

Global Weekly Flash

Fed Announces QE3 and Extends Policy Guidance; Germany's Court decision clear the way to tackle the European debt crisis in a more flexible way

- **FOMC remains far from an exit strategy. FOMC's decision highlighted the prolonged extent to which the Fed will continue with easy monetary policy**
 - Bernanke made it clear the Fed's highly accommodative stance will be appropriate even as economic growth picks up. The FOMC is committed to promoting a stronger recovery and will be careful not to prematurely tighten monetary policy in order to give some time to the economy to show steady growth.
 - Effective immediately, the FOMC agreed to purchase \$40bn per month of MBS on an open-ended basis. Despite the fact that recent macroeconomic data were not a dead giveaway for QE3, the Fed decided to move forward with additional easing in order to stimulate the economy. As expected, this round of quantitative easing will be slightly different than the previous two rounds, with plans to purchase \$40bn per month of mortgage-backed securities (MBS) on an open-ended basis (i.e. until we see substantial improvement in labor market conditions given that inflation is under control). Purchases will amount to \$23bn for the rest of September.
 - The Fed also extended its policy guidance through at least mid-2015 and will continue Operation Twist through the end of the year. The committee expects that "exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015" rather than late-2014 as announced in the previous meeting. In regards to the appropriate timing of policy firming, we see a dramatic shift from the June meeting in the number of participants expecting the first target rate hike in 2015. The FOMC also decided to continue Operation Twist as scheduled through the end of the year. Ultimately, both policy accommodations will increase long-term securities holdings by about \$85bn per month until the end of 2012.
 - Committee members downgraded their outlook for 2012 but upgraded growth projections for 2013. Compared to our own baseline scenario, we continue to see a more optimistic outlook from the Fed. On average, the Fed's projections suggest annual growth between 2.1% and 2.5% for 2013, higher than our expectations for a 1.8% annual rate. Bullish long-term projections remain unchanged from the previous release.
- **Europe takes additional steps following the road map previously set**
 - Following the announcement of actions to be taken by the ECB to address the "convertibility risk" (the risk facing by an asset to be re-denominated in a lower currency), this week several events have confirmed the willingness of Member states to tackle the eurozone sovereign debt crisis. What is more the eurozone also showed a more flexible approach to resolve the problem.
 - First, the German Constitutional court has backed the permanent European Stability Mechanism (ESM). Yet, the Bundestag must to sanction any potential future increase in the EFSF's guarantee limit. It (the Bundestag) has to ratify any use of the stability fund. Despite all these caveats the German Court decision makes possible that the ESM will come into force as shortly as October 8). Additionally, it removes one obstacle from the implementation of the ECB's Outright Monetary Transaction programme (secondary market bond purchase) to address the European crisis.
 - Second, the Dutch election results showed an increase pro-European sentiment.
 - Additionally following the mandate of the European Council, the European Commission this week presented its formal proposal to create a Single Banking Supervision Mechanism for the Euro Area (SSM for its acronym in English), including a staggered schedule through 2014. Progress in monitoring was established as a prerequisite to allowed the ESM recapitalize banks directly.

