Economic Research Department

Global

BBVA

Weekly Observatory

June 29, 2009

Financial markets: great participation in the first 12-month term auction at the ECB

The highlight this week has been the great participation in the first one-year "full allotment" auction at the ECB. This way, lending to Euro area credit institutions reached a new all-time high, above the levels seen in the last quarter of 2008. As conditions in financial markets have somewhat improved in recent months, the Fed has decided to cut the size auctioned under the TAF and TSLF programs. Yet as market areas remain stressed, the Fed has also decided to extend its emergency programs (except for the TALF) until February 1, 2010. For further details, see Flow Watch (in Spanish).

United States: further stabilization in the housing market

May's second consecutive increase in existing home sales supports further stabilization in the housing market due to increasing affordability, low home prices and the tax credit for first time buyers. Although new home sales did not rise, they showed additional stabilization on a year-over-year basis. Nevertheless, the market for new homes may not see the same renewed interest as that for existing homes because prices of existing homes are more flexible and great discounts can be found on foreclosed properties. In the upcoming week, we expect the change in Non-Farm Payrolls to be slightly larger than the previous month reflecting the ongoing layoffs and weakness in the labor market. For further information, see US Weekly Observatory.

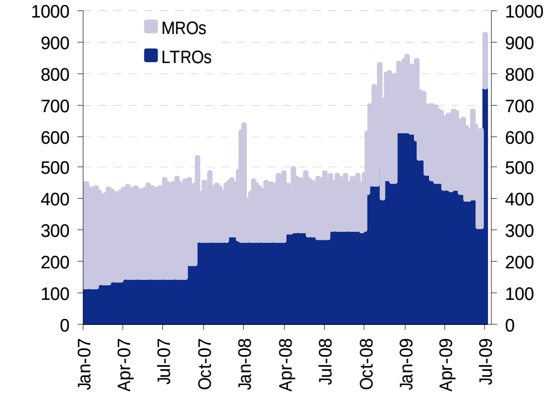
Euro area: PMI continues to improve in June, but at a slower pace

Confidence indicators for the euro area continue to improve. PMI indicators increased in June for manufacturing, but fell slightly for services. The composite increased, but below expectations and at a slower pace than in previous months. The IFO confidence index for Germany also improved beyond expectations, and so did business confidence in France. On the real side, incoming information still fails to reflect the improvement seen in soft indicators. New industrial orders in the Euro Area fell further in April, putting the annual growth rate further down to -35.5%. On prices, there was little news this week, but the flash for June will be published next week, and we expect it to move into negative territory at -0.2% y/y. The ECB will meet next week, and key policy interest rates are expected to remain at present levels. For further information, see Europe Weekly Observatory.

Asia: green shoots in industrial output

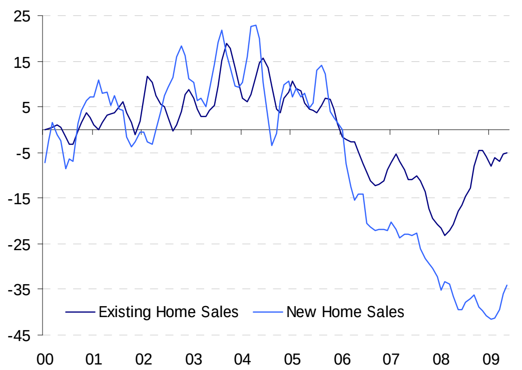
Falling industrial production is slowing down in Taiwan and Singapore. Export trends are mixed as its contraction moderated in Hong Kong in May but intensified in Japan in April. Meanwhile, Korea revised upwards its growth forecast for this year to - 1.5% from -2%, as Korean consumer confidence rebounded in June to pre-crisis levels. Deflation, however, accelerated in Japan while Singapore, India and Hong Kong posted near-zero year-on-year inflation rates. In monetary policy, Taiwan left its benchmark interest rates unchanged. Markets will focus on June's Tankan Survey and May's industrial

ECB: lending to Euro area credit institutions (€bn)



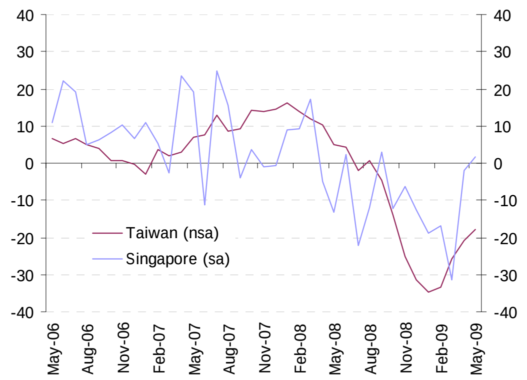
Source: ECB

US: New and Existing Home Sales
(3m average of y/y % change)



