Global Weekly Flash

Activity data points to stabilizing growth

This week positive Chinese and US economic figures offset downbeat Europe economic data, and helped steady markets. Flows to German bonds increased due the weakness showed in economic activity across the region while risk premia in European peripheral countries rose

- **Consensus-building in Europe is progressing slowly**
  - The ECB president Mario Draghi successfully defended the Outright Monetary Transactions program (OMT) in Germany's lower house of parliament. After Mr. Draghi's testimony in the Bundestag, a lawmaker from the German government coalition stated that the ECB president "had convincingly made the case for the ECB's new bond-purchasing programme" (according to Bloomberg news). This is obviously a positive step taken toward Germany supporting the ECB's non-standard policies, which are very important toolkits to stop the redenomination risk, especially in a context where Europe will continue to muddle through. On the other hand, recent comments from German Chancellor Angela Merkel open the way for the European Stability Mechanism (ESM) to recapitalize Irish banks, after her last week's comments suggesting that legacy assets would not be covered by the ESM. French President François Hollande also supports the recapitalization of Irish banks by the ESM, as a way of breaking the negative loop between banks and sovereigns. All in all, this suggests that in the long run Europe can tilt toward increasing assistance to problem countries whenever they deliver well-performing adjustment programmes. Finally, this week the International Monetary Fund (IMF) approved the disbursement of the next aid tranche of EUR1.5bn for Portugal. Meanwhile, in Greece, the government continues working on austerity measures in order to obtain the disbursement of the next loan tranche. There are expectations that the Troika's giving two extra years to Greece to fulfil fiscal targets but the agreement is still pending. To top it off, European Central bank data showed that private sector deposits rose in Spain and Greece while remaining practically flat in Portugal and Ireland.

- **China's macro data points to stabilizing growth trend. In the US, housing data were better than expected again while European data were more downbeat**
  - This week marked another one in which China's activity data pointed to stabilizing growth, further allaying fears of a hard landing. Consistent with last week's September activity indicators showing an improvement in underlying growth trends, China's Markit/HSBC Flash PMI estimate for October increased to 49.1 from September's outturn of 47.9 (the official PMI outturn in September was 49.8). Both the production and new orders sub-indexes improved, although they remained below the 50 expansion/contraction threshold.

  - In the US, the increase in new home sales for September supports the view of a stronger housing market that we have witnessed throughout the past few months. New home sales reached the highest level since April 2010. Climbing 5.7% to 389K, the healthy jump in sales was led mostly by a 16.9% increase in the Southern region, which accounts for just about half of total new home sales. September has been a break-out month for existing and new homes sales as well as construction data. Supply continues to decline, hitting 4.5 months' at the current sales rate and ultimately limiting sales. This points to continued gains in housing starts in the coming months but also puts upward pressure on home prices. The median price of new homes did decline 3.2% in September following two consecutive months of increases, but in general we are seeing an upward trend for prices throughout the housing market. With the Fed's commitment to keeping interest rates low for the next few years, we expect that demand for homes will continue to rise at a gradual pace. Although the housing sector is not moving at a fast enough pace to completely carry the recovery on its own, the data are surely a bright spot to finish out strong in 2012.

- US durable goods orders increased 9.9% MoM in September, but a modest 2.0% excluding transportation, and only 0.3% excluding aircraft. Aircraft lead the charge as non-defense aircraft orders rose a staggering 2641% on a slew of orders from companies like Boeing, yet again dragging durable goods orders in whichever direction it leans due to its volume and volatility. Subtract the injection of transportation and the figures are more subtle: 2.0% MoM rise for durable goods orders on strong fabricated metals and machinery orders. Coinciding with the raw materials and capital goods orders, manufacturing with unfilled orders rose 14% in September although its overall trend seems to be even more volatile than durable goods as it recovers from a dismal August. Non-defense capital goods orders are muted, rising only 0.3% excluding aircraft which might point to lower investment from businesses on concerns about future conditions or an overall sedentary investment outlook. It will take business investment to hold durable goods positive as aircraft and defense spending remain volatile, but with lending rates low that is a possibility. Up 2.5% YoY, new orders are still low for the year but with stronger retail sales and ISM data for September, there still remains a positive outlook and with Q3 outperforming Q2, there might be some room for improvement if businesses come back into the market.

