



# Weekly Observatory

January 25, 2010

## Financial markets: banking system reform proposal hits stocks

American reform proposals, to restrict commercial bank operations, have brought volatility back to financial institution stocks. Additionally, banking results have been mixed for 2009, with some banks seeing healthy results while others have been strongly affected by the devolution of government loans. In Europe, sovereign spreads continue to widen, particularly in Greece, whose recent debt auction saw poor results. Fixed income has corrected its upward trend seen in the past weeks as bond yields fell in both Europe and the US. This behavior and the TICs data for November that shows that capital flows to the US were focused in Treasuries and not in corporate bonds, confirm the idea that the recovery of global economy is still subject to uncertainties that limit yield rises. In the FX market, the euro reached a 5-month low against most major currencies. For further information, see [Flow Watch](#).

## US: recent data yields mixed signals for residential investment

This week's data presented mixed signals for residential investment. On the one hand, housing starts dropped 4.0% m/m to 557K in December, illustrating the ongoing fragility of the housing market and seasonal volatility. On average, starts declined 5.7% m/m in 4Q09 compared to 3Q09, supporting our expectation that residential investment will decline in 4Q09. On the other hand, building permits rose 10.9% m/m to 653K, marking the second consecutive monthly increase. While these results are a positive sign for construction in 1Q10, the NAHB Housing Market Index dropped one point to 15, indicating that builders' confidence is declining. The mixed signals of recent data are supportive of our baseline scenario of a slow recovery for residential investment. For further information, see [US Weekly Observatory](#).

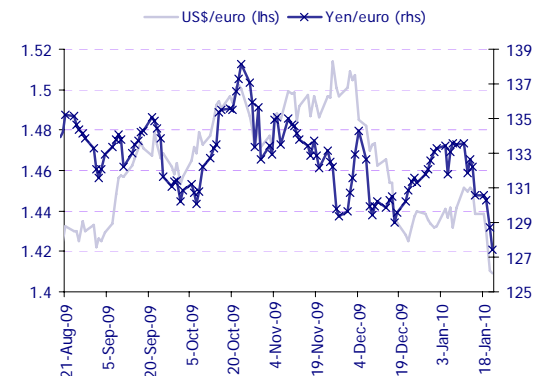
## Eurozone: negative confidence data in line with our projection of slower growth in Q1

Industrial new orders increased sharply in November which, coupled with industrial production data released last week, suggest a continued upbeat outlook for the industrial sector. Confidence data, both the PMI in the euro zone and the ZEW indicator in Germany, declined in January much in line with our forecasts of a weak recovery in the first quarter. In the UK, inflation rose in December by more than expected, although this increase should be transitory as it is due to base effects from cuts in sale tax and low retail prices in December 2008 and there are no demand pressures. In addition, the unemployment rate in the UK declined slightly in December, showing further signs of stabilization in the labor market. On the ECB front, recent statements stress the concern about the fiscal situation and the need and the urgency to undertake fiscal consolidation plans. For further information, see [Europe Weekly Observatory](#).

## Asia: strong economic indicators continue to point to a robust recovery across the region, with inflation beginning to rise

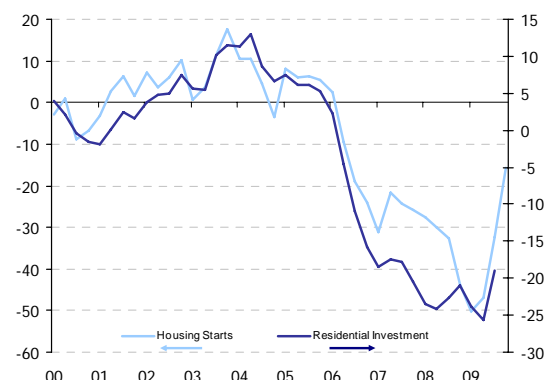
Following measures by China to tighten credit policy, investors are bracing for further efforts by the central bank and regulators to rein in liquidity, and

Dollar-euro and yen-euro exchange rates



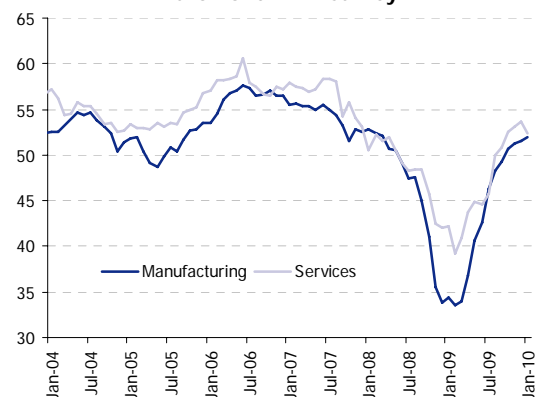
Source: Datastream

US: Housing Starts & Residential Investment  
(var. % y/y)



Source: BEA and US Census Bureau

Euro Zone: PMI survey



Source: NTC Economics Ltd

expectations of monetary tightening are increasing in India and Korea. China's release of strong economic data including double-digit Q409 GDP growth, rising inflation, as well as new curbs on lending, were the focus of attention. Consumer prices have also begun rising on a y/y basis in other parts of Asia. Meanwhile, Thailand and Singapore posted strong y/y growth in December exports, and export orders in Taiwan surged for a second consecutive month, pointing to a recovery of external demand. Next week, attention will be focused on Korea's GDP figure and India's monetary policy meeting. For further information, see [Asia Weekly Observatory](#).

