

Global Weekly Flash

FOMC's more dovish than expected statement is contributing to extend the rally in risk assets

- The recent FOMC statement expressed the committee's desire to remain "highly accommodative". The statement, projections and press conference comments imply that the Fed will be on hold until the beginning of 2014Q4. We also believe that the probability of another round of large-scale asset purchases has increased, but the FOMC is not yet ready to embark on these purchases.
 - Fed's announcement allowed the risk rally to continue after it appeared it was losing strength as investors were becoming more cautious as a result of the building anxiety with respect to Greek's PSI negotiations along with soaring Portuguese bond yields.
 - Euro area concerns were increasing this week even though Italian and Spanish bond yields had retreated from unsustainable levels. As previous weeks, demand on sovereign auctions was good during the week, with all issuer allotting at or above their targets. However, the demand was also high at 30Y German bond auction suggesting that flows continued in safe have asset. In the same line, the increase in risk aversion has not translated into the whole government curves in the peripheral countries. Instead, the short-term end has rally while the long-term practically was remained at the same levels. This point-out that investors have moved forward the risk aversion. Despite an agreement on Greek PSI should be achieved quickly, before the next Greek large debt maturity in March (€14.4bn), Greek PSI negotiation are stalled.
 - But Fed's intention of keeping rates unchanged until 4Q 2014 and a potential QE3 if conditions warrant it, more than offset euro area concerns and lifted risk assets. Currencies that had weakened the most in previous months (especially LATAM currencies) have outperformed and emerging markets have registered another week of capital inflows.
- **Economic data continues to show momentum, but we do not believe the recovery is self-sustainable**
 - In the US GDP expanded in the 4Q11 but at lower rate than expected (2.8%q/q an vs BBVA 3.1% q/q). The release this week of durable goods orders and regional manufacturing indexes, improving more than expected, are another sign of the pickup in manufacturing sector, while housing data surprise on the downside, registering negative figures. The FOMC does not believe that the US recovery is self-sustained and also that it faces a number of downside risks. In this line, GDP growth projections for 2012-2014 have been revised down, but we still regard the FOMC's projections as too high (2.1-3.0 range for 2012).
 - Soft data in Eurozone were encouraging, suggesting a good start for 2012. Consumer confidence improved, while flash PMI surprised on the upside, with the Composite index now in expansion, at 50.4, mainly driven by developments on the services sector. In Germany, both the Ifo business climate and the Gfk consumer confidence indices improved, driven mainly by expectations. In France, consumer confidence slightly improved, while business sentiment deteriorated somewhat in January. However, hard data for November continues being negative, though broadly better than expected. Industrial new orders were weaker by -1.3% in November, after gaining +1.5% the previous month. In addition, monetary supply continued easing, although total credit was up to +1% y/y thanks to the increasing of credit to the general government. Meanwhile, the rate of growth in eurozone bank loans to the private sector slowed substantially to 1.0% in December from 1.7% in November.
 - In Asia is continuing to slow, but at a modest pace, with some indicators pointing up, such as better-than expected December export and industrial production outturns released today in Hong Kong (7.4% y/y vs. consensus: 3.5%) and Singapore (12.6% y/y vs. consensus: 6.4%). Korean GDP growth slowed by slightly more than expected to 0.4% q/q seasonally adjusted (from 0.8% q/q in Q3). Loosing monetary policy is on the way. The Bank of Thailand cut interest rates as expected, by 25 bps for a second straight month and India lowered its cash reserve requirement by 50 bps (to 5.5%), in a move widely seen as reversing its tightening cycle.