- Following its October meeting, the FOMC made very few changes in the statement and left its accommodative policy stance (its purchase program and policy rate guidance) unchanged, as expected. Whereas September's statement noted that the FOMC did not believe economic growth would be strong enough without further policy accommodation, October's statement mentioned the need for "sufficient policy accommodation," which likely plays on the open-ended aspect of the size, pace, and composition of QE3. The committee also decided to maintain its current policy guidance, anticipating "that exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015." There was no mention of improving labor market conditions in the statement. However, the committee upgraded somewhat its assessment of household spending from "continued to advance" in last month's statement to "has advanced a bit more quickly" in October's statement. The minutes of the October meeting will likely provide more details on the discussion on what to do with the purchase program at the conclusion of Operation Twist which is set to end in December.

- Unsurprisingly, European data were more downbeat. The October "flash" PMI composite output index declined to 45.8 (46.1 in September), hitting a 40-month (a new cyclical) low and reinforced expectations that Eurozone's GDP is set to contract in Q4. The services sector index increased slightly to 46.2 (46.1 in September) but the manufacturing sector index dropped to 44.8 (45.9 in September). The main message from euro area 'flash' PMIs is that the manufacturing sector remains weak.

- In October, the German IFO survey of business climate continued to deteriorate. The Ifo Business Climate Index for German industry and trade fell in October for the sixth month in a row. Companies again expressed growing dissatisfaction with their current business situation. The business outlook nevertheless remained unchanged at last month's low level. The clouds over the German economy are darkening. In manufacturing, last month's deterioration in the business climate extended to October. Assessments of the current business situation were significantly poorer and now approximately correspond to the long-term average value. The bright spot is that business expectations recovered slightly for the first time in six months and are less pessimistic. According to manufacturers' reports capacity utilization rates were considerably lower than in the previous quarter. This marks the third consecutive drop.

Next week: In the China, investors would be paying attention to the release of October's official manufacturing PMI. In the US, the nonfarm payrolls and the unemployment rate will be published and in Europe, the focus will be on the release of the unemployment rate and the flash HICP inflation.

Calendar: Indicators

Eurozone: Flash HICP inflation (October, October 31st)

Forecast: 2.4% y/y	Consensus: 2.5 y/y	Previous: 2.6% y/y

Headline inflation is likely to decline between 0.1pp and 0.2pp in October, driven by lower energy inflation, while core inflation is set to remain relatively stable at 1.6% y/y. Looking forward, still high prices of oil Brent, combined with inflationary pressures stemming from higher indirect taxes in the periphery, suggest than inflation will slow sluggishly in coming months, while core inflation is expected to remain broadly stable at 1.6% y/y over Q4. Overall, there is no evidence of second-round effects, while the gloomy economic prospects for coming quarters along with the continuing deterioration of labour market must put the brake on them in the short-term.

Eurozone: Unemployment rate (September, October 31st)

Forecast: 11.4%	Consensus: 11.4%	Previous: 11.4%

We expect the unemployment rate to have remained stable at 11.4% in September for the fourth month in a row, after cumulating a 1.3pp increase since mid-2011. Nonetheless, we do not think that the deterioration of the labour market has halted, as activity contraction in H2 2012 will end up weighing on employment in coming quarters, and thus unemployment rate is set to increase again. Confidence surveys also point in this direction, with firms' hiring intentions declining further. Across countries, the worsening in employment expectations was also widespread, except in Germany.

US: Personal Income & Outlays (September, October 29th)

Forecast: 0.3% m/m, 0.5% m/m	Consensus: 0.4% m/m, 0.6% m/m	Previous: 0.1% m/m, 0.5% m/m

Personal income and spending are expected to grow again in September at a similar pace as in the previous month given. Personal income should accelerate after increasing in August at the slowest pace in nearly ten months. Improving labor market conditions for the month have bolstered consumer attitudes on income and the employment report noted a healthy 0.3% gain in average hourly earnings. Spending is also poised to grow at a relatively healthy pace, with retail sales rising another 1.1% in September, in large part due to increased auto demand. In particular, nominal spending will likely be strong given the inflation boost in September.

US: Nonfarm Payrolls and Unemployment Rate (October, November 2nd)

Forecast: 125K, 7.9%	Consensus: 120K, 7.9%	Previous: 114K, 7.8%

September's employment report was a positive surprise for the unemployment rate, yet payroll gains were much lower than in the previous two months. For October, we expect that nonfarm payroll growth will accelerate slightly but not enough to beat the 3Q12 average near 150K. Initial jobless claims dropped significantly in the first week of the month but jumped back up the following week, keeping the average only slightly better than that in September. In regards to the unemployment rate, it is unlikely that we will see such a sharp decline again in the coming months. The participation rate increased in August as employment grew, yet the labor force still has room to grow. This could ultimately put upward pressure on the unemployment rate if payroll growth does not accelerate significantly. Overall, the third quarter ended with some encouraging employment figures and October should carry with it some of the continuing optimism, although maybe not with the same stunning results.

