



Weekly Observatory

October 26, 2009

Financial markets: the Euro edges up and surpasses 1.5 dollars

Currency markets led market attention over the week. The euro surpassed \$1.5 amid a context of widespread depreciation of the US dollar, except against the Canadian dollar. Overall, Central Banks' remarks or decisions are being closely evaluated, turning into important drivers of currency movements of late. Similarly, interest rate fluctuations are extremely dependent on supply announcements. Thus, rates increased amid a new record amount that the US Treasury will auction next week. Lastly, the bank earnings season ratifies the clear differentiation between large US banks and regional ones, with the latter lagging behind and posting worrying losses. For further information, see [Flow Watch](#).

US: Beige Book and LEI further substantiate economic 3Q09 growth

The Federal Reserve's Beige Book illustrated economic improvement at the end of 3Q09 and the beginning of 4Q09. The greatest improvements were observed in the residential real estate and manufacturing sectors, but further deterioration in the commercial real estate sector and sluggish consumer spending are signs that economic recovery could be slow. The Leading Economic Index (LEI) also substantiated economic growth in 3Q09 by rising for the sixth consecutive month with widespread increases across most components. Furthermore, housing starts data confirmed an overall increase for the quarter, supporting our expectation that the decline in residential investment will ease. These indicators will culminate in next week's GDP release, which is expected to report economic expansion. For further information, see [US Weekly Observatory](#).

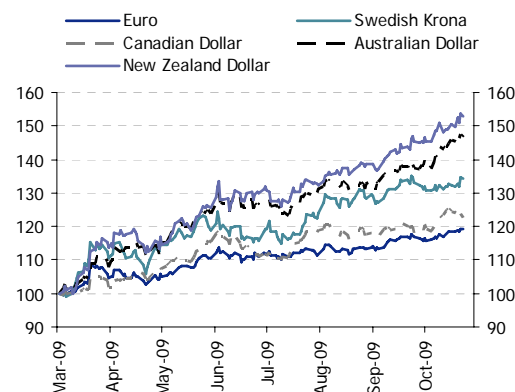
Euro area: good week for the Eurozone but GDP down in the UK during the third quarter

Data published this week for the Eurozone were mostly positive. Industrial orders grew substantially in August, and those for July were revised upwards; between both months they are 7.1% above the average of the second quarter, confirming the improvement of activity in the third quarter and suggesting further gains in Q4. Soft data were also positive, with improvements for the PMIs for the Eurozone and the IFO for Germany in October. The gains continue to be less prominent than those observed during the second quarter, but they are good news after the negative result observed last week from the ZEW indicator for Germany. Regarding the UK, GDP declined by -0.4% q/q in Q3, a result well below expectations, being the sixth consecutive quarterly fall and the longest recession in decades. For further information, see [Europe Weekly Observatory](#).

Asia: China roars ahead

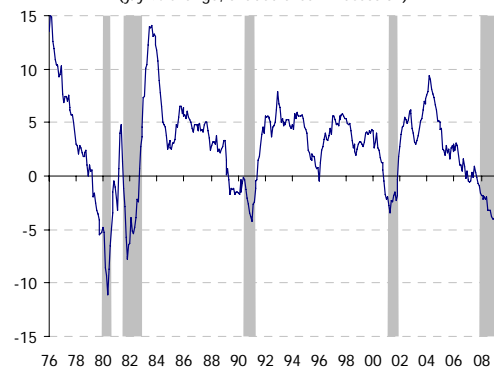
China's economy expanded in the third quarter at its highest rate this year, bringing it closer to the government's 2009 growth target. Industrial output jumped in both China and Taiwan while exports declined once more in Japan and Thailand albeit at a slower pace. Meanwhile, inflation figures in Asia were mixed. Prices in Hong Kong climbed out of negative territory in yearly term for the first time in three months, inflation figures from Singapore accelerated their contraction while China's prices dropped albeit less than in the previous

Exchange Rates against U.S. Dollar
March 1st, 2009 = 100



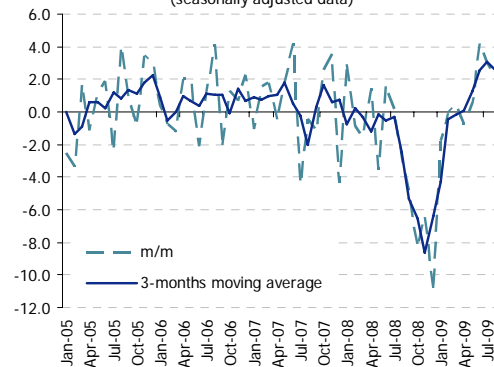
Source: Bloomberg

US: Leading Indicators Index
(y/y % change, shaded area = recession)



Source: Conference Board

Euro Area: Industrial New Orders
(seasonally adjusted data)



Source: Eurostat

month. On the policy front, Thailand left its policy rate unchanged, and the Bank of Japan hinted that it might end its corporate debt purchase scheme. Next week, markets will focus on Korea's GDP figures for the third quarter and China's PMI. For further information, see [Asia Weekly Observatory](#).

