

Global Weekly Flash

All eyes on the June 28-29th EU Summit

After a very volatile week, full of relevant events, next week attention will be focused on whether eurozone policymakers are prepared to agree on decisive steps at the June 28-29th EU Summit. The priorities are to trace a roadmap for the eurozone in the long term and to take actions to bring down the financing costs of countries under pressure in the short term. Regarding the latter, the options likely to be discussed at the summit are shaping up: on the fiscal side, eurobills and the debt redemption fund, and on the banking side, a common banking supervision, with a role for the ECB. Given the expectations of this meeting, it will be crucial that leaders agree on decisive steps to tackle the crisis and back these decisions by a strong political commitment. The head of IMF, Christine Lagarde, has asked European leaders to act according to three principles in the long term (banking union, fiscal union and structural reforms) and to tackle the short term tensions through the combination of a “more creative” monetary policy, “structural” fiscal consolidation and recapitalization of the banking system directly by the EFSF/ESM. The mini-summit of the leaders of the eurozone's big four - Germany, France, Italy and Spain — in Rome will launch the debate.

- Spanish banking sector is in the spotlight since the country has asked for financial assistance from euro area Member States, and yesterday some uncertainties were dispelled. According to the two independent audits by consultants Roland Berger and Oliver Wyman, the capital needs of the Spanish financial system in the adverse scenario range between EUR 51-62bn (vs EUR 37bn according to IMF FSAP and well below the EUR 100 bn financial support agreed by the Eurogroup). Now, the Bank of Spain will make a more detailed bottom-up analysis of the situation of entities presenting capital needs, which will be finished in September. After that, entities will have 15 days to present a restructuring plan and those that opt for not asking for public aid will have 9 months to raise get the capital needed. In addition, yesterday, Spain's economy minister said that a formal aid request will be made in coming days.
- The Eurogroup meeting held yesterday evening focused on the coordination of the Spanish banking system bailout. First, ministers said that Spain would formally request assistance for its ailing banking sector before next Monday. It was also decided that the financial assistance will be provided by the EFSF before being switched to the ESM, as soon as the permanent bail out fund is launched after July 9. The final details of the assistance will be decided at their next meeting on July 9. On other hand, the issue of whether private investors would be subordinated by the EFSF/ESM loans had not been decided.
- After some weeks of uncertainty, Greece has a new government. Greece has now sworn in its new prime minister, Antonis Samaras, will be leading a government made up of his New Democracy party, the socialist PASOK party, and the smaller Democratic Left. Pro-bailout parties won the Greek elections on Sunday the 17th and three parties summing 169 seats (out of 300) have conformed a new government. The next step is to discuss the new bail-out terms, which Greece wants eased. Apart from the doubts on the implementation of the programme, open questions remain on the stability of the new government, which will be challenged by the implementation of further reforms. This week the German Chancellor Angela Merkel dampened expectations of the relaxation of the Greek adjustment program, although it is expected that the Troika will offer some kind of support to achieve the fiscal adjustment more slowly. There is no official statement on the possibility of renegotiating the Greek programme, it must wait until the Troika visit Athens, according to the Eurogroup and the IMF as soon as next Monday, and make an assessment on the current situation.
- The G-20 meeting ended with no mention of specific measures to resolve the eurozone crisis, although there seems to be more openness in considering concrete steps towards building a fiscal and banking union. However, in the statement there are no coordination measures to address these commitments, but countries' specific circumstances will dictate the steps that they have to take to comply with the agreement. The document explicitly states that the spillover effect of the European debt crisis worried world leaders, who agreed to monitor the crisis closely, thus increasing expectations about a possible coordinated response to the crisis. In this context, the IMF's partners have pledged \$ 450bn to additional resources to fight the crisis. This amount is \$20bn higher the one committed in April. Yet, these figures are slightly below initial expectations amounting to \$500bn

- In a very complicated week, particularly Spanish risk premium surged near 580 bps as yields hit 7.2% (now is around 500 bps), peripheral bond spreads have managed to tighten in countries under pressure. The Euro lost 0.8% against the US dollar while crude prices dropped more than 8% in the week.

