

Global Weekly Flash

European officials try to contain financial tensions

The shift in the ECB tone, after yesterday's comments by M Draghi suggesting the ECB could resume the SMP program or apply other non-standard measures, has opened another window of opportunity to tackle the eurozone's debt crisis. These declarations have raised expectations on the next ECB meeting on August 2, as markets now expect actual measures to follow declarations.

- Early in the week Moody's rating agency surprised investors by changing the outlook on German sovereign rating (and those of other triple A countries) to negative from stable. The rating agency cited two main reasons supporting the action: 1) The uncertainty regarding the outcome of the eurozone debt crisis (mostly the possibility of Greece exiting the Euro) and 2) the increasing likelihood that greater collective support for other euro area sovereigns will be required, which would increase the feedback loop between core and peripheral countries.
 - In reaction to this, Spanish financial tensions heightened, driving the 5Y bond yield above of 7%. Italy suffered a spillover effect, and even the French and German financial sectors were negatively impacted. Besides, the euro recorded a new low at 1.204\$. The intensification of financial strains across Europe has prompted European officials to release statements supporting Spain and the euro. In this regard, apart from Draghi's words, finance ministries from France and Germany have declared that Spanish borrowing costs did not reflect Spain's fundamentals. Other ECB officials have also opened the debate on giving a banking license to European rescue funds. Moreover, there were some rumours about plans for the EFSF to purchase government bonds from financial institutions, which would help to eliminate the pernicious circle between banks and sovereigns.
 - Meanwhile, Spain managed to sell EUR3bn in 3M and 6M T-bills, reaching its issuance target but its borrowing cost increased to 2.43% in the 3M T-bill and 3.69% in the 6M T-bill. Next week the Spanish Tesoro will also have another market's test selling bonds.
 - Ireland took another step in its return to capital markets by saying it will sell new bonds on August 2 for the first time in almost two years, while also offering to exchange short-dated notes for longer-term debt. Under the bond switch, the NTMA is offering holders of existing bonds due to mature in 2013 and 2014 the opportunity of switching them into a new 5y bond maturing on 18 October 2017 and/or the current bond which will mature on 18 October 2020.
- **Waiting for Central's bank meetings: The ECB hints its willingness to act**
 - Later in the week ECB President Mario Draghi sent a strong signal remarking that the central bank is ready to act. He pledged to do whatever was necessary to preserve the euro and act to lower unreasonably high government borrowing costs. Unlike other occasions he was very clear: "To the extent that the size of these sovereign premia hamper the functioning of the monetary policy transmission channel, they come within our mandate." "Believe me, it will be enough." According to Draghi's remarks, we expect some kind of measure to be taken either at the ECB meeting next Thursday or around it. In particular, the ECB could buy bonds of struggling countries, beyond fine tuning collateral rules, as Mr. Draghi suggested in July's ECB meeting. Moreover, this week, European Central Bank Governing Council member Ewald Nowotny said there are arguments in favour of giving Europe's rescue fund a banking license, although he recognized that there are not specific discussions within the ECB at this point, signalling that if they were considered, it would take time to reach an agreement on this.
 - On the other side of the Atlantic, the most recent Fed speeches and details from the latest FOMC meeting minutes suggest increasing concerns related to developments in Europe that may push the committee towards additional quantitative easing. Still, we do not expect that the Fed will announce any additional action in the upcoming meeting as the ideological division among members remains strong. The extension of Operation Twist in the previous meeting bought the Fed some more time to debate the effectiveness of further monetary policy easing, and we expect that this next meeting will involve serious discussions regarding QE3. However, it is more likely that the Fed will announce QE3 in the September meeting.

