

Global Weekly Flash

Agreements prevent market tensions from emerging

Agreements reached this week help to avoid increasing financial tensions. In Europe, the EU Council finally struck a deal on the Single Supervisor, which paves the way to adopt its framework by year-end. Additionally, the Eurogroup approved the Greek loan disbursement amounting to EUR 49.1bn, after a successful Greek debt buyback deal. However, nothing new on fiscal union or economic coordination. The Italian political turmoil has faded somewhat after the past week-end unexpected announcements by Berlusconi and Monti. In the US, as expected, the FOMC maintains its open-ended stance. The FOMC voted to purchase additional long-term Treasury securities after Operation Twist officially ends in December to support US growth amid ongoing uncertainties about the US fiscal-cliff. In spite of all these measures, markets remained steady. Yet, spread in European periphery countries narrowed this week, particularly in Spain and Portugal.

- The UE Council meeting endorsed the agreement reached at the extraordinary ECOFIN held on December 12th on the Single Supervisor and the new EBA voting rules. After tough negotiations and clashes of opinions a balance has been struck between the different interests of Member States and European institutions. This agreement is a key step that sets up the first milestone in the quest for a Banking Union in Europe. The statement reaffirms the intention to adopt the legislation before year end but delays the operational implementation to March 2014 at the earliest and perhaps even further if countries requiring endorsement by their national parliament find any hurdle. The UE Council also urged the co-legislator to agree on the proposal for a Recovery and Resolution Directive and a Deposit Scheme Directive before June 2013, while the council should agree on it by end of March. Regarding the process of deeper fiscal and economic integration in Europe, there are almost no advances and the EU Council will discuss possible measures on incentives to reforms in June 2013.
 - The Greek government managed to buyback EUR 31.9bn of its outstanding debt at weighted-average prices of 33.8%. This result was slightly higher than expected but it also was the amount borrowed from the EFSF (EUR 11.29bn against EUR 10bn previously expected). This debt exchange reduces the Greek debt outstanding by EUR 20.6bn, and it should bring the Greek debt to 124% of the GDP by 2020, in line with the last Eurogroup agreement. What is more, the Eurogroup insisted on the idea that further actions can be taken, if necessary, to ensure the achievement of this debt target, suggesting that an official sector involvement would be possible. After the successful Greek deal, the Eurogroup finally approved the Greek loan disbursement amounting to EUR 49.1bn. The Eurozone will unlock EUR 34.3 bn in the following days, and the remaining amount will be disbursed in the first quarter of 2013. Further amount to cover bank recapitalization and resolution cost will be paid out in January 2013. Meanwhile, conditionality will be more closely monitored as funds to cover budgetary financing will be disbursed in three subtranches, linked to the implementation of specific MoU milestones to be agreed by the Troika. Additionally, the IMF is expected to approve the disbursement of IMF next loan to Greece in January.
 - Today, Fitch Ratings has maintained the French government's AAA credit rating; however, the agency has kept its negative outlook. Fitch said that "the negative outlook is expected to be resolved during 2013 and indicates a slightly greater than 50% chance of a downgrade".
 - Despite the recent turmoil, Spain managed to sell EUR 5.9bn in bonds and Treasury bills. Moreover the Spanish Treasury tested the market's appetite for Spanish extra-long bonds, selling. It sold a EUR0.54 million in 28Y bond.
- **The FOMC decision replaces expiring Operation Twist with outright Treasury purchases and announces numerical thresholds for its low policy rate guidance**
 - The FOMC plans to continue its commitment to QE3, purchasing \$40bn per month in mortgage-backed securities. As expected, the FOMC also voted to purchase additional long-term Treasury securities beginning in 2013 after Operation Twist officially ends on December 31st of this year. The new program is very similar to the one that is expiring, with the Fed planning to purchase \$45bn per month in Treasuries while "maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities." As has been the case since the QE3 announcement in September, the combined accommodation will total \$85bn per month for the foreseeable future. The FOMC maintains its open-ended stance and will adjust as necessary based on near-term economic data. In an effort to enhance its communication strategy, the FOMC has decided to adopt specific employment and inflation thresholds instead of the calendar-based target for increasing the Fed Funds target

rate. In the September meeting, committee members had agreed to extend the policy guidance so as to warrant “exceptionally low” rates through at least mid-2015. Now, the Fed warrants that low rates will be appropriate for as long as the unemployment rate remains above 6.5%, assuming that inflation is no more than 2.5% in one to two years. The guidance also assumes that long-term inflation expectations remain stable. The Fed has been hesitant to adopt specific thresholds as it is difficult to communicate to the public without implying a set rule that they must follow. This increased transparency at least provides a clearer idea of what the FOMC members see as a significant improvement in labor market conditions. It is important to note that these thresholds are very much in line with the mid-2015 timeline suggested in September. For more details: (<https://docs.google.com/a/bbva.com/document/d/1JDUL3T93DDx7KqA2e8Ts2wkH8T-eyJ2KLq2FdmFihDNw/edit>).