### Latin America: more signs of economic recovery in the region

The release of activity indicators in Peru, Colombia and Argentina reinforced the regional recovery trend. In Brazil, the dynamism of economic activity helped to drive the current account deficit higher at the end of 2009. In Argentina, there have been limited advances in the decision regarding the Central Bank Governor. In Venezuela, the government intervened in three small banks, which account for 3% of total deposits. In the week ahead, data will be released in Chile, Brazil, Colombia and Argentina. In Colombia, the central bank will discuss interest rates, which we expect to remain at 3.5%. For further details, see [Latin America Weekly Observatory](#).

### Spain: trade balance narrowed again in November

The most important news for Spain this week was the release of the trade balance. Spain's foreign trade deficit narrowed again in November (annual accumulated) to €49bn, 18.4% lower than a year ago and in line with our estimates. Following the recent trend, the deficit correction is coming from the non-energy trade balance, while the decrease in the energy deficit is slowing down. Next week's data will include, among others: the HCPI flash for January (Previous: 0.9% y/y), the retail sales for December (Previous: -4.3% y/y) and the Labor Force Survey for 4Q09.

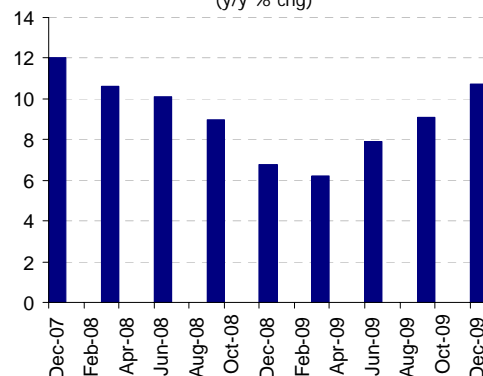
### Mexico: fiscal measures boost inflation in the first half of January

January's bi-weekly inflation was 0.8% m/m and 4.2% y/y (Dec: 3.6% y/y), the first price acceleration since May 2009. Core inflation was 0.4% m/m and 4.6% y/y. The triggers of this movement include the new policy on public prices (gasoline), tax changes (VAT increase) and pressures from processed food prices. We expect fiscal policy to be the main inflationary driver in 2010. December's trade balance was (-) \$248mn. On an annual basis, exports grew by 22.8% and imports by 11.7%, marking the beginning of the recovery of the external sector. Next week November IGAE will be published, we expect it to grow m/m driven by industrial production. For further information, see [Mexico Weekly Observatory](#) (in Spanish).

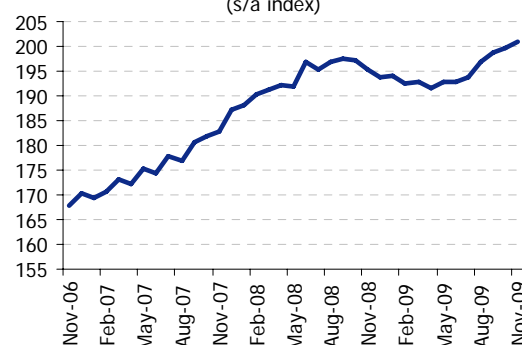
### Commodities: another week of downward price corrections

Following the negative tone of financial markets and the appreciation of the dollar against other main currencies, commodity prices eased significantly this week. The only exception was the price of sugar, which continues at historically high levels. The oil price declined for the second week in a row and is now around USD75 per barrel, near our forecast for the end of the year. For more information, see [Commodities Observatory](#).

China: GDP Growth  
(y/y % chg)

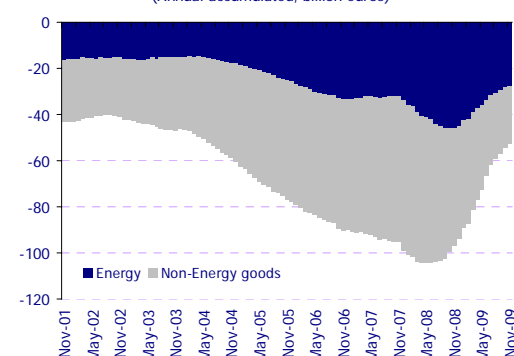


Peru: GDP  
(s/a index)



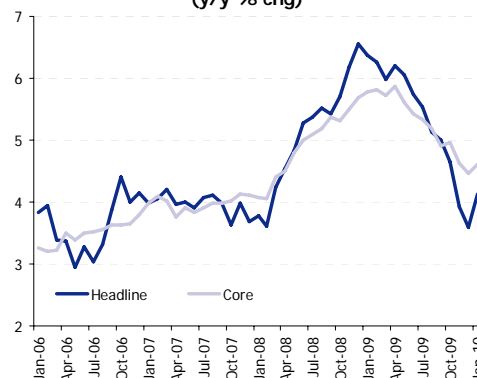
Source: INEI

Spain: Trade balance  
(Annual accumulated, billion euros)



Source: Customs and BBVA ERD

Mexico: Bi-weekly inflation  
(y/y % chg)



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