- Lastly, the “Troika” released its verdict of Portugal’s economic programme. They concluded that Portugal programme remain broadly on track, allowing the disbursement of the next loan tranche (EUR 3.4bn) in October, subject to the approval of the IMF and the ECOFIN. The positive Troika’s assessment on Portugal’s programme came despite the upward revision in its deficit target to 5 percent in 2012 and to 4.5 percent from 3 percent in 2012. From our point of view, this reflect a more flexible approach from the Troika to resolve the European Crisis, giving more time to peripheral countries to regain sound fiscal target in order to reduce fiscal imbalances while avoiding the negative feedback between fiscal discipline and short-term growth. In this regard, the Troika’s statement said that “it stands ready to support Portugal until full market access is regained.” At the same time, the Portuguese government announced an array of measures that will be included in the 2013 budget in order to achieve the new announced targets.
 - We are still pending on the assessment of the Eurogroup (meeting today) on recent developments and the way forward after the ECB decision.
 - Financial markets have reacted positively to recent announcements. Peripheral spreads have narrowed significantly. Beside, several financial and corporates firms took advantage of the improving financial condition issuing debt: BBVA, Santander, Gas Natural, Iberdrola, among others. Additionally, Ireland tested the financial markets again. It sold EUR 0.5bn in a 3-month Treasury Bills at an average yield of 0.7%, down from 1.8 percent in the previous auction. The bit-to-cover was high 3x.
 - Moody's threat this week to downgrade the US government's credit rating unless lawmakers are able to reduce the percentage of debt to gross domestic product during budget negotiations next year. In a statement, the rating agency said that the rating would likely be cut to Aa1 if negotiations fail to produce such policies. Plans that produce a stabilization and then downward trend in the ratio over the medium term will likely lead to an affirmation of the rating. Looking back of last year Standard & Poor’s downgrade to AA+.
- **Chinese data suggested the growth slowdown has not yet bottomed out. In the Eurozone the data still show that conditions in peripheral countries continue to remain difficult, while France and Germany are being more resilient**
 - In Asia, China's August activity indicators confirm the ongoing slowdown. Industrial production growth slowed to 8.9% y/y (consensus: 9.0%; BBVA: 8.4%), fixed asset investment moderated to 20.2% ytd (consensus: 20.4%; BBVA: 20.6%), import growth fell by -2.6% (consensus: 3.5%; BBVA: -3.0%), and export growth remained sluggish at 2.7% y/y (consensus: 2.9% y/y; BBVA: 0.5% y/y). Encouragingly, retail sales growth stabilized at 13.2% y/y (consensus: 13.2%; BBVA: 13.1%), and there are signs that property investment and government infrastructure spending are picking up. On Wednesday, China State Council unveiled a package of policy initiatives to support exports. The new measures include: accelerating tax rebates for exporters, expanding coverage of export credit and insurance, simplifying procedures for exports and imports, encouraging imports of advanced equipment and helping domestic exporters in settling trade disputes with other countries. Although details of these policy initiatives have not yet been released, we expect them to be implemented soon in order to support the economy’s growth momentum.
 - Regarding the US, the buying trend about U.S products seems to end, due to the trade deficit widened in July for the first time in four months as the global economic slowdown reduced demand for American-made goods. The gap grew 0.2% to \$42bn, smaller than projected, from a revised \$41.9bn in June. The consensus forecast called for a \$44bn deficit. Exports fell by the most since April, outpacing a decline in imports that reflected cheaper petroleum
 - In the Eurozone, industrial production rose a sharp 0.6% in the euro area in July after a 0.6% contraction the previous month. In France, industrial production was also better than expected in July, increasing by 0.2%. Then, Eurozone figures benefited from the better-than-expected performance in France and the strong reading of Germany (+1.3% m/m) published last week. In this context, conditions in peripheral countries continue to remain difficult while France and Germany would be more resilient to the crisis.
 - Regarding Latam, in Mexico the industrial production increased 0.5% m/m in July, in line with expectations. With this result in terms of annual growth rates, the industry expanded 4.5%. The contribution of the manufacturing and construction was more balanced than previous month, contributing 0.3 and 0.2 pps to growth respectively. Based on available information, economic activity in Q3 continued to show good growth, even better than expected at the beginning of the quarter. However, some signs of moderation persist, as the slower pace of expansion in leading indicators for Mexican manufacturing, as the U.S. ISM, or the slower expansion of industrial employment in August. We maintain the GDP growth forecast of 3.7% for the year. In Brazil, after one year of practical stagnation, high-frequency indicators started to suggest that economic activity is finally rebounding following the sharp reduction of interest rates and the introduction of tax-incentives to some specific sectors. Particularly, retail sales grew 1.4% m/m in July. This was the second robust expansion in a row (in June retail sales had expanded by 1.6% m/m). Other high frequency indicators (such as capacity utilization in the manufacturing industry, hours worked in production, corrugated paper shipment, steel production, vehicles production, vehicles sales and business confidence) support the view that activity started to rebound more solidly in July/August.

Next week will be a busy week, in terms of government auctions: On Monday, France will try to get 7bn from the investors in T-bills. On Tuesday Spain and Greece will tender for EUR4.5bn and EUR1.3bn in bills, respectively. On Wednesday Portugal come back to the market issuing 6M EUR1.5bn and 18M EUR1.75bn in T-bills, also Germany will sell 2Y EUR5bn Bund. Finally on Thursday Spain will issue 5Y bonds, at the same time, France will tender for EUR8.5bn in 2, 3 and 5Y. Regarding maturities, Spain has a maturity of EUR9.7bn next week; also, Greece will pay for EUR1.7bn. Next week is empty of important events, just the release of Eurozone PMI.