- In the same line, Central bank of Brazil reaffirmed its dovish tone. After cutting the SELIC rate to 10.5% last week, the COPOM now says that the chances of a single-digit SELIC are high. The Committee sees now "more favorable" inflation signs and refrains from recognizing improvements in both external and domestic environments. We expect another 50bps cut in March and see extra cuts as very likely. On the contrary, in Mexico, inflation surprised on the upside driven by the more volatile components. According to our new projections for 2012, inflation will be above Banxico's upper bound (4%) during part of the year, while it will end the year below 4%. Banxico is expected to remain on hold.
- The IMF has released the updated projections for world GDP growth, they cut its forecast for global growth by 0.7 pp and 0.6pp for 2012 and 2013, expecting the world output to grow 3.3% and 3.9% in the 2012 and 2013 respectively. In the report the euro zone will fall into a mild recession in 2012 decreasing by 0.5% in 2012, and the institution warned about the downside risk on the global outlook if European crisis intensify. For both Spain and Italy the IMF forecasts a deep recession in 2012 (-1.7% and -2.2% and respectively). Developing Asia is still projected to grow most rapidly at 7.5% on average in 2012-13 while China is expected to grow 8.5% on average in 2012-13. According to the IMF, risks remain tilted on the downside and are increasing.

NEXT WEEK: investors will keep interest on The EU Council at the beginning of the week, the US payroll figures and the Chinese PMI index. Additionally Italy faces maturities for EUR 25.8bn in bonds and EUR 8.2bn in bills.

- The UE Summit coming on Monday is expected to focus on: the finalization of the fiscal compact, the permanent rescue mechanism for euro area countries (ESM) and the second bail-out programme for Greece. Nevertheless judging by the know draft and the recent ECOFIN meeting, it can be said that there are still pending details and there is a risk that the final proposal is not enough to satisfy Germany and the ECB. We also consider very unlikely that the role of the Eurobond will be introduced at this meeting. On the reinforcement of the European firewall, to bring forward the ESM to July 2012 seem to be a done deal but the mechanism will not be big enough to contain contagion. We also see unlikely the announcement of concrete measures to support growth in countries under fiscal discipline plans, while it is increasingly clear that they are in the debate of the resolution of the European debt crisis.
- Italy faces maturities for EUR 25.8bn in bonds and EUR 8.2bn in bills while it will sell EUR 10.0bn in 4Y, 5Y, 9Y and 10Y bonds. Besides, Spain will sell EUR 4.0bn in 3Y and 5Y bonds and both France and Germany will sell 13.5 bn in bonds.

Calendar: Indicators

Eurozone: Unemployment rate (December, January 31st)

Forecast: 10.4%	Consensus: 10.4%	Previous: 10.3%
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We expect unemployment rate to have stepped up in December, after remaining broadly stable in the previous two months. Overall, unemployment has increased by around 0.5pp since April, in contrast with the stabilization observed over the previous year and a half. Recent economic data suggesting a mild contraction in Q4 along with higher uncertainty in coming quarters are weighing on firms' hiring intentions, which are worsening further according to the EC survey. All these figures combined with the unemployment lag to the economic cycle suggest that labour market could continue to deteriorate in coming months.

Eurozone: Flash HICP inflation (January, February 1st)

Forecast: 2.6% y/y	Consensus: 2.7% y/y	Previous: 2.7% y/y
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We expect headline inflation to have declined further in January by around 0.1pp, due again to favorable base effects in energy prices again, but also to winter sales. After the methodological changes introduced in 2011 and the limited information available on the new model to assess the seasonality of the series, the uncertainty around forecasts of non-energy industrial inflation increases, and thus a larger slowdown (-0.2pp) should not be ruled out. Nevertheless, the recent increase in oil prices could have more than offset the moderation in industrial inflation. For coming months, we expect inflation to slow further, but a lower slowdown in oil prices than anticipated combined with the depreciation of the euro could result in inflation slightly above the ECB target at the end of Q1. In addition, potential hikes in both taxes and administered prices to meet fiscal targets pose upside risks to this scenario.

US: Personal Income and Outlays (December, January 30th)

Forecast: 0.2%, 0.2%	Consensus: 0.4%, 0.1%	Previous: 0.1%, 0.1%
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Improvements in consumer sentiment throughout the past few months suggest continued growth for personal income and outlays in December. Wages and salaries declined in November but are likely to rebound given the latest 0.2% rise in average earnings. Aside from wages, rental income and dividends are likely to continue contributing most to personal income growth. Although disappointing retail sales suggest modest spending growth towards the end of the holiday shopping season, we do expect positive trends to continue.

