Global Weekly Flash

Hopes of a larger firewall as financial strains increase

Notwithstanding that the Spanish 10-year bond auction attracted high demand, peripheral risk premium continued worsening. In this regard, the Spanish 5-year CDS reached a new high last Monday while Italian yields also surged this week, especially for the 10-year bond. France yields also surged (18bp) this week, but probably mainly driven by the presidential election (the first round to be held this Sunday). News flows from Europe have been somewhat negative. The Italian government revised its 2012 budget deficit to 1.7% from 1.6% and for 2013 from -0.1% to -0.5% due to cyclical factors. Budget execution figures for the first three months of the year registered a deficit of EUR28bn, similar to last year and therefore not suggesting an improvement for 2012; however, worries on this data should be mitigated as tax measures to raise revenues by about 0.5pp of GDP are expected to kick-in in the second half of the year. In Spain, the housing prices fall accelerated in 1Q12 and non-performing loans rate reached 8.2% in February from 7.9% in January.

In this context, with the ongoing European debt crisis deteriorating, the IMF is strengthening its efforts to increase the IMF's firewall in order to help dealing with the crisis. At the time of writing this report, the fund had received pledges totalling about USD320 at the G-20 meeting. These figures are below initial expectations amounting to $500bn, but further progress is expected during the weekend or coming months. So far, the countries that have expressed their commitments to provide additional resources to the IMF are Japan, the eurozone, Scandinavian countries and Poland. Currently, the IMF's funds available for lending are about USD 391bn.

The IMF welcomed the step took by the eurozone to address the debt crisis, especially the enhancement of the European firewall and the fiscal compact. According with the institution, the global economy has entered in a "timid" recovery". The institution revised slightly upwards its world economy prospects in the latest WEO. The world growth may reach 3.5% in 2012 (+0.2pp respect to January's estimation) and 4.1% in 2013 (+0.1%), driven by stronger results from the US (+0.3pp to 2.1% in 2011), Japan (+0.4pp to 2.0% this year) and Germany (+0.3pp to 0.6%). However, the global economy still faces high risks.

- **On the US economy data continued to show mixed signals. In Europe, the increase in the German confidence illustrates how the major eurozone economy continues to weather the sovereign debt crisis well**
    - German IFO business confidence rose by 0.1pp to 109.9 in April, against expectations of a decline. The IFO current index advanced 0.1pp, while index expectation remained flat at 102.7 level. The German ZEW confidence indicator improved once again in April against expectations, as there was a gain in the sentiment of 1.1p and in the current situation of another 3.1p. News from the production sectors were mixed, as industrial new orders experienced a sharp drop, while industrial turnover improved in both Italy and Greece in February (+2.3% m/m, +7.6% y/y respectively). In addition, there was a steep fall in construction output in the eurozone by -7.1% in February, probably linked to bad weather conditions. The eurozone trade balance returned to a surplus, but there were divergences between countries. Finally the CPI in the eurozone was revised up from 2.6% to 2.7% in March due to higher than expected energy inflation.
    - Economic data in the US posted another good surprise in consumption. March retail sales were stronger than expected in March. In contrast, housing starts and existing home sales figures suggested slowing activity in the housing sector. However, we believe that the floor in both housing sales and starts was reached last year, and thus the recent data do not yet present cause for concern. Furthermore building permits rose by 4.5%. This improvement in building permits may lead a recovery in home star in coming months. Industrial production was unchanged in March, while the manufacturing output posts surprise drop of 0.2% in March. The New York Fed's Empire State Manufacturing General Business Conditions Index lost 14 points, falling to 6.6 in April from 20.2 in March; the weakest reading in nearly half a year.
    - Ahead of the next week's FOMC meeting we do not expect any policy action from the US monetary authority. Yet, we expect the FOMC to sustain its accommodative stance in order to maintain expectation of further quantitative easing if the economic data deteriorate in coming months.

