Global Weekly Flash

Difficulties to reach an agreement on the second bail-out program for Greece

- Greek politicians reached an agreement on the measures demanded by the troika to proceed with the second aid program of EUR 130 bn, but these were not fully accepted by the Eurogroup late Thursday as they required more specifics on the measures to cover a EUR 325 million funding gap in 2012, a written compromise by coalition parties to proceed with structural reforms, and the full approval by the Greek Parliament of the new package and cuts by Sunday 12. The other condition to approve the new package, i.e. the agreement on the Greek PSI, is almost finished, with a 50% of a haircut in Greek debt and an estimated net present value loss for private investors of slightly above 70%. As the 130 bn approved in October are probably not enough to ensure the sustainability of Greek debt (measured as a ratio of debt to GDP of 120% by 2020 under the troika simulations), a further participation of the official sector has lately been discussed, involving the ECB. In this respect, Mr Draghi suggested during Thursday press conference that the ECB is ready to forego the implicit gain of 11-15 bn corresponding to their Greek bond purchases in past months by transferring them at purchase cost to the EFSF (which would then sell them to the Greek government, which would gain the difference between the nominal value and the historical cost by the ECB). Mr Draghi said also that this operation would not be considered as debt monetisation by the central bank and therefore would be acceptable. In addition, EZ officials said they would create an escrow account for the new bail-out funds, instead of paying them directly to Athens as in the past, in a way to protect private investors from a disorganized default in the case Greece does not fulfil the bail-out conditions. Once an agreement is reached on the whole package, it will have to be also approved by the German Parliament (probably only its finance committee), as required last year by the German constitutional court for any changes related to the rescue packages and policies related to the EFSF.

- **Exceptionally loose monetary policy: Mr. Draghi pushed for a strong take-up of the 3Y LTRO on 29 February, the BoE increased QE as expected, while albeit QE3 requires worsening economic conditions, the door is still open**

  - In the near-term the ECB will most likely be on a wait-and-see mode on both monetary policy and non-standard liquidity measures. A rate cut on 8 March is now unlikely. Yet, the odds that it would take place further ahead, in the second quarter, still remain. Mr. Draghi encouraged a large demand at the February 3Y LTRO by emphasizing that there is no stigma associated with using these facilities. Meanwhile, he was careful not to rule out the possibility that the ECB could participate in the Greek debt restructuring by saying that the sale of Greek government bonds to the EFSF without a loss is not monetary financing. This could well be the case at the average purchasing price of about 75 of ECB's holdings ie, Greece would need to repay 25% less at the time of maturity. The Bank of England announced a £50bn expansion of asset purchases while keeping Bank Rate fixed at 0.5%, in line with expectations. Lastly, Bernanke's comments on the labor market (there is a "long way to go before the labor market can be said to be operating normally") suggest that the FOMC is still concerned with the sustainability of the economic recovery. That is, the door for QE3 is still open, but given that FOMC members are divided on that matter, leaning towards another round of asset purchases requires worsening economic conditions.
  - The reduction of the tail risk in Europe and the support of monetary policy have provided further reduction of the European peripheral risk premium. This better tone across financial markets has helped issuance pick up over the last few weeks with especially good performance of Spanish financial institutions this week.
  - This week the Spanish Treasury sold about EUR 4bn of its 10Y benchmark (5.85% January 2022) in a syndicated auction. The demand was strong at a 300bp+MS price. In terms of geographical distribution, there was a very strong presence of international accounts (80% of the deal) with high ticket diversification. In Europe, the interest was led by investors from the UK (25%) followed by Iberia (20%). Other European countries took 21% of the issuance. Hence, there was relevant demand out of Europe which totalled 33% of the transaction.

- Since the turn of the year, money has been flowing back to emerging markets. Recent macroeconomic data, expectations of further steps to loosen the already accommodative stance of monetary policy and the positive impact of the 3y LTRO which avoided a Lehman-type event and a credit crunch, have all supported Emerging Markets' inflows. The good performance witnessed this year is common to both equity and bonds. In particular, Emerging market bond funds saw inflows of $1.2bn last week, the most since August last year, while the inflows in equity were even higher: $3.5bn for second week in a row.

