

Global Weekly Flash

Madrid, 22 February 2013
Economic Analysis

Financial Scenarios

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Financial markets remain sensitive to Central Bank's actions

News and speculation about Central Banks' non-standard measures have distressed FX and US equity markets. Uncertainty ahead of this weekend's Italian elections has refrained investors to step into growth-sensitive assets. Additionally, next week's deadline to postpone US fiscal 'sequestration' has further depressed any appetite for risk. Adding insult to injury, this week's releases of economic data disappointed.

- **The minutes of January 29-30th FOMC meeting stepped up the level of uncertainty about the duration monetary policy accommodation, but did not alter our base scenarios**
 - We continue to expect the current pace of purchase until mid-2013, with a then slower pace until the end of the year -as the economy slowly improves and risks from aggressive asset purchases increase. We expect FOMC meeting to continue focusing on how to provide highly accommodative monetary policy while at the same time reducing the possibility of an adverse impact when the time comes to decrease the Fed's balance sheet.
- **The minutes of the latest Bank of England policy meeting surprised markets,**
 - by showing that a growing number of members prefer to increase by £25bn the size its asset purchase programme. Three out of a total of nine members, including Governor Mervyn King, voted for the additional stimulus despite inflation would likely remain above the 2% target over the next two years.
- **Follow-up statements from last week's G-20 meeting failed to dispel fears of currency wars**
 - Although the joint statement that followed the meeting included a reference against competitive devaluations "we will not target exchange rates for competitive purposes, resist all forms of protectionism and keep our markets open," it lacked any specific mention to Japan's recent policy movements. The statement was followed by Japanese Prime Minister Shinzo Abe suggesting that Japan might buy foreign bonds as part of its quantitative easing policy -an option that was later refuted by the BoJ-. On the other hand, some Eurozone leaders voiced their position against any depreciatory policy. Once again, Mario Draghi emphasized that the exchange rate is not an ECB policy target (but adding that it is nevertheless important for growth and price stability). In Germany, Chancellor Angela Merkel said "... euro exchange rates between \$1.30 and \$1.40 are part of the normality of the history of the euro."

- **Italy will hold general elections next Sunday and Monday**
 - The result is uncertain. Italy's electoral system gives an automatic majority to the winning coalition in Congress, but not in the Senate, where the majority rule applies at a regional level. Control of the Senate is essential for any government in Italy. Our baseline scenario (55% chance, similar to consensus) is of a Bersani-Monti coalition, although we attach a 20% probability to a Bersani outright victory (the same probability of a Berlusconi victory). A hung parliament, which is increasingly feared by markets and analysts, is unlikely (5%). Under our baseline scenario, we expect several structural reforms (but no meaningful labor-market reform) and maintenance of Italy's fiscal austerity -despite higher government instability-. Under this scenario we foresee no problem with debt sustainability, but neither any significant pick-up of growth potential in the medium term (currently below 1%).
- **Peripheral countries' auctions attracted robust demand, despite this week's unease in equity and currency markets**
 - Spanish Treasury sold EUR 8.2bn in bonds and Treasury bills and an additional USD2bn (EUR 1.5bn) in a 5Y bond. Average yields were below those in previous auctions and below those in the secondary market before the auctions. Meanwhile, the German Treasury failed to capture investor's interest in its 10Y bond, suggesting that investment flows are searching for higher yields.
- **The ECB announced that 356 banks will repay EUR 61.2bn of their second 3Y-LTROs (BBVA and Consensus: ~EUR 140bn)**
 - This amount represents 11% of the funds allotted to 529 banks during the operation held on February 2012. LTROs repayments (excluding the above announced repayment because amounts will be repaid only next Wednesday), liquidity surplus in the euro system have fallen to EUR 480bn -still large enough to keep Eonia rates unresponsive-.
- **Large FX movements were registered throughout the week**
 - The Japanese Yen continued to fall, accumulating a 7.6% drop so far this year. The British pound also fell, by 2% against the dollar and accumulating a 6% drop since the start of the year. On the other hand, the DXY dollar index increased by 0.8% (i.e., the US dollar strengthened against other major currencies). Uncertainty about the upcoming Italian elections weighed on peripheral yield spreads, which widened across the board. Increases in Spanish and Irish spreads were nonetheless smaller than in Italian or Portuguese ones.
- **On the macro side, February PMIs in the euro area decreased more than forecasted, falling back to December levels. Nonetheless, Germany continued to gain momentum. In the US, data was mostly disappointing**
 - Euro area PMI unexpectedly fell in February -although we still expect positive growth for 1Q13-. In particular, the PMI Composite registered 47.3, down from 48.6 in January. On the positive side, Germany continued to grow (albeit at a slower pace) thanks to strong foreign demand. Additionally, German investor confidence and IFO business climate indices jumped up more than expected. On the other hand, data for France indicate further deteriorating conditions.
 - The European Commission's Winter Forecast includes a 0.3% regional GDP reduction for 2013 and a 1.4% increase for 2014 (BBVA Research: 0.3% for 2013 and 1.3% for 2014). Forecasts for Spain's GDP include a 1.4% fall for 2013 and 0.8% recovery in 2014. Spain's public deficit reached 10.2% of GDP in 2012, and the EC expects it will fall to 6.7% in 2013. European Commissioner Olli Rehn said they would soften Spain's