China: PMI for (October, November 1st)

Forecast: 50.1	Consensus: 50.5	Previous: 49.8

The official PMI reading for October will be closely watched following positive activity data for September and an improved HSBC/Market flash PMI estimate for October. Though Q3 GDP growth slowed further, September activity indicators such as industrial production, retail sales, and investment surprised to the upside; meanwhile, the October flash HSBC/Markit PMI estimate improved to 49.1% from last month's outturn of 47.8% on improved production and new orders. We expect the October official PMI (covering larger and more domestically-oriented companies) to rise back above the 50 expansion/contraction threshold which, if confirmed, would be further evidence of stabilizing growth trends after two consecutive months of sub-50 official PMI readings. Given risks to the growth outlook, however, we still expect further policy easing in the months ahead, especially after the leadership selection process is completed in November.

Markets Data

				Close	Weekly change	Monthly change	Annual change
Interest rates	(changes in bps)	US	3-month Libor rate	0.34	-1	-6	-6
			2-yr yield	0.27	1	2	-1
			10-yr yield	1.71	-3	1	-47
		EMU	3-month Euribor rate	0.21	-1	-5	-136
			2-yr yield	0.05	-1	0	-58
			10-yr yield	1.51	-1	-3	-60
Exchange rates	(changes in %)	Europe	Dollar-Euro	1.294	-0.8	0.7	-6.1
			Pound-Euro	0.81	-0.1	0.9	-7.7
			Swiss Franc-Euro	1.21	-0.1	0.2	-2.2
		America	Argentina (peso-dollar)	4.71	0.1	1.1	11.8
			Brazil (real-dollar)	2.04	0.3	1.0	16.3
			Colombia (peso-dollar)	1797	0.1	0.0	-5.5
			Chile (peso-dollar)	473	-0.2	-0.4	-6.4
			Mexico (peso-dollar)	12.87	0.6	-0.9	-4.2
			Peru (Nuevo sol-dollar)	2.59	-0.2	-0.8	-5.1
		Asia	Japan (Yen-Dollar)	78.52	-0.2	1.0	2.1
			Korea (KRW-Dollar)	1114.35	0.3	-1.2	-3.6
			Australia (AUD-Dollar)	1.028	0.9	-1.5	0.9
Comm.	(chg %)		Brent oil ($/b)	116.0	3.5	0.5	4.4
			Gold ($/ounce)	1772.7	-0.4	2.3	6.3
			Base metals	519.2	-1.6	-0.5	-3.7
Stock markets	(changes in %)	Euro	Ibex 35	7741	-2.7	-2.4	-13.4
			EuroStoxx 50	2491	-1.6	-2.6	6.8
		America	USA (S&P 500)	1441	-1.3	0.5	19.8
			Argentina (Merval)	2411	-3.0	0.2	-7.1
			Brazil (Bovespa)	59288	1.2	-0.2	8.6
			Colombia (IGBC)	14265	-0.6	0.6	7.2
			Chile (IGPA)	20814	-0.3	2.2	8.1
			Mexico (CPI)	41649	-0.7	4.1	20.4
			Peru (General Lima)	21433	-1.5	3.5	15.1
			Venezuela (IBC)	351001	-13.0	18.0	251.0
		Asia	Nikkei225	8547	-3.6	-3.0	-3.1
			HSI	20999	-0.1	5.7	11.9
Credit	(changes in bps)	Ind.	Itraxx Main	133	7	6	-45
			Itraxx Xover	556	25	52	-209
		Sovereign risk	CDS Germany	51	1	-2	-43
			CDS Portugal	477	22	-49	-658
			CDS Spain	360	9	-20	-14
			CDS USA	41	-1	5	---
			CDS Emerging	228	13	16	-82
			CDS Argentina	1010	96	-28	53
			CDS Brazil	115	3	-2	-42
			CDS Colombia	106	4	5	-50
			CDS Chile	84	1	2	-45
			CDS Mexico	105	5	8	-49
			CDS Peru	110	4	1	-50