- **Macroeconomic risks fade somewhat following recent economic data. Meanwhile, China's economy continues to strengthen**
 - Eurozone downturn somewhat eases as German private sector return to expansion in December. The Markit Eurozone PMI (Purchasing Managers' Index) Composite Output Index rose to a 9-month high in December according to the flash estimate, up for the second successive month from 46.5 in November to 47.3. Particularly, flash Germany Composite Output Index reached 50.5 (49.2 in November), 8-month high; meanwhile, flash France Composite Output Index climbed to 45.0 (44.3 in November), 4-month high. November and December PMI data reflect that Eurozone economy is not getting worse, especially in Germany. Moreover, October trade data of the German economy provided further relief on concerns about the state of its economy. German exports increased by 10.6 % (BBVA 1.5%, consensus -0.6) and imports by 6.0% (BBVA 1.4%, consensus 0.5) in October 2012 on October 2011. After calendar and seasonal adjustment, exports increased by 0.3% and imports by 2.5% compared with September 2012. Besides, German investor confidence jumped more than forecast to a seven-month high in December. The ZEW Center reported its index of investor and analyst expectations, climbing to 6.9 from minus 15.7 in November. However, Euro-area industrial production unexpectedly fell in October as declines in Germany and France offset gains in Spain and Portugal. Output in the 17-nation euro area dropped 1.4% from September against 0.3% increased projected by BBVA Research.
 - In the US, trade deficit widened on weaker foreign demand. The trade deficit expanded in October after shrinking in September, mostly due to weak demand from key trading partners and higher energy imports. The trade balance was even better in September, revised to -\$40.3B from the initial estimate of -\$41.5B. Growing to -\$42.2B in October, the deficit conveys the overall sluggish global trade market that has plagued the export laden sectors like manufacturing and industrials which have seen a significant fall in foreign demand for goods. Particularly, exports declined 3.6% while imports fell 2.1%, led largely by the petroleum balance. Low demand from Europe and Asia will likely put downward pressure on export growth for the coming months. Meanwhile, retail sales for November show encouraging signs for the end of the year, up 0.7% excluding autos and gasoline (headline figure increased a modest 0.3% in November, just enough to offset October's decline). The strongest form of optimism comes from the 3.7% YoY gain, prompting a better outlook for 4Q12 figures as consumers seem to be less reluctant than expected to spend. Moreover, U.S. jobless claims point to labor recovery momentum, they fell more than expected in the latest week. Particularly, applications for unemployment benefits fell 29,000 last week to a seasonally adjusted 343,000, the lowest in two months and the second-lowest total this year.
 - Turning to Asia, China's November activity indicators were generally stronger than expected, albeit marked by headwinds from weak external demand. Industrial production expanded for a fourth consecutive month by 10.1% y/y (consensus: 9.8% y/y), while retail sales quickened to 14.9% y/y (consensus: 14.6%) from 14.5% in October, while fixed asset investment remained strong at 20.7% y/y (ytd) (consensus: 20.9%). In contrast, however, the trade sector feels the effects of weaker external demand. Exports decelerated to a weaker-than-expected 2.9% y/y (consensus: 9.0% y/y) after jumping by around 10-11% in each of September and October. Underscoring risks from weak external demand. Imports slowed to 0.0% (consensus: 2.0% y/y) from 2.4% in October, due mainly to lower purchases of inputs for production of export goods. The net effect was a narrower trade surplus of \$19.6bn. Finally, Chinese HSBC PMI increased to 50.9 in December from 50.5 in November, suggesting that manufacturing is expanding at a faster pace this month. Meanwhile, Japan enters technical recession due to the final reading for Japan's third quarter GDP came out in line with last month's estimate of a -0.9% q/q, s.a. contraction.
 - Finally, Latinamerican economic indicators published this week showed that the activity remain strong but showing some signs of moderation in Mexico. In this country the industrial production slowed in October, reinforcing our expectation of more moderate activity in 4Q12. In Peru and Colombia, trade data released yesterday provided additional evidence about the current pace of economic activity in these economies. As expected, the Central Bank of Chile to leave the monetary policy rate unchanged at 5.0% and continues to reveal a balance between domestic and external risks.