- **Economic data remain weak in the EZ and in Germany**

- European economic data continue mirroring the ongoing weakness in Europe. The euro-area consumer confidence fell to the lowest level in almost three years (since August 2009) in July, declining to -21.6 from -19.8 in June. Moreover, the German composite output index from PMI fell for the sixth month running in July, to 47.3 from 48.1 in June. Manufacturers suffered a sharper drop in business activity than service providers during July, as well as a greater loss of momentum relative to the situation in June. Also the German Manufacturing PMI fell to 43.3 (45.0 in June), 37-month low. In addition, German business confidence fell more-than-expected to 103.3 in July, the lowest in more than two years, damping the outlook for economic growth and company earnings.
- In the US, the demand for new U.S. homes unexpectedly dropped in June from a two-year high, indicating the housing recovery will be uneven. Purchases decreased to a 350,000 annual rate, down 8.4% from the prior month and the weakest since January. On other hand, orders for durable goods rose by a seasonally adjusted 1.6% in June for a second month, as a surge in demand for aircraft and military hardware overshadowed a slump in business equipment spending. Although orders excluding the volatile transportation category dropped 1.1 % in June, signalling a slowdown in U.S. business spending. In contrast, jobless claims fell 23k on the week, to 353k, and the 4 week moving average fell to 367k the low end of the recent range.
- In Asia, China's flash PMI improved, adding to evidence of a rebound. HSBC flash PMI estimate for July rebounded to 49.5% from 48.2% in June. Production, new orders, and new export orders all increased. The rise in the production component, in particular, was noteworthy as it moved to above 50% for the first time in five months, improving to 51.2% from 49.3 in June. Other recent indicators, including loan growth and investment have pointed to stabilizing growth trends on increasingly supportive fiscal and monetary policy stances. In contrast, Korea's second quarter GDP came in below expectations (2.4% y/y, consensus: 2.5% y/y, BBVA: 2.6% y/y) as weak investment spending and consumption weighed on growth. To address the ongoing slowdown, Korea has implemented a mix of fiscal and monetary measures in recent weeks. Looking ahead, weakening consumer confidence and expectations of a sluggish global environment suggest that growth will remain under pressure in the coming months.
- In Mexico, May IGAE grew 4.1% from May 2011, however, the index was down 0.36% from April in non-annualized seasonally adjusted terms. The economy has until now been expanding at good pace but the recent sluggish performance of the U.S. economy could weigh on the Mexican economy.

Next week: Investors will keep interest on ECB and Fed meetings. Very busy week ahead for sovereign bond auctions. France and Belgium will sell bills, and Belgium, Germany, Italy and Spain will also sell bonds. In China, the focus will be on the release the official July PMI. In the US, nonfarm payrolls and unemployment rate will be published.

Calendar: Indicators

Eurozone: Flash HICP inflation (July, July 31st)

Forecast: 2.4% y/y	Consensus: 2.4% y/y	Previous: 2.4% y/y
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Headline inflation is expected to remain stable at 2.4% y/y, as recent increases in oil prices suggest that energy inflation should have slowed slightly and this could have been partly offset by a further acceleration in fresh food inflation. Regarding core inflation, we expect it to remain stable at 1.8% y/y, and this stabilization should have been widespread across its subcomponents. Looking forward, we continue to expect a slow deceleration of headline inflation, which should remain above the ECB target over the next quarter and revert to around 2% by the end of the year. Core inflation is likely to ease slightly to remain around 1.7% during the second half of the year. Risks to this scenario remain balanced.

Eurozone: Unemployment rate (June, July 31st)

Forecast: 11.2%	Consensus: 11.2%	Previous: 11.1%
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We expect the unemployment rate to have stepped up in June to 11.2%, from 11.1% in April, continuing the upward trend observed since mid-2011 and cumulating a 1.2pp increase since then. Given that the employment performance tends to follow activity fluctuations with a time lag of two to four quarters, and considering that recent data suggests that activity is contracting again in Q2 and Q3, the unemployment rate is likely to increase slightly further along 2012. Confidence surveys for July also point in this direction, with firms' hiring intentions declining further at a significant pace. Across countries, the worsening in employment expectations was also widespread, although the labour market in Germany remains resilient.

US: Personal Income and Outlays (June, July 31st)

Forecast: 0.3%, 0.0%	Consensus: 0.4%, 0.1%	Previous: 0.2%, 0.0%
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Momentum in the consumer sector, as measured by personal income and outlays, is expected to remain relatively steady in June compared to previous months. Weak employment conditions have yet to take a significant toll on personal income, which has grown at a healthy pace since December. The wages and salaries component was unchanged in May, yet we expect to see positive growth in June given the 0.3% rise in average earnings for the month. On the down side, stronger income growth has yet to translate into increased spending. Lingering uncertainties have left consumers hesitant to spend, even with the boost from falling gas prices. Other consumer data from June, including the larger-than-expected decline in both nominal and real retail sales, suggest minimal growth in personal outlays for the month.

