



Weekly Observatory

July 27, 2009

Financial markets: better-than-expected results continue to push stock returns up

The flow of good news that lead last week's rally in the stock market continues this week, with better-than-expected second-quarter results for US companies such as EBay, Ford and AT&T, and stock gains close to 5%. As for fixed income markets, this week was especially volatile with downward pressures on yields coming from Bernanke's congressional testimony during which he highlighted again the Fed's commitment to maintain low rates for an "extended period" and upward pressures from the fall in global risk aversion. Next week, the markets will focus on the results of the US Treasury auctions of 2, 5 and 7-year government bonds. For further information see [Flow Watch](#) (in Spanish).

United States: Leading Economic Index and existing home sales present further signs that contraction is easing

This week's data further substantiated that economic contraction has slowed in 2Q09. The Leading Economic Index (LEI) rose for the third month in a row with positive contributions from seven of the ten components. In total, the index has increased 3% in the second quarter, after falling 1% in 1Q09. Furthermore, existing home sales rose for the fourth consecutive month, showing further signs of stabilization in the housing market. Nevertheless, the weak job market and limited access to credit could pose risks to the market's recovery. Finally, Bernanke testified before Congress that monetary policy will remain focused on economic recovery, but the Fed has the necessary tools to withdraw the stimuli when need be. For further information, see [US Weekly Observatory](#).

Euro area: very positive PMIs for July, but activity indicators remain weak

PMI data in July continued to improve for the fourth month in a row in the euro area, with a larger than expected increase. In manufacturing, the PMI index rose sharply and some components are now close to the threshold that in theory separates growth from contraction. Both in Germany (IFO index) and in France (BoF Survey), confidence data also improved further in July. However, available hard data for May showed that economic activity remains weak, as new industrial orders in the euro area fell slightly, although at a far slower pace than in the first quarter of 2009 and Italian retail sales were flat. In the UK, the preliminary GDP figure for 2Q09 showed a larger than expected decrease of -0.8% q/q, after falling by -2.4% q/q in the previous quarter. For further information, see [Europe Weekly Observatory](#).

Asia: exports and prices bottoming out

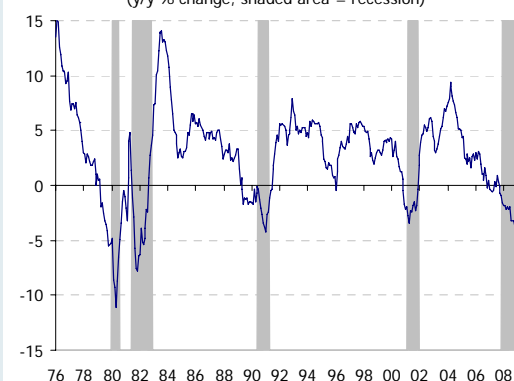
Korea's advanced GDP estimate for Q2 beat forecasts (2.3% q/q, 9.6% annualized) led by a sharp rebound in private consumption and net exports. Across the region, exports likely bottomed out in June, although weaker momentum in industrial production will weigh on external sector performance

US vs. EMU: Sector Indices
(base 100=01/01/2007)

	US		EMU	
	Today	Week chg.	Today	Week chg.
Stocks	68.8	3.8%	60.7	5.0%
Energy	86.2	4.6%	68.6	5.0%
Materials	79.2	7.4%	60.1	8.2%
Consump.	65.1	5.3%	73.2	5.4%
Utilities	79.3	4.0%	67.6	4.7%
Technology	88.7	3.9%	57.5	2.0%
Teleco	68.4	5.4%	79.8	2.6%
Pharma	82.0	3.6%	67.8	3.3%
Financial	33.9	2.8%	43.5	5.6%

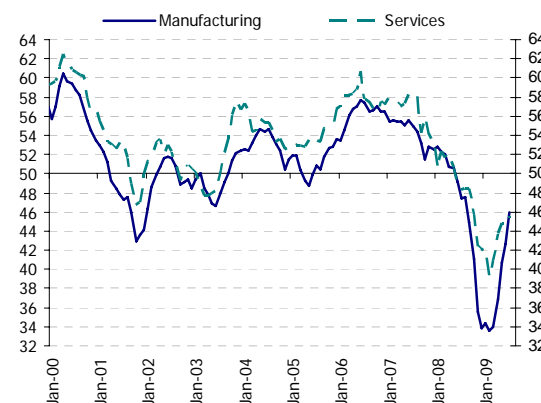
Source: Bloomberg

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



Source: Conference Board

Eurozone: PMI Index



Source: NTC Economics Ltd

going forward. Deflation continues on the back of a high base of comparison over a year ago, although prices are strengthening on a sequential basis. Meanwhile, Philippines' sovereign rating has been upgraded one notch by Moody's to Ba3, three levels below investment grade. For further information, see [Asia Weekly Observatory](#).

