

Global Weekly Flash

Negative sentiment strikes again

- **Financial strains have intensified after the Easter holiday in Europe amidst renewed concerns on European peripheral countries and weaker activity data in the US and China**
 - The Spanish 10-year spread against the German Bund surged to 433bps last Wednesday, when the 10-year yield was close to 6%. Uncertainties were mainly focused on Spanish bonds and in the short-end of the yield curve with the 2-year yield increasing by 27bps this week. Spain is not alone indeed, since Italy has also been affected. The recent Italian bond auctions reflected the higher risk aversion respect to peripherals. Italy sold EUR11bn in 3-month and 12-month bills reaching its maximum selling target but with yields way above the observed one month ago (12M bills average yield reaching 2.84% vs 1.405 on March 13). In the same vein, Italy's 3-year borrowing cost rose sharply, to 3.89% vs 2.76% in last month's auction (the highest since January). Moreover, the positive correlation between the European sovereign CDSs and the banking sector's CDS is back to markets. Both the Spanish and Italian 5-year CDS widened by 16 and 17bps this week, while the European banks' CDSs widened by 6bps and the US banks' CDSs by 9bps. Over the last week, banks' equities retreated sharply following concerns on the periphery, capital requirements and economic growth per se. The positive effects of LTRO have almost evaporated. Meanwhile, European governments are strengthening their efforts in increasing market confidence. The Spanish government announced additional EUR 10bn cuts of public expenditures while the parliament passed the stability law on zero structural public deficit. The European Commission has welcomed this announcement, indicating that its preliminary assessment on the draft budget is positive, however it is still asking for more detailed information around fiscal adjustments in regional governments and it is also assessing imbalances in a regular mission. Regarding the ECB, heightened financial tension in financial markets has brought ECB's debate on SMP back in the spotlight. Finally, the IMF, which pointed out the European debt crisis as the main risk to global growth, continues to advocate the need to strengthen its resources. A discussion on the euro firewall is expected next week in the G20 meeting, but the likelihood of getting a deal done is relatively low
 - Despite the apparent risk aversion observe in peripherals, flows to safe-haven assets did not intensify. The demand at this week's German auction was very weak, with the auction success rate slumping from 117.3% to 82.2%. In the same line, bid-to-cover ratios at the US Treasury bond auctions were practically the same as in previous auctions, indicating the US government debt failed to attract higher flows. However, capital flows to emerging markets failed to remain positive over the last week; some retrenchment was seen particularly in equity flows. Even assuming some overshooting, uncertainties regarding peripherals might not be lifted shortly. Beyond, budget execution figures and short-term indicators, elections will be also closely monitored in the coming weeks. In France, first round of presidential election, due to on April 22 and pools in Greek, which elections are approaching, may introduce some noise next week.
 - Month to date some eurozone central banks have already published their March balance sheets which should give some signal of which banking systems were the main borrowers at the second 3y LTRO. Today the bank of Spain released the data of Spanish banks' borrowing from ECB. The data showed total net borrowing was EUR227.6 bn, up from EUR152.4 bn in February, to its highest record. The banks took out EUR315.3 bn in longer-term loans, a sharp rise from EUR152.3 bn in February while borrowing at the MRO declined by EUR16.5 bn to EUR1bn. Also the Italian central bank announced that in March net borrowing by the Italian banks at the ECB rose EUR67bn to EUR260bn. They took up around a quarter of the funds offered by the ECB to European lenders (EUR529bn was borrowed by the ECB), as it happened in the December auction where the country's lenders borrowed around EUR116bn at that auction. According to Portuguese central bank data, borrowing (net of the deposit facility) by Portuguese banks for March was EUR54.2bn, which corresponds to an increase of around EUR8.1bn with respect to February. Also Portuguese lenders' borrowings jumped to a new record in March. As we expected, peripheral banking systems were the main borrowers at February's 3y LTRO, particularly Spanish and Italian banks tool up around a half of the funds of this auction.