- **Economic data point to stabilization in German growth while in China inflation surged is not worrisome since it is driven by seasonal factors**
  - Germany's economic data confirmed that industrial activity contracted in 4Q11 but showed some signs of stabilization in early 2012. The industrial production fell by 2.9% m/m in December while industrial orders increased by 1.7% in December, after decreasing sharply in November (4.9%m/m). Besides, Germany's trade surplus narrowed in December as exports decreased more than imports. On the other hand, good news in France as the trade deficit widened by less than expected and the state deficit is on track to reach deficit representing the 5.4% of the GDP, below the initial target (5.7%).
  - Chinese headline inflation ticked up in January by more than expected to 4.5% y/y (BBVA: 4.3%; Consensus: 4.0%) from 4.1% y/y in December due to seasonal factors that boosted food prices. We expect the moderating trend in inflation to resume in February (BBVA: 3.2%), and to decline to around 3% by mid-year. January trade data showed a small decline in exports (-0.5%y/y and more significant fall in imports (-15.3% y/y). However, adjusting from seasonal factors, export growth remains reasonably strong, but continues to weaken due to falling external demand. Meanwhile, declining imports reflect somewhat softer domestic demand. While, inflation data may lead to a slight postponement in further monetary easing, we expect an additional 150-200bp cuts in the RRR in the coming months, along with up to two interest rate cuts (50bps in total), depending on the external environment. Meanwhile, the Bank of Korea held rates unchanged today, as expected, while in a surprise to the consensus, Bank Indonesia cut rates in view of falling inflation and risks to growth from the external environment.
  - With respect to Latino America, in Mexico inflation increased by 0.71% m/m slightly below our expectation (BBVA 0.8%), reaching 4.05% annually, above Banxico's variability range (3% +-1 pp) upper boundary. Albeit inflation will remain above 4% for some months, core inflation will remain reasonably low because of the absence of demand pressures. We consider that as soon as the pressures in livestock and merchandise prices start vanishing, inflation will converge with relative ease to Banxico´s variability range, and that it will close the year well within its boundaries. The Central Bank of Peru held its policy rate at 4.25%, as expected. We expect inflation to continue trending downwards, especially from the second quarter. Hence, GDP growth will be more relevant hereafter in monetary policy decisions. In Colombia, CPI inflation grew 0.73% m/m in January, slightly below expectations (BBVA: 0.8%). As a result, annual inflation decreased to 3.54%. We continue to expect a pause in the increases of the policy rate, subject to greater temperance in inflation expectations and credit growth..

NEXT WEEK: investors will keep attention on development of the Greek crisis: a parliamentary approval of the new measures (on Monday), another Eurogroup meeting (on Wednesday). On the economic side, investor will pay attention to the 4Q GDP figures in most countries of the eurozone. Busy week ahead for sovereign bond auctions.

Calendar: Indicators

Eurozone: Industrial production (December, February 14th)

Forecast: -0.8% m/m	Consensus: -1.4% m/m	Previous: 0.1% m/m

Industrial production is expected to have declined in December, after remaining around flat in previous months. These figures imply that industrial output could have contracted significantly on average in Q4, by around -1.4% q/q. Looking forward, the recent slowdown in both domestic and foreign demand points to a gloomy industrial sector outlook for coming months. Soft data available for January suggest that the decline in GDP could have been interrupted at the beginning of the year, but the manufacturing PMI remained in contractionary territory. Given the strong correlation between the economic cycle and industrial output, these data are in line with a mild GDP contraction in Q411, that could be seen again in Q1 2012.

Eurozone: Flash GDP (Q4 2011, February 15th)

Forecast: -0.3% q/q	Consensus: -0.4% q/q	Previous: 0.1% q/q

We expect GDP to have contracted mildly in Q4, driven by the substantially worsening financial market outlook that ended up adversely weighing on confidence, along with a weaker global recovery. Across components (which will not be released next week), the support of households' spending to demand could be fading, in contrast with Q3, while lower economic prospects combined with idle capacity utilization and higher financing costs have probably triggered a significant fall in investment. In addition, strong fiscal adjustments proceed, especially in the periphery, undermining public consumption. As a result, domestic demand might have subtracted growth for the third quarter in a row, thus increasing concerns about the fragility of the recovery, which was still supported by the external sector. In particular, despite the slowdown in global demand and, hence, exports, further deceleration in imports has continued to make a slight positive contribution of net exports to economic growth.

US: Retail Sales, Ex Auto (January, February 14th)

Forecast: 0.6%m/m, 0.3%m/m	Consensus: 0.7%m/m, 0.5%m/m	Previous: 0.1%m/m, -0.2%m/m

Retail sales are expected to increase in January following disappointing growth in December. Auto sales rebounded in January and should lift the headline figure, though gains were concentrated in the less expensive car component rather than trucks. In addition, rising gas prices should inflate the total value of retail sales. Weekly retail sales surveys suggest some increases due to rising demand for cold weather goods, although trends appear to be slowing for the ex-auto ex-gas figure. Furthermore, slight declines in consumer attitudes suggest some hesitation in spending for the month.