• **Central banks: supporting further easing**

- As expected, at the FOMC maintained meeting, the FED extended Operation Twist until the end of the year by \$267bn. The Fed also downgraded their GDP forecast for the next three years, with the bulk of the revision in the short-term. The FOMC is becoming increasingly concerned as to the effect of the European situation on investment and employment in the US. The Fed now expects US growth of just 1.9-2.4% in 2012, down from an earlier forecast of 2.4-2.9%. The central bank also revised higher forecasts for the US jobless rate by the year's end to 8-8.2 % from an April expectation of 7.8-8%. The downward revision to the FOMC's outlook also resulted in some participants reducing their pace of policy timing for 2014. After this meeting it seems clearer that the FED stands ready to implement more stimulus if economic conditions worsen or Europe strains financial markets.
- Regarding the ECB, the central bank gave more hints of the possibility of a rate cut at its next meeting, what is in line with the deterioration of financial markets and activity indicators over the last few weeks. At the same time, the board member hinted that the ECB would support EFSF interventions in the secondary market, with the corresponding conditionality as it has been established in the EFSF rules. Expectations of immediate additional LTROs have been dampened, although he opened the door to a further relaxation of collateral requirements, following Governor Mario Dragui's words at June's ECB meeting. The ECB could have decided to loosen significantly its collateral rules for banks to access ECB funds. The new rules are aimed particularly at mortgage-backed securities, heavily owned by Spanish banks
- Last Wednesday the Bank of England (BoE) released its minutes showing that the vote on a new round of Quantitative Easing (QE) at the last meeting was very close (5 to 4, against) and that the Governor voted for more asset purchases. At this point, an expansion of QE at the next meeting (5 July) looks more likely.

• **Rising concerns about global growth following weak economic data. Eurozone debt crisis is weighing on Germany**

- China flash PMI signals further weakness in manufacturing. The HSBC flash PMI estimate for June showed further moderation, to 48.1% from 48.4% in May, remaining below the 50% expansion threshold for the eighth consecutive month. The export orders component of the PMI weakened significantly, to 45.9% from 48.5% in May. The outturn shows that underlying growth momentum in China remains weak, although we believe that it is likely to bottom out this quarter on supportive monetary and fiscal policies. We expect the official PMI for June, to be released on July 1, to remain just above 50.
- In the eurozone, recent data confirm that the debt crisis is weighing on Germany. The German PMI composite fell in June (48.5 from 49.3) for the second month in a row, dropping at the fastest pace in three years. Reduced business activity reflected a marked fall in manufacturing (44.7 from 45.2), while service sector activity was close to stagnation (50.3 from 51.8). Besides, the ZEW Indicator of Economic Sentiment in Germany declined significantly by 27.7 points to -16.9 in June, the steepest decline since October 1998. Regarding all euro countries, the PMI composite index remained unchanged at 46.0 in June, in line with our expectations (BBVA Research: 45.8; Consensus: 45.5), after the significant fall registered in previous months as a consequence of renewed strains in the eurozone. These figures mean a rapid reversion of PMI levels, after improving in Q1, below those registered at end-2011 when GDP fell by -0.3% q/q. Elsewhere in the eurozone (outside Germany and France), output fell for the thirteenth successive month, deteriorating at the fastest pace since last November. The rate of decline accelerated in both manufacturing and services.
- In the US, last week's initial jobless claims decreased by 2K to 387K, particularly the four-week moving average increased to 386K the highest level since early December. The Fed of Philadelphia's general economic index fell to minus 16.6 in June, the lowest level since August, from minus 5.8 the previous month. The only good news came from Leading Indicators, which pointed to a shy recovery in May (0.3% from -0.1%).

Key events next week: On Thursday and Friday the EU Leaders Summit will take place. Tuesday's Spain bill auctions (this week the Spanish Treasury achieved its maximum selling target at its bond auctions, registering very good demand, although at record yields) and Thursday's Italian bond auctions may be watched closely as well. In China the focus will be on the release of the official June PMI. In the US, the GDP final estimate and some activity indexes will be published.

