8766	3.1	3.6	-14.7
			HSI	20110	4.7	9.2	-15.8
Credit	(changes in bps)	Ind.	Itraxx Main	151	-20	-26	52
			Itraxx Xover	646	-81	-128	235
		Sovereign risk	CDS Germany	95	-9	-10	40
			CDS Portugal	1259	170	166	821
			CDS Spain	383	-25	-15	118
			CDS USA	46	-2	-5	---
			CDS Emerging	287	-24	-27	85
			CDS Argentina	797	-91	-172	253
			CDS Brazil	154	-7	-8	45
			CDS Colombia	147	-8	-8	37
			CDS Chile	124	-5	-8	44
			CDS Mexico	148	-5	-7	35
			CDS Peru	175	-8	3	68

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
Europe	01/17/2012	**Europe Flash:** "Eurozone inflation slowed in December due to the favourable base effect in energy prices, with core inflation remaining stable" Inflation slowed in December, as expected, driven by the moderation in energy inflation. This driver is expected to remain in coming months, but a lower slowdown in oil prices than anticipated combined with the depreciation of the euro suggest that headline inflation should remain slightly above the ECB targ
Spain	01/16/2012	**Spain Flash:** "BBVA-Google Forecasts for Tourism " According to official data available to November and the searches made in Google to December 31, 2011, the real time forecasts based on BBVA-Google indicators visitors entering and staying overnight at hotels in Spain suggest that the winter season will show a slight improvement compared to 2010. *(Spanish version)*
	01/17/2012	**Flash España:** "Precio de la vivienda en el cuarto trimestre de 2011" El año 2011 se despidió con una caída del precio de la vivienda del 6,8% respecto al año anterior, con lo que el precio se situó en 1.701,8€/m2. Respecto a 3T10 la vivienda se abarató un 1,7% cvec, una caída algo más intensa que la de los dos trimestres anteriores.
	01/09/2012	**Spain Events:** "BBVA-Google Economic Indicators" These indicators improve the accuracy and speed at which tourist inflows and overnight stays are forecasted. Searches allow new and extremely useful indicators to be obtained to estimate tourism trends in Spain. *Event: Presentation of BBVA-Google Economic Indicators, on this occasion relating to the Spanish Tourism sector.* *(Spanish version)*
US	01/19/2012	**U.S. Flash:** Declining energy costs ease price pressures in December Despite another gain in food inflation, declines in all energy components led to no change in December's headline inflation. Core inflation increased 0.1% led by gains in shelter and medical care
	01/19/2012	**Economic Analysis:** Crisis Channels: Trade, Financial and Confidence Outlining transmission channels to the US from Europe
	01/19/2012	**Canada Flash:** Monetary Policy Report January 2012 Global economy weighs on committee outlook. Inflation to pick up in 2012 as WTI spot prices increase via geopolitical risk. Growth forecasts remain in line with October 2011 MPR
	01/17/2012	**Canada Flash:** Bank of Canada Weighing Global Risks Overnight rate remains at 1%, although uncertainty of global growth remains high. Slight upward revision to 4Q11 will not offset growing global demand concerns. Robust household spending remains a double-edged sword
	01/16/2012	**Weekly Flash.** Underwhelming retail sales and trade data, consumer credit a big surprise December retail sales came in slightly lower than expectations, increasing only 0.1% for the month due in large part to a 1.5% jump in auto sales *(Chinese version) (Spanish version)*
Latin America		
Brazil	01/19/2012	**Brazil Flash:** "COPOM cuts the SELIC and refrains from signaling a shorter cycle" The monetary authority cut the SELIC rate by 50bps to 10.50%, in line with expectations.
Colombia	01/19/2012	**Colombia Flash:** Indicadores económicos en noviembre se mantuvieron robustos, pero muestran desaceleración En noviembre, la producción industrial creció 6,5% anual y las ventas minoristas 1,3% anual
	01/16/2012	**Colombia Economic Watch:** Public finances on path to orthodoxy Reforms in fiscal policy aim to isolate it from economic cycle *(Spanish version)*

Mexico

01/18/2012 **Mexico Flash:** Banxico, January 20th Monetary Policy decision: No change in fondeo rate
A GDP growth around 4%, along with a December inflation figure above expectations and an exchange rate depreciation during the 4Q11 support a "wait and see" stance *(Spanish version)*

01/16/2012 **Mexico Real Estate Outlook January 2012**
Mortgage credit, opposing forces between supply and demand
- The unaffiliated population broadens the potential of the mortgage market, although the development of appropriate products will be a key factor
- Land banks, a model that should be better taken advantage of

The Infonavit Financial Plan, a strategic agenda with a focus on the rights of its affiliates

01/16/2012 **Situación Inmobiliaria México Enero 2012**
El crédito hipotecario, fuerzas encontradas entre oferta y demanda
- La población no afiliada amplía el potencial del mercado hipotecario, aunque será clave el desarrollo de productos adecuados
- Los bancos de tierra, modelo que debe aprovecharse mejor

Plan Financiero Infonavit, una agenda estratégica con un enfoque hacia el derechohabiente

Peru

01/16/2012 **Flash Peru:** Actividad mantuvo desaceleración en noviembre
En línea con lo esperado (BBVA: 4,8%, Consenso: 4,7%), el PIB siguió desacelerándose en noviembre, al crecer a una tasa de 5,0%.

Asia

China

01/17/2012 **China Flash:** GDP growth defies gravity at 8.9% y/y Q4
While China's GDP growth continues to moderate, the just-released fourth quarter outturn beat expectations at 8.9% y/y (BBVA: 8.2%; consensus: 8.7%), bringing full year growth for 2011 to 9.2% y/y.

India

01/16/2012 **India Flash:** India's inflation declines on base effects and easing food prices
India's headline wholesale price inflation eased in line with expectations for December, to a two year low of 7.5% y/y (consensus: 7.4%) from 9.1% in November.

Publications on January 20, 2012 to 10:00, Madrid time

Sonsoles Castillo
s.castillo@bbva.com
+34 91 374 44 32

Cristina Varela Donoso
cvarela@bbva.com
+34 91 537 7825

Javier Amador Díaz
javier.amadord@bbva.com
+34 91 374 31 61

María Martínez Álvarez
maria.martinez.alvarez@bbva.com
+34 91 537 66 83

Felipe Insunza
felipe.insunza@bbva.com
+34 91 537 76 80

Indicators collaboration

Europe
Agustín García
agustin.garcia@bbva.com
+34 91 3747938

US
Kim Fraser
kim.fraser@bbvacompass.com
+1 713.881.0655

Asia
Fielding Chen
fielding.chen@bbva.com.hk
+852 2582 3297

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called “BBVA”) to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The content of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates´ salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates’ proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the “financial promotion order”), (ii) are persons falling within article 49(2) (a) to (d) (“high net worth companies, unincorporated associations, etc.”) Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

“BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance”.

BBVA is a bank supervised by the Bank of Spain and by Spain’s Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.