US: Nonfarm Payrolls and Unemployment Rate (January, February 3th)

Forecast: 175K, 8.5%	Consensus: 148K, 8.5%	Previous: 200K, 8.5%
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Modest growth trends in the labor market are expected to continue into 2012, pointing to little change in the unemployment rate. Initial jobless claims dropped sharply in January to the lowest level since before the recession, although the data may have been skewed by recent shortened holiday weeks. While consumer confidence has improved, business hiring plans remain relatively conservative. However, regional Federal Reserve surveys have indicated an increase in the number of employees and the average workweek in the manufacturing sector, which we expect to boost nonfarm payrolls for January.

China: PMI (January, February 1st)

Forecast: 49.8	Consensus: 49.6	Previous: 50.3
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The recent strength of economic indicators has helped allay concerns of a hard landing in China. In particular, Q4 GDP was strong than expected (8.9% y/y), and for December industrial output and PMI were robust, with the latter rebounding back above the 50-level expansion threshold after briefly signaling contraction during the month of November. Against this backdrop and concerns about the health of the global economy, markets will be watching the January PMI outturn for further signs of durability. We expect some slight weakening in the PMI mainly due to seasonal effects from the week-long Chinese Lunar New Year, which fell in January rather than in February last year (and which will make interpretations of monthly data tricky through at least March). This weakening, however, does not signal a hard landing in our view, as the economy appears to be slowing at a gradual and healthy pace. We anticipate growth to slow further during the first half of the year, but to remain reasonably buoyant with support from robust domestic demand and increasing monetary and fiscal policy support.

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.55	-1	-3	25
		2-yr yield	0.21	-3	-6	-33
		10-yr yield	1.95	-8	3	-137
	EMU	3-month Euribor rate	1.14	-4	-25	8
		2-yr yield	0.17	-4	0	-119
		10-yr yield	1.86	-7	-3	-129
Exchange rates (changes in %)	Europe	Dollar-Euro	1.310	1.3	1.3	-3.8
		Pound-Euro	0.83	0.5	-0.2	-2.8
		Swiss Franc-Euro	1.21	-0.1	-1.1	-5.9
	America	Argentina (peso-dollar)	4.34	0.3	0.8	8.4
		Brazil (real-dollar)	1.75	-0.4	-6.6	3.9
		Colombia (peso-dollar)	1811	-0.7	-6.7	-2.8
		Chile (peso-dollar)	487	-1.1	-6.7	0.5
		Mexico (peso-dollar)	12.98	-1.5	-7.2	6.4
		Peru (Nuevo sol-dollar)	2.69	-0.4	-0.4	-3.1
	Asia	Japan (Yen-Dollar)	76.97	-0.1	-1.3	-6.3
		Korea (KRW-Dollar)	1123.20	-1.0	-2.8	0.8
		Australia (AUD-Dollar)	1.064	1.5	5.5	7.1
Comm. (chg %)		Brent oil (\$/b)	111.2	1.2	3.4	11.8
		Gold (\$/ounce)	1721.3	3.5	10.2	28.2
		Base metals	541.4	1.4	4.9	-10.7
Stock markets (changes in %)	Euro	Ibex 35	8684	1.4	3.9	-19.2
		EuroStoxx 50	2451	1.0	8.7	-17.0
	America	USA (S&P 500)	1318	0.2	5.5	3.3
		Argentina (Merval)	2909	1.4	19.9	-18.8
		Brazil (Bovespa)	62953	1.0	11.4	-5.6
		Colombia (IGBC)	13582	0.6	6.5	-9.8
		Chile (IGPA)	20304	-1.2	1.4	-8.7
		Mexico (CPI)	37241	-0.4	1.6	1.1
		Peru (General Lima)	21646	3.6	12.3	-3.9
	Asia	Venezuela (IBC)	122320	1.1	4.6	85.1
		Nikkei225	8841	0.9	5.0	-14.7
		HSI	20502	1.9	10.7	-13.2
	Credit (changes in bps)	Ind.	Itraxx Main	143	-11	-31
Itraxx Xover			603	-45	-154	184
CDS Germany			87	-8	-16	26
Sovereign risk		CDS Portugal	1396	126	308	940
		CDS Spain	361	-15	-31	95
		CDS USA	44	-2	-8	---
		CDS Emerging	267	-16	-42	42
		CDS Argentina	765	-23	-156	154
		CDS Brazil	147	-6	-16	25
		CDS Colombia	140	-5	-16	17
		CDS Chile	117	-5	-16	31
		CDS Mexico	144	-3	-11	20
		CDS Peru	166	-6	-7	51