Source: National Association of Realtors

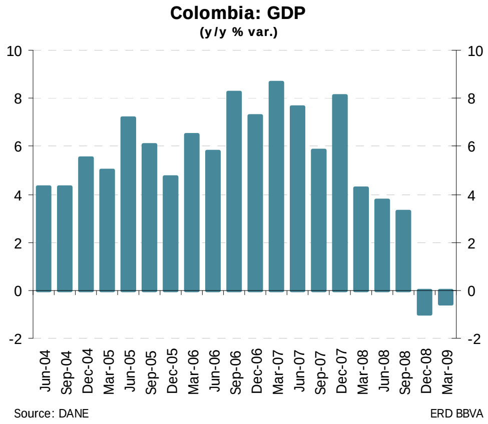
Industrial Production
(y/y % var.)



production in Japan, likely to show a recovery. For further information, see [Asia Weekly Observatory].

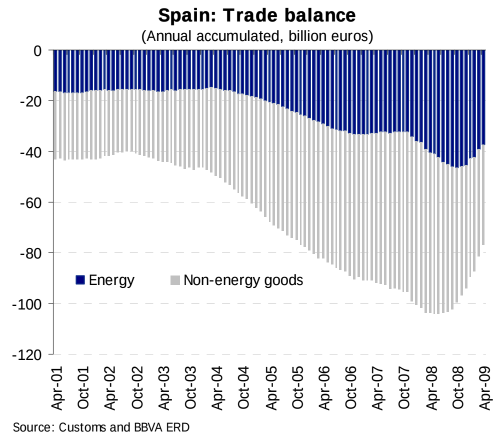
Latin America: Colombia marks a better-than-expected GDP contraction during 1Q09

Colombia released GDP data for the first quarter of 2009, showing a significant moderation in growth that nevertheless falls above market expectations. New unemployment data in Venezuela and Brazil fail to show a marked impact of the crisis over labor. Mixed data on the external sector: Argentina maintained during May a trend towards a sharp contraction in imports, which is resulting in greater trade surpluses. On the other hand, export and current account data in Peru and Brazil (respectively) keep a clear downward trajectory. Items to watch for next week will be the release of inflation in Peru, industrial production in Brazil, and various leading indicators in Argentina (supermarket and shopping mall sales), Brazil (manufacturing PMI), and Chile (INE sector indicators). For further information, see Latin America Weekly Observatory.



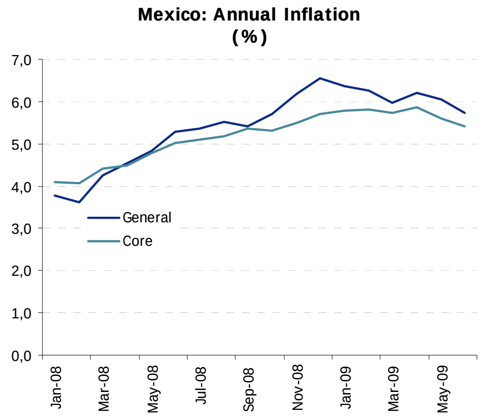
Spain: the trade deficit narrows again

The most important news for Spain this week was the release of the trade balance. Spain's foreign trade deficit narrowed again in April (annual accumulated) to 76 billion euros, following the trend observed in previous months, and mostly due to stronger drops in imports (-29.2% y/y) than in exports (-22.6% y/y). It is worth noting that, as seen in the accompanying graph, most of the reduction has come from the non-energy deficit, as the recent rebound in oil prices has slowed the correction in energy related imports. Next week's data will include, among other things, the HCPI flash estimate for the month of June (BBVA ERD: -0.9% y/y), and the registered unemployment as well as the average Social Security affiliations for the same month.



Mexico: inflation continues to ease, oil fortifies trade balance

First-half June inflation reached 0.13% (vs. 0.18% survey) and core inflation reached 0.15% (vs.0.17% survey), annually it reached 5.74% (vs. 5.98% May) and 5.43% (vs. 5.56% May) respectively. Core inflation confirms a downward trend lying in processed foods and services. We estimate a continuation of the deflationary process throughout 2Q09. May's Trade Balance was positive at $680m USD due to higher oil p rices, however lower trade levels reflect that the domestic and external demand adjustment continues. Next week the Manufacturing Sector survey for June is to be released which may confirm the previous path of deterioration easing in industrial sector expectations. For further information see Mexico Weekly Observatory (in Spanish).



Commodities: oil falls but later recovers, remains tied to USD

The price of oil declined at the beginning of the week and then recovered during the last days due to both geopolitical tensions in Nigeria and the dollar depreciation. The correlation between the dollar and the oil price continues to be high. More precisely, in the last three months it is equal to 0.91. For further information, see Commodities Observatory.

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