Global Weekly Flash

Risks have lessened, but not out of the woods yet

- **With other downside risks to growth receding fast, one is steadily increasing: oil prices**
  - Since the turn of the year, downside risks to the economic outlook have been receding rapidly. Concerns on three of the four risks that we had identified as potential triggers of a risk scenario (a deep global recession) have receded markedly. Chances of a double-dip in the US now appear to be low with Fed's additional easing by extending its forward guidance on exceptionally low rates ("at least through late 2014" versus the previous guidance of "mid-2013"), with economic data surprising on the upside, and with initial signs of a (still timid) turning point in the labor market. The risk of a sharp slowdown in EMEs is also receding with mounting evidence that China is averting a hard landing. Notably, the probability of the main risk has also decreased significantly with European policy makers doing enough to prevent an economic meltdown, first by avoiding a credit crunch (with the ECB launching the 3-year LTROs), and from this week, by averting (at least in the near-term) a disorderly Greek default. However, geopolitical risks are on the rise and with them, the fourth risk with a potential global impact: higher oil prices.
- **Oil prices: increasing risk mainly on the back of heightened geopolitical tensions**
  - Oil prices have increased close to 13% (in dollar terms) over the last month as the risk of an oil supply shock has steadily risen. Possibly, higher prices are also responding to a rebound in global oil demand growth, mainly driven by a higher-than-anticipated growth in Chinese oil imports. But the main driver behind the recent spike in prices seems to be the ongoing geopolitical risks that could potentially have a large impact on the global supply system at a time when spare capacity is not enough to absorb large supply shocks (Iran has the second largest spare capacity but no demand due to sanctions) and with inventories much tighter than thought (OECD inventories are well below the five-year average). Problems surrounding Iran grab most of the attention, but geopolitical have also emerged elsewhere (Sudan, Syria and Yemen) where there has been a combined output decline of more than 1 mb/d. All in all, the combination of better-than-expected economic outturns (especially with China heading for a soft-landing), low spare capacity, low inventories, and particularly heightened geopolitical risks all tilt the balance of risks to oil prices to the upside.
- **The gap between core and peripheral countries in the eurozone keeps widening. China is taking additional steps to curtail the slowdown**
  - The Eurozone flash PMI figures suggest that the rebound observed in January has not been confirmed this month. The composite index returned to a level lower than 50, signalling a mild contraction in February. Nevertheless, the first two months of the year taken together, at least, point to stabilization in the economy. By country, the divergence between core and peripheral countries persists. Italy remains in clearly contractionary territory, while France and Germany remain in expansion. Additionally, Germany IFO business index rose to 109.6, up from 108.3 in January. The improvement was broad based. What is more, Germany´s GDP contraction was confirmed at -0.2% in Q4, driven by the negative net exports contribution. The previous estimate of 3% for the whole 2011 was also confirmed. Lastly, the European Commission has revised the eurozone outlook to -0.3% in 2012, slightly above our forecast for -0.5%.
  - In Asia, economic data is still affected by the seasonal effect of the Chinese New Year. The non-official, flash estimate of China's manufacturing PMI for February rose to a four-month high of 49.7 from 48.8 in January, but still remained below the critical 50 level, signalling a contraction. The increase in the flash PMI suggests that the official NBS PMI (scheduled to be released on March 1) may also increase from the last outturn of 50.5 in January. However, this increase is likely to reflect seasonality as PMI typically increases after the Chinese New Year, which was in January this year. Yet, Chinese authorities are taking steps to curtail the slowdown such as increasing export tax rebates to support exporters and lowering the reserve requirement ratio, again, by 50bp, from 21% to 20.5%. Eliminating the risk of hard-landing in China is key for the whole Region, which would be greatly affected otherwise. As an example, Japanese export to China decreased by 20% in January.
  - Mexican retail sales were lower than expected in December. The slowdown in retail sales and service activity is in line with the moderation of employment, a proxy of household disposable income, possibly pointing to a slower pace of private consumption growth.