US: Nonfarm Payrolls and Unemployment Rate (July, August 3rd)

Forecast: 100K, 8.2%	Consensus: 97K, 8.2%	Previous: 80K, 8.2%
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July's employment report is unlikely to show a drastic change from June, and the question remains whether we will see a clearer trend in job growth following the supposed weather impacts in Q1 and Q2. In July, we have seen very little improvement in labor market conditions compared to the previous month, with consumer sentiment reports still pointing to weakness in terms of job availability and future income. There was a slight improvement in weekly jobless claims data in the beginning of the month, but this was mostly due to the shortened holiday week and the usual seasonal volatility this time of year. The later claims estimates for July jumped back up to levels more consistent with June's data, suggesting that labor market conditions remain weak. Furthermore, details from manufacturing surveys indicate decelerating job growth in the sector.

China: PMI for July (August 1st)

Forecast: 50.7	Consensus: 50.4	Previous: 50.2
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While growth momentum continued to slow in the second quarter, recent indicators suggest that the slowdown may be stabilizing on increasing policy support. Loan growth and the latest flash HSBC PMI (49.5 vs. 48.2 in June) have both improved on rising production, new orders, and new export orders. Official PMI has been trending above 50, but has weakened since April. We expect this trend to reverse in July, with a pick up to 50.7%, from 50.2% in June. Despite the weak external environment, we expect China's overall growth momentum to rise through in the second half of 2012 on increasing monetary and fiscal measures.

Markets Data

			Close	Weekly change	Monthly change	Annual change	
Interest rates (changes in bps)	US	3-month Libor rate	0.45	-1	-1	19	
		2-yr yield	0.23	3	-8	-12	
		10-yr yield	1.45	-1	-17	-135	
	EMU	3-month Euribor rate	0.42	-3	-23	-119	
		2-yr yield	-0.06	1	-19	-123	
		10-yr yield	1.31	15	-25	-122	
Exchange rates (changes in %)	Europe	Dollar-Euro	1.225	0.8	-1.7	-14.9	
		Pound-Euro	0.78	0.4	-2.4	-10.8	
		Swiss Franc-Euro	1.20	0.0	0.0	6.2	
	America	Argentina (peso-dollar)	4.57	0.2	1.3	10.4	
		Brazil (real-dollar)	2.02	-0.1	-2.6	30.5	
		Colombia (peso-dollar)	1792	0.7	-0.2	0.8	
		Chile (peso-dollar)	486	-0.7	-4.0	6.1	
		Mexico (peso-dollar)	13.45	0.6	-0.9	14.6	
		Peru (Nuevo sol-dollar)	2.63	-0.5	-1.6	-4.1	
	Asia	Japan (Yen-Dollar)	78.16	-0.4	-2.0	1.8	
		Korea (KRW-Dollar)	1138.25	-0.3	-1.5	8.0	
		Australia (AUD-Dollar)	1.041	0.3	3.3	-5.3	
Comm. (chg %)		Brent oil (\$/b)	105.8	-1.0	13.1	-9.4	
		Gold (\$/ounce)	1620.1	2.2	2.9	-0.5	
		Base metals	497.0	-1.1	-0.5	-16.5	
Stock markets (changes in %)	Euro	Ibex 35	6398	2.4	-4.0	-33.6	
		EuroStoxx 50	2248	0.5	3.8	-15.8	
		USA (S&P 500)	1360	-0.2	2.1	5.2	
	America	Argentina (Merval)	2433	-1.1	6.7	-26.7	
		Brazil (Bovespa)	54003	-0.4	1.7	-8.2	
		Colombia (IGBC)	13489	-1.7	0.5	-3.9	
		Chile (IGPA)	20499	-2.5	-1.6	-3.2	
		Mexico (CPI)	40977	0.4	3.8	13.8	
		Peru (General Lima)	19674	-1.7	-3.2	-10.4	
	Asia	Venezuela (IBC)	244444	-0.8	-3.0	172.9	
		Nikkei225	8567	-1.2	-1.9	-12.9	
		HSI	19275	-1.9	0.5	-14.1	
Credit (changes in bps)	Sovereign risk	Ind.	Itraxx Main	170	1	-7	53
		Itraxx Xover	664	2	-40	226	
		CDS Germany	77	-1	-26	13	
		CDS Portugal	856	25	33	-68	
		CDS Spain	587	-17	0	224	
		CDS USA	49	1	-1	---	
		CDS Emerging	262	0	-34	50	
		CDS Argentina	1175	28	-106	582	
		CDS Brazil	143	0	-15	29	
		CDS Colombia	127	1	-20	16	
		CDS Chile	110	-2	-12	38	
		CDS Mexico	121	-1	-26	10	
		CDS Peru	137	-5	-27	14	

