

Global Weekly Flash

Risk-on mood begins to show in (higher) safe-haven bond yields while equities' gains continue

Safe-havens such as the US Treasury and the German Bund likely registered important outflows during this week, nudging its 10 year yields about 28bps and 20bps, respectively. Meanwhile the US Equity market (S&P500) has risen above the pre-crisis level (July 2008) for the first time since the outbreak of the financial crisis. With growth expectations up, the risk-on mood seems to be reflecting in real risk-taking instead of only having some impact due to the high liquidity conditions, i.e. the sell-off of safe-haven assets together with a risk-assets' rally. The lower probability of a QE3 in the US, after the more upbeat tone of the FOMC statement, along with a lower chance of the ECB engaging in additional long-term LTROs are behind the recent sell-off in risk assets. However uncertainties remain: the downside risks in the US economy are still in place, while the potential surge in oil prices threatens to short-cut the global economy recovery. Moreover, fiscal consolidation programs' in European peripherals are not exempt from risks. All these should limit the sell-off in safe-haven assets.

• No sign that QE3 is on the works

- FOMC's statement highlighted improvements in labor market conditions and the unemployment rate, but noted that overall unemployment remains high. One notable change from the last statement is the FOMC's acknowledgement that recent increases in oil prices will increase inflation temporarily. However, inflation expectations remain stable. Nevertheless, the Federal Reserve noted that the down side risk remains. For the next meeting, we don't expect the FED to unveil major shifts, unless conditions change abruptly.
- Economic releases have continued showing positive out-turns.. US retail sales increased by 1.1% in February from an upwardly revised 0.6% advance in January. Excluding autos, sales rose 0.9% m/m. Meanwhile, the Philadelphia FED index rose to 12.5 in March from 10.5 in February, but new orders and shipments were lower indicating that manufacturing may lose some steam in coming months.
- In the regulation front, the FED said that 15 of 19 banks would be able to maintain capital levels above a regulatory minimum in an "extremely adverse" economic scenario, even while continuing to pay dividends and repurchasing stock.

• Pressures in Europe might continue to ease in coming months

- After a successful Greek PSI, the EU gave its "go-ahead" on the second package to Greece. Greece expects to receive a total of €164bn of external aid between now and 2015 (€130bn aid package, plus around €34.5bn from its first bailout). The IMF contribution to the Greek aid will be EUR28.2bn, lower than the 1/3 of the aid package that it committed in the previous package. The first instalment of €39.4 is to be disbursed in several tranches (first tranche on 19th of March), each tranche of aid will be conditional to fulfilling of programmes goals. This may introduce some volatility. In fact, new Greek bonds are under pressure. Trading prices are between 23% and 29%, with maturities of 11 to 30 years, while yield curve is inverted and well above other peripherals.
- Now the key elements to determine the European sovereign risk premium are the implementation of the fiscal consolidation and the structural reforms in the Eurozone. Regarding this, the Spanish Government will cut its deficit target a further 0.5pp of GDP, from the 5.8% announced one week ago to 5.3% in line with the European Commission request. Meanwhile, healthy demand for Spanish sovereign debt continues as financing costs keep declining.
- Activity data in the eurozone continued showing strong divergence between core and peripheral countries. ZEW Survey pointed to (relatively) better prospects for the German economy, which continues to outperform the rest of the eurozone. The Economic Sentiment indicator for Germany jumped to 22.3 from 5.4 in February, coming way above expectations (10.0), while the EZ index advanced to 11.0 from -8.1. The industrial production rose by 0.2% in the eurozone, in January bringing the first indication that the real data registered some improvement at the beginning of the year. Nevertheless, the raise was led by Germany and France while the periphery countries registered a mixed data. Additionally, the employment fell by 0.2% in the Eurozone over the 4Q, peripheral countries led the fall, while employment remained unchanged in France and increased in Germany.