- Next week, Spain and Italy will face together almost EUR 20bn in maturing debt. Spain will auction EUR 3.5bn in 12M and 18M bills on Tuesday and will sell about EUR 4.5bn in long-term bonds on Thursday. However, one should keep in mind that the Spanish Treasury has plenty of flexibility for future auctions as it has already placed EUR 40bn year to date, around of 45% of its total borrowing requirement for the year.
- **Disappointing March's labor market figures in the US introduce some concern about the sustainability of the US recovery**
 - Successive better-than-expected employment figures over the last few months had spurred growing optimism about the pace of US economic recovery. Against a backdrop of weak economic data in Europe and Asia, the weakness showed by March Employment report has sparked some concerns that the global economic recovery was starting to falter. Non-farm payrolls increased by 120K in March, while the unemployment rate dropped to 8.2%. However, the fall in unemployment rate was likely due to a decline in the participation rate. These figures support recent remarks from the Federal Reserve highlighting concerns that the improvements in labor market appear "out of sync" with the rest of the recovery. Looking ahead to the next FED meeting in April, we do not expect that neither the March employment report nor the conclusion of the Beige book will cause any immediate policy actions.
- **Q1 GDP growth slowed on weaker-than-expected investment**
 - Q1 GDP of China registered lower than expected 8.1% y/y growth (BBVA: 8.7%; consensus: 8.3%), down from 8.9% y/y from the previous quarter, mainly on sluggish investment. Despite the sharper slowdown, we believe that the growth momentum has bottomed and should rebound through the rest of the year on supportive policies, including easing monetary policy and consumption subsidies. This is consistent with the better than expected PMI outturn for March. Moreover, aggregate credit also shows larger-than-expected new loans. The weaker-than-expected GDP strengthens the case for RRR cuts (100-150bps cuts in the coming months), and up to two interest rate cuts if external environment deteriorates and inflation remains contained. We maintain our full-year GDP growth projection of 8.3% and will continue to monitor high-frequency activity indicators for revisions.
- **Latin America broadly on track**
 - In Mexico industrial production grew less than expected in February driven by both manufacturing and construction. However the fall was due to seasonal adjustments. In addition, all other activity data and expectations didn't point to a steady decline in industrial activity, so we maintain our view of 1Q12 GDP growth above 4Q11 numbers. In our view, the negative surprise in February industrial production does not impair the prospects for activity
 - The Peruvian Central Bank kept the policy rate at 4.25%. The delay in the convergence of inflation to the target range until the end-2012 and the ongoing problems in Europe make us to maintain our forecast that the monetary policy pause will continue in the coming month.
- **Next week:**
 - Investors will keep attention on Spanish government bond auction. Additionally, IMF spring meeting due to the end of the week may bring news about the decisions to increase IMF's resources.

Calendar: Indicators

Eurozone: External trade balance (February, April 16th)

Forecast: €6.8bn	Consensus: n.a.	Previous: €5.9bn
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We expect the external surplus to have increased in February, driven by steady exports growth, while imports should have remained flat after the sharp rebound observed in January. According to these forecasts, the January-February average should reveal that exports could have increased by around 3.5% over Q4 11, when they grew at 1.7% q/q. Despite the fact that imports in nominal terms have probably been boosted by higher commodity prices, they could have increased a more moderate pace (2.1% q/q) than exports, weighted down by the depressed domestic demand. Overall, we expect net exports to contribute positively to growth again in Q1 12, after a contribution of 0.3pp in Q4 11.

Eurozone: HICP inflation (March, April 17th)

Forecast: 2.6% y/y	Consensus: 2.6% y/y	Previous: 2.6% y/y
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Headline inflation is expected to be confirmed at 2.6% y/y in March, easing from 2.7% y/y in February. Despite higher oil prices, we continue to expect a favorable base effect in March after the strong energy inflation observed a year ago. Regarding core inflation of other components, our forecast suggests that it should have remained broadly unchanged, resulting in the stabilization of core inflation at 1.9% y/y. Looking forward, we foresee a slower than previously expected moderation in inflation in coming months as a result of recent increases in oil prices. As a result, HICP inflation should remain slightly above the ECB target all through 2012.

US: Retail Sales, Ex Auto (March, April 16th)

Forecast: 0.6% m/m, 0.7% m/m	Consensus: 0.4% m/m, 0.6% m/m	Previous: 1.1% m/m, 0.9% m/m
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Rising gas prices drove nominal retail sales in February and are expected to do the same in March. Weekly retail surveys suggest that seasonal factors are also at play, including a warmer-than-usual winter which likely influenced sales throughout the month. Although vehicle sales declined in March and will likely weigh on the headline figure, strength in truck sales may limit any weakness in nominal terms. Despite the fact that high gas prices present some risk to discretionary spending, consumers continue to report steady activity.