Calendar: Indicators

Eurozone: HICP inflation (June, June 29th)

Forecast: 2.2% y/y	Consensus: 2.4% y/y	Previous: 2.4% y/y
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Headline inflation is expected to ease further in June by around 0.2pp to 2.2%, driven not only by lower energy inflation, but also by the moderation in core inflation. The deceleration of energy price is explained by a negative base effect and by the recent decline in oil prices, against our previous expectations. Meanwhile, the moderation in core inflation should come from a widespread reduction in price pressures across components, in line with recent economic indicators showing a depressed domestic demand. Looking forward, we continue to expect a slow deceleration in core inflation in coming months, remaining above the ECB target over the next quarter and reverting to around 2% by the end of the year. Nevertheless, given the current evolution of oil prices, headline inflation could be below 2% earlier than anticipated, although these lower oil prices could be partly offset by a weaker euro, which could increase import prices.

Eurozone: M3 (May, June 29th)

Forecast: 2.3% y/y	Consensus: 2.2% y/y	Previous: 2.5% y/y
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We expect M3 to have slowed down slightly in May, after the sharp decline observed in the previous month. Nonetheless, non-standard measures implemented by the ECB make the forecast of this series more uncertain. Across its counterparts, our estimate is that loans to private sector should have remained virtually flat in May, though with significant differences across sectors. Loans to households could have increased slightly at steady rates up to May over Q1 (around 0.3%), while those to firms could have stagnated, after falling by -0.6% q/q in Q1. Overall, these figures raise doubts about the pace of the recovery in coming quarters.

US: GDP, Final Estimate (1Q12, June 28th)

Forecast: 1.8%	Consensus: 1.9%	Previous: 1.9%
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Real GDP growth was revised down from the first estimate of 2.2% to 1.9%, and we expect that the final figure will be slightly lower. Although much of the 1Q12 data was already released and accounted for in the second estimate, some indicators were revised slightly. In particular, personal consumption expenditures (PCE) were revised down from 0.3% to 0.2% for March, with real PCE dropping from 0.1% to 0.0%. Also, the trade balance for March was worse than previously reported, with the deficit increasing to -\$52.6bn from -\$51.8bn on account of weaker export growth. Inventories data was unchanged for March, though we expect that the PCE and trade components will have a small impact on the final GDP estimate.

US: Personal Income and Outlays (May, 29th)

Forecast: 0.1%, 0.1%	Consensus: 0.2%, 0.1%	Previous: 0.2%, 0.3%
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Personal income and outlays have been growing at a healthy pace throughout the past five months, though we expect that the pace of growth may be slower in May. Weak employment conditions have likely taken a toll on consumers, with average earnings increasing only slightly in May and confidence levels declining in the past three months. Retail sales dropped in May for the second consecutive month, mostly on account of lower gas prices. However, real retail sales were positive and suggest modest growth in personal outlays. In real terms, both income and spending are in line with first quarter averages.

China: PMI for June (July, 1st)

Forecast: 50.1	Consensus: xxxx	Previous: 50.4
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Activity indicators for May showed continued weakness in growth momentum, albeit with mixed signs due to much stronger than expected exports. We expect growth momentum to remain somewhat sluggish in June, as the just released flash estimate for the private sector PMI (Markit) registered a further moderation, to 48.1% from 48.4% in the previous month. We expect the official manufacturing PMI (with a greater focus on larger and domestic-oriented firms) to show moderation as well to 50.1, still above the +50 expansion/contraction threshold. Going forward, increasing monetary and fiscal policy stimulus should lead to a pick up in growth momentum in the second half of the year.