- **Weak export figures raise growth concerns in China, but economic policies have enough room to curtail growth slowdown**
 - Taking the first two months' data together (to strip out the effects of the Chinese New Year), exports and imports moderated to 6.9% y/y and 7.7% y/y respectively for January/February compared with 13.4% y/y and 11.8% y/y growth in December. These figures caused concerns not only about Chinese economic outlook but also about the expected appreciation trend of the RMB. Meanwhile, Chinese Premier Wen Jiabao considers that "the real effective exchange rate of the RMB may have reached its "equilibrium level. In our view the Chinese policy has enough room to avert a hard-landing. In this regard, Chinese authorities have allowed three of the largest commercial bank to raise their internal loan-to-deposit (LTD) targets for 2012 in a bid to accelerate lending, after the disappointing loan growth and production figures in January and February. According to the report, the new LTD targets would be in the 60%-65% range, still well below the 75% regulatory cap. We continue to expect policy easing in the form of further cuts in the RRR and up to two rate cuts around mid-year, along with modest currency appreciation in the second half of the year.
 - In Brazil the minutes from the COPOM brought clues about the path for monetary policy. The COPOM assigns a high probability to a scenario in which the Selic rate falls to levels slightly above historical lows (ie, 8.75%). Additionally, the Brazilian government took another step in its attempts to contain BRL's appreciation by extending a 6% tax on foreign loans and bonds issued abroad by local companies to include lending with a duration as long as five years (previously applied for up-to-3-years money).
 - Meanwhile, the Chilean Central Bank kept the monetary policy rate unchanged at 5% as expected, while it remained in a neutral bias. In our view, we expect monetary policy interest rate remains at its current level in the short and medium term, conditional to the fact that inflation expectations continue anchored at the target level.
- **Next week** several Fed officials will deliver speeches and might give some clues about US monetary policy. Additionally on March 19 the ISDA will publish the recovery rate for the Greek PSI and on March 23 is the deadline for participation of Foreign-loan bonds in the PSI. On the economic side, the Eurozone Flash PMI for March will be released.

Calendar: Indicators

Eurozone: Industrial new orders (January, March 22nd)

Forecast: -1.5% m/m	Consensus: -2.4% m/m	Previous: 3.4% m/m
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We expect industrial orders to have declined in January, after the sharp rebound observed in December. Despite this fall, the orders level should have remained slightly above that observed in Q4 as a whole, confirming the interruption of the downward trend observed during last year. Although soft data showed mixed signals at the beginning of the year, as confidence from the EC showed an interruption in the decline path while PMI data pointed to a slight improvement, both surveys suggest that industrial orders continued to be supported by robust external demand. As orders lead the performance of industrial output, they suggest a timid recovery in this sector in coming months. In addition, given the strong correlation between industrial output and the business cycle, all these figures are in line with our outlook that envisages a moderate improvement in economic activity in Q1, after falling in late 2011.

Eurozone: Flash PMI composite (March, March 22nd)

Forecast: 49.6	Consensus: 49.8	Previous: 49.3
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After disappointing figures in February, we expect PMI composite to have increased slightly in March, driven by a better outturn in both manufacturing and service components. Actually, we see some upside risks to our forecast as the recent private sector deal on Greek debt restructuring could end up having boosted confidence somewhat more than anticipated. Nevertheless, these forecasts mean that PMI could have remained marginally below the 50 points threshold in Q1, suggesting a flattening economic activity. If confirmed, these data suggest that the contraction of GDP by end-2011 should have been short-lived. We remain cautious about the economic outlook in Q1 12, despite the slight improvement of our short-term MICA model which now points to slightly positive instead of clearly negative growth, since risks remain biased downwards.

US: Housing Starts and Building Permits (February, March 20th)

Forecast: 697K, 678K	Consensus: 695K, 685K	Previous: 699K, 676K
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New home starts have reached the highest level of the recovery but are expected to remain relatively unchanged in February. Housing starts rebounded in January in large part due to the multifamily component, which is showing signs of a stronger upward trend compared to the overall figure. YoY growth decelerated significantly, however, positive trends are likely to continue. Building permits are also expected to remain stable in February as the single-unit issuance fails to lift the total number.

US: Existing Home Sales (February, March 21st)

Forecast: 4.65M	Consensus: 4.60M	Previous: 4.57M
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Existing home sales are expected to increase in February as housing affordability surpasses historical highs. An increase in the number of foreclosed homes influenced a significant price decline in January and likely contributed to the jump in existing home sales. Improvements in the employment situation and rising rent costs are most likely pushing people toward the idea of home ownership, with extremely low prices and mortgage rates making existing homes much more attractive.