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
Europe	01/24/2012	<p>➤ Europe Economic Watch: Eurozone: Contraction in Q4 is now certain, with less negative signs for Q1 Activity in the eurozone fell in Q4 and recent indicators show that it is still in contractionary territory, although prospects for Q1 are somewhat less negative. The different performance between the core and the periphery continues to be large, partly because of the large fiscal effort done by the latter.</p>
Spain	01/24/2012	<p>➤ Flash España: Hipotecas sobre viviendas noviembre 2011 Durante noviembre de 2011 se firmaron 28.113 hipotecas sobre viviendas, una cifra notablemente superior a las poco más de 22.100 del mes anterior.</p>
US	01/25/2012	<p>➤ U.S. Flash: FOMC Statement: January 24-25 Highly Accommodative Stance</p>
	01/23/2012	<p>➤ U.S. Flash: FOMC Meeting Preview: January 24-25 Recurrent attempts to fix the link between monetary policy and housing</p>
	01/24/2012	<p>➤ Análisis Económico: Agenda Económica 2012 México y Estados Unidos En esta Agenda se presenta el calendario de difusión para 2012 de: indicadores económicos, eventos relevantes, fechas de eventos importantes, calendario electoral y mucho más</p>
	01/23/2012	<p>➤ U.S. Flash: Más noticias favorables en el sector manufacturero, moderación de los precios al consumidor Los datos de la producción manufacturera siguen indicando un impulso de crecimiento en el sector. Tanto el índice Empire State como el índice Filadelfia Fed aumentaron en enero</p>
<h2>Latin America</h2>		
	01/23/2012	<p>➤ Emerging Economies Economic Watch: Interest rate caps: back to the future in LatAm? Although after the liberalization of many financial systems in LATAM in the late eighties market-determined interest rates became predominant, a few countries did maintain interest-rate caps in the regulator's toolkit as an instrument to prevent excessive levels.</p>
Brazil	01/24/2012	<p>➤ Brazil Flash: Current account deficit to near 3.0% in 2012 after closing 2011 at 2.1% of GDP Current account deficit closed 2011 at 2.1% of GDP, not very far from the 2.2% deficit observed in 2010 as very positive terms of trade drove trade balance up and offset the negative impact of a strong domestic demand and an appreciated exchange rate.</p>
Mexico	01/24/2012	<p>➤ Mexico Flash: January 2011 bi-weekly inflation way above our forecast Reductions in telephone calls didn't compensate enough the rising agricultural, energy and merchandise prices</p>
	01/23/2012	<p>➤ Mexico Flash: Construction continues to grow above 4% Construction industrial activity grew by 4.4% in November in year-on-year terms; it remained unchanged compared to the previous month</p>
	01/24/2012	<p>➤ Análisis Económico: Agenda Económica 2012 México y Estados Unidos En esta Agenda se presenta el calendario de difusión para 2012 de: indicadores económicos, eventos relevantes, fechas de eventos importantes, calendario electoral y mucho más</p>
	01/24/2012	<p>➤ Mexico Flash: Inflación 1Q enero 2012, muy por encima de lo previsto Los teléfonos no compensaron suficientemente las subidas en agropecuarios, energéticos y mercancías</p>
	01/23/2012	<p>➤ Mexico Flash: Construcción mantiene crecimiento por arriba del 4% La actividad industrial de la construcción creció 4.4% en noviembre en variación anual, respecto al mes anterior no cambió</p>
	01/25/2012	<p>➤ Eventos Mexico: Industria automotriz: clave en el crecimiento económico de México Actualmente, la industria automotriz en México es de las más competitivas y dinámicas del mundo. Se estima que en 2011 México ocupó el 8° lugar por unidades producidas y el 6° sexto en unidades exportadas Ponente: Alma Martínez Evento: Presentación en la Cd. de México, 25 enero 2012</p>

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