deficit targets if final 2012 public finance data (to be released in April) shows significant consolidation of Spanish public finances.

- In the US, most economic data were worse than expected. Weekly jobless claims increased more than expected, while the February Philadelphia Fed Survey remained negative and below expectations. January's leading indicators increased less than expected. On the bright side, the residential market continued to show signs of recovery.
- In Asia, the announcement of a record trade deficit in Japan underscored the ongoing depreciation of the yen. In December, Japan's trade deficit grew to 1.63bn yen (US\$17.4 bn), as imports and exports rose by 7.3% YoY and 6.4% YoY respectively. FDI inflows to China fell more than expected in January.
- In LatAm, Mexico's 4Q12 GDP stood at 0.8% QoQ (3.2% YoY), resulting in a 3.9% expansion for 2012 (strength in services compensated for a fall in the industry sector). In Brazil, December's index of economic activity increased slightly, as expected, supporting our call for 0.6% QoQ growth in 4Q12. But January's retail sales unexpectedly contracted 0.5% MoM (seasonally adjusted) after six months of positive results.

Next week: Ben Bernanke gives his semi-annual testimony to the US congress Committee. On March 1, automatic spending cut will come into force in the US, unless Democrats and Republicans agree on a compromise. On the economic front, the US will release its consumer confidence index and durable goods orders for February. In China, February's manufacturing data will be published.

Week February, 18 - February, 22

CC	Indicator	Period	Cons. E	Prior	Obs.*
United States	Housing starts (MoM)	Jan	-3.4%	12.1%	-8.5%
	Producer Price index (MoM)	Jan	0.4%	-0.2%	0.2%
	House Permits (Th)	Jan	920	902	925
	Consumer Price Index (MoM)	Jan	0.1%	0.0%	0.0%
	Initial Jobless Claims (th)	16-Feb	356.0	341.00	362
	Existing home sales (MoM)	Jan	-0.8%	-1.0%	0.4%
	Philly Fed Survey	Feb		-5.8	-12.5
Euro zone	Construction Output SA MoM	Dec		-0.4%	-1.7%
	Construction Output WDA YoY	Dec		-4.7%	-4.8%
	Consumer Confidence	Feb	-23.10	-23.90	-17.00
	PMI Manufacturing	Feb	48.30	47.90	47.80
	PMI Services	Feb	49.0	48.6	47.30
	PMI Composite	Feb	49.0	48.6	47.30
Germany	PMI Manufacturing	Feb A	50.2	49.80	50.10
	PMI Services	Feb A	55.4	55.70	54.10
	Zew Survey (Current Situation)	Feb	7.8	7.10	5.20
	ZEW Survey (Econ. Sentiment)	Feb	35.0	31.50	48.20
	GDP s.a. (QOQ)	4Q F	-0.6%	-0.60%	-0.6%
	GDP wda (YoY)	4Q F	0.4%	0.40%	0.4%
	IFO - Business Climate	Feb	104.7	104.20	107.40
	Producer Prices (MoM)	Jan	0.40%	-0.30%	0.8%
	Consumer Price Index (MoM)	Jan F	-0.50%	-0.50%	-0.5%
	Consumer Price Index (YoY)	Jan F	1.70%	1.70%	1.7%
Spain	Trade balance (Millions) (EUR)	Dec		-1,407	-1,294
Japan	Trade Balance Total (jpy¥) (bn)	Jan	-1379	-643.3	-1,629
China	Actual FDI (YoY)	Jan	-4.20%	-4.50%	-7.3%
Mexico	GDP (YoY)	4Q12	3.30%	3.30%	3.2%
	Unemployment Rate	Jan	4.98%	4.47%	5.4%
Brazil	Retail Sales	Jan		53.5	54.5
	Current account (MoM) (million) (US\$)	Jan	-9,500	-8413	-11,371
Colombia	Trade Balance (Millions) (U.S \$)	Dec	312.00	-183.2	677.3