US: Industrial Production (March, April 17th)

Forecast: 0.2% m/m	Consensus: 0.3% m/m	Previous: 0.0% m/m
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Industrial production is expected to increase only slightly in March following disappointing figures in the prior month. The mining and utilities components have dragged down output, while the manufacturing sector has been relatively strong. In particular, the warmer weather has hurt utilities output. Although the latest regional Federal Reserve surveys have noted increasing manufacturing activity, the shipments components actually declined, supporting the idea that total industrial production has been relatively weak. In addition, the production component of the ISM Manufacturing Index increased in March, confirming the relative strength of the sector.

India WPI Inflation for March (April 16th)

Forecast: 6.6% y/y	Consensus: 6.7% y/y -	Previous: 7.0% y/y
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The coming week will be crucial for India as investors eye the March WPI inflation for cues on the course of monetary policy action when RBI meets on April 17. We expect inflation to moderate due to favourable base effects, easing input costs and lower price pressures from slowing growth. A benign inflation outturn, especially core, would pave the way for a growth supportive 25 bps interest rate cut by the Reserve Bank of India (RBI), which remains our base case. However, on a broader note, RBI's perceived room for policy manoeuvre looks limited given incipient inflationary pressures from possible pass through of high energy prices and food supply bottlenecks. We expect RBI to cut policy rates by 75 to 100 bps in 2012.

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.47	0	-1	19
		2-yr yield	0.27	-4	-11	-42
		10-yr yield	1.99	-6	-28	-142
	EMU	3-month Euribor rate	0.75	-1	-12	-58
		2-yr yield	0.12	-2	-13	-173
		10-yr yield	1.73	0	-22	-165
Exchange rates (changes in %)	Europe	Dollar-Euro	1.308	-0.1	0.5	-9.3
		Pound-Euro	0.82	-0.1	-0.8	-6.8
		Swiss Franc-Euro	1.20	0.1	-0.8	-6.6
	America	Argentina (peso-dollar)	4.39	0.2	0.8	8.0
		Brazil (real-dollar)	1.84	0.9	2.0	16.7
		Colombia (peso-dollar)	1778	0.3	0.8	-1.1
		Chile (peso-dollar)	485	0.2	-0.3	3.0
		Mexico (peso-dollar)	13.16	1.4	3.6	12.9
		Peru (Nuevo sol-dollar)	2.66	0.2	-0.2	-5.5
	Asia	Japan (Yen-Dollar)	81.00	-0.8	-3.1	-2.6
		Korea (KRW-Dollar)	1135.00	0.3	0.8	4.1
		Australia (AUD-Dollar)	1.037	0.6	-0.6	-1.9
Comm. (chg %)	Brent oil (\$/b)	121.1	-1.9	-3.1	-1.9	
	Gold (\$/ounce)	1669.3	1.8	2.0	12.3	
	Base metals	540.0	0.5	-1.4	-14.3	
Stock markets (changes in %)	Euro	Ibex 35	7241	-5.5	-13.7	-31.4
		EuroStoxx 50	2289	-4.3	-11.1	-21.6
	America	USA (S&P 500)	1375	-1.7	-1.4	4.2
		Argentina (Merval)	2504	-2.1	-7.6	-26.0
		Brazil (Bovespa)	61864	-2.9	-9.4	-7.2
		Colombia (IGBC)	15038	0.6	-0.9	6.6
		Chile (IGPA)	21630	-2.2	0.0	-2.5
		Mexico (CPI)	39064	-0.9	2.9	5.6
		Peru (General Lima)	23443	-0.8	1.9	21.0
	Asia	Venezuela (IBC)	207428	3.6	26.1	192.7
		Nikkei225	9638	-0.5	-4.1	0.5
		HSI	20701	0.5	-2.8	-13.8
Credit (changes in bps)	Ind.	Itraxx Main	135	2	8	37
		Itraxx Xover	645	9	90	278
	Sovereign risk	CDS Germany	70	-4	-2	25
		CDS Portugal	1092	-12	-205	490
		CDS Spain	481	18	78	246
		CDS USA	29	-1	-4	---
		CDS Emerging	261	6	35	61
		CDS Argentina	893	0	140	335
		CDS Brazil	129	2	6	22
		CDS Colombia	118	3	7	19
		CDS Chile	99	1	8	39
		CDS Mexico	127	5	13	27
		CDS Peru	131	3	7	-23