- ## Growing expectations of monetary easing in China
  - The statement of the China's State Council highlighted authorities' calls for further adjustments (loosening) in monetary policies given their awareness of present headwinds to domestic growth. In addition to supporting domestic consumption, the authorities indicated that they will also promote domestic investment, in an apparent direct response to the slowdown in investment that occurred in the beginning of 2012.However, the authorities also said they will continue to implement tightening measures in the property market. In this regard, China's housing prices post another decline in March. Official data released show an acceleration of the downward trend in national housing prices. The data, covering 70 cities, show an average y/y price decline (including new and second-hand housing) of -1.5%. On an accumulative basis, we estimate national housing prices to have now fallen by -1.5% since their peak in July 2011. We view the declines as moderate so far and in line with our expectations.
  - On FX, also this week the People's Bank of China (PBoC) announced the widening of the daily trading band last Saturday. The band of the RMB against the USD is expanded to +/- 1.0% (around the daily opening fixing rate) from +/- 0.5%, effective from today (April 16). In addition, the PBoC also raised the bid-ask spread for USD offered by the foreign exchange-designated banks to their customers from the current level of 1% to 2%. According to the PBoC's statement, the relaxation of the RMB trading band is an important effort that will "facilitate price discovery and enhance the flexibility of the RMB exchange rate." We expect that widening the RMB daily trading band will help deter "hot money" inflows because it will introduce higher volatility; however, we do not expect that it will change the RMB's long-term trend of appreciation. In this regard, we maintain our projection that the RMB will appreciate by 2- 3% by the end of this year.
  - In the meantime, Japan's exports accelerated in March. Japanese exports growth exceeded expectations (5.9% y/y vs. consensus: 0.2%), resulting in a lower-than-expected trade deficit. Imports grew by 10.5% y/y for the month due to higher oil and gas purchases needed to replace Japan's dwindling nuclear power supply. Recent comments from Bank of Japan Governor Masaaki Shirakawa expressed the central bank's intention to continue monetary easing. This increases the likelihood of additional quantitative easing at the BoJ's next policy meeting on April 27th.
  - All in all, major emerging countries seems to be more prone to use the room in monetary policy, while the bias in developed countries such as UK and Canada seems to be turning to a more hawkish stance. In fact, India cut official rates by 50 basis points and, in the same line, the Brazil's CB decided to cut the SELIC rate by 75bps to 9.0% this week. The accompanying statement suggested that the easing cycle may have not ended yet as many - including BBVA Research - expected. The chance of the CB cutting the SELIC again (by 50bps or 25bps) in its next meeting in May are non-negligible. We see, therefore, a clear and relevant downside risk to our current call for the SELIC (9.0% till the end of the year), especially if the external scenario remains turbulent and inflation continues surprising positively.

Next Week investors will keep attention on the US 1Q12 GDP figures and the eurozone April's PMI figures. Additionally, Spain will publish its monthly budget execution. Finally, this Sunday French presidential election and next week FED FOMC meeting will be closely followed.

Calendar: Indicators

Eurozone: Flash PMI composite (April, April 23rd)

Forecast: 49.2	Consensus: 49.3	Previous: 49.1

We expect PMI's to have remained broadly stable in April, after declining in February and March, thus remaining below the 50 points threshold. A further worsening cannot be ruled out as the upsurge of financial strains could have been weighing on confidence and activity. Across components, we expect stabilization in the sentiment of both manufacturing and services, as robust foreign demand might continue to support the industrial sector, while domestic demand seems to be more resilient than in the end of 2011. These figures are especially relevant because they are the first signs of the economic performance in Q2. We continue to see an anemic activity in the current quarter, to gain some momentum in the second half of the year. Divergence is likely to increase further across member states, with core economies, especially Germany, improving, while peripheral countries will continue to suffer from the fiscal consolidation.