Singapore CPI Inflation (February, March 23rd)

Forecast: 5.0% y/y	Consensus: n/a% y/y	Previous: 4.8% y/y
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The inflation outturn will be closely watched ahead of the Monetary Authority of Singapore's next semi-annual policy meeting, scheduled for mid-April. Inflation moderated in January after hovering above 5% y/y since June. Despite the recent increase in oil prices, the authorities have officially kept their 2012 inflation forecast of between 2.5%-3.5% y/y. A high inflation outturn would make the MAS more likely to stay on hold at the April policy meeting by leaving the current slope (estimated at 1%) and center of its exchange rate band unchanged. The recent improvement in the global environment also makes it less likely that the MAS will ease policy, despite the ongoing slowdown in Singapore's growth momentum. We expect inflation will remain elevated during the first half of the year, before moderating in the second half (BBVA Forecast: 3.0% y/y for 2012).

Markets Data

			Close	Weekly change	Monthly change	Annual change	
Interest rates (changes in bps)	US	3-month Libor rate	0.47	0	-2	16	
		2-yr yield	0.37	5	11	-21	
		10-yr yield	2.33	30	40	-94	
	EMU	3-month Euribor rate	0.85	-4	-19	-32	
		2-yr yield	0.33	17	11	-131	
		10-yr yield	2.03	24	17	-116	
Exchange rates (changes in %)	Europe	Dollar-Euro	1.307	-0.3	0.1	-7.7	
		Pound-Euro	0.83	-0.7	-0.2	-4.8	
		Swiss Franc-Euro	1.21	0.1	0.0	-5.4	
	America	Argentina (peso-dollar)	4.35	0.3	0.1	7.8	
		Brazil (real-dollar)	1.80	1.2	4.8	8.1	
		Colombia (peso-dollar)	1762	0.0	-1.8	-6.0	
		Chile (peso-dollar)	483	-0.3	-0.7	0.0	
		Mexico (peso-dollar)	12.68	0.4	-0.9	5.2	
		Peru (Nuevo sol-dollar)	2.67	0.1	-0.4	-3.4	
	Asia	Japan (Yen-Dollar)	83.77	1.5	6.9	4.0	
		Korea (KRW-Dollar)	1126.40	0.8	0.3	0.0	
		Australia (AUD-Dollar)	1.054	-0.4	-1.6	5.7	
	Comm. (chg %)	Brent oil (\$/b)	122.9	-2.4	3.4	7.9	
		Gold (\$/ounce)	1648.0	-3.8	-4.6	16.1	
		Base metals	547.6	0.4	0.4	-11.4	
Stock markets (changes in %)	Euro	Ibex 35	8408	1.5	-3.8	-18.6	
		EuroStoxx 50	2604	3.5	4.4	-6.8	
	America	USA (S&P 500)	1403	2.3	4.4	9.6	
		Argentina (Merval)	2744	3.0	0.7	-16.3	
		Brazil (Bovespa)	67749	1.6	3.6	1.3	
		Colombia (IGBC)	15214	1.2	6.6	3.9	
		Chile (IGPA)	21764	1.2	2.2	5.4	
		Mexico (CPI)	38135	1.2	0.7	7.7	
		Peru (General Lima)	22975	-1.1	3.1	12.1	
		Venezuela (IBC)	170724	5.6	25.6	144.3	
	Asia	Nikkei225	10130	2.0	9.4	10.0	
		HSI	21318	1.1	-0.2	-4.4	
	Credit (changes in bps)	Sovereign risk	Ind.	Itraxx Main	124	-9	-21
Itraxx Xover			546	-34	-85	157	
CDS Germany			72	-5	-17	26	
CDS Portugal			1322	106	173	822	
CDS Spain			404	3	13	190	
CDS USA			33	-1	-7	---	
CDS Emerging			226	-13	-39	10	
CDS Argentina			748	-57	-56	106	
CDS Brazil			122	-7	-20	5	
CDS Colombia			111	-5	-20	-6	
CDS Chile			87	-7	-16	16	
CDS Mexico			114	-7	-24	3	
CDS Peru			122	-9	-29	3	

