



Weekly Observatory

April 19, 2010

Financial markets: a nervous waiting of the rescue package

Financial tensions remained high again in Europe as markets doubt about the feasibility of Greek crisis' resolution without the activation of the rescue package. As a result, Greek bond yields rose above 7% at 2, 5 and 10-year maturities. Other European sovereign, however, remained relatively stable showing very little contagion, European stock markets went up (except in Greece) reacting positively to the publication of good corporate and financial results for 1Q10 in USA, and the euro staid calm in a tight band (\$1,35-\$1,36). Moreover, several European countries went to debt market obtaining good demand in all auctions, including a Greek issuance, but in this last sale paying high rates. In the week were also published the January US capital inflows data which remained week in spite of some improvement in comparison with January. Finally, Asian currencies went up after the decision of Singapore Monetary authority to appreciate its currency, to fight inflation due to very strong GDP data, which augmented the pressing on other countries to follow this step. In particular, expectation of an appreciation of Chinese RMB increased further, fueled also by a very good Chinese growth in 1Q10. For further information, see [Flow Watch](#).

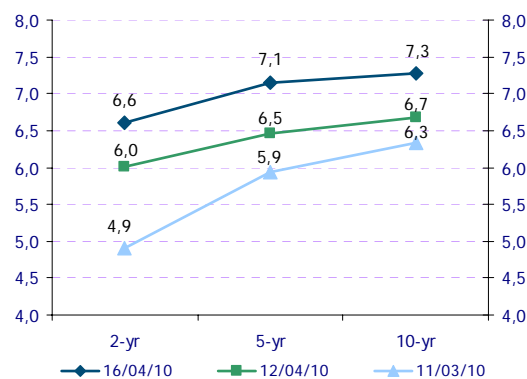
US: supply and demand side data support an ongoing recovery

Consumer demand remained sturdy in March, confirming that consumption will contribute to GDP growth in 1Q10. Retail sales rose 1.6% driven by strong auto sales and widespread increases across other components. On the supply side, industrial production rose 0.1%. While the rate is the lowest since June 2009, it does not necessarily reflect a loss of momentum. Manufacturing production, which comprises 76% of total production, posted significant gains, but they were eroded by a steep decline in the production of utilities due to an improvement in weather conditions. Furthermore, the Empire State and Philadelphia Fed regional manufacturing indices indicated that manufacturing production will improve further in April. These positive trends in industrial production are supportive of an ongoing economic recovery. For further information, see [US Weekly Observatory](#).

Eurozone: the Greek rescue drama continues but there are positive signs in economic activity

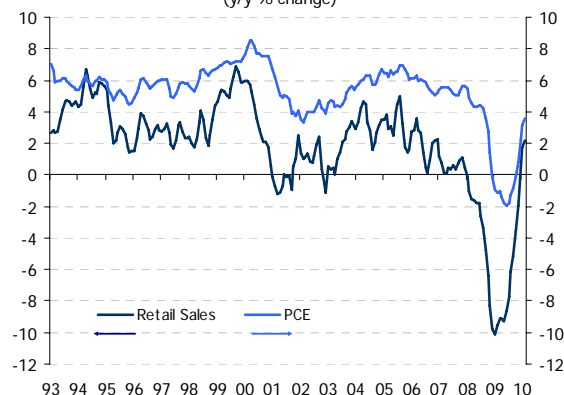
In spite of the announcement made by the EU, the imminent call of the rescue package by the Greek authorities remained at the centre stage this week. The concerns by market players lie on the political hurdles at a national level and the fact that the Greek Prime Minister sent a letter on Thursday to the IMF, EU and the ECB asking to clarify the technical details in order to be ready to use if needed. Juncker, the Chairman of the Eurogroup, highlighted that this does not imply the immediate use of the package. On the ECB front, comments by executive members have been related to Greece trying to alleviate the situation. In particular Nowotny said with regard the pressures on the euro that "there is no concern whatsoever". However, Trichet pointed that "the liquidity situation of Greek banks remains difficult and could deteriorate". Hard data on euro zone economic activity showed in February positive signs, as industrial output increased more than expected, so in January and February industrial production grew 3% over Q409. Additionally, extra-EA16 exports increased