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
USA	04/10/2012	<p>➤ Economic Watch: Uncertainty in the Employment Situation The ratio of unemployed to job openings remains well above pre-recession levels, an indication that business' demand for labor is not yet repaired.</p>
	04/09/2012	<p>➤ Economic Watch: Uncertainties Weighing on Economic Activity in 1H12 GDP growth in 2012 is expected to outpace that of 2011, however, activity in 1Q12 will likely be slower than in 4Q1.</p>
	04/09/2012	<p>➤ U.S. Weekly Flash: Disappointing Employment Report for March Nonfarm payrolls increased 120K in March, much less than the survey consensus for 201K, with private payrolls up only 121K.</p>
EMU	04/10/2012	<p>➤ Economic Watch: Leaving stereotypes behind: Spain recovers competitiveness and productivity faster than any other eurozone economy Spain recovers competitiveness and productivity faster than any other eurozone economy. Productivity has soared by 11% (the largest increase in the eurozone).</p>
Spain	04/11/2012	<p>➤ Flash España: Producción industrial en febrero de 2012 Los datos observados de enero y febrero, junto con las señales adelantadas de los indicadores cualitativos de marzo, continúan mostrando un tono contractivo de la actividad industrial.</p>
	04/10/2012	<p>➤ Economic Watch: "Leaving stereotypes behind: Spain recovers competitiveness and productivity faster than any other eurozone economy" Spain recovers competitiveness and productivity faster than any other eurozone economy. Productivity has soared by 11% (the largest increase in the eurozone).</p>
Latin America		
Colombia	04/10/2012	<p>➤ Flash Colombia: Crédito total continuó proceso de desaceleración en Febrero Crédito de consumo con resistencia, mientras la cartera comercial continúa con su desaceleración. Indicadores de calidad son robustos, aunque anticipan deterioros moderados.</p>
	04/09/2012	<p>➤ Flash Colombia: Efectos cambiarios y disminución en los precios de los alimentos favorecen trayectoria de inflación Inflación del primer trimestre es menor a la registrada hace un año. Principales mediciones de inflación básica en línea con el objetivo inflacionario.</p>
Mexico	04/11/2012	<p>➤ Mexico Flash: The negative surprise in February industrial production does not impair the prospects for activity Industrial production in February recorded its biggest monthly drop since May 2009, with decreases in both construction (-2.7% m / m) and manufacturing (-1.4% m / m) <i>(Spanish version)</i></p>
	04/11/2012	<p>➤ Flash México: Construcción sí cumple y crece 5% Sin buscar cargo público, la construcción cumple expectativa de crecimiento. Despegue esperado, pero en construcción, la edificación se separa de otros componentes</p>
	04/09/2012	<p>➤ Mexico Flash: March's inflation: new reduction in the annual rate due to a sharp reduction in non core inflation General: Actual: 0.06% m/m vs. BBVA:0.05% m/m Consensus:0.08% m/m. Core: Actual: 0.24% m/m, vs. BBVA:0.26% m/m Consensus:0.26% m/m <i>(Spanish version)</i></p>
Asia	04/12/2012	<p>➤ Daily Flash Asia 11 April 2012: Earthquake strikes off Indonesia; ADB lowers growth forecasts; Japan machinery orders surprise to the upside An earthquake has struck in the Indian Ocean, off the western coast of Sumatra (Indonesia), triggering an official tsunami warning and putting a damper on what was already a fairly downbeat day.</p>
	04/10/2012	<p>➤ Daily Flash Asia 10 April 2012: China's March inflation rise, while imports suggest weak domestic demand Although many markets around the region were closed during part of the holiday period, there was, nevertheless, an abundance of market-moving news, especially from China.</p>
	04/10/2012	<p>➤ China Banking Watch: Relaxation of banking regulations in support of growth Regulatory initiatives in 2011 were aimed at averting overheating and mitigating risks in the banking sector.</p>

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