Latin America: monetary easing continues, with the Brazilian Selic reaching a new all-time low

Brazil is the latest example of a new round of slashes in interest rates, sending the Selic to a new minimum. Several countries (Brazil, Chile, and Venezuela) published their unemployment data for June, with Brazil having a reduction in the unemployment rate greater than expectations. Other activity highlights are the declining trend of industrial production and sales in Colombia, and a recovery in auto sales in Peru. Trade data in Argentina suggest the region might be entering a phase of more tempered contraction in external trade. For next week, we expect a new round of unemployment data in Colombia, current account and FDI balance in Brazil, and two retail sales proxies in Argentina. For further information, see [Latin America Weekly Observatory](#).

Spain: unemployment rate up to 17.9%, while the trade deficit decreases again

Employment in the Spanish economy dropped 7.25% y/y during the second quarter of 2009 according to data from the Labor Force Survey. This raised the unemployment rate up to 17.9% (vs. 17.4% a quarter earlier). On the other hand, Spanish exports of goods for the month of May rebounded with respect to April posting a drop of around 15% y/y. This was above the average of the previous four months, and coupled with the intense on-going adjustment in imports (-26.9%), has brought a strong correction in the trade deficit, which, on a 12 month basis, currently stands at around 72 bn€ (vs., 104 bn€ when it peaked back in June 2008).

Mexico: inflation moderating less than expected

Inflation for the first half of July reached 0.20% (vs. 0.15% BBVA), annually it reduced 0.2 pp compared with June reaching 5.54%. Core Inflation reached 0.21% (vs. BBVA 0.15%) moderating its downward trend because of persistent increases in non-food merchandises and services related to tourism. Despite the fact that the slowdown in inflation was smaller than expected, we maintain it will reduce further, and might reach 3.8% by the end of 2009. June's Trade Balance reached (-) 206 m\$, exports were USD 19.36 bn\$ and imports 19.57 bn\$, both being the biggest figures yet recorded for 2009. Next week we'll know the IGAE for June; we expect it to contract sharply on an annual basis. For further information see [Mexico Weekly Observatory](#) (in Spanish).

Commodities: prices boasted on fresh recovery hopes

The price of oil increased this week and neared the 70 \$ per barrel mark as better recovery perspectives improved the outlook for future demand. Current oil market fundamentals, however, remain loose. Base metals also benefited significantly from the renewed optimism regarding the economic recovery. Copper prices have now accumulated an 80% appreciation in the year. For further information, see [Commodities Observatory](#).

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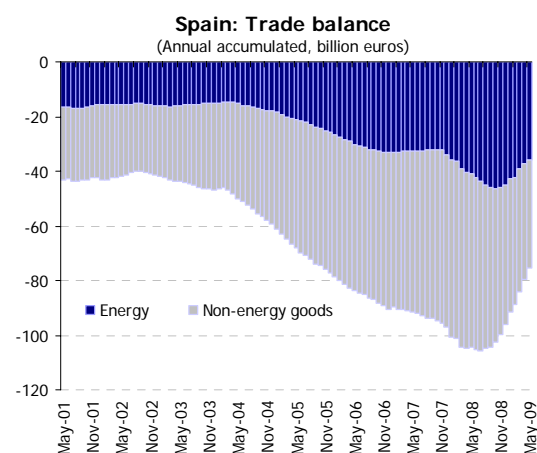
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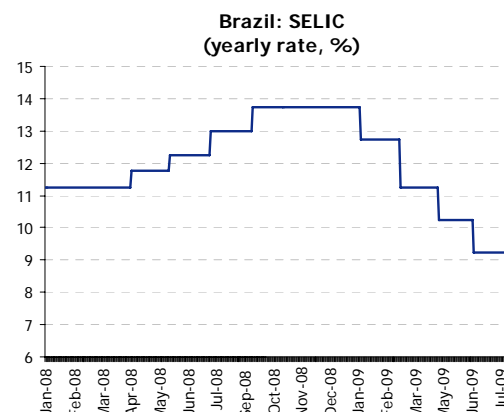
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Source: Customs and BBVA ERD



Source: Bloomberg