US: Consumer Price Index, Core (January, February 18th)

Forecast: 0.3%m/m, 0.1%m/m	Consensus: 0.3%m/m, 0.2%m/m	Previous: 0.0%m/m, 0.1%m/m

Headline inflation is expected to increase in January following two months of nearly flat growth. Energy prices have declined for three consecutive months but are likely to increase in January due to rising oil and gas prices. Food and other commodity prices are expected to increase, though import price pressures should be limited. Consumer inflation expectations have increased and signal rising prices for the month. Despite high rent costs and the recent bounce back in gas prices, we continue to expect that inflation will be under control in the coming months.

Japan: GDP (Q4-11, February 13th)

Forecast: -0.1% qoq s.a.	Consensus: -0.4% qoq s.a.	Previous: 1.5% qoq s.a.

Japan's growth momentum in the fourth quarter is expected to have stalled, after a sharp rebound (1.5% qoq s.a.) in the third quarter. Exports and industrial production have trended down since August, under the influence of weaker external demand and supply disruptions from the recent floods in Thailand and the aftermath of the March earthquake and tsunami. The strength of the Japanese yen, owing to its status as a safe haven, has also been a headwind to competitiveness and export growth. We expect full-year growth for 2011 of -0.4%, and a return to positive growth in 2012 as the recovery picks up on an improving outlook for the global economy in the second half of the year, bolstered by the post-quake reconstruction.

Markets Data

				Close	Weekly change	Monthly change	Annual change
Interest rates	(changes in bps)	US	3-month Libor rate	0.51	-2	-7	19
			2-yr yield	0.27	4	4	-56
			10-yr yield	1.99	7	9	-164
		EMU	3-month Euribor rate	1.06	-4	-19	-3
			2-yr yield	0.24	4	10	-117
			10-yr yield	1.94	1	13	-136
Exchange rates	(changes in %)	Europe	Dollar-Euro	1.318	0.3	3.8	-2.5
			Pound-Euro	0.84	0.7	1.0	-1.0
			Swiss Franc-Euro	1.21	0.2	-0.3	-8.2
		America	Argentina (peso-dollar)	4.35	0.4	0.8	8.1
			Brazil (real-dollar)	1.73	0.6	-4.3	3.6
			Colombia (peso-dollar)	1787	0.1	-3.4	-5.2
			Chile (peso-dollar)	478	0.0	-5.4	1.3
			Mexico (peso-dollar)	12.79	0.8	-6.2	6.0
			Peru (Nuevo sol-dollar)	2.68	0.0	-0.3	-2.9
		Asia	Japan (Yen-Dollar)	77.66	1.4	1.0	-7.0
			Korea (KRW-Dollar)	1124.88	0.8	-3.0	0.1
			Australia (AUD-Dollar)	1.067	-1.1	3.6	6.7
Comm.	(chg %)		Brent oil ($/b)	117.0	2.1	4.2	15.4
			Gold ($/ounce)	1711.9	-0.8	4.3	26.1
			Base metals	549.4	-0.2	4.7	-10.9
Stock markets	(changes in %)	Euro	Ibex 35	8789	-0.8	4.3	-18.7
			EuroStoxx 50	2484	-1.2	6.2	-17.9
		America	USA (S&P 500)	1339	-0.4	3.6	0.7
			Argentina (Merval)	2694	-4.1	-4.7	-22.1
			Brazil (Bovespa)	64219	-1.5	7.1	-2.3
			Colombia (IGBC)	14035	0.6	5.7	-2.8
			Chile (IGPA)	20877	-0.1	3.1	-4.2
			Mexico (CPI)	37924	-0.4	1.7	2.5
			Peru (General Lima)	22604	-1.4	11.5	-0.7
			Venezuela (IBC)	129471	4.8	10.6	95.3
		Asia	Nikkei225	8947	1.3	5.9	-15.6
			HSI	20784	0.1	8.5	-9.0
Credit	(changes in bps)	Ind.	Itraxx Main	130	3	-46	33
			Itraxx Xover	567	19	-168	167
		Sovereign risk	CDS Germany	83	-2	-23	29
			CDS Portugal	1196	-90	111	754
			CDS Spain	348	-5	-66	107
			CDS USA	40	-2	-9	---
			CDS Emerging	258	1	-53	36
			CDS Argentina	797	57	-85	172
			CDS Brazil	138	-1	-22	16
			CDS Colombia	129	-2	-24	5
			CDS Chile	102	-8	-25	18
			CDS Mexico	135	-1	-17	13
			CDS Peru	154	-4	-22	35