Eurozone: Industrial new orders (February, April 24th)

Forecast: 1.7% m/m	Consensus n.a.	Previous: : -2.8% m/m

We expect industrial orders to have rebounded in February, but not enough to offset the sharp decline observed in January. As a result, the orders level should have remained flat over Q4 as whole, confirming the interruption of the downward trend observed over the second half of last year. Nevertheless, Eurostat will change the seasonal adjustment methodology for this series to guarantee the consistency of the European and the national aggregates, so our estimation should be taken with caution. Soft data showed mixed signs at the beginning of the year, with confidence from the EC showing an interruption in the decline path and PMI data pointing to a slight improvement, both surveys suggest that industrial orders continued to be supported by robust external demand. As orders lead the performance of industrial output, they suggest a timid recovery in this sector in coming months.

US: Gross Domestic Product, Advance (1Q12, April 27th)

Forecast: 2.4% q/q	Consensus: 2.5% q/q	Previous: 3.0% q/q

Looking at the first quarter of 2012, some of the momentum from 4Q11 appears to have carried over, although we have seen activity slowing in some areas. The manufacturing sector continues to expand but at a slightly slower pace, with strength in durable goods relatively unchanged from the end of 2011. Business inventories have increased thus far throughout 1Q12 and are on pace for a slightly stronger contribution to growth. Housing sector gains have been limited, and continuous declines in construction spending in January and February will likely be a drag on GDP. On the other hand, real personal consumption expenditures, which had shown signs of little to no growth in the previous months, increased 0.5% in February following upward revisions to data in both December and January. Thus far, consumption has been stronger than the 4Q11 average, and positive consumer data suggest similar growth in March. Finally, the trade balance recovered in February from a significant deterioration in January, and we expect that exports will finish off the quarter on a positive note.

US: Employment Cost Index (1Q12, April 27th)

Forecast: 0.6% q/qa	Consensus: 0.5% q/qa	Previous: 0.4% q/qa

The Employment Cost Index is expected to increase in 1Q12 at a slightly faster pace than in 4Q11 but will remain low compared to historical trends. On a monthly basis, growth in average hourly earnings has outpaced that of the previous quarter, although real earnings have declined for three consecutive months. The wages and salaries component of personal income has increased at a similar pace compared to 4Q11, but continued weakness in employment conditions have limited significant growth in labor costs. Given the latest inflation data, particularly the increasing costs for healthcare and benefits, we expect that the employment cost index will continue to increase on a nominal basis.

Australia CPI Inflation (Q1, April 24th)

Forecast: 2.4% y/y	Consensus: 2.2% y/y	Previous: 3.1% y/y

Australia's Q1 inflation will be watched as a guide to the Reserve Bank of Australia's interest rate decision at its forthcoming monetary policy meeting on May 1 Expectations of an interest rate cut have been growing following the release of minutes from the last policy meeting on April 3, in which Board members indicated that a moderate inflation outturn for Q1 could make a case for further easing of monetary policy in view of weak domestic conditions, especially in the non-mining sector. The outlook is for both headline and core inflation to fall within the central bank's target of 2-3% in the coming year. Based on our outlook for inflation, we expect the RBA to cut interest rates by 25bps on May 1. The RBA last cut interest rates in November and December, but signalled at that time that further cuts were unlikely given improving global conditions.

