

Global Weekly Flash

Madrid, 18 January 2013
Economic Analysis

Financial Scenarios

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Global activity shows signs of stabilization

Recent economic data provides upbeat signs for the US economy and for China GDP growth, while Q4 activity indicators continue to improve as expected.

- This week, US macro data came on the positive side. December retail sales surprised the market to the upside (mainly automobile industry), rising 0.5% despite consensus being at 0.2% (based on expected fiscal caution and dismal auto surveys). Furthermore, December industrial production increased for a second month in a row, as was expected: 0.3% after a revised 1% gain in November. Manufacturing output rose solidly at 0.9%, boosted by strong increases in motor vehicles and parts, computer and electronic products and chemical products. Confidence among U.S. homebuilders remained unchanged after December reaching its highest level in nearly seven years. Particularly, the NAHB index of builder confidence was 47. Moreover, the number of Americans filing first-time claims for unemployment insurance payments fell last week to the lowest level in five years. Applications for jobless benefits decreased by 37,000 to 335,000 in the week ending Jan. 12, the lowest level since the period ending Jan. 19, 2008. In the same vein, December housing starts climbed 12.1%, exceeding all forecasts and the largest increase since 2008.
- China's Q4 GDP growth rose to 7.9% y/y after bottoming out at 7.4% y/y in Q3, largely on the effects of policy stimulus. The Q4 outturn was slightly above our and consensus expectations (7.8% y/y), and brings full-year growth for 2012 to 7.8%. December activity indicators, generally rose in line with expectations, including industrial production (10.3% y/y; consensus: 10.2%), investment (20.6% y/y; consensus: 20.7%), and retail sales (15.2% y/y; consensus: 15.1%). We view the outturns as an encouraging sign that growth recovery remains intact. Looking ahead, we expect GDP growth to rise to around 8.0% in 2013 as policy-induced growth in the first half of the year gradually gives way to a more self-sustaining, albeit less vigorous, trajectory in the second half. We expect policies to remain growth supportive in 2013, with ongoing infrastructure spending and selected tax cuts. With inflation rising, but still within government comfort levels of 3.5% for 2013, we expect interest rates to stay on hold, although additional cuts in the RRR are possible depending on domestic liquidity conditions.
- In the Eurozone, industrial output dropped by 0.3% (BBVA: 0.0%, Consensus: 0.2%) from October, when it declined a revised 1%. Total output fell 3.7% y/y (BBVA: -3.4%, Consensus: -3.1%). Moreover, November trade balance showed a surplus of EUR11bn (BBVA: EUR9bn; Consensus: EUR8bn), an expected rise from the EUR7.4bn surplus in the previous month. Exports rose for the first time in three months at 0.8% (seasonally adjusted) after falling a revised 1.2% in October. November imports also contributed to the surplus by falling 1.5%. On other hand, Germany published its 2012 GDP growth: +0.7%, slightly below expectations. According to this annual figure, GDP growth in the fourth quarter could be around -0.5% qoq. Moreover, the German government cut its growth forecast for 2013 to 0.4%.
- Regarding Latam, in Mexico, industrial production recovered in November (0.92% MoM in sa series (vs. BBVAe 1.1% and consensus 1.2%)), but leading indicators point to less dynamism in December. Meanwhile, in Brazil, retail sales grew by 0.3% MoM in November, broadly in line with expectations. The outturn showed that retail sales continued to expand, but at a slower pace. Moreover, the Brazilian central bank's Economic Activity Index expanded by 0.4% MoM in November, somewhat more than

we expected, but left SELIC rates unchanged, reinforcing our view that they will remain stable at least this year. In the same vein, the central bank of Chile kept interest rates at 5%, as widely expected, and the communiqué reinforced our view of stable rates until the beginning of 2014.

- The World Bank released this week its global economic prospects concluding that the worst is over, but that the economy remains fragile. The institution cut its 2013 global growth forecast to 2.4%, down from a June forecast of 3%, slightly above the 2.3% growth in 2012. The report says that growth in high-income countries remains weak, with their GDP's expanding only 1.3%, the same rate observed in 2012. In the Euro Area, growth is now projected to be positive not before 2014: GDP is expected to contract by 0.1% in 2013, before edging up to 0.9% in 2014 and 1.4% in 2015. The report warns that while diminished, downside risks to the global economy persist and include a stalling of progress on the Euro Area crisis, debt and fiscal issues in the United States, the possibility of a sharp slowing of investment in China, and a disruption in global oil supplies.