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
Spain	07/23/2012	Crisis y globalización: una perspectiva desde la banca española Análisis del reto que suponen la crisis y la reforma para los bancos globales, el impacto de la reforma regulatoria en países emergentes y la Unión Bancaria Europea, entre otros temas.
US	07/23/2012	U.S. Economic Watch. State Activity Indexes June 2012 Exceptional drought conditions dampen activity in much of the Midwest and central United States. Again, high-tech hubs on the coasts surge in terms of activity.
	07/23/2012	U.S. Weekly Flash. Fed Chairman Addresses Cautions on Economic Outlook Ben Bernanke spoke in his semiannual monetary policy report to Congress, reiterating most details that were highlighted in the latest FOMC meeting minutes (Spanish version)
Latin America		
	07/25/2012	Pension reforms in Latin America: Balance and challenges ahead Published by BBVA in 2010. (Spanish Version)
Brazil	07/26/2012	Brazil Flash: "Better news from credit markets" Amid heightened concerns about Brazil's credit markets, official data released today brought some good news: non-performing loans rates declined, credit expansion was relatively robust.
	07/24/2012	Brazil Flash. The weakness of the real drives profit remittances down and prevents an additional increase in the current account deficit The current account deficit remained practically unchanged in the first half of the year as the impact of a lower trade surplus was offset by a decline in profit remittances abroad.
Chile	07/25/2012	A 25 Años de la Reforma del Sistema Previsional Chileno: Evaluación y propuestas de ajuste. Editado por BBVA en abril de 2006.
Colombia	07/25/2012	Confianza en el futuro: Propuestas para un mejor sistema de pensiones en Colombia. Editado por BBVA en diciembre de 2009.
Mexico		
	07/26/2012	Presentación Situación Inmobiliaria México Julio 2012 La construcción continúa creciendo por encima que el resto de la economía. Los niveles pre-crisis se han alcanzado, aunque los motores de impulso podrían comenzar a agotarse.
	07/26/2012	Situación Inmobiliaria México Julio 2012 La construcción recupera los niveles pre-crisis, pero se agota su impulso; se anticipa un crecimiento más pausado en adelante.
	07/25/2012	Analysis of the Use of Financial Services by Companies in Mexico: What does the 2009 Economic Census tell us? In this article, we present a descriptive analysis of the results of the 2009 Economic Census regarding the use of bank credit and accounts by productive entities (companies).
Asia		
	07/26/2012	Asia Daily Flash 26 July 2012: Korea's 2Q GDP falls short of estimates; The Philippines cuts rates; China unveils more fiscal support measures Korea's second quarter GDP came in below expectations (2.4% y/y, consensus: 2.5% y/y, BBVA: 2.6% y/y) as weak investment spending and consumption weighed on growth.
	07/25/2012	Asia Daily Flash 25 July 2012: Hong Kong to enhance its role as an RMB center; Australia's inflation edges down; Japan's exports slow; Thailand holds rates The HKMA today announced a relaxation on RMB conversion limits for non-residents.
	07/24/2012	Asia Daily Flash 24 July 2012: China's flash PMI improves; Hong Kong's trade data disappoints; Vietnam's inflation declines Further signs of stabilizing growth momentum were apparent in today's HSBC flash PMI estimate for July, which rebounded to 49.5% from 48.2% in June.
	07/23/2012	Asia Daily Flash 23 July 2012: Korea announces more measures to prop up the economy; Singapore's inflation remains high while Hong Kong's eases Markets in Asia were down sharply today, on a combination of concerns about slowing growth in China and, more significantly, financial tensions in Europe.
EAGLEs	07/24/2012	EAGLEs Flash: "The latest Fortune 500 ranking confirms EAGLEs corporations as global players" EAGLEs companies have three folded their global revenue share since 2005. (Chinese Version)

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