- **Finally, the Eurogroup agreed on the second bail-out to Greece amounting to EUR 130bn. The risk that the new program could go off track is high**
  - The fact that an agreement has been reached is positive, as its successful completion would solve the Greek "issue" at least in the short term, providing some time to set up measures to stop an eventual contagion to other countries, but downside risk remains.
  - The next event of the Greek saga is the success of the Geek debt swap, which s a necessary condition for the programme to be finally approved. According to the press, Greek debt swap it is expected to start today until Monday. Once it is launched, rating agencies may downgrade the Greek debt to "selective default" (its main feature being that it is seen as transitory). Rating agencies may revise their rating later based on how the debt schedule was structured. It does not trigger CDSs by itself (which depends on the ISDA) but any implementation of collective action clauses would do (such clauses are one of the possible instruments the Greek government could use to assure a high level of participation in the bond exchange). In the meantime, Greece has to comply with a long list of conditions ("prior actions") agreed with the Eurogroup.
- **After the last European Council, optimism about the possibility to strength the eurozone firewall was building, but expectations have been fading**
  - At the EU summit, to be held this Thursday and Friday, it is expected that European leaders to discuss on increasing the size of the EFSF/ESM's lending to EUR750 from EUR500bn. However, German officials have played it down, as they insisted that they saw not need to increase the ESM lending capacity. In the meantime, it is expected that at the group of G-20 meeting leaders will pressure Europe to increase resources to help eurozone countries. China, Brazil and Mexico are willing to help the eurozone if Europe goes further regarding the current firewall. On the other hand, the US is more sceptical to increase IMF's resources without Europe making more effort to create a bigger firewall. In our view, it would be disappointing if the European leaders do no act in a pre-emptive way, and fail to increase the size of the ESM. Additionally, the fiscal compact is expected to be signed by 25 countries, while bold decisions on pro-growth measures probably would not be decided. In this way, the EU leaders would maintain the strong asymmetry between strong fiscal discipline and rewards. This time it will not be different.
  - Next week all eyes will also be on the second 3y LTRO. We expect a strong demand given that there is no stigma on these facilities, and institutions will try to pre-fund at least their unsecured debt maturing in 2012. Particularly, the demand could reach EUR 600bn as new collateral rules apply. According to the ECB, the new collateral framework could represent additional 600-700 eligible collateral but only EUR200bn of new financing due to the huge haircuts.
  - Markets will also follow the result of the EU Council and G-20 meetings. The PMI indicators in the US, China and the eurozone will give clues on whether activity continues to stabilize.

Calendar: Indicators

Eurozone: HICP inflation (January, February 29th)

Forecast: 2.7% y/y	Consensus: 2.7% y/y	Previous: 2.7% y/y

We expect annual headline inflation to be confirmed at 2.7% y/y in January, in line with our updated forecast with recent oil prices, but against the slight deceleration previously projected. Core inflation should have also remained broadly stable at around 1.9% y/y. Next week the flash HICP inflation for February will be also released, and we are projecting a slowdown of around 0.1pp to 2.6% y/y, even though the revision of weights of the HICP basket, which will also be published next week, raises uncertainty around our forecasts. Overall, we continue to see inflation moderating in coming months, although the slower slowdown in energy prices combined with the depreciation of the euro could result in inflation slightly above the ECB target at the end of Q1, easing somewhat afterwards. Potential hikes in both taxes and administered prices to meet fiscal targets pose upside risks to this scenario.

Eurozone: Unemployment rate (January, March 1st)

Forecast: 10.5%	Consensus: 10.4%	Previous: 10.4%

We expect the unemployment rate to have increased slightly in January, after remaining broadly stable in the previous two months. Unemployment has increased by around 0.6pp since April, in contrast with the stabilization observed over the previous year and a half. The contraction of activity at the end of 2011, along with uncertain economic prospects in coming quarters are weighing on firms' hiring intentions, which are worsening further according to confidence surveys. In addition, weak PMI data for February showed further evidence of the ongoing mild recession at the beginning of the year. This, combined with the usual lag of unemployment to the economic cycle suggests that the labour market could continue to deteriorate in coming months.

US: GDP, Preliminary Estimate (4Q11, February 29th)

Forecast: 2.8%	Consensus: 2.8%	Previous: 2.8%

The second estimate for real GDP growth in 4Q11 should be little changed from the advance report. Data released in the past few weeks suggest only a slight change in contributions to GDP given the worse-than-expected deterioration in the trade balance for December. However, we do not expect a significant downward revision given that exports did revert back to positive growth and November's trade data was revised up slightly. Business inventories increased at a modest pace in December in line with expectations, although total build for the fourth quarter appears slightly less than that in 3Q11. Finally, we do not expect any changes to personal consumption expenditures as most of the data had already been accounted for in the first estimate.

US: Personal Income and Outlays (January, March 1st)

Forecast: 0.3%, 0.4%	Consensus: 0.5%, 0.4%	Previous: 0.5%, 0.0%

Personal income and spending are both expected to increase in January. In December, income grew at the fastest pace since early 2011, mostly due to a rebound in the wages and salary component. Average earnings accelerated in January and should help lift the personal income figure. A jump in auto sales should boost outlays from no growth in December, and rising gasoline prices will likely increase nominal spending. Despite better-than-expected nonfarm payroll and jobless claims data, recent declines in consumer confidence suggest some limitations to income and spending growth for the month.