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.47	0	0	22
		2-yr yield	0.30	3	1	-3
		10-yr yield	1.62	4	-12	-125
	EMU	3-month Euribor rate	0.66	-1	-3	-87
		2-yr yield	0.10	3	4	-126
		10-yr yield	1.52	8	13	-132
	Europe	Dollar-Euro	1.254	-0.8	-0.3	-11.6
		Pound-Euro	0.80	-0.2	0.2	-9.6
		Swiss Franc-Euro	1.20	0.0	0.0	1.6
Exchange rates (changes in %)	America	Argentina (peso-dollar)	4.50	0.2	0.8	9.9
		Brazil (real-dollar)	2.06	0.5	1.4	28.5
		Colombia (peso-dollar)	1777	-0.4	-3.6	-0.9
		Chile (peso-dollar)	502	0.5	-1.2	6.0
		Mexico (peso-dollar)	13.90	-0.1	-0.6	16.8
		Peru (Nuevo sol-dollar)	2.65	0.1	-1.6	-3.8
	Asia	Japan (Yen-Dollar)	80.38	2.1	1.1	-0.1
		Korea (KRW-Dollar)	1157.05	-0.7	-1.3	7.3
		Australia (AUD-Dollar)	1.002	-0.4	2.8	-4.5
Comm. (chg %)		Brent oil (\$/b)	89.5	-8.4	-15.3	-14.9
		Gold (\$/ounce)	1567.7	-3.6	0.4	4.3
		Base metals	510.1	-1.3	-1.2	-14.6
Stock markets (changes in %)	Euro	Ibex 35	6811	1.4	5.8	-30.6
		EuroStoxx 50	2182	0.0	2.3	-19.7
	America	USA (S&P 500)	1326	-1.3	0.5	4.5
		Argentina (Merval)	2311	1.7	1.0	-29.7
		Brazil (Bovespa)	55505	-1.1	1.6	-9.0
		Colombia (IGBC)	13552	-2.4	-6.7	-4.1
		Chile (IGPA)	20923	0.7	2.6	-5.7
		Mexico (CPI)	38516	2.1	2.9	9.0
		Peru (General Lima)	20435	-1.0	-0.5	7.6
		Venezuela (IBC)	251479	2.8	4.7	213.7
	Asia	Nikkei225	8798	2.7	2.8	-9.1
		HSI	18995	-1.2	1.1	-14.3
Credit (changes in bps)	Ind.	Itraxx Main	170	-4	-11	55
		Itraxx Xover	682	7	-59	252
		CDS Germany	101	-3	1	56
	Sovereign risk	CDS Portugal	915	-111	-304	73
		CDS Spain	571	-29	27	273
		CDS USA	50	1	2	---
		CDS Emerging	294	8	-16	59
		CDS Argentina	1309	74	107	664
		CDS Brazil	151	0	-4	33
		CDS Colombia	141	0	-5	26
		CDS Chile	116	-1	0	38
		CDS Mexico	142	3	-4	26
		CDS Peru	157	1	0	7