Greece: Yield curve



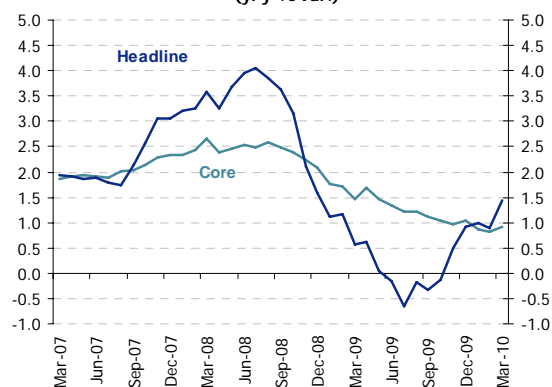
Source: Bloomberg and BBVA ERD

US: Real Retail Sales & PCE (y/y % change)



Source: US Census Bureau and BEA

Eurozone: Harmonized CPI (y/y % var.)



Source: Eurostat

again in February more than imports growth so the trade balance widened. Lastly, both headline and core inflation increased in March to 0.9% and 1.4% y/y, driven by higher prices in services and energy. For further information, see [Europe Weekly Observatory](#).

Asia: strong growth in China and Singapore reinforces pressures to further currency appreciation and to curb inflationary risks

China saw rapid Q1 GDP growth of 11.9% y/y. The faster-than-expected outturn and rising property prices highlight overheating risks, which believe are manageable with further measures to rein in credit, and as seen in a moderate inflation outturn and slowdown in new loans for March. However, the strong growth reinforced speculation of an early revaluation of the RMB. Elsewhere, Singapore posted a strong Q1 GDP estimate of 32.1% q/q annualized, and the MAS tightened monetary policy, which fueled appreciation pressures throughout the region. The coming week will feature monetary meetings in India (25bp hike expected), Thailand, and the Philippines, as well as Korean Q1 GDP, trade data in Japan, and March inflation in Singapore. For further information, see [Asia Weekly Observatory](#).

Latin America: differences in the recovery within the region

The GDP continued to grow firmly in Peru. Retail sales and job creation data show that the Brazilian economy is being more resilient than expected to the withdrawing of fiscal stimulus and that growth could continue at fast pace. In Colombia, households' perception of the current and future economic situation improved, and February's Business survey showed improvements on industrial production and retail sales. On the other hand, in Chile, the Economic Perception Index showed a sharp drop especially in the household consumption component. This heterogeneity in activity data is also reflected in the Central Bank's decisions: while Chilean CB left interest rates unchanged at 0.5%, in Brazil the CB should still in April adjust rates up. Finally, in Argentina the Lower House rejected the President's emergency decree issued to pay public debt with Central Bank reserves. For the next week, we stress the release of more activity data for Colombia, Argentina and Venezuela, and in Chile the CB Monthly Bulletin. For further information, see [Latin America Weekly Observatory](#).

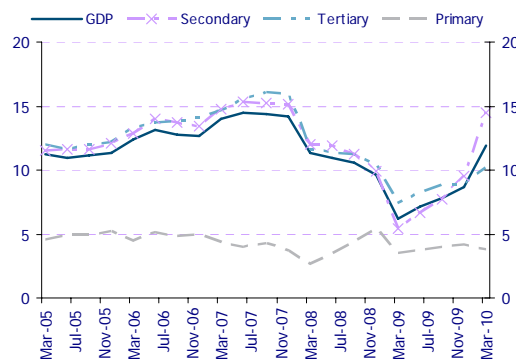
Spain: upward surprise in March's headline inflation

Headline inflation rose in March by 0.6 pp. to 1.4% y/y more than expected (BBVA: 1.2%, Bloomberg: 1.1%). The upward surprise in March's headline inflation is mainly explained by the rebound in energy prices (13.9% y/y from 9.9% y/y last month). Core inflation also rose from 0.1% y/y in February to 0.2% y/y in March which was in line with our forecasts. The above results imply that Spain's headline inflation differential vis-à-vis EMU countries (preliminary) stays at 0.0 pp in March. However, the core inflation differential remains favorable to Spain (around -0.5 pp). This week's data will include the trade balance for February (Prior: -45,9 billion Euros).