- **Borrowing cost decreased in peripherals despite a pause in the latest rally**

- Sovereign European peripherals faced lower borrowing costs throughout this week's auctions, as funding market conditions improved at the start of the year. Spain sold EUR 4.5bn in 2Y, 5Y bonds and 28Y bonds, reaching the upper limit of the initial issuance target (EUR 3.5-4.5bn). Average yield were below previous auctions and those in the secondary market before the auction. In the same line, it also allotted 5.6bn in 12M and 18M Treasury bills at lower yields. Similarly, Portugal sold EUR 2.6bn in 3M, 12M and 18M Treasury bill. Average yields were below previous auctions, being set at 0.69% in the 3M, 1.61% in the 12M and 1.97% in the 18M. We highlight that yield spreads between Portuguese and Spanish Treasury bill are narrowing as confidence in Portugal increases.
- There have been positive news about Portugal and others peripherals. The IMF published the sixth review of the Portuguese adjustment programme, which enables the disbursement of EUR 0.84bn. The IMF acknowledged considerable progress in the fiscal and external fronts. They admit that sovereign spreads have narrowed, which bodes well with Portugal regaining market access in 2013. Nonetheless, the institution considers that the near-term outlook is uncertain. They urge Portuguese authorities to carry on reforms to boost competitiveness, and to further advance fiscal consolidation. The IMF also completed the first and second reviews of the Greek adjustment programme. The completion of the review enables the disbursement of about EUR 3.24 billion to Greece in coming days. The institution recommended that the Greek programme should remain focused on restoring growth, competitiveness, and debt sustainability. They admit that forceful structural reforms and broad-based domestic support will be needed to meet challenges, alongside long-term support from Greece's European partners.
- Finally, in Ireland the ongoing effort to reach agreement on replacing promissory notes with another instrument is finding support from German coalition party. In 2010, Ireland issued EUR 30bn in promissory notes to recapitalize Anglo Irish Bank and Irish National. In March, Ireland will face a EUR 3.1bn promissory note installment. The Irish government wants to restructure this instrument: cutting interest rates, delaying repayments or extending maturities, in order to improve its funding position.

Next week: the Eurogroup will hold its monthly meeting. Its working programme includes: monitoring of financial and macroeconomic stability developments in the euro area, the Portuguese 6th adjustment programme review, the implementation of the Stability and Growth Pact, among other issues. On the economic side, investors will be looking at the publication of January's soft economic data in the eurozone, as to confirm stabilization signs of previous months. Finally, the debate about the US debt ceiling will be closely watched. Additionally ECB governor Mario Draghi will speak in Frankfurt on the 22nd. Next Tuesday, Spain will issue 3M and 6M bills.

Calendar: Indicators

Eurozone: EC consumer confidence (January, January 23rd)

Forecast: -25.8	Consensus: -26.0	Previous: -26.6
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We expect consumer confidence to have increased slightly again in January, as observed in the previous month, confirming the end to the strong decline in the consumers' mood during H2 2012. This could be explained by lower uncertainty in the eurozone, after the ECB's announcement curbing the potential break-up of monetary union that reflected in lower financial strains in the periphery. Nonetheless, consumers' sentiment remains at very low level, and we do not see any rapid improvement of private consumption in the short-term as labour market conditions could deteriorate further in coming months. Overall, this suggests that private consumption will not boost economic growth in the coming quarters.

Eurozone: Flash PMI Composite (January, January 24th)

Forecast: 47.9	Consensus: 47.5	Previous: 47.3
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We expect PMI composite to have increased slightly again in January for the third month in a row, suggesting that the economic trough could be behind us. But still we remain cautious to read these figures into a very clear turning point, consistent with our view that the recovery will be smooth and very gradual in 2013. By components, both manufacturing and services PMI are expected to improve again in January, although slowing global demand continues to weigh on the former, while weak domestic demand on the latter. Despite some convergence between core and peripheral countries in late 2012, when the GDP fall is likely to have been widespread across member states, we expect that this improvement in PMI figures for the eurozone will continue to show a clear divergence across countries, with core economies (especially Germany) growing again earlier this year, while recession will persist in the periphery.