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
USA	20/06/2012	➤ Fed Watch. Declaración del FOMC: 19-20 de junio El ritmo de mejora del mercado de trabajo en el punto de mira
	18/06/2012	➤ FedWatch. Avance del FOMC: 19-20 de junio Alineación con el presidente
	19/06/2012	➤ Observatorio Económico EEUU. Ofertas de trabajo y rotación laboral La debilidad observada en abril invierte la fortaleza registrada en el primer trimestre
	19/06/2012	➤ Observatorio Económico EEUU. El tortuoso destino del total de los bonos en circulación La deuda pública extranjera se convierte, al igual que el sector financiero, en el talón de Aquiles de los mercados
	18/06/2012	➤ Flash Semanal EEUU. Caída de los precios del gas vuelve a arrastrar a la baja el índice general de precios de mayo El índice de precios al consumidor cayó un poco más de lo previsto en mayo, y experimentó un descenso de 0.3% después de haberse mantenido sin cambios en abril
Spain	19/06/2012	➤ Observatorio Económico España: "2T12: Contracción, con mucha incertidumbre hacia delante" La información conocida del segundo trimestre de 2012 anticipa una nueva contracción de la actividad económica, aunque no una aceleración del deterioro
	21/06/2012	➤ Flash España: "Hipotecas sobre vivienda abril 2012" Los datos corregidos de variaciones estacionales y efectos de calendario (cvec) muestran una leve recuperación del 4,7% m/m
	20/06/2012	➤ Flash España: "España: Balanza comercial de abril 2012" El déficit de la balanza comercial en el acumulado a 12 meses de abril se reduce nuevamente hasta alcanzar un registro de -43,6 mil millones de euros.
Latin America		
Chile	20/06/2012	➤ Flash Chile: Banco Central mantiene rango de crecimiento 2012, con sesgo a la baja, y reduce proyección de inflación BC mantuvo proyección de crecimiento 2012 en 4-5% y agregó sesgo a la baja debido al deterioro externo. También redujo proyección de inflación para 2012 a 2,7% con un balance de riesgos equilibrado
Colombia	21/06/2012	➤ Flash PIB Colombia. Crecimiento del PIB del primer trimestre creció 4,7% anual a pesar de la fuerte contracción de las obras civiles El crecimiento del PIB del primer trimestre se ubicó en 4,7% anual (0,3% t/t), reflejando una moderación con respecto al 4T11 (1,2% t/t)
	20/06/2012	➤ Flash Colombia. Gobierno Central revisa a la baja su déficit fiscal de 2012 a 2,4% del PIB y prevé cuentas fiscales robustas a mediano plazo El Ministerio de Hacienda presentó el Marco Fiscal de Mediano Plazo, documento que actualiza las proyecciones de las cuentas fiscales del Gobierno Nacional Central y el Sector Público Consolidado
Panama	21/06/2012	➤ Presentación Situación Panamá. Panamá: crecimiento robusto en un entorno global incierto Economía global: crecimiento e incertidumbre. Panamá en una senda positiva de crecimiento. Crecimiento se destaca con desaceleración positiva hacia el potencial
Mexico	18/06/2012	➤ Flash México: Tipo de Cambio. Volatilidad en el corto plazo por el incierto entorno global, pero sólidos fundamentales domésticos coherentes con apreciación En el corto plazo la cotización del peso estará fuertemente influida por la incertidumbre en torno a la evolución de la crisis de deuda europea, por datos para calibrar la fortaleza del ciclo de EEUU
	20/06/2012	➤ Situación Banca México Junio 2012 El crédito total de la banca al sector privado acumula 25 meses de crecimiento, consolidando así su proceso de expansión
	20/06/2012	➤ Presentación Situación Banca México Junio 2012 Las empresas usuarias de servicios bancarios tienen mejores indicadores operativos, de capacidad de pago y de formalidad que aquellas que no los utilizan

- 21/06/12 ➤ **Asia Daily Flash | 21 June 2012: China flash PMI signals further weakness in manufacturing; China may ease QFII restrictions; Hong Kong's inflation moderates**
The HSBC flash PMI estimate for June was released today, showing a further moderation, to 48.1% from 48.4% in May, remaining below the 50% expansion threshold for an eighth consecutive month
- 20/06/12 ➤ **Asia Daily Flash | 20 June 2012: China may relax regulations to spur bank lending; Indonesia hints at 90% ownership cap in banks; Japan's trade deficit widens**
A Chinese media outlet reported today that China's Banking Regulation Committee may relax restrictions on new bank lending to local government financing vehicles.
- 19/06/12 ➤ **China Automobile Market Outlook 2012**
In our first annual Automobile Market Outlook for China we describe the evolution of the domestic auto market, which by 2009 had become the world's largest, and assess the outlook for the coming years
(Chinese version)
- 19/06/12 ➤ **China Automobile Market Outlook: Press release**
BBVA Research presented today in Shanghai its first annual China Automobile Market Outlook report: BBVA Research projects China's auto market growth to accelerate to 20% by 2014
Author: BBVA Research
Source: BBVA Research
(Chinese version)
- 19/06/12 ➤ **Asia Daily Flash | 19 June 2012: China's auto market growth to accelerate to 20% by 2014**
On the first day of the G-20, emerging market nations announced substantial commitments to the IMF's firewall as it addresses the turmoil in Europe, increasing it to \$456 billion
- 18/06/12 ➤ **Asia Daily Flash | 18 June 2012: India keeps rates on hold; Housing prices in China continue to fall**
Investors in Asia welcomed the outcome of yesterday's elections in Greece, with regional stock markets broadly higher today.

Publications on June 22, 2012 to 10:00, Madrid time

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