* Forecast: Orange- Below consensus forecast. Green-Above consensus forecast.
 Source: Bloomberg and BBVA Research

Calendar: Indicators

Eurozone: HICP inflation (January, February 28th)

Forecast: 2.0% y/y	Consensus: 2.0% y/y	Previous: 2.2% y/y
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We expect inflation to be confirmed at 2.0% y/y in January, slowing from 2.2% y/y in December, driven by the moderation in energy prices, but also in non-energy industrial goods. As a result, core inflation is likely to have remained stable at 1.6% y/y. Next week, Eurostat will also release the flash estimation for February. Though neither we know the detailed breakdown of January data yet nor the new weights of HICP components, our models suggest that inflation could have slowed further to 1.9% y/y as a result of the significant base effect in energy prices. Looking forward, we expect inflation to slow further and more rapidly until April. Thereafter, headline inflation could increase slightly again but would hover around 1.6% y/y during the second half of the year. Core inflation is likely to remain more stable, fluctuating around the current rates all along this year.

Eurozone: Unemployment rate (January, March 1st)

Forecast: 11.7%;	Consensus: 11.8%	Previous: 11.7%
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Comment: The unemployment rate is expected to have remained broadly stable in January, as observed during 4Q12 despite the sharp decline in activity. Given the lag between activity and labour market performance, we expect unemployment to increase further in coming months, although the very gradual recovery expected over the first half of the year combined with the recent improvement in business confidence is likely to put a break on this during the second half of the year. Confidence surveys also point in this direction, as hiring intentions declined again at the beginning of 2013, after the mild improvement observed in late 2012, as firms are likely to wait until recovery consolidates before hiring again.

US: GDP, Preliminary (4Q12, February 28th)

Forecast: 0.7%	Consensus: 0.6%	Previous: -0.1%
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The 4Q12 GDP preliminary estimate is expected to be revised up from the advanced figure as more economic indicators show slightly stronger activity despite the year-end fiscal issues. While the budget debate that took place at the end of the year was forecasted to depress sectors like production and manufacturing, recent industrial production data paints a rather antithetical picture: industrial production was revised a bit higher in December, holding above levels seen at the beginning of the quarter and at its highest since the beginning of the recession in 2008. Wholesale trade also showed growth throughout the fourth quarter, coupled with strong retail growth primarily due to holiday shopping and relatively strong auto sales. Inventory growth, on the other hand, remained weak and December's data will do little to influence an upward revision to 4Q12 GDP growth. The most significant factor is the surprising drop in the international trade deficit to close out the quarter on account of much stronger exports and lower imports as consumers looked inward for consumption. Overall, we expect the upward revision to be driven essentially by the better than expected indicators which were dampened far less than expected and actually proved resilient enough to show some growth at the end of the year. Still, it is important to note that government spending had already started to contract in 4Q12 and we do not expect these numbers to be revised much, keeping downward pressure on the growth figure.