Calendar: Indicators

Eurozone: Trade balance, s.a. (July, September 17th)

Forecast: €8.9bn	Consensus: n.a	Previous: €10.5bn
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We expect the trade balance to have narrowed in July, as exports are projected to have fallen while imports are likely to remain flat. Despite the expected decline in exports, this does not fully offset the significant rebound observed in June, and thus exports could have grown by around 1% over Q2, while the 3-month moving average (to remove volatility) shows a steady growth rate, albeit at a much slower rate than that observed at the beginning of the year. These figures feed fears that the main driver of the economy is waning as global demand is slowing. However, the decline in imports has deepened in recent months, reflecting the weakness of domestic demand, and therefore we continue to expect net exports to support GDP growth in H2 2012.

Eurozone: Flash PMI Composite (September, September 20th)

Forecast: 46.4	Consensus: 46.6	Previous: 46.3
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We expect the composite PMI to have remained broadly stable in September, as observed in previous months, thus remaining clearly in contractionary territory. However, a larger increase in confidence should not be ruled out, as recent positive news in Europe (ECB's Outright Monetary Transactions) could have lifted the mood of respondents. Our forecast means that the average PMI in Q3 would be roughly equal than in Q2 and, therefore, suggests that GDP in the eurozone as a whole could have been contracted at a similar rate to that observed in Q2 (-0.2% q/q). Similarly, our MICA-BBVA indicator suggests that GDP could fall by -0.3% q/q in the current quarter, although available hard data is still limited. Across components, manufacturing confidence is set to improve slightly again, although prospects for the sector remain gloomy due to slowing global demand, while service sentiment is likely to deteriorate further, reflecting the weakness of domestic demand.

US: Empire State Manufacturing Survey (September, September 17th)

Forecast: -4.00	Consensus: -1.75	Previous: -5.85
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Manufacturing data has been anything but encouraging lately, with most indicators suggesting contracting activity. In August, the Empire State Index dropped below zero for the first time since October, reflecting persistent declines in the new orders component. Surprisingly, weak orders have yet to influence a drop in shipments, but we expect that this trend will not last if demand does not rebound soon. Similarly, employment gains in the sector will continue to decelerate if production remains subdued. Ultimately, we do not expect to see a significant rebound in the data throughout the next few months.

US: Existing Home Sales (August, September 19th)

Forecast: 4.57M	Consensus: 4.55M	Previous: 4.47M
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Existing home sales are expected to increase in August to slightly higher levels than seen in the previous two months. Rising home prices have been discouraging homebuyers, however the brief relief in prices in July helped to reverse this trend. July's increase in pending home sales, which is a leading indicator of existing sales, will likely be reflected in final housing activity for August. However, existing sales will remain limited by falling supply, with the share of distressed properties dwindling. We expect that housing demand will continue to improve gradually while growing on a YoY basis.

Taiwan Export Orders (August, September 20th)

Forecast: -1.5% y/y	Consensus: -2.0% y/y	Previous: -4.4% y/y
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As a forward indicator near-term export prospects in the region, Taiwan's export orders will be watched to gauge the extent of the ongoing slump in global trade. The economy's export performance has been very weak in the past two months, as manufacturing PMI dropped to a nine month low (46.1 in August). The recent slowdown in China's economy evidenced by sluggish activity and trade has further intensified concerns about Taiwan's export outlook. We expect year-on-year growth of the export orders in August continue to decline, albeit at a slower pace. Orders from the major export partners might show some signs of stabilization, although a meaningful recovery has yet to come.