US: Existing Home Sales (December, January 22nd)

Forecast: 5.08M	Consensus: 5.10M	Previous: 5.04M
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Existing home sales are expected to rise only slightly in December as economic conditions beget frailty with the fiscal cliff situation still impeding clarity for 2013. Still, we expect to see positive growth for the third consecutive month after seeing a 5.9% rise in November, though the pace is likely to decelerate as low supply limits available sales. With existing homes typically cheaper, home buyers who are entering or reentering the market are opting for the existing homes that are established and have been on the market long enough to see their prices decline. However, with consumers' income reduced by the payroll tax cut expiration in 2013, a portion of potential buyers may have edged off the market in December while waiting for the fiscal situation to be resolved. Therefore, we expect sales to increase in December at a much slower rate due to the political atmosphere but rebound in 2013 as the housing market continues to grow.

US: New Home Sales (December, January 25th)

Forecast: 383K	Consensus: 385K	Previous: 377K
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Similar to the outlook for existing sales, new home sales are expected to grow at a slower pace in December. With housing supply still low and home buyer demand escalating, housing starts have been frantically trying to keep pace with demand, up 15.3% YoY. Consumers are reentering the housing market and have been buying existing homes quickly as prices remain relatively low compared to the demand for homes and low rate of supply. However, first time home buyers might also be considering new homes, evidenced by the jump in housing starts and growth in new home sales in 2012 already. As new home sales dropped in October then rebounded in November, it seems likely due to the lagging economic environment towards the end of the year that December will be a relatively slow month as buyers await fiscal clarity.

South Korea Q4 GDP growth (January 24th)

Forecast: 1.8% y/y	Consensus: 1.8 y/y	Previous: 1.5% y/y
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The Korean economy slumped in 2012 as weak external demand weighed on exports (-1.3% y/y for the full year). Sluggish exports spilled over to domestic demand, although the latter was sustained by a still-strong labor market (unemployment has fallen to just 3.0%). We expect GDP growth to have picked up from Q3 on slightly higher private spending, which would bring full-year growth to 2.2% for 2012 from 3.6% in 2011. In sequential terms, this outturn would imply a pickup to 0.5% q/q, s.a. (non-annualized) from 0.1% in Q3. Looking ahead, we expect growth to improve in 2013 to around 2.7%, as the newly elected government of President Park Geun-hye seeks to stimulate GDP by front-loading budget spending, and as external demand improves on China's ongoing recovery (China is Korea's biggest export market, accounting for almost a quarter total exports). Monetary policy is also supportive, and with inflation well-contained at 1.4% y/y in December vs. the official inflation target of 2%-4%, we expect another interest rate cut by the BOK in February or March at the latest (interest rates were cut twice in 2012, most recently in October, to 2.75% at present).