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
US	03/08/2012	<p>➤ Economic Watch: Housing Market Outlook: 2012 Rental demand surges, as home ownership declines. Home prices will continue to slide across the U.S. due to the high inventory of distressed properties. Non-distressed property prices will remain under pressure</p>
	03/12/2012	<p>➤ Banking Watch: FOMC Statement Preview: March 13 Federal Reserve Still Unconvinced by Recent Data <i>(Spanish version)</i></p>
	03/14/2012	<p>➤ Economic Watch: No End in Sight for Financial Bond Slump Weaker demand for foreign bonds appears temporary <i>(Spanish version)</i></p>
	03/13/2012	<p>➤ Economic Watch Job Openings and Labor Turnover Data Revisions Confirm Mixed Employment Dynamics <i>(Spanish version)</i></p>
	03/13/2012	<p>➤ Flash US Fed Watch: FOMC Statement March 13 FOMC statement notes improved data, but also notes downside risks continue. Oil increases expected to impart transitory effect on inflation <i>(Spanish version)</i></p>
EMU	03/14/2012	<p>➤ Europe Flash: "Inflation to remain above 2% during 2012" Inflation remained stable at 2.7% y/y in February for the third month in a row, with an upward revision of January's reading by 0.1pp.</p>
Spain	03/14/2012	<p>➤ Flash España: "Ejecución presupuestaria del Estado a enero 2012" El déficit del Estado a enero de 2012 se situó en el 0,87% del PIB, duplicando el importe de 2011</p>
	03/13/2012	<p>➤ Flash España: "IPC en febrero" El IPC de febrero confirma la pausa prevista de la desaceleración de la inflación general y la moderación de la inflación subyacente.</p>
	03/12/2012	<p>➤ Flash España: "Compraventa de viviendas en enero de 2012" En el primer mes de 2012 se registraron 33.087 ventas de viviendas, un 0,7% más que en diciembre tras corregir la serie de variaciones estacionales y efectos de calendario (cvec). El incremento se debió, sobre todo, al aumento de ventas de vivienda nueva.</p>
Latin America		
Peru	03/15/2012	<p>➤ Flash Peru: Actividad económica muestra tendencia favorable en primer trimestre El PIB de enero se expandió 5,4% a/a (BBVA: 5,3% y Consenso: 5,5%) debido al impulso de los sectores vinculados a la demanda interna.</p>
Mexico	03/14/2012	<p>➤ Flash Mexico: Banxico will keep fondeo rate unchanged. It will continue signaling a monetary pause The recent economic data supports Banxico's neutral stance</p>
	03/15/2012	<p>➤ Flash Mexico: PIB 4T11: crece el gasto de los hogares, cae la inversión privada y repunta la demanda pública Mientras que el consumo privado continúa con buen crecimiento la inversión privada sorprendió a la baj</p>
	03/14/2012	<p>➤ Flash Mexico: Captación de la Banca Comercial: crece a tasas altas En enero de 2012 la captación tradicional de la banca comercial, la cual incluye a la captación a la vista y a plazo, registró una tasa de crecimiento nominal anual de 12.3%</p>
	03/14/2012	<p>➤ Flash Mexico: Banxico mantendrá la tasa de fondeo y seguirá señalando pausa monetaria La información más reciente del escenario económico continúa apoyando la postura neutral que mantiene Banxico</p>
	03/13/2012	<p>➤ Flash Mexico: Inicio prometedor de la Construcción La actividad industrial de la construcción inicia el año con una tasa anual de 4.8%</p>
	03/13/2012	<p>➤ Flash Mexico: Los datos de coyuntura que se van conociendo sesgan al alza la perspectiva de crecimiento de 2012 Buenos datos de coyuntura al comienzo de 2012: sorpresa positiva de la producción industrial de enero</p>

- 03/16/2012 ➤ **Australia Economic Watch: Room for policy maneuver limits risks**
After weathering the 2008-09 Global Financial Crisis (GFC) better than its advanced economy peers, Australia's economy continues to perform well, delivering positive GDP growth and stable inflation.
- 03/15/2012 ➤ **Daily Flash | Asia | 15 March 2012: India leaves rates unchanged**
India's central bank left interest rates unchanged today. The decision was not a surprise after yesterday's inflation outturn and ahead of tomorrow's release of the central government budget.
- 03/14/2012 ➤ **Daily Flash | Asia | 14 March 2012: China's NPC conclusion; further easing of China's credit policies; India's inflation picks up**
The most closely watched event in Asia today was Chinese Premier Wen Jiabao's wrap-up press conference at the conclusion of the annual National People's Congress (NPC), as Premier Wen made headlines

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