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.41	-1	-3	7
		2-yr yield	0.24	2	-3	7
		10-yr yield	1.60	5	-5	-32
	EMU	3-month Euribor rate	0.27	-1	-10	-127
		2-yr yield	0.04	7	9	-36
		10-yr yield	1.54	21	12	-23
Exchange rates (changes in %)	Europe	Dollar-Euro	1.276	1.5	3.2	-6.5
		Pound-Euro	0.80	0.6	1.0	-7.2
		Swiss Franc-Euro	1.21	0.7	0.7	0.2
	America	Argentina (peso-dollar)	4.66	0.4	1.3	10.8
		Brazil (real-dollar)	2.03	-0.1	0.4	21.2
		Colombia (peso-dollar)	1795	-1.6	0.5	-0.2
		Chile (peso-dollar)	475	-1.2	-0.3	1.2
		Mexico (peso-dollar)	12.99	-1.5	-1.1	2.4
		Peru (Nuevo sol-dollar)	2.61	-0.1	-0.3	-4.4
	Asia	Japan (Yen-Dollar)	78.34	-0.1	-0.1	0.9
		Korea (KRW-Dollar)	1130.40	-0.4	0.2	4.9
		Australia (AUD-Dollar)	1.038	0.5	-1.8	-0.9
Comm. (chg %)	Brent oil (\$/b)	113.4	-1.0	1.1	0.5	
	Gold (\$/ounce)	1728.8	2.2	7.2	-6.8	
	Base metals	519.9	0.2	1.8	-9.3	
Stock markets (changes in %)	Euro	Ibex 35	7879	6.2	10.2	-0.4
		EuroStoxx 50	2551	4.5	4.9	23.0
	America	USA (S&P 500)	1432	1.8	2.1	24.1
		Argentina (Merval)	2405	-0.1	-2.2	-12.6
		Brazil (Bovespa)	58321	2.2	-1.1	4.6
		Colombia (IGBC)	14163	0.5	6.6	5.6
		Chile (IGPA)	20179	0.0	-0.1	2.3
		Mexico (CPI)	39987	1.4	-2.1	18.3
		Peru (General Lima)	20157	-0.8	2.0	1.3
	Asia	Venezuela (IBC)	288036	0.0	16.0	188.8
		Nikkei225	8872	0.4	-0.1	1.5
		HSI	19802	1.6	-1.3	-0.3
Credit (changes in bps)	Sovereign risk	Ind. Itraxx Main	132	-18	-17	-58
		Itraxx Xover	535	-57	-41	-227
		CDS Germany	56	-7	-10	-28
		CDS Portugal	557	-105	-228	-579
		CDS Spain	397	-122	-121	-16
		CDS USA	36	-4	-8	---
		CDS Emerging	223	-23	-22	-85
		CDS Argentina	1093	-76	-16	254
		CDS Brazil	122	-9	-3	-45
		CDS Colombia	105	-10	-9	-63
		CDS Chile	89	-7	-10	-17
		CDS Mexico	101	-10	-9	-64
		CDS Peru	113	-9	-4	-57

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
Spain	09/12/2012	Flash España: "IPC en agosto" El dato del IPC de agosto confirma la aceleración de la inflación general -debido principalmente al repunte del precio de los carburantes- y, en contrapartida, la estabilidad de la subyacente.
	09/12/2012	Observatorio Económico España: "La rentabilidad privada y fiscal de la educación en España" La tasa de rentabilidad real de la educación post-obligatoria en España se sitúa generalmente por encima del 5% y llega a alcanzar valores en torno al 7% en bachillerato y estudios universitarios.
	09/11/2012	Flash España: "Compraventa de viviendas en julio de 2012" En julio se produjeron 27.388 operaciones de compraventa de viviendas, lo que supone, tras corregir la serie de variaciones estacionales y efectos de calendario (CVEC), una variación del 0,7% m/m.
	09/10/2012	Observatorio Económico España: "3T12: Contracción similar a la de los pasados trimestres, con mucha incertidumbre hacia delante" La información conocida del tercer trimestre anticipa una nueva contracción de la actividad económica, aunque no se observa una aceleración significativa del deterioro.