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.30	0	-1	-26
		2-yr yield	0.25	1	-2	1
		10-yr yield	1.85	-2	5	-17
	EMU	3-month Euribor rate	0.21	1	3	-97
		2-yr yield	0.20	6	20	-1
		10-yr yield	1.58	-1	15	-35
Exchange rates (changes in %)	Europe	Dollar-Euro	1.331	-0.3	0.6	2.9
		Pound-Euro	0.84	1.3	2.9	0.9
		Swiss Franc-Euro	1.24	1.8	2.8	2.7
		Argentina (peso-dollar)	4.95	0.1	1.1	14.5
	America	Brazil (real-dollar)	2.04	0.5	-1.4	16.4
		Colombia (peso-dollar)	1769	0.3	-1.3	-3.0
		Chile (peso-dollar)	472	0.0	-0.7	-4.2
		Mexico (peso-dollar)	12.64	-0.1	-1.0	-4.1
		Peru (Nuevo sol-dollar)	2.55	0.2	-0.6	-5.5
	Asia	Japan (Yen-Dollar)	89.85	0.8	6.4	16.7
		Korea (KRW-Dollar)	1057.08	0.2	-1.4	-6.8
		Australia (AUD-Dollar)	1.049	-0.4	0.1	0.1
Comm. (chg %)		Brent oil (\$/b)	110.9	0.2	0.5	0.9
		Gold (\$/ounce)	1689.5	1.6	1.3	1.4
		Base metals	533.8	0.3	1.1	0.0
Stock markets (changes in %)	Euro	Ibex 35	8622	-0.5	4.3	0.7
		EuroStoxx 50	2714	-0.1	2.2	11.8
	America	USA (S&P 500)	1479	0.5	3.0	12.4
		Argentina (Merval)	3189	2.6	12.1	11.2
		Brazil (Bovespa)	62028	0.9	1.7	-0.5
		Colombia (IGBC)	14740	0.1	0.6	9.2
		Chile (IGPA)	21923	1.1	4.5	6.7
		Mexico (CPI)	44957	0.2	3.0	20.3
		Peru (General Lima)	21792	-0.5	6.5	4.3
		Venezuela (IBC)	484016	2.1	4.0	300.2
	Asia	Nikkei225	10913	1.0	7.4	24.5
		HSI	23602	1.5	4.3	17.4
Credit (changes in bps)	Ind.	Itraxx Main	103	1	-7	-51
		Itraxx Xover	419	-2	-25	-228
	Sovereign risk	CDS Germany	40	0	3	-55
		CDS Portugal	382	2	-52	-887
		CDS Spain	253	11	-27	-123
		CDS USA	43	4	6	--
		CDS Emerging	213	-2	7	-70
		CDS Argentina	1946	-4	518	1158
		CDS Brazil	109	-4	8	-44
		CDS Colombia	93	-3	3	-52
		CDS Chile	67	-2	-1	-54
		CDS Mexico	93	-4	3	-55
		CDS Peru	91	-4	2	-81

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
Global	01/15/2013	➤ Global Economic Watch: "Educational attainment in the OECD, 1960-2010" This Economic Watch analyses a new data set on educational attainment levels in 21 OECD countries from 1960 to 2010
	01/14/2013	➤ 2013: clave para la regulación financiera en Europa 2013 será absolutamente decisivo en el plano regulatorio, con una agenda cargada de citas clave
Spain	01/15/2013	➤ Flash: IPC en diciembre El dato del IPC de diciembre confirma la estabilización de los precios del consumo en el 2,9% a/a.
	01/14/2013	➤ Flash España: "Compraventa de viviendas en noviembre de 2012" Durante el mes de noviembre, se efectuaron 25.655 ventas de viviendas, un 2,0% menos que en el mes anterior tras corregir la serie de variaciones estacionales y efectos de calendario (cvec)
US	01/17/2013	➤ U.S. Flash. Industrial Production Up as Equipment Demand Grows Industrial production expanded 0.3% in December despite fiscal uncertainty. Manufacturing of durable goods outpaces non-durables as autos remain strong. Capacity utilization rises to 78.8%
	01/17/2013	➤ U.S. Inflation Flash. Core Inflation Remains Soft as Headline Prices Are Unchanged Headline inflation registers no change from November and was in line with consensus. Energy prices continued their descent, down 1.2% after falling 4.1% in November
	01/15/2013	➤ U.S. Flash. Retail Sales Rise in December as Autos Surprise to the Upside Beating consensus figures, sales rose 0.5% and 0.3% excluding autos. Moderate gains across most categories as holiday season comes to an end
	01/14/2013	➤ U.S. Weekly Flash. Consumer credit grows by \$16.0B on more student loans and increased activity Once again consumer credit has increased far above estimates, up \$16B in November as nonrevolving credit remains the massive majority (Spanish version)
Latam	01/18/2013	➤ Latam Daily Flash: "The CB of Chile kept rates at 5%; Colombian trade balance from surplus to deficit in November"
	01/17/2013	➤ Latam Daily Flash: "Reinforced perspectives of monetary stability in Brazil; Monetary policy meeting analysis in Chile"
	01/16/2013	➤ Latam Daily Flash: Moderate expansion in retail sales in Brazil; ¿New Deal¿ for Mexico continues
	01/15/2013	➤ Latam Daily Flash: Stronger than expected GDP in Peru; Measures to stem currency appreciation in Peru and Colombia
	01/14/2013	➤ Latam Daily Flash: "Exports dropped in Colombia; Mexican industrial production recovered in November"
Brasil	01/17/2013	➤ Brazil Flash: "Stability of monetary conditions amid higher inflation and lower growth" The Monetary Policy Committee (COPOM) left the SELIC rate unchanged at 7.25%, in line with expectations (Spanish version)
	01/16/2013	➤ Flash: "Economic activity grew more than expected in November." The Brazilian Central Bank's Economic Activity Index (the IBC-Br) expanded by 0.4% MoM in November. (Spanish version)
Peru	01/14/2013	➤ La actividad sigue mostrando un fuerte ritmo de expansión El PIB creció 6,8% interanual en noviembre, por encima de lo esperado (BBVA: 6,3%; Consenso: 6,4%).