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
EMU	10/21/2012	**El Consejo Europeo pasa palabra** Dadas las expectativas previas, la ausencia de sorpresas negativas bien puede hacernos considerar el resultado de esta cita como positivo.
Spain	10/26/2012	**Flash España: "EPA del tercer trimestre de 2012: continúa el ajuste del mercado de trabajo."** Si bien la evolución del mercado laboral durante el 3T12 debe ser valorada negativamente, el deterioro observado se situó en línea con nuestras expectativas.
	10/25/2012	**Flash Sistemas Financieros: "Aumentan los depósitos de hogares y empresas mientras los pagarés disminuyen"** Aumentan los depósitos de hogares y empresas mientras los pagarés disminuyen. Se incrementan los depósitos de fuera de la zona euro.
	10/22/2012	**Dynamic provisioning: a buffer rather than a countercyclical tool?** This paper analyzes whether dynamic provisioning systems act as a dampener -as intended- o as a buffer.
	10/22/2012	**Flash España: "Hipotecas sobre vivienda agosto 2012"** En agosto se concedieron 21.106 hipotecas sobre vivienda, lo que supone una reducción del 6,4%respecto al mes anterior tras corregir la serie de variaciones estacionales y efectos de calendario.
US	10/25/2012	**U.S. Flash. Demand for Durable Goods Surge on Aircraft Orders** Durable goods orders increased 9.9% MoM in September, but a modest 2.0% excluding transportation. Aircrafts amounted for the jump in new orders after a drop in August.
	10/24/2012	**U.S. Economic Watch. The Calm Before the Storm** Inflation Hawks Await Price Increases from Midwest Drought. (Spanish version)
	10/24/2012	**U.S. Fed Flash. FOMC Statement October 23-24** Committee members maintain current policies: QE3, Operation Twist, and low interest rates through mid-2015.
	10/24/2012	**U.S. Housing Flash. New Home Sales Reach Highest Level Since April 2010** Sales of new homes increased 5.7% in September, led mostly by 16.9% gain in the Southern region. The median price of new homes fell slightly from August, but the YoY rate remains strong at 11.7%.
	10/22/2012	**US Weekly Flash. Surge in energy prices keeps pressure on CPI** The Consumer Price Index looked quite similar to the prior month's figures as headline inflatior rose 0.6% on intensifying energy prices. (Spanish version)
Latam		
Chile	10/22/2012	**Banco Central mantiene tasa de referencia en 5%** El BC mantuvo la TPM en 5%. Las tensiones externas han disminuido ante los anuncios de la autoridades europeas. En el plano interno, las expectativas de inflación se mantienen bajo la meta.
Mexico	10/24/2012	**Mexico Flash. Banco de México: No change in fondeo rate and a slightly more hawkish tone** The persistence of supply shocks impairs the inflation balance of risks in the short term and could lead to a slightly more hawkish tone. (Spanish version)
	10/24/2012	**Mexico Inflation Flash. October's biweekly inflation: inflation starts falling despite the continuity of supply shocks** General: Actual: 0.45% f/f vs. BBVA: 0.48% f/f Consensus: 0.48% f/f. Core: Actual: 0.17% f/f, vs. BBVA:0.23% f/f, Consensus:0.16% f/f. (Spanish version)
	10/22/2012	**Mexico Banking Watch. Bank Cards: recent evolution indicates slower growth** Growth in GDP and in employment has fueled growth in numbers of credit cards. In the seconc quarter of 2012, the total number of credit cards (holders+additional) amounted to 24.8 million. (Spanish version)

10/22/2012 **Mexico Economic Watch. Can a monetary pause be maintained with inflation at over 4.0%?**
Despite inflation running at over 4.0%, non-traditional variables such as different measures of underlying inflation and the FED's monetary stance justify the monetary pause.
(Spanish version)

10/22/2012 **Mexico Economic Watch. Changes in the multi-funds structure and investment rules for Pension Fund Administrators (Afores)**
The structure of multi-funds managed by Siefores (Specialist Pension Fund Investment Companies) is modified. Separate funds for workers near retirement age, with different pension rights.
(Spanish version)

Asia

10/25/2012 **Asia Daily Flash | 25 October 2012: Hong Kong exports rise; Philippines cuts rates; Singapore and Thailand's IP data disappoint**

10/24/2012 **Asia Daily Flash | 24 October 2012: China's Flash PMI points to stabilizing growth; Australia¿s inflation accelerates; the HKMA intervenes again**
Consistent with last week's September activity indicators showing an improvement in underlying growth trends, China's Markit/HSBC Flash PMI estimate for October increased to 49.1.

10/22/2012 **Asia Daily Flash | 22 October 2012: Hong Kong intervenes currency; Japan's exports fall; Thailand: new rules to protect currency**
HKMA intervenes as the currency hits the strong edge of the band. Meanwhile, Japan's exports fall in September and the Bank of Japan cuts its regional economic assessment.

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