US: Personal Income & Spending (January, March 1st)

Forecast: -2.1%, 0.1%	Consensus: -2.0%, 0.2%	Previous: 2.6%, 0.2%
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Personal income is expected to decrease significantly in January, mostly due to the expiring payroll tax cut that employees faced on their first paycheck of the year. As of January 1st, a 2% payroll tax increase went into effect across the pay scale that reduced consumers' income dramatically compared to the relatively modest month-to-month changes that we have experienced over the past months. On the plus side, average hourly earnings did increase 0.25% in January, reflecting a slight acceleration from December's gains. Although consumers are adapting to their lower post-tax incomes, we expect that spending will hold positive for the month. Retail sales, rather than declining in January, grew 0.14% even after the end of holiday shopping season and the expiring payroll tax cut. While personal income is expected to see a depressed monthly figure in January, spending has shown some resilience despite headwinds and may continue to rise, even if it at a modest pace.

India: Q4 2012 GDP Growth (February 28th)

Forecast: 5.6% y/y	Consensus: 4.9% y/y	Previous: 5.3% y/y
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India's economic growth likely slowed to a decade low in 2012, amidst concerns about the slowing momentum of reforms, high and sticky inflation, and twin deficits on the current and fiscal accounts. Nevertheless, there are signs of optimism given recent trends of moderating inflation, lower interest rates and financial conditions and renewed policy efforts. Against this backdrop, the fourth quarter GDP outturn will be watched for signs of an improving growth outlook. Consumption and investment indicators suggest that the economy is gradually bottoming out although limited fiscal support and a high trade deficit would likely weigh. The latest growth outturn together with the FY14 central government budget to be released on the same day, will be key inputs for the RBI at its March 19th policy meeting where we expect another rate cut, following the 25bp cut in January. We expect India's GDP growth to improve from 5.4% y/y for full year 2012 to 6.5% y/y in 2013.

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0,30	0	-1	-23
		2-yr yield	0,27	-1	1	4
		10-yr yield	2,00	5	17	8
	EMU	3-month Euribor rate	0,23	2	5	-87
		2-yr yield	0,27	1	24	6
		10-yr yield	1,69	6	25	-24
Exchange rates (changes in %)	Europe	Dollar-Euro	1,367	1,5	3,7	3,9
		Pound-Euro	0,86	1,5	6,6	3,9
		Swiss Franc-Euro	1,24	-0,8	2,2	2,4
		Argentina (peso-dollar)	4,98	0,3	1,1	14,9
	America	Brazil (real-dollar)	1,99	-1,9	-2,6	15,9
		Colombia (peso-dollar)	1775	-0,3	0,7	-0,5
		Chile (peso-dollar)	471	-0,1	-0,7	-1,6
		Mexico (peso-dollar)	12,75	0,4	0,1	0,7
		Peru (Nuevo sol-dollar)	2,58	0,6	0,9	-4,2
	Asia	Japan (Yen-Dollar)	92,24	1,5	5,6	20,4
		Korea (KRW-Dollar)	1097,38	2,2	3,2	-1,9
		Australia (AUD-Dollar)	1,037	-0,5	-1,3	-3,7
	Comm. (chg %)	Brent oil (\$/b)	115,6	2,1	2,8	0,9
Gold (\$/ounce)		1665,1	0,4	-1,3	-3,5	
Base metals		545,1	0,7	3,1	-1,0	
Stock markets (changes in %)	Euro	Ibex 35	8263	-5,3	-2,2	-6,8
		EuroStoxx 50	2714	-1,1	0,1	7,9
	America	USA (S&P 500)	1498	-0,3	2,4	11,4
		Argentina (Merval)	3462	3,7	17,3	23,2
		Brazil (Bovespa)	59761	-2,3	-4,5	-8,4
		Colombia (IGBC)	14982	-0,1	1,8	7,4
		Chile (IGPA)	22168	0,9	4,3	6,0
		Mexico (CPI)	45278	-0,7	2,2	18,9
		Peru (General Lima)	21435	0,7	2,0	-6,5
	Venezuela (IBC)	494772	0,9	4,9	300,3	
	Asia	Nikkei225	11191	2,4	7,7	26,7
HSI		23722	0,6	1,8	14,3	
Credit (changes in bps)	Ind.	Itraxx Main	113	8	5	-15
		Itraxx Xover	443	23	5	-105
	Sovereign risk	CDS Germany	42	1	2	-43
		CDS Portugal	394	14	-38	-892
		CDS Spain	270	15	-14	-84
		CDS USA	44	0	6	---
		CDS Emerging	230	17	35	-26
		CDS Argentina	2069	35	653	1330
		CDS Brazil	118	11	14	-21
		CDS Colombia	97	6	6	-34
		CDS Chile	71	3	0	-39
		CDS Mexico	99	7	7	-37
CDS Peru	96	6	5	-62		