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
Global	02/09/2012	**Global Economic Outlook. First Quarter 2012** The global economy slows down, with Europe into recession and emerging economies heading for a soft landing. Downside risks to growth will diminish as European policies dispel existing doubts. • The global economy is slowing down. • Risks to the global outlook are still strongly tilted to the downside. • This crisis has pushed Europe into recession. • Emerging economies are heading for a sotf landing. (Spanish version) Global Slowdown and recession in Europe.
Europe	02/07/2012	**Portugal Economic Watch:** "Gloomy prospects for Portuguese economy in coming quarters" We have developed a new model for GDP short-term forecast (MICA-BBVA Portugal), which estimates that activity in Portugal fell by 1.6% q/q in the fourth quarter of 2011, confirming the recession, but providing a slightly less negative forecast than the coincident economic index by the Bank of Portugal.
Spain	02/08/2012	**Situación España. Primer trimestre 2012** El nuevo Tratado de Estabilidad, las medidas de liquidez del BCE y las reformas estructurales aprobadas en Italia y España son avances positivos. • 2012: crecimiento heterogéneo en Europa, que se descuelga del resto del mundo. • Ajuste fiscal en Europa: sostenido y riguroso para ser creíble, y equilibrado para no agravar la recesión. • España, nuevamente en recesión, ante el reto de evitar una intensa destrucción de empleo. • Mejorar las expectativas de crecimiento exige la misma ambición en las reformas laboral y financiera que en la consolidación fiscal. Presentación de "Situación España. Primer trimestre 2012"
	02/08/2012	**Flash España:** "Producción industrial en diciembre" Tras las intensas caídas de octubre y noviembre, la producción industrial se corrigió al alza en diciembre. Corregida la estacionalidad y el efecto calendario, el IPI creció un 1,0% en diciembre, cerrando el año con una caída media anual del 1,4% respecto a 2010.
US	09/02/2012	**Flash:** QE Dashboard Conflicting labor market indicators and slowing headline inflation
	07/02/2012	**Economic Watch:** 2012 Presidential Vote-Share Model Stakes are high given the need for structural reform. Our vote share-model predicts a photo-finish assuming current macroeconomic conditions continue
	02/07/2012	**Economic Watch:** Can Manufacturing Save the Labor Market? Only if deep structural reforms occur
	02/07/2012	**Banking Watch:** Consumer Credit: Monthly Situation Report Total outstanding consumer credit jumped for the second consecutive month, up $19.3bn in December following an increase of $20.4bn in November
	02/06/2012	**Weekly Flash.** Employment Growth Surprises to the Upside Aside Gains in Personal Income Nonfarm payroll growth beat consensus expectations in January, jumping 243K following upward revisions to both November (from 100K to 157K) and December (from 200K to 203K) *(Chinese version)*
Latin America		
Chile	02/08/2012	**Flash:** Inflación mensual alcanza a 0,1% en enero, algo menor que lo esperado
	02/06/2012	**Flash:** Por arriba de las expectativas, actividad económica se acelera en diciembre

Colombia	01/02/2012	**Flash:** Inflación inicia el año con un dato favorable En enero, la inflación mensual fue de 0,73%, ligeramente menor a la prevista (BBVA: 0,81%; consenso: 0,76%), con lo cual la variación 12 meses del IPC descendió a 3,54% (desde 3,73% en diciembre).
Mexico	02/09/2012	**Economic Watch:** Growth, inflation, monetary rate, and interest rate curve: impact on both sides Estimation based on an affine model with macroeconomic variables of the temporary structure of interest rates in Mexico *(Spanish version)*
	02/09/2012	**Flash: January 2012 inflation:** reaches over 4% due to a base effect in agricultural prices and upwards pressures in merchandise and livestock prices CPI: Observed: 0.71% mom vs BBVA: 0.82% mom Consensus: 0.65% mom. Core: Observed:0.45% mom vs BBVA: 0.43% mom Consensus:0.4% mom *(Spanish version)*
Peru	02/09/2012	**Flash:** Política monetaria priorizará en adelante el crecimiento El Banco Central mantuvo hoy su tasa de política en 4,25%, decisión que era ampliamente esperada.
Asia	02/10/2012	**Asia Economic Oulook: First Quarter 2012** Asia's growth momentum has continued to slow, as expected, due to the weaker external environment. Fourth quarter growth slowed further in the majority of the region's economies due to lower exports and, in a few cases, from the knock-on effects to domestic demand.
	02/10/2012	**China Flash: January 4.5% y/y uptick in inflation should not be a concern** January headline inflation ticked up by more than expected, to 4.5% y/y (BBVA: 4.3%; Consensus: 4.0%) from 4.1% y/y in December (Chart 1).

Publications on February 10th, 2012 to 10:30, Madrid time

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