Next week: Due to Christmas, next week comes with few events. In Europe, Mario Draghi will speak at European parliament on Monday. The next day will take place the last Spanish auction of the year, selling 3M and 6M bills.

Calendar: Indicators

Eurozone: Trade balance, s.a. (October, December 17th)

Forecast: €7.5bn	Consensus: n.a.	Previous: €11.3bn
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We expect the trade balance to have narrowed in October, as exports should have declined further, contrasting with an improvement in imports. In particular, the level of exports are set to have declined by around -0.5% over the average for Q3, while that for imports could have increased marginally, suggesting that net exports contribution could have continued waining in Q4. Nonetheless, we expect net exports to remain as the main driver of the economy in coming quarters, not only because of the relative strength of exports, which could be supported by moderate global growth, but also due to the weakness in imports.

Eurozone: EC consumer confidence (December, December 20th)

Forecast: -26.8	Consensus: -26.5	Previous: -26.9
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We expect consumer confidence to have remained broadly stable at current very low levels, suggesting that households' spending is likely to fall further by year-end. This along with the significant drop in retail sales in October suggests that the better-than-expected performance of private consumption in Q3 should have been short-lived. In addition, given the weakness of consumers' fundamentals (high unemployment rate, tax hikes and ongoing deleveraging in the periphery), we expect private consumption to continue weighing on activity in the short-run. Across countries, divergences between the core and the periphery of the eurozone will persist, but consumers' sentiment in the former also worsened significantly, showing broad pessimism about the resolution of the crisis.

U.S. GDP (3Q12 Final, December 20th)

Forecast: 2.8%	Consensus: 2.8%	Previous: 2.7%
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The final estimate for 3Q12 GDP is expected to be slightly higher as revised data show a better than expected trade balance. September's trade deficit was revised from -\$41.5bn to -\$40.3bn, highlighting strength in export growth, though we know now with data for October that this momentum did not carry over into the start of 4Q12. Most other contributors to GDP growth were not revised much, including consumption and construction spending. Personal consumption expenditures for September were revised down slightly, and construction spending was also slightly lower than previously calculated. Data on business inventories show no change from the preliminary estimate. Overall there isn't much in terms of key indicators, aside from the trade balance, that should affect the GDP estimates. However, we expect that the change in the trade balance will offset the downward revisions to other contributors and lead to a modest boost in 3Q12 GDP growth to 2.8% given the large increase already seen from advanced to preliminary estimates.

U.S.: Personal Income & Spending (November, December 21th)

Forecast: 0.3%, 0.4%	Consensus: 0.4%, 0.5%	Previous: 0.0%, -0.2%
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Personal income and spending are expected to rise in November as employment shows signs of some improvement and sales indicators point to better conditions despite fiscal uncertainty. In terms of income, average hourly and weekly earnings for November rose after falling the month prior. Income also has some room to rise as the unemployment rate declined quite sharply for the month. Expectations for retail sales show improvement from the month before and with stronger spending especially as the holiday season approaches. Auto sales will help bolster spending as well, climbing 8.7% for November. However, with the fiscal cliff approaching, consumer pessimism may translate into a less significant growth rate for spending as consumers abstain from larger purchases until a decision is reached.

Taiwan: Export orders (November, December 20th)

Forecast: 2.4% y/y	Consensus: 3.0% y/y	Previous: 3.2% y/y
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Taiwan's export orders are closely watched as a leading indicator of regional export trends given the economy's position in the global supply chain. Export orders' upbeat reading in October reflected solid demand from the US and Europe, mainly due to the year-end holiday season. We expect such impact to moderate in the following month. On the other hand, China's recent activity indicators point to a rebound in the fourth quarter, which will partially support the orders performance. The risks from weak global demand remain, and the pace of recovery is expected to be mild and gradual. We also expect the central bank of Taiwan to keep the benchmark rate on hold during the upcoming policy meeting, given the abundant liquidity in the economy and improved growth outlook.

Markets Data

			Close	Weekly change	Monthly change	Annual change	
Interest rates (changes in bps)	US	3-month Libor rate	0.31	0	0	-26	
		2-yr yield	0.24	0	-1	2	
		10-yr yield	1.72	10	13	-12	
	EMU	3-month Euribor rate	0.18	0	-1	-123	
		2-yr yield	-0.04	3	-2	-26	
		10-yr yield	1.36	6	1	-50	
	Exchange rates (changes in %)	Europe	Dollar-Euro	1.308	1.2	2.7	0.2
			Pound-Euro	0.81	0.7	0.9	-3.3
			Swiss Franc-Euro	1.21	0.1	0.5	-1.0
America		Argentina (peso-dollar)	4.87	0.2	1.8	13.6	
		Brazil (real-dollar)	2.09	0.6	1.0	12.7	
		Colombia (peso-dollar)	1797	0.0	-1.3	-7.4	
		Chile (peso-dollar)	474	-0.5	-2.1	-8.3	
		Mexico (peso-dollar)	12.82	-0.3	-3.5	-7.6	
		Peru (Nuevo sol-dollar)	2.57	-0.3	-1.5	-4.9	
Asia		Japan (Yen-Dollar)	83.71	1.5	4.3	7.7	
		Korea (KRW-Dollar)	1074.68	-0.6	-1.0	-7.3	
		Australia (AUD-Dollar)	1.053	0.4	1.4	5.4	
Comm. (chg %)		Brent oil (\$/b)	109.0	1.8	-0.6	5.4	
		Gold (\$/ounce)	1696.9	-0.4	-1.7	6.1	
		Base metals	524.3	1.1	3.4	1.9	
Stock markets (changes in %)	Euro	Ibex 35	8036	2.4	4.7	-2.0	
		EuroStoxx 50	2631	1.1	6.4	19.4	
	America	USA (S&P 500)	1419	0.1	4.7	16.4	
		Argentina (Merval)	2610	5.2	12.5	7.3	
		Brazil (Bovespa)	59438	1.6	5.6	6.0	
		Colombia (IGBC)	14593	1.2	3.9	15.9	
		Chile (IGPA)	20727	2.0	0.9	3.9	
		Mexico (CPI)	43006	0.5	5.5	19.3	
		Peru (General Lima)	20159	1.1	-1.8	3.7	
	Asia	Venezuela (IBC)	473170	11.4	26.9	304.0	
		Nikkei225	9738	2.2	12.4	15.9	
		HSI	22606	1.9	5.4	23.6	
Credit (changes in bps)	Ind.	Itraxx Main	115	-4	-17	-71	
		Itraxx Xover	463	-17	-72	-330	
		CDS Germany	34	2	1	-72	
	Sovereign risk	CDS Portugal	461	-13	-172	-648	
		CDS Spain	295	-3	-58	-124	
		CDS USA	37	-1	0	---	
		CDS Emerging	211	-10	-32	-102	
		CDS Argentina	1521	-59	-1004	547	
		CDS Brazil	108	0	3	-55	
		CDS Colombia	95	-5	-7	-63	
		CDS Chile	73	-1	-5	-58	
		CDS Mexico	94	-4	-7	-63	
		CDS Peru	95	-4	-7	-79	

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description	
Global	12/12/2012	<p>➤ Working Paper “Matching Contributions for Pensions in Colombia, Mexico, and Peru: Experiences and Prospects” Although Colombia, Mexico, and Peru introduced major structural reforms in the mid-1990s, they still exhibit very limited levels of social protection coverage.</p>	
	12/12/2012	<p>➤ Working Paper 12/31 “Early Lessons from Country Experience with Matching Contribution Schemes for Pensions” Matching defined contribution schemes are gaining popularity in both rich and poor countries as a promising means to reduce gaps in the participation in formal pension systems.</p>	
Spain	12/13/2012	<p>➤ Flash: IPC en noviembre El dato del IPC de noviembre confirma la desaceleración de los precios al consumo.</p>	
	12/12/2012	<p>➤ Spain Economic Outlook Fourth Quarter 2012 (Chinese version) Chinese version</p>	
	12/12/2012	<p>➤ Flash España: Compraventa de viviendas en octubre de 2012 Las compraventas de viviendas ascendieron a 25.261 operaciones, un 0,4% menos que en el mes anterior tras corregir la serie de variaciones estacionales y efectos de calendario (cvec).</p>	
	12/12/2012	<p>➤ Observatorio Económico España cuarto trimestre 2012 4T12: Nueva contracción de la actividad, con incertidumbre respecto al impacto del ajuste fiscal</p>	
	12/12/2012	<p>➤ Perspectivas económicas más allá de la crisis del euro El crecimiento mundial se recuperará progresivamente con medidas monetarias en las economías desarrolladas y las de apoyo al crecimiento en los países en desarrollo</p>	
US	12/13/2012	<p>➤ U.S. Flash. Retail Sales Rebound Aided by Autos and Nonstore Retail Retail sales for November show moderate gain of 0.3% and 0.7% less auto and gas. Gains were seen across the components as autos and nonstore retailers take the lead</p>	
	12/12/2012	<p>➤ Fed Watch. FOMC Statement: December 11-12th New Policy Guidance Thresholds and Treasury Purchases for 2013</p>	
	12/11/2012	<p>➤ U.S. Economic Watch. Job Openings and Labor Turnover Labor Market Mixed But Remains Quiet as Fiscal Cliff Nears (Spanish version)</p>	
	12/11/2012	<p>➤ U.S. Flash. U.S. Trade Deficit Widens on Weaker Foreign Demand The international trade balance fell from -\$40.3B to -\$42.2B in October</p>	
	12/10/2012	<p>➤ U.S. Weekly Flash. Unemployment drops to 7.7% with decline in labor force Despite the surprising drop in the unemployment rate and the minimal reported impact of Hurricane Sandy, the November employment data should be taken with a grain of salt (Spanish version)</p>	
Latam	Chile	12/13/2012	<p>➤ Banco Central mantuvo tasa de referencia en 5% El BC decidió mantener la tasa de política en 5%. Inflación baja por factores puntuales y actividad creciendo por sobre lo esperado mantienen riesgos latentes. Panorama externo continúa incierto.</p>
		Colombia	12/11/2012
Peru	12/10/2012	<p>➤ Situación Automotriz Perú 2012 Las ventas de vehículos nuevos aumentarán 15% anual en los próximos dos años. Con ello, las transacciones alcanzarán las 260 mil unidades en 2014.</p>	
Mexico	12/13/2012	<p>➤ Flash Inmobiliario México. La actividad en la construcción avanza a paso lento en octubre En este mes la tasa anual de la construcción fue solo 2.2% y -1.2 mensual</p>	
	12/13/2012	<p>➤ Mexico Flash. Industrial production contracts in October (-) 0.9% m/m. Fall in demand from external sources, the key The dynamics of the industry was worse than expectations derived from an outer loop that continues to moderate (Spanish version)</p>	
	12/10/2012	<p>➤ Artículo de Prensa. Control de capitales: la respuesta no convencional de emergentes</p>	

EAGLEs

- 12/11/2012 ➤ **Country Risk Quarterly Report: Fourth Quarter 2012**
Sovereign markets continued to benefit from the Big Central Banks moves in September. Spain and Italy leading the correction but risk premiums still high ([Spanish version](#))

Emerging Economies

- 12/11/2012 **Country Risk Quarterly Report: Fourth Quarter 2012**
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Asia

- 12/14/2012 ➤ **Asia Daily Flash | 14 December 2012: China awaits policy directions from CEWC this weekend; India's inflation softens; Japan's business confidence falls ahead of election; Rumors of RQFII expansion**
The date for China's annual Central Economic Work Conference, an important meeting expected to detail the 2013 policy targets, has finally been set for this weekend.
- 12/14/2012 ➤ **India Flash: Softening WPI inflation in November leaves room for RBI to address slowing growth**
India's wholesale price inflation eased for a second consecutive month in November to 7.2% y/y (consensus: 7.6%) from 7.5% in October.
- 12/13/2012 ➤ **Asia Daily Flash | 13 December 2012: Korea and the Philippines leave rates unchanged, as expected**
Korea and the Philippines left interest rates unchanged at their monetary policy meetings today.
- 12/12/2012 ➤ **Asia Daily Flash | 12 December 2012: India's IP jumps; the Bank of China to carry RMB settlements in Taiwan; Japan's machine orders rise**
Supporting other recent activity indicators which suggest a gradual growth recovery for India, such as positive PMI data, India's October industrial production jumped to a 16 month high.
- 12/11/2012 ➤ **Asia Daily Flash | 11 December 2012: China November credit aggregates slow; Indonesia leaves rates unchanged; India's exports decline**
The first of three Asian monetary policy meetings for the week was held today, with Bank Indonesia keeping rates on hold as expected at 5.75%.
- 12/10/2012 ➤ **Asia Daily Flash | 10 December 2012: China's November data rebound but reveal ongoing external headwinds; Japan enters technical recession**
Chinese equities were lifted by positive data on November production and domestic demand released over the weekend, but the gains were tempered by disappointing exports
- 12/10/2012 ➤ **China Flash: November indicators point to ongoing rebound, but with continued external headwinds**
November activity indicators were generally stronger than expected, providing further evidence of an economic rebound in the fourth quarter, albeit marked by headwinds from weak external demand.
- 12/09/2012 ➤ **Los retos de los líderes chinos**
Además de reequilibrar la economía, quedan por solucionar algunas fragilidades financieras que se han ido gestando en los años de bonanza

Country Risk

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Publications on December 14, 2012 to 13:00, Madrid time

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