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
EMU	02/22/2013	➤ La Unión Bancaria: una cuestión de supervivencia para el euro El objetivo principal de la Unión Bancaria es detener el proceso de fragmentación financiera en Europa, que supone una grave amenaza para la moneda única
	02/21/2013	➤ Flash: Italian elections: What to expect? Italian elections
	02/21/2013	➤ Flash: Unexpected eurozone PMI fall in February, but we still expect growth to be back in 1Q Unexpected eurozone PMI fall in February, but we still expect growth to be back in 1Q
	02/19/2013	➤ Economic Watch: "Fiscal adjustment and economic growth in Europe" One of the most controversial issues since the start of the economic crisis has been the effect of fiscal policies on economic growth20/02/2013 (Spanish version)
Spain	02/19/2013	➤ Flash España: "Balanza comercial de diciembre 2012" El déficit de la balanza comercial a cierre del año 2012 ascendió a 30,8 miles de millones de euros, tras la nueva y sustancial corrección observada en el acumulado a 12 meses de diciembre.
US	02/21/2013	➤ U.S. Housing Flash. New Foreclosures Drop Below 300,000 in Q4 2012 Past due mortgage loans drop to 7.1%. 90 Day+ delinquencies edged up among Subprime and FHA loans
	02/21/2013	➤ U.S. Inflation Flash. Headline Inflation Flat but Core Levels Emerge Stronger Headline inflation registered no change in January, though core price jumped 0.3%
	02/20/2013	➤ U.S. Housing Watch. Low Inventory Boosting Home Prices Inventories of both new and existing single family homes for sale are at historic lows. Months supply is down to levels not seen since 2005
	02/18/2013	➤ Flash Semanal EEUU. Aunque deprimidas por la expiración del recorte de las deducciones salariales, las ventas minoristas subieron 0.1% Después de un fuerte aumento del gasto relacionado con las festividades de noviembre y diciembre, las ventas minoristas crecieron un modesto 0.1% en enero
	02/18/2013	➤ U.S. Weekly Flash. Although depressed by the expiration of the payroll tax cut, retail sales rose 0.1% Coming out of a strong holiday-related spending surge in November and December, retail sales managed to grow a modest 0.1% in January
Latam	02/22/2013	➤ Latam Daily Flash: "Fall in retail sales but positive momentum in service sector in Mexico; two new BanRep board members appointed"
	02/21/2013	➤ Latam Daily Flash: "Brazil's activity index in line with expectations; trade data in Peru and Colombia support strong dynamism of activity"
	02/20/2013	➤ Latam Daily Flash: "Retail sales in Brazil surprisingly fall, central bank sets plan to reduce financial system costs"
	02/19/2013	➤ Latam Daily Flash: "Mexico grew 3.9% in 2012, parties set common reform agenda; exports fell in Colombia"
	02/19/2013	➤ Situación Latinoamérica. Primer trimestre 2013 América Latina aumentará su crecimiento a 3,6% en 2013 y 3.7% en 2014. La región deberá gestionar el éxito: vigilar los posibles excesos internos derivados de la entrada de flujos de capitales
	02/19/2013	➤ Presentación Situación Latinoamérica: Gestionando el éxito América Latina aumentará su crecimiento a 3,6% en 2013 y 3.7% en 2014. La región deberá gestionar el éxito: vigilar los posibles excesos internos derivados de la entrada de flujos de capitales
	02/18/2013	➤ Latam Daily Flash: "Growth surprises to the downside in Peru; Mexico updates CPI weights"

