

# Global Weekly Flash

## Investors remain cautious

During the week, cyclical assets registered high volatility as the fiscal cliff risk remained unresolved. Debt markets in peripheral countries recorded strong inflows, after European authorities struck a deal on Greece, but investors also bought safe-haven assets, suggesting that uncertainties still linger.

- **European Peripheral funding markets improved after an agreement on the Greek funding-gap was reached**

- Finally, the euro area authorities struck a deal on Greece's funding gap that paved the way to unfreezing the next EFSF loan tranche, which amounts to EUR 43.7bn (EUR 10.6bn to cover current spending and EUR 23.8bn for bank recapitalization). The Eurogroup and the IMF also agreed on providing Greece with additional flexibility to fulfil its debt target, suggesting that the IMF may remain engaged in the Greek programme. Yet, the IMF will not disburse its loan tranche until 1Q2013. The agreement reached last Monday include a series of measures to cover the Greek funding-gap such as 1) a lowering interest rate on Greek bilateral loans, 2) a lowering the guarantee fee costs on EFSF loan, 3) an extension in loan maturities by 15 years and a deferral of interest payments of Greece on EFSF loans by 10 years and 4) and a commitment by member state to pass on Greece the profits on Greek bond hold by the ECB. Lastly, Greek authorities will launch a debt buyback programme, as soon as next week. Now the national parliaments need to back these measures before the December 13, when the Eurogroup is expected to disburse the loan instalment.
- Regarding Spain, the IMF released the first review on the financial sector programme. In the view of IMF staff, the financial sector program is on track so far, with all deadlines met. However, the most challenging steps lie ahead, especially those related to implementing bank restructuring plans and making the asset management company effective. Also, the European Commission said Wednesday it has concluded that the restructuring plans of the four Spanish banks BFA/Bankia, NCG Banco, Catalunya Banc and Banco de Valencia are in line with EU state aid rules. The approval opens the door for the disbursement of the eurozone aid.
- Rating agencies continue focus on the euro zone's second largest economy. After Moody's cut the France credit rating to Aa1 from Aaa recently, on Wednesday, Fitch warned that it could downgrade France credit rating next year, if the country failed to meet its targets on debt reduction and its economy performs worse than forecast. Fitch is the only of the three major rating firms to still rate France as triple-A.
- The good debt market tone continues as bank bond markets have partially reopened for some banks from peripheral countries as several Portuguese and Irish banks have been issuing debt over the last weeks. Particularly this week, Allied Irish Banks (AIB) raised EUR 0.5 bn through a 3y covered bond issue at mid-swaps plus 270 basis points. Additionally, Portuguese state-owned bank Caixa Geral de Depositos sold EUR 0.5 bn through a 3y bond issue at mid-swaps plus 520 basis points.

- **ECB to remain on hold while Japan unveils a new stimulus package**

- We continue to believe that a scenario of steady rates will remain as the most likely following next week's meeting even though the ECB will revise down its 2013 growth projections and maintain a downbeat tone. Albeit ECB's rhetoric is likely to continue to signal the possibility of an additional rate cut, it will also point out again that the priority is still restoring the transmission mechanism of monetary policy ie, to further reduce financial fragmentation. Thus, we expect no change in policy rates.
- With respect to non-standard measures, we expect the ECB to announce an extension of the fixed rate "full allotment" liquidity provision to banks of the weekly MRO operations, the 1-month LTRO and the 3-month LTROs –which would otherwise end in December. Although issuance markets are reopening, the ECB would prefer to guarantee enough liquidity for banks.
- Questions on the possibility of an early repayment of LTROs by banks could increase as the first date at which banks can make early repayments approaches (January 2013). Although issuance markets are reopening, replacing ECB funding will be more expensive for banks and even if some might want to make a show of strength to the market, with ongoing risks there's no guarantee that access to markets will persistently continue. Thus, we believe that the probability of large repayments in 1H13 remains low.