Latin America: Brazil gives a new example of monetary pause in the region, along with a fresh attempt to restrain currency appreciation

Mimicking the decision of Chile last week, Brazil ended its monetary policy meeting without changes in the Selic rate. In addition, the government decided to levy a "Tobin-type" tax on foreign capital inflows, with the purpose of taming the appreciation of the Real. Regarding activity, September data confirms the downward trend of unemployment rates in Chile and Brazil. However, the m/m decline of the industrial production index in Colombia highlights the weakness of the recovery in some countries of the region. For further information, see [Latin America Weekly Observatory](#).

Spain: unemployment rate for 3Q09 and trade deficit for August

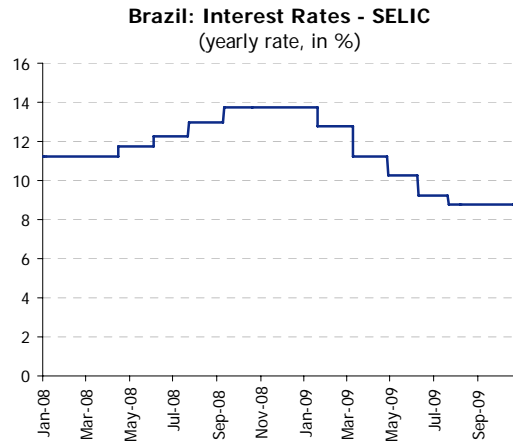
The most important data released in Spain last week featured an unemployment rate of 17.9% in the third quarter of the year, a figure below consensus (Bloomberg: 18.7%). This figure was primarily a result of the drop in the active population (-88,900 people), which partly compensates the decrease in employment (-74,800 people). On the other hand, Spain's trade deficit increased to 4.5 billion euros in August from 3.2 billion euros in the previous month. Next week's data will include: the flash HCPI for October (previous: -1.0% y/y) and the current account for August (previous: -2.0 billion euros).

Mexico: inflation maintains downward trend

October's Bi-weekly inflation reached 0.4% m/m, while core reached 0.2% in line with our forecast. Annual inflation dropped to 4.6% while core rose marginally to 4.9%. As expected, non-core prices favored the moderation thanks to agricultural and administered prices, meanwhile core inflation was pressured by processed food, professional and touristic prices. Given the current evolution of prices, we maintain our expectation that inflation could close 2009 around 4%. Retail Sales fell (-)5.5% y/y and (-)1.4% m/m, reflecting private consumption remains weak. The unemployment rate grew in September to 6.1% from 5.9% (seasonally adjusted), which implies marginal and decreasing deterioration rates. Next week IGAE will be published, we expect a monthly improvement. For further information, see [Mexico Weekly Observatory](#) (in Spanish).

Commodities: back to the 80s

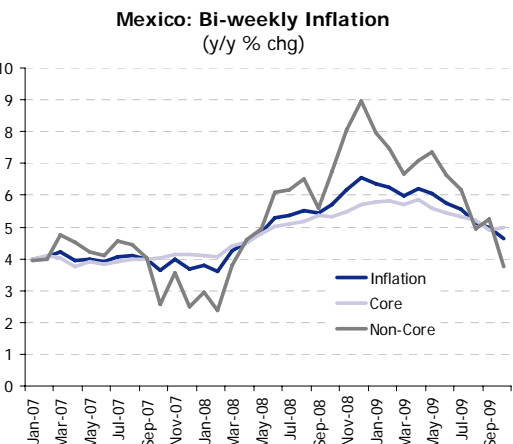
Oil prices rose by around 3% and neared the USD 80 per barrel mark. The move was driven by the consolidation of recovery perspectives and by the weakness of the dollar. The euro-dollar rate reached 1.50 this week. Since July, when the euro-dollar was at 1.40, the oil price has risen by 20 dollars. The last time the euro-dollar rate moved from 1.40 to 1.50, in the Sep 07 to Feb 08 period, the oil price also rose by around 20 dollars (from \$80 to \$100). For further information, see [Commodity Observatory](#).



Source: Central Bank of Brazil



Source: INE and BBVA ERD



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