Markets Data

				Close	Weekly change	Monthly change	Annual change
Interest rates	(changes in bps)	US	3-month Libor rate	0.47	0	-1	19
			2-yr yield	0.27	0	-10	-39
			10-yr yield	1.98	0	-31	-141
		EMU	3-month Euribor rate	0.73	-2	-9	-62
			2-yr yield	0.14	1	-16	-162
			10-yr yield	1.71	-3	-27	-155
Exchange rates	(changes in %)	Europe	Dollar-Euro	1.319	0.8	-0.1	-9.4
			Pound-Euro	0.82	-0.7	-1.7	-7.0
			Swiss Franc-Euro	1.20	-0.1	-0.3	-6.7
		America	Argentina (peso-dollar)	4.40	0.1	0.7	7.8
			Brazil (real-dollar)	1.88	2.5	3.3	20.3
			Colombia (peso-dollar)	1775	0.0	0.9	-0.4
			Chile (peso-dollar)	487	0.4	0.3	4.3
			Mexico (peso-dollar)	13.16	0.1	3.6	13.4
			Peru (Nuevo sol-dollar)	2.65	-0.3	-0.6	-5.9
		Asia	Japan (Yen-Dollar)	81.72	1.0	-2.1	-0.3
			Korea (KRW-Dollar)	1137.77	0.3	0.7	5.1
			Australia (AUD-Dollar)	1.034	-0.3	-1.0	-3.7
Comm.	(chg %)		Brent oil ($/b)	119.0	-2.3	-4.2	-4.0
			Gold ($/ounce)	1644.6	-0.8	-0.4	9.1
			Base metals	535.7	-0.9	-1.9	-14.7
Stock markets	(changes in %)	Euro	Ibex 35	7005	-3.4	-17.5	-33.8
			EuroStoxx 50	2310	0.8	-10.0	-21.3
		America	USA (S&P 500)	1377	0.5	-1.9	3.0
			Argentina (Merval)	2353	-6.0	-13.5	-31.1
			Brazil (Bovespa)	62618	0.8	-6.3	-6.6
			Colombia (IGBC)	14998	-0.5	1.1	4.6
			Chile (IGPA)	21737	0.4	-0.9	-3.2
			Mexico (CPI)	39396	0.7	2.5	7.0
			Peru (General Lima)	23150	-0.8	0.4	23.1
			Venezuela (IBC)	227390	9.3	26.2	220.9
		Asia	Nikkei225	9561	-0.8	-5.2	-1.2
			HSI	21011	1.5	0.7	-13.0
Credit	(changes in bps)	Ind.	Itraxx Main	144	1	31	46
			Itraxx Xover	685	14	115	321
		Sovereign risk	CDS Germany	83	10	12	38
			CDS Portugal	1122	15	-110	464
			CDS Spain	498	-4	74	250
			CDS USA	31	1	-1	---
			CDS Emerging	269	3	39	66
			CDS Argentina	1046	149	325	475
			CDS Brazil	130	-1	13	20
			CDS Colombia	118	0	12	17
			CDS Chile	98	-1	13	38
			CDS Mexico	127	0	16	25
			CDS Peru	131	0	14	-17

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
USA	04/19/2012	**U.S. Flash: Existing Home Sales Fall Below Expectations** The National Association of Realtors reported today that March existing home sales registered 4.48 million units at a seasonally adjusted annual rate, below our forecast of 4.59 million units
	04/18/2012	**Canada Flash: Canada: April 2012 Monetary Policy Report** Following yesterday's announcement, which contained a shift in language towards "modest" adjustments to monetary accommodation, the BoC released today a detailed account of the Canadian economy
	04/17/2012	**Canada Flash: Bank of Canada(BoC) says "withdrawal of considerable monetary stimulus may be appropriate"** In today's release, the BoC's phrasing pulled forward expectations of the next interest rate increase, possibly indicating a hawkish tipping point for the Bank
	04/16/2012	**U.S. Weekly Flash. March CPI in line with expectations, energy prices drive the headline figure** Consumer price inflation matched consensus expectations in March, increasing 0.3% and 0.2% at the headline and core levels, respectively (Chinesse version) (Spanish version)
EMU	04/17/2012	**Europe Flash: "Both headline and core inflation remained stable in Q1 at 2.7% and 1.9% y/y, respectively"** Inflation remained stable at 2.7% y/y in March for the fourth month in a row, after being revised upwards by 0.1pp from the flash
Spain	04/18/2012	**Flash España: "Balanza comercial de febrero 2012"** El déficit de la balanza comercial en el acumulado a 12 meses de febrero se incrementa y se sitúa en -45,6 mil millonesde euros.
	04/18/2012	**Flash España: "Precio de la vivienda primer trimestre 2012"** El precio de la vivienda aceleró ligeramente su caída en el 1T12 contrayéndose el 1,95% t/t, tras corregir la serie de variaciones estacionales y efectos de calendario (cvec).
	04/17/2012	**Situación País Vasco. Primer semestre 2012** Las reformas estructurales, una oportunidad para potenciar las ventajas de la economía vasca. • España: de expectativas de crecimiento moderado a la recesión. • Menores desequilibrios y una mayor apertura comercial permitirán al País Vasco experimentar un ajuste más leve relativo a España, pero no evitar la caída del PIB. • Las reformas estructurales, una oportunidad para potenciar las ventajas de la economía vasca. • La mejora educativa y la atracción de la inversión y el consumo extranjeros, oportunidades para el crecimiento. Zertan den Euskadi (euskera) Presentación "Situacion País Vasco. Primer semestre 2012"
	04/16/2012	**Observatorio Económico España: "Características cíclicas de la economía española en el medio plazo"** Se establecen los principales hechos estilizados del ciclo económico en España, prestando especial atención a la variación que exhibe la economía española en el medio plazo.
Latin America		
Brazil	04/19/2012	**Brazil Flash: "No country for hawkish men"** Brazil's CB decided to cut the SELIC rate by 75bps to 9.0%, in line with expectations.
	04/17/2012	**Brazil Economic Watch: "The centralization of sub-national debt in the 90's: a key step for stability in Brazil"** The evolution of sub-national debt in the 90's: an unsustainable path
	04/16/2012	**Brazil Economic Watch: "The increasing power of public sector banks in Brazil: back to the past?"** Due to an impressive expansion in state-owned commercial and development banks, public credit now represents about 44% of total in Brazil, in comparison to 34% in 2007.
Chile	04/17/2012	**Banco Central continúa en pausa y deja TPM en 5%** En línea con las expectativas de mercado, el BC mantuvo la tasa de política monetaria en 5% en su reunión de hoy, junto con un sesgo neutral.