Other Countries

Uruguay

- 01/15/2013 ➤ **Lineamientos para impulsar el proceso de profundización bancaria en Uruguay**
La tesis implícita que discurre en este estudio es que la institución bancaria es el actor que debe liderar un proceso serio de bancarización en un país

Mexico

- 01/16/2013 ➤ **Banxico Watch. The significant improvement in the inflation balance of risks leads to a neutral tone and supports the monetary pause**
As monetary conditions have improved in the last 3 months while global economic uncertainties are still latent, we expect a less hawkish statement from Banxico on Friday
(Spanish version)
- 01/14/2013 ➤ **Mexico Real Estate Flash. Negative growth for the first time in two years**
In November, construction was down -1.1% yoy and -1.0% in monthly terms. All three components of construction turned negative. These figures are in line with the expected slowdown in the sector (Spanish version)

Emerging Markets

- 01/13/2013 ➤ **Los Emergentes cierran un buen 2012**
Las economías emergentes con alto potencial de crecimiento (BBVA EAGLEs) cerraron un año marcado por un mayor crecimiento y menor riesgo que los países desarrollados

EAGLEs

- 01/16/2013 ➤ **EAGLEs Economic Watch. Inclusive growth in emerging markets? Rapid poverty reduction but increasing inequality (Chinese version) (Spanish version)**

Asia

- 01/18/2013 ➤ **China Flash: GDP growth and Q4 activity indicators improve as expected**
GDP growth reaches 7.8% in 2012 as Q4 GDP accelerates to 7.9% y/y; Dec activity indicators in line with expectations; Property prices climb further as the real estate sector continues to pick up.
- 01/17/2013 ➤ **Asia Daily Flash | 17 January 2013: Weak unemployment data in Australia; Singapore's NODX declined sharply**
Asian shares closed mostly down ahead of the release of China's key indicators. The declines most likely reflect a retracement after the strong run-up on positive sentiment toward EU and US.
- 01/16/2013 ➤ **16 January 2013: Hong Kong's Chief Executive makes annual policy address; China inward FDI declines**
Asian stock markets were lower today, marked most notably by a pullback in Japan's Nikkei; HK annual policy address emphasizes housing affordability issues; China's inward FDI declines in 2012
- 01/15/2013 ➤ **Asia Daily Flash | 15 January 2013: Hong Kong awaits tomorrow's policy address; Singapore retail sales contract**
Hong Kong awaits tomorrow's annual policy address; RBI introduces US dollar-rupee swap facility to enhance export credit; Singapore's retail sales in November declined.
- 01/14/2013 ➤ **Asia Daily Flash | 14 January 2013: China signals further opening; SAFE reportedly has new plans for foreign reserves; India inflation eases; Singapore announces new property measures**
Signals of a further opening of China's capital inflows through QFII; China's SAFE plans to use foreign reserves for FDI outflows; Easing December inflation in India supports case for a rate cut.
- 01/14/2013 ➤ **India Flash: WPI inflation steadied in December, supporting the case for a policy rate cut by the RBI**
India's Dec WPI steadied at 7.2% y/y, as continued moderation in core and fuel prices offset a low base effect and higher food inflation. We expect WPI inflation to average 6.6% y/y in 2013.

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