China: PMI (February, March 1st)

Forecast: 51.1	Consensus: 50.8	Previous: 50.5

The release of the official monthly manufacturing PMI will provide a further glimpse into current growth momentum as the economy continues to avert a hard landing due to strong domestic demand. However, interpreting data for January and February is difficult because of strong seasonality effects from the Chinese New Year (CNY), which occurred in January this year. PMI tends to strengthen in the month after the CNY as factories resume production. Therefore, although we expect the recent trend of slowing growth to continue through the remainder of the current quarter, the PMI outturn may actually strengthen. Consistent with this, the latest flash private sector PMI estimate (Markit) ticked up to 49.7 from 48.8 in January. For the year as a whole, we expect GDP growth to register 8.3%, based on a bottoming out of growth momentum in Q1 and a gradual upturn during the remainder of the year due to monetary and fiscal policy support and an improvement in the global environment during the second half.

Markets Data

				Close	Weekly change	Monthly change	Annual change
Interest rates	(changes in bps)	US	3-month Libor rate	0.49	0	-7	18
			2-yr yield	0.30	1	8	-41
			10-yr yield	2.01	0	1	-141
		EMU	3-month Euribor rate	1.01	-2	-14	-8
			2-yr yield	0.26	1	7	-128
			10-yr yield	1.90	-3	-5	-126
Exchange rates	(changes in %)	Europe	Dollar-Euro	1.339	1.9	2.6	-2.6
			Pound-Euro	0.85	2.1	1.5	-0.6
			Swiss Franc-Euro	1.21	-0.3	-0.2	-5.6
		America	Argentina (peso-dollar)	4.35	0.0	0.4	8.1
			Brazil (real-dollar)	1.71	0.0	-2.7	3.0
			Colombia (peso-dollar)	1776	-0.1	-2.0	-6.9
			Chile (peso-dollar)	481	-0.8	-2.4	1.3
			Mexico (peso-dollar)	12.79	0.2	-2.2	5.5
			Peru (Nuevo sol-dollar)	2.68	0.0	-0.4	-3.5
		Asia	Japan (Yen-Dollar)	80.56	1.3	3.7	-1.4
			Korea (KRW-Dollar)	1125.80	0.0	0.0	-0.1
			Australia (AUD-Dollar)	1.073	0.2	1.8	5.4
Comm.	(chg %)		Brent oil ($/b)	123.9	3.6	12.8	10.5
			Gold ($/ounce)	1781.2	3.5	5.4	26.5
			Base metals	544.0	0.0	1.6	-11.8
Stock markets	(changes in %)	Euro	Ibex 35	8516	-1.6	-0.5	-21.3
			EuroStoxx 50	2520	0.0	4.1	-15.6
		America	USA (S&P 500)	1363	0.2	2.8	3.3
			Argentina (Merval)	2818	0.7	-3.3	-18.0
			Brazil (Bovespa)	65820	-0.6	5.3	-1.6
			Colombia (IGBC)	14922	2.4	9.3	1.2
			Chile (IGPA)	21330	-1.0	5.0	1.8
			Mexico (CPI)	38028	0.3	2.2	3.1
			Peru (General Lima)	22836	1.7	6.7	0.3
			Venezuela (IBC)	136561	0.5	11.8	101.9
		Asia	Nikkei225	9647	2.8	8.6	-8.4
			HSI	21407	-0.4	6.4	-7.0
Credit	(changes in bps)	Ind.	Itraxx Main	132	-5	-18	33
			Itraxx Xover	581	-17	-54	186
		Sovereign risk	CDS Germany	82	-5	-8	28
			CDS Portugal	1133	-5	-182	666
			CDS Spain	377	-14	7	112
			CDS USA	37	-2	-8	---
			CDS Emerging	251	-5	-25	26
			CDS Argentina	773	0	18	124
			CDS Brazil	137	-1	-12	19
			CDS Colombia	127	-1	-15	7
			CDS Chile	96	-2	-22	16
			CDS Mexico	133	-1	-13	17
			CDS Peru	145	-4	-25	31