- Japan's government unveiled its second round of stimulus amounting to Y880bn (\$10.7bn, EUR7.7bn) to support growth given prospects that the economy will fall into recession in Q4. The country would tap reserve fund to help rebuilding areas hit by the March 2011 earthquake, supporting employment and funding cash-strapped small businesses. The plan is roughly double the size of a package announced in late October, which was also drawn mostly from reserves and aimed at reconstruction efforts. According to Japan's Cabinet, it is expected to add 0.2% to Japan's growth and create about 80,000 jobs over the next 12 months,
- Meanwhile, policy rates in most Emerging Economies remained on hold, as central banks remain concerned about global uncertainties. In this regard, the Bank of Brazil and the Bank of Thailand kept monetary policy on hold, while the Bank of Chile monetary policy minutes highlighted that risks ahead remain balanced, suggesting that interest rate will remain on hold by an extended period. In contrast, Korea cut its forward position ceiling to curb KRW appreciation.
- **The US fiscal-cliff was the main driver behind the cyclical asset performance this week**
  - The OECD cut its global growth forecasts, warned of the risk of a "major" global recession and called on some central banks to ease monetary policy. The organization slashed its outlook for the 34-member OECD area in 2013 to 1.4% from a previously expected level of 2.2%. On a global level, they cut the 2012 growth forecast to 2.9% from 3.4%, and its estimate for 2013 to 3.4% from 4.2%. According to the report, the US GDP will rise 2.2% this year and 2% in 2013, down from previous predictions of 2.4% and 2.6% ,and the euro area will shrink 0.4% and 0.1% in those years, compared with a 0.1% 2012 contraction and 0.9% 2013 growth expected in May.
  - This week, the eurozone the Economic Sentiment Indicator (ESI) showed signs of stabilization, but they remain at low levels. The ESI increased to 85.7 in November from 84.3 in October, driving by better-than-expected performance of the industrial sector. Regarding the eurozone monetary aggregate, the M3 increased more than expect in October to 3.9%/y/y. The household credit registered a slightly increase 0.1% y/y but remaining at low levels, while corporate credit continued declining. Nevertheless, downside risk remains as debt crisis still weigh on consumer sentiment. In this regard the German GfK consumer sentiment decreased to 5.9 in December from 6.3 in the previous month.
  - In the US the GDP growth for the 3Q12 was revised upward to 2.7% annual rate from 2.0% previously estimated. Higher export and inventories offset weaker consumer spending. Yet, the main challenges facing the US economy are those related with fiscal cliff negotiation. Yet, there is a lack of progress on this issue. Looking ahead to 4Q12, we expect that growth will appear subdued compared to the rate seen in the third quarter. Recent data have already hinted at an impact from Hurricane Sandy, putting pressure on production and spending. Given the rising fiscal uncertainty as we approach the end of the year, businesses and consumers alike have been slow to make any major spending decisions until the path is clearer and long term spending and tax rates are known.
  - China industrial profits surge in October Industrial profits rose by 20.5% y/y in October from 7.7% y/y the previous month, and industrial sales increased 11.1% y/y from 10.2% y/y. The data provide further evidence that the economic slowdown has bottomed out, and we expect GDP growth to accelerate to between 7.5%-8.0% in Q4 (from 7.4% y/y in Q3).

**Next week:** The Eurogroup will meet again on December 3 ahead of EU Council on December 13-14. The ECB will hold its monetary policy meeting on December 6. In the US, the release of the ISM and payroll figures for November, and the debate on the fiscal cliff will be closely monitored. Lastly in China investors will closely watch PMI index for November.

## Calendar: Indicators

### Eurozone: Retail sales (October, December 5<sup>th</sup>)

Forecast: 0.0% m/m	Consensus: 0.0% m/m	Previous: -0.2% m/m
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Retail sales are expected to have remained flat in October. This contrasts with the increase of 0.4% q/q in Q3 and the preliminary estimation of GDP growth for Q3, which revealed a lower fall in activity than anticipated and points to a more resilient private consumption in that quarter. But we think that the good result in Q3 is temporary, as it contrasts with a significant worsening of consumer confidence over recent months and with the deterioration of the labour market, along with still high inflation rates will continue to weigh on consumers' mood in the short-run. Overall, data available up to November, mainly from confidence surveys, are still consistent with our forecast of a further fall in private consumption in Q4. Across countries, we think that the divergent trend in households' spending will persist in coming quarters, falling sharply in the periphery and mildly supporting economic growth in core countries, especially in Germany.

### Germany: Industrial production (October, December 7<sup>th</sup>)

Forecast: 0.3% m/m	Consensus: -0.5% m/m	Previous: -1.8% m/m
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We expect industrial production to have increased slightly in October, but not enough to offset the sharