

Global Weekly Flash

Positive US data reduces QE3 chances in the near-term

This week's data reduced concerns about the state of the US economy after the slowdown in Q2. Recent data confirms that growth remains on a moderate upward path. After declining for three straight months, US retail sales picked up in July and advanced 0.8%, easing concerns and indicating that private consumption is not as weak as feared following Q2's data. Meanwhile, housing permits rose 6.8% in July to 812k, the faster pace since August 2008 and well above the 720k pace in Q1. This much higher than expected outturn suggests that the rebound in housing starts is likely to continue, confirming the gradual recovery in housing activity. Furthermore, despite the weekly small uptick in jobless claims, the fourth-month moving average edged down slightly which might allow for some recovery in the weak consumer sentiment. Even the Philadelphia Fed manufacturing index rose in August, but it remains in negative territory. All in all, this week's data surprised on the upside, possibly reducing QE3 chances in the near-term.

- **Given that markets expected further policy support from the Fed and recent data have eased those expectations, US Treasuries continued to sell-off this week**
 - Increasing by around 20bp. But this upward trend has not only come from signs of recovery in the US economy but also from improved risk sentiment. The unveiling of \$66bn stimulus plan by Brazil's government and signs that China is ready to use monetary policy to stimulate growth contributed to optimism. In China, expectations of policy easing continue to run high, after Premier Wen stated this week that he sees more room to ease monetary policy as inflationary pressures are low. We expect cuts of around 150 bps in the RRR and up to two more interest rate cuts during the rest of this year.
- **Optimism about the European crisis resolution has continued along the week after European leaders' statements backed the more flexible approach from the ECB to resolve the crisis**
 - This Thursday Chancellor Merkel remarked that the recent ECB decisions "have made it clear that the European Central Bank is counting on political action in the form of conditionality as the precondition for a positive development of the euro." She also welcomed recent efforts from European regional leaders. Investors will test German more flexible approach when Greece may ask for a two-year extension for its economic program at the next EU summit in October 8-9, according to some media reports. This week Greece also managed to sell 4bn in 3M Bills to face its 3bn in bonds maturing on August 20.
 - Markets have remained relatively calm, considering the low liquidity. After moving sideways over the past two weeks, positive news on the macro front contributed to the risk-on movements seen this week. The test for markets will come when policymakers return from their holidays and have to take decisions. Peripheral spreads have continued to narrow on expectations of bond-purchases by the ECB but this week ECB's Coene reminded that they would not be automatic. He argued that "it makes no sense for the ECB to start financing [Italy and Spain]. It would only lead to the ECB taking on the whole public debt of Spain and Italy onto its balance sheet. That would in turn weaken the ECB and do nothing to resolve the underlying problems." "We haven't forgotten what happened in August of last year: We bought Italian bonds and right after that the Italian government reneged on its pledges." "The conclusion is clear: When you take away the market pressure, you take away the pressure on politicians to act."
 - The eurozone 2QGDP figures confirmed the expected weakness in economic activity but the deterioration was slightly lower than our forecast. Eurozone GDP fell by 0.2% m/m during the second quarter of 2012 compared with a decrease of 0.3% projected by BBVA Research. In year on year terms 2Q GDP 2012 fell by 0.4% matching our projections. Similar path showed German and French 2Q GDP 2012 data released. German GDP growth raised 0.3% q/q in the 2Q12 after growing by a 0.5% in the 1Q12, while French GDP growth remained unchanged from the previous quarter. However, forward-looking indicators such as German ZEW survey in fell for the fourth month in a row in August, pointing to a further weakening of economic momentum in coming months. Meanwhile, Eurozone inflation was 2.4% y/y in July, unrevised from flash released and in line with BBVA research. We expect a slowing inflation for the Eurozone as a whole over the coming months before ending the year slightly below the ECB's target of 2% y/y.

- **Elsewhere, in Brazil, retail sales came in stronger than expected in June (up 1.5% m/m sa) which suggests that the economy might be starting to recover**
 - Meanwhile, in Mexico, Q2's GDP reading showed that the domestic market continues to underpin growth. The Mexican economy grew 0.9% qoq in seasonally adjusted series during 2Q12, slightly higher than estimated at the beginning of the quarter (0.7% qoq) but in line with the forecast that incorporates the most current activity data (0.9 %). On an annual basis GDP growth in the 2Q12 stood at 4.1%, confirming a good start of the year, while maintaining the moderation. Good growth in the second quarter implies an upward bias in 2012 and 2013, although the risks associated with global uncertainty leads us to maintain current estimates of 3.7% and 3.0% this year and next, respectively.

Next week: Investors will keep attention on Chancellor Merkel and Greek Prime Minister on August 24. In the Eurozone PMI figures for August will be released while Spain will test financial markets selling 12M and 18M T. Bills. Finally in the US data on existing and new home sales will bring more clues about the consolidation trend in US housing market. Additionally the Chicago FED index and durable goods orders for July will provide information about the industrial activity in the US, while the FED minutes for August 1 will be also published next week and might give hints on what is needed to trigger QE3.

Calendar: Indicators

Eurozone: Flash PMI Composite (August, August 23rd)

Forecast: 46.7

Consensus: 46.4

Previous: 46.5

We expect the composite PMI to remain relatively stable in August, after the first signs of stabilization in July, but to remain in contractionary territory. After the fall in activity in Q2 this indicator does not hint that activity is getting worse at the beginning of Q3. Across components, we also expect both manufacturing to stabilize its declining trend and services PMIs to increase marginally. Looking ahead, it is foreseen a gloomy outlook due to slowing global demand and depressed investment of the private sector. Across countries, we still expect some divergence, as concerns about financial needs in the periphery increase together with ongoing hard fiscal adjustments.

US: Existing Home Sales (July, August 22nd)

Forecast: 4.55M

Consensus: 4.50M

Previous: 4.37M

Existing home sales dropped in June for the first time in three months, but we expect that activity will rebound in July. Pending home sales, which are considered a leading indicator of existing home sales, jumped significantly in May and thus point to a larger gain for July's sales, particularly given June's decline. However, rising prices will likely suppress homebuyer demand, with housing affordability at its lowest level in almost a year. Furthermore, a shortage of supply may limit immediate sales until prices are high enough to convince homeowners that the time is right to sell.

US: Durable Goods Orders (July, August 24th)

Forecast: 0.8%, 0.3%

Consensus: 1.6%, 0.5%

Previous: 1.6%, -1.1%

Durable goods increased through most of 2Q12, mostly on account of strength in aircraft orders. In July, we expect that transportation-related orders will remain positive but will grow at a slower pace compared to previous months. Excluding transportation, durable goods orders have declined in three of the last four months, with particular weakness in capital goods orders. Despite reports of slowing new orders for the month from the ISM and Federal Reserve manufacturing surveys, the ex-transportation component is expected to recover slightly from a relatively large decline in June.

Taiwan Export Orders (July, August 20th)

Forecast: -2.9% y/y

Consensus: -3.0% y/y

Previous: -2.6% y/y

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. Recent disappointing export outturns around the region, including for July in China, have focused attention on the region's export slowdown due to the weak external environment. Taiwan's export sector has been especially weak, with double-digit declines from a year earlier across major export destinations in July. We expect the growth of export orders to contract for a fifth consecutive month in August, reflecting high exposure of Taiwan's medium and upper stream industries amid current global downturn. Sluggish demand from Europe and China is likely to continue.

Markets Data

			Close	Weekly change	Monthly change	Annual change	
Interest rates (changes in bps)	US	3-month Libor rate	0.43	0	-2	13	
		2-yr yield	0.29	3	6	10	
		10-yr yield	1.83	18	34	-23	
	EMU	3-month Euribor rate	0.33	-2	-13	-120	
		2-yr yield	-0.03	4	3	-68	
		10-yr yield	1.55	16	35	-56	
Exchange rates (changes in %)	Europe	Dollar-Euro	1.237	0.7	0.7	-14.1	
		Pound-Euro	0.79	0.5	0.4	-9.9	
		Swiss Franc-Euro	1.20	0.0	0.0	6.3	
	America	Argentina (peso-dollar)	4.61	0.2	1.2	10.4	
		Brazil (real-dollar)	2.02	0.1	-0.3	26.1	
		Colombia (peso-dollar)	1819	1.6	2.4	2.0	
		Chile (peso-dollar)	483	0.9	-0.9	3.2	
		Mexico (peso-dollar)	13.18	0.8	0.1	7.2	
		Peru (Nuevo sol-dollar)	2.61	-0.1	-0.3	-4.4	
	Asia	Japan (Yen-Dollar)	79.49	1.5	0.9	3.8	
		Korea (KRW-Dollar)	1134.25	0.3	-0.7	4.3	
		Australia (AUD-Dollar)	1.045	-1.2	0.8	0.4	
Comm. (chg %)		Brent oil (\$/b)	114.0	0.9	8.4	4.9	
		Gold (\$/ounce)	1616.8	-0.2	2.8	-12.7	
		Base metals	507.7	-0.2	1.3	-10.4	
Stock markets (changes in %)	Euro	Ibex 35	7553	7.2	14.6	-7.2	
		EuroStoxx 50	2468	1.9	8.0	14.3	
	America	USA (S&P 500)	1416	0.7	3.1	26.0	
		Argentina (Merval)	2483	3.0	-0.5	-12.1	
		Brazil (Bovespa)	59446	0.3	8.9	13.3	
		Colombia (IGBC)	14242	2.7	4.2	10.0	
		Chile (IGPA)	20378	0.6	-3.5	2.8	
		Mexico (CPI)	40715	-0.3	-0.1	22.9	
		Peru (General Lima)	20022	1.1	-0.3	3.3	
	Asia	Venezuela (IBC)	278703	8.7	13.5	181.7	
		Nikkei225	9163	3.0	5.0	5.1	
		HSI	20116	-0.1	4.6	3.7	
Credit (changes in bps)	Sovereign risk	Ind.	Itraxx Main	145	-4	-17	-9
		Itraxx Xover	582	-7	-68	-78	
		CDS Germany	59	-6	-16	-21	
		CDS Portugal	744	-23	-74	-156	
		CDS Spain	493	-21	-83	129	
		CDS USA	42	0	-5	---	
		CDS Emerging	246	-4	-9	-30	
		CDS Argentina	1101	-32	-30	324	
		CDS Brazil	128	0	-14	-19	
		CDS Colombia	116	-1	-10	-28	
		CDS Chile	99	1	-9	0	
		CDS Mexico	112	0	-11	-34	
		CDS Peru	125	3	-14	-27	

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
EMU	08/14/2012	Europe Flash: "Eurozone: GDP slightly down in Q2, -0.2% q/q, with Germany surprising on the upside once again" Eurozone activity fell back in contraction during the second quarter of 2012 as it was broadly expected.
US	13/08/2012	Flash Semanal EEUU. El crédito al consumo aumenta 6.5 mmd en junio, el ritmo más lento desde octubre El total de créditos al consumo en circulación creció a un ritmo más lento de lo esperado en junio, con un aumento de tan solo 6.5 mmd debido a la caída de 3.7 mmd registrada en el crédito renovable. (English version)
	13/08/2012	Observatorio Bancario EEUU. Encuesta de préstamos bancarios 3T2012 El mercado de crédito se fortalece en medio de la desaceleración económica (English version)

Latin America

Latam	08/13/2012	Latam Economic Outlook. Third Quarter 2012 LatAm looks set to grow 3.2% in 2012 and 3.6% in 2013, driven by domestic demand. The region is prepared to weather a new global crisis, although there is less scope for countercyclical policies
Brasil	08/14/2012	Brazil Economic Outlook. Third Quarter 2012 Brazil will grow less than in 2011 and certainly not much more than 2.0% in 2012, as external and domestic factors weigh on the economy
Chile	13/08/2012	Situación Chile Tercer trimestre 2012 En Chile, ajustamos moderadamente al alza la proyección de crecimiento del PIB para 2012, de 4,2% a 4,4%, por un dinamismo mayor a lo anticipado durante el primer semestre (English version)
	13/08/2012	Flash Chile: El puzzle de la inflación
Colombia	13/08/2012	Situación Colombia Tercer Trimestre 2012 En 2012 y 2013, la economía colombiana crecerá 4,1% y 4,4%, respectivamente, mostrando una desaceleración moderada tras el fuerte dinamismo registrado en 2011.
	15/08/2012	Actividad volvió a sorprender al alza en junio El PIB creció 7,1% a/a en junio, por encima de lo estimado (BBVA y Consenso: 6,4%).

Mexico

16/08/2012	Flash PIB México. La expansión del PIB del 2T12 en línea con lo previsto (0.9% t/t), mantenemos pronóstico para el año en 3.7% En términos anuales la expansión del PIB en el 2T12 se situó en 4.1%, confirmando una buena mitad del año, aunque con perfil de moderación (English versión)
15/08/2012	Flash Banxico México. Banxico mantiene sus previsiones económicas y su tono neutral El Banco de México mantuvo sin cambios su estimación de crecimiento económico para 2012-2013 respecto al último informe de inflación (English versión)
13/08/2012	Flash Inmobiliario México. Construcción crecerá cerca del 4.5% en el segundo trimestre En cada mes de este semestre la construcción creció por arriba del 4%. La actividad de la construcción por arriba de la economía y del resto de la industria (English versión)
13/08/2012	Flash México. Producción Industrial sorprende al alza en junio, 1.3% m/m (4.2% a/a) destaca desempeño de las manufacturas La industria crece por arriba de lo esperado (0.7% m/m) con la segunda mayor expansión desde marzo de 2010. Todas las ramas de la industria mostraron crecimiento (English versión)

Asia

08/16/2012	Asia Daily Flash 16 August 2012: China's inward FDI contracts; Korea and Hong Kong's unemployment rate stays low China's inward FDI contracted by -8.7% y/y in July, following June's decline of -6.9% y/y.
08/15/2012	Asia Daily Flash 15 August 2012: China's NPLs increase; Singapore's retail sales contract; Malaysia's Q2 GDP exceeds expectations China's Q2 non-performing loans increase, but not yet a concern. Meanwhile Singapore's retail sales contract and Malaysia's GDP exceeds expectations.
08/14/2012	Asia Daily Flash 14 August 2012: India's WPI inflation eases; China's FX position declines India's wholesale price inflation eased to a two year low in July while media reports point to a decline in China's FX position.
08/14/2012	India Flash: August WPI inflation eases, but risks remain to the upside India's wholesale price inflation eased to a two year low in July, to 6.9% y/y (consensus: 7.2%) from 7.3% in June, driven mainly by lower fuel prices.

Publications on August 10, 2012 to 12:00, Madrid time

Sonsoles Castillo
s.castillo@bbva.com
+34 91 374 44 32

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

Indicators collaboration

Europe
Elvira Prades
elvira.prades@bbva.com
+34 537 79 36

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

Asia
George Xu
George.Xu@bbva.com.hk

BBVA | RESEARCH



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

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