- Chile** 02/20/2013 ➤ **Chile Outlook 1Q13**
In Chile, some moderation is expected in the factors that have been behind the dynamism of domestic demand, bringing GDP growth to reach 4.8% both in 2013 and in 2014
- Brasil** 21/02/2013 ➤ **Situación Brasil. Primer trimestre 2013**
Brasil crecerá en torno al 3,6% este año, y al 4,0% en 2014, tras haber avanzado solo un 0,9% en 2012. La recuperación económica ya está en marcha, aunque todavía es lenta y frágil
- Peru** 02/20/2013 ➤ **Situación Perú Primer Trimestre 2013**
Previsión de crecimiento de Perú al alza. El producto se expandirá 6,5% en 2013 y 6,3% en 2014, lo que recoge la menor incertidumbre en los mercados mundiales y el mayor soporte de la demanda interna.
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- Mexico** 02/20/2013 ➤ **Flash Bancario México. Captación bancaria: mantiene su ritmo de crecimiento**
Captación a la vista: su menor expansión se debe al menor crecimiento del PIB
- 02/20/2013 ➤ **Mexico Banking Flash. Bank deposits: continue to grow**
Demand deposits: reduced expansion is due to lower GDP growth
- 19/02/2013 ➤ **Situación México Primer Trimestre 2013**
México continuará creciendo por encima del 3.0% en 2013
- 19/02/2013 ➤ **Presentación Situación México Primer Trimestre 2013**
La inflación se mantendrá todo el año por debajo de 4.0%
- 02/18/2013 ➤ **Flash PIB México. En línea con lo estimado, el PIB creció 3.9% a/a en 2012**
Buen cierre del 4T por fortaleza en servicios y pese a caída en industria
- 02/18/2013 ➤ **Mexico GDP Flash. In line with estimates, GDP grew 3.9% yoy in 2012**
Good end of 2012 with strength in services that compensated a fall in industry
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- Asia** 02/21/2013 ➤ **Asia Daily Flash | 21 February 2013: China calls for closer watch over property market; India's parliament commences budget session**
Asian markets were rattled today by concerns about an earlier-than expected end to quantitative easing in the US and by continuing rumors of forthcoming tightening measures in China
- 02/20/2013 ➤ **Asia Daily Flash | 20 February 2013: Japan posts record trade deficit; China FDI remains weak; Strong GDP growth in Malaysia**
Japan reported a record monthly trade deficit, although better-than-expected exports lifted the Nikkei (+0.8%), which soared to a four-year high. China released weaker-than-expected January FDI data.
- 02/20/2013 ➤ **China Economic Outlook: First Quarter 2013**
After slowing by more than expected through Q3 2012, China's economy has gained speed.
- 02/19/2013 ➤ **Asia Daily Flash | 19 February 2013: RBA minutes reduce likelihood of near-term rate cuts; Fresh tightening measures in China's housing market?**
China and Hong Kong equity markets were down sharply on rumors of new property tightening measures. Comments by Japan's Finance Minister threw cold water on plans for European bond purchases.
- 02/18/2013 ➤ **Asia Daily Flash | 18 February 2013: Thailand Q4 GDP beats expectations; Singapore's exports remain weak**
RMB depreciated on speculation that China may seek to preserve competitiveness amidst yen's decline. Yen was given impetus after G20's meeting and its tolerant attitude towards JP's stimulus measures
- 02/18/2013 ➤ **Asia Economic Outlook: First Quarter 2013**
Growth momentum in Asia has begun to pick up after bottoming out in Q3 of 2012. We expect the gradual pickup to continue in 2013. Risk have become more evenly balanced.

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