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
US	02/23/2012	**QE Dashboard** Indicators support a wait-and-see approach
	02/22/2012	**Bank Credit and Deposits: Monthly Situation Report** Total credit has crossed into positive YoY growth territory for the first time since August 2009, with increasing strength coming from CI lending. Consumer credit is rebounding at a healthy pace *(Spanish version)*
	02/21/2012	**Exchange Rate Fundamentals** First of a Series on Equilibrium Exchange Rates *(Spanish version)*
	02/20/2012	**Weekly Flash. Gas Prices Drive Inflation in January While Autos Drag Down Retail Sales** Headline consumer price inflation increased 0.2% MoM in January following no change in December. While rising gas prices helped to lift nominal retail sales in January, a 1.1% decline in auto sales weighed on the headline figure *(Chinese version) (Spanish version)*
Europe	02/22/2012	**Europe Flash: "Eurozone: Flash PMI falls back below 50"** Eurozone flash PMI figures suggest that the rebound observed in January has not been confirmed this month. The composite index returned to a level lower than 50, signalling a mild contraction in February. Nevertheless, the first two months of the year taken together point to at least stabilization in the ec.
	02/21/2012	**Europe Flash: "Eurogroup meeting Feb 20: a new bailout agreed for Greece, but downside risks remain"** The eurogroup reached a preliminary agreement early in the morning on the second bailout to Greece.
Spain	02/21/2012	**Observatorio Almería. Febrero 2012** Progresiva ganancia de peso dentro de Andalucía, apoyada en la población extranjera. *Observatorio Almería. Febrero 2012*
	02/21/2012	**Situación Andalucía. Primer semestre 2012** De expectativas de crecimiento moderado a la recesión. Con un importante proceso de consolidación fiscal, Andalucía verá reducido su crecimeinto por encima de la media nacional. • De expectativas de crecimiento moderado a la recesión. • Con un importante proceso de consolidación fiscal por delante, Andalucía verá reducido su crecimiento más que la media nacional. • Los destinos no euro serán el sustento del sector exterior. • Andalucía es una de las comunidades que más se puede beneficiar de una implantación rápida y ambiciosa de la reforma laboral. *Presentación de "Situación Andalucía"*
	02/21/2012	**Flash España: "Balanza comercial de diciembre 2011"** El déficit de la balanza comercial en el acumulado a 12 meses de diciembre disminuye nuevamente y cierra el año en -46,3 mil millones de euros.
	02/21/2012	**Eventos: La financiación de las PYMEs en España** La mejora en la financiación de las pymes es clave, por su importancia en la economía española. Ponente: Santiago Fernández de Lis Evento: Presentación realizada en el Seminario sobre la financiación de las pymes, organizado por el Banco de España y la CNMV. Madrid, 16 febrero 2012.

Latin America

Country	Date	Description
Brazil	02/23/2012	**Brazil flash: Trade balance deterioration weakens the current account** The current account deficit was equal to USD 7.1bn in January (17%m/m; 27%y/y), the biggest monthly deficitever. The increase in the deficit was driven by a sharp worsening of the trade balance and by very significantdeficits in both service and income accounts. On the other hand, external funding continued.
Colombia	02/20/2012	**Crédito finalizó 2011 con crecimiento dinámico en 21,8% a/a** El año 2011 terminó con un crecimiento de 21,8% a/a en la cartera total, en un año en que la demanda interna impulsó la expansión de todas las modalidades de crédito.
Mexico	02/23/2012	**Mexico Flash: February's first fortnight inflation: temporal break in annual increases surprises consensus** CPI: Observed: 0.07% fof vs BBVA: 0.0% fof Consensus: 0.17% fof. Core: Observed: .26% fof vs BBVA: 0.18% fof Consensus:0.18% fof *(Spanish version)*
	02/22/2012	**Mexico Flash: Negative surprise in retail sales in December (-2.6% mom)** The drop in retail sales in December does not seem justified only as a result of the advancement of purchases derived from "El Buen Fin" in November *(Spanish version)*

EAGLEs

02/23/2012 **EAGLEs Flash:Turkey and China new RMB swap agreement opens new opportunities between the Middle and the Far East**
The Central Bank of Turkey (CBT) has announced a bilateral currency swap agreement with the People's Bank of China for an amount of 3bn liras (10bn RMB) and with an extendable tenure of 3 years. The objective is to facilitate bilateral trade in the local currencies of the two countries.

02/20/2012 **EAGLES Economic Outlook. Annual Report 2012**
The group of emerging countries which compose the EAGLEs and the Nest (our watch list of countries which couldeventually become an EAGLE) is expected to create more than two thirds of total global growth in the next ten years.

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- China, India, Brazil, Indonesia, Korea, Russia, Turkey, Mexico and Taiwan maintained their EAGLEs membership after BBVA Research updated its forecasts.
- Changes in the composition of the EAGLEs and the Nest highlight the advantages of using a dynamic approach.
- Macroeconomic vulnerabilities in the EAGLEs countries remain relatively limited.
- The special topics of the Annual Report pertain to China growing net credit position with the rest of the world.

02/23/2012 **BBVA EAGLEs: Press Conference on Second EAGLEs Annual Report 2012**
The world is changing: deep knowledge about key emerging markets key
Rapporteur: Alicia García-Herrero; Mario Nigrinis Ospina.
Event: Press Conference on Second EAGLEs Annual Report 2012.

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