Mexico: Manufacturing supports Industrial Production in 1Q10

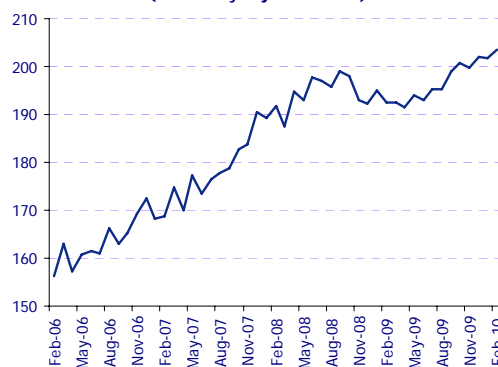
Industrial production increased 0.6% m/m (4.4% y/y), close to last quarter average, confirming a downward trend, due to manufacturing expansion. However some activities strongly related to US demand as automotive production are showing a disappointing evolution. Construction lags behind but it is improving slightly its m/m evolution. As usual, US industrial cycle will be the main driver of Mexican industrial production in the short term. Afterwards, domestic demand should join to impulse activity. Banxico kept its reference rate at 4.5% and give a hawkish tone to its statement. For further information, see [Mexico Weekly Observatory](#) (in Spanish).

China: GDP growth (y/y % var)



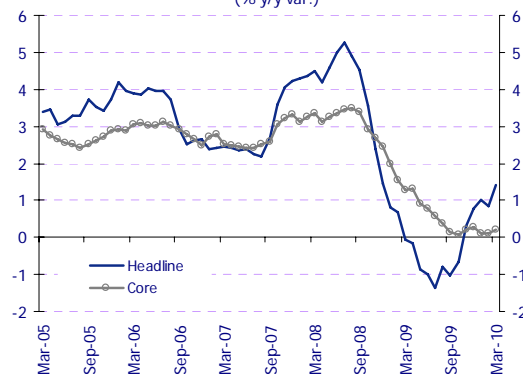
Source: BBVA-ERD

Peru: GDP (Seasonally adjusted Index)



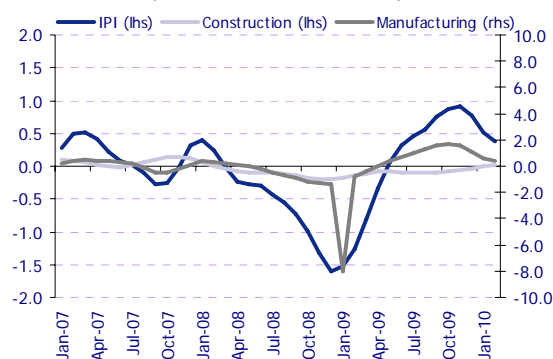
Source: INEI

Spain: inflation (% y/y var.)



Source: INE and BBVA ERD

Mexico: Industrial Production & components (trend series, m/m % var)



Source: BBVA-ERD

Financial markets: Nicolás Trillo
Nicolas.trillo@grupobbva.com

Financial markets: Marcos Dal Bianco
Marcosjose.dal@grupobbva.com

Financial markets: María Martínez
Maria.martinez.alvarez@grupobbva.com

Financial markets: Ignacio González-Panizo
Ignacio.gonzalez-panizo@grupobbva.com

Euro area: Agustín García
Agustin.garcia@grupobbva.com

Euro area: Elvira Prades Illanes
Elvira.prades@grupobbva.com

Euro area: Miguel Jiménez
Mjimenezg@grupobbva.com

United States: Kristin Lomicka
Kristin.lomicka@compassbank.com

Mexico: Pedro Uríz
Pedro.uriz2@bbva.bancomer.com

Spain: Miguel Cardoso
Miguel.cardoso@grupobbva.com

Spain: Camilo Ulloa
Camiloandres.ulloa@grupobbva.com

Latin America: José Ramón Perea
Jramon.perea@grupobbva.com

Asia: Stephen Schwartz
Stephen.schwartz@bbva.com.hk

Asia: Ricard Torne
Rircard.torne@bbva.com.hk