US	09/13/2012	Fed Watch. FOMC Statement: September 12-13th Fed Announces QE3 and Extends Policy Guidance.
	09/13/2012	U.S. Monthly Outlook Slides September 2012
	09/11/2012	U.S. Fed Flash. FOMC Preview: September 12-13th Meeting Markets are prepared for a QE3 announcement, but the latest data do not fully support this intervention just yet.
	09/10/2012	U.S. Economic Watch. Monthly US Outlook All Eyes on the Fed's Push for a Stronger Recovery. (Spanish version)
	09/10/2012	U.S. Weekly Flash. Despite weak employment growth, the unemployment rate declined in August Bureau of Labor Statistics announced on Friday that the total nonfarm payrolls increased by 96K while the unemployment rate declined unexpectedly by 0.2pp to 8.1%. (Spanish version)

Latin America

Brazil	09/13/2012	Flash: Recovery signs and other good news Retail sales expanded by 1.4% m/m in July and added to the very recent evidence that domestic activity is rebounding. (Spanish version)
Colombia	09/13/2012	Flash Colombia. Obras civiles crecieron 23,2% anual en 2T12 reflejando un balance positivo de la inversión pública En 2T12 la inversión en obras civiles se aceleró con respecto a trimestres previos, tal como anticipamos con base en los indicadores de ejecución fiscal del Gobierno Nacional y los entes territoriales.
Peru	09/10/2012	Peru Economic Watch. The real estate sector in Peru Housing prices: deviated from their fundamental values? (Spanish version)

Mexico	09/13/2012	Flash Bancario México. Crédito al sector privado: mantiene crecimiento de dos dígitos Consumo: en julio su tasa de crecimiento nominal anual siguió siendo mayor a 20%. Empresas: su tasa de crecimiento siguió siendo alta (13.3%). Vivienda: su crecimiento anual nominal fue de 11.1%.
	09/11/2012	Mexico Flash. In line with expectations, the industrial production increased 0.5% m/m in July (4.5% y/y). Good performance in construction and manufacturing components The industry growth in July was in line with expectations (expected BBVA Research: 0.6%, observed 0.5% m/m). Unless electricity, gas and water, the rest of the branches showed monthly growth. (Spanish version)

09/11/2012 > **Mexico Real Estate Flash. Surprising 6.8% growth in construction**
The unexpected growth was due to 8% growth in building work. Construction grew nearly 2 points faster than the rest of the economy.
(Spanish version)

Asia

09/13/2012 > **Asia Daily Flash | 13 September 2012: China announces policy initiatives; Bank of Korea surprises by staying on hold; The Philippines and Indonesia hold rates on robust growth and inflation**
Monetary policy was the center of attention today, ahead of the Federal Reserve's decision on further easing measures.

09/12/2012 > **Asia Daily Flash | 12 September 2012: India's July IP remains subdued; Korea's unemployment remains stable; Reserve Bank of India raises ceiling**
Market momentum continues after originally being initiated by the ECB's announcement last week that it has crafted plans to purchase peripheral sovereign debt.

09/11/2012 > **Working Papers: A discussion on the development strategy of the Chinese debt market (Chinese version)**

09/11/2012 > **Working Papers: The revelation of the Chinese national debt market (Chinese version)**

09/10/2012 > **China Flash: August activity data confirm ongoing slowdown, as policy stimulus lags**
August activity indicators confirm that growth continues to weaken. The outturns were broadly in line with expectations, following last week's disappointing August PMI outturn (49.2).

EAGLEs

09/10/2012 > **Informe Trimestral EAGLEs. Tercer trimestre 2012**
La mayoría de los EAGLEs se ha desacelerado más de lo previsto en verano.

Emerging Econ.

09/10/2012 > **Turquía se encamina hacia un ajuste saludable**
Recientemente, dos agencias de rating han apuntado la posibilidad de mejoras del rating de Turquía hacia el grado de inversión. Paradójicamente, esto coincide con la desaceleración de la economía.

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Cristina Varela Donoso
cvarela@bbva.com
+34 91 537 7825

Javier Amador Díaz
javier.amadord@bbva.com
+34 91 374 31 61

María Martínez Álvarez
maria.martinez.alvarez@bbva.com
+34 91 537 66 83

Ignacio Santiago Llorente
i.santiago.llorente@bbva.com
+34 91 537 76 80

US
Kim Fraser
Kim.Fraser@bbvacompass.com
+1 713 881 0655

Indicators collaboration

Europe
Agustín García
agustin.garcia@bbva.com
+34 537 79 36

US
Kim Fraser
Kim.Fraser@bbvacompass.com
+1 713 881 0655

Asia
George Xui
George.Xui@bbva.com.hk

BBVA | RESEARCH



| Pº Castellana 81, Floor 7, 28046 Madrid | Tel.: +34 91 374 60 00 | www.bbva.com

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