Colombia	04/16/2012	**Cumbre de las Américas finaliza sin texto de acuerdo conjunto, pero con importantes anuncios para Colombia** Una cumbre sin consensos pero con temas controversiales en agenda. Declaraciones unilaterales reflejan algunas diferencias en materia de política económica.
Peru	04/16/2012	**PIB de febrero superó estimados** El PIB se expandió 7,2% a/a en febrero (BBVA: 6,3% y Consenso: 6,1%), la tasa más alta en los últimos seis meses.
Asia	04/19/2012	**Daily Flash | Asia | 19 April 2012: Japan's exports accelerate in March; No change in Hong Kong's unempoyment rate** Expectations are growing of further monetary easing in China through cuts in required reserve ratios following remarks by PBoC officials reported in the media, markets responded positively.
	04/18/2012	**Daily Flash | Asia | 18 April 2012: Housing prices in China decline; Indonesia to ban certain commodities exports** The IMF released its latest World Economic Outlook making modest upward revisions to its 2012 growth projections for the region, with the exception of a small downward revision for India.
	04/17/2012	**Daily Flash | Asia | 17 April 2012: India's central bank surprises with a 50 bps rate cut; A decline in foreign investment inflows to China continues in March; Australia hints further rate cuts likely** Weaker FDI inflows to China and concerns about the European debt crisis sent markets lower again today, although a larger-than-expected rate cut by the RBI lifted shares in India
	04/16/2012	**China Flash: Wider trading band unlikely to change RMB appreciation trend** The People's Bank of China (PBoC) announced the widening of the daily trading band last Saturday.
	04/16/2012	**India Flash: WPI inflation steady in March as risks remain broadly balanced** India's wholesale price inflation held steady in March, at 6.9% y/y from 7.0% the previous month (BBVA: 6.6%; consensus: 6.7%).
	04/16/2012	**Daily Flash | Asia | 16 April 2012: Wider trading band unlikely to change RMB appreciation trend; India's WPI inflation holds steady; China: Policy meeting indicated upcoming loosening** Today marked the first trading day for the RMB after the People's Bank of China (PBoC) widened the daily trading band to /- 1.0%.

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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

Felipe Insunza
felipe.insunza@bbva.com
+34 91 537 76 80

Indicators collaboration

Europe
Agustin García Serrador
agustin.garcia@grupobbva.com
+34 91 374 79 38

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

Asia
Fielding Chen
fielding.chen@bbva.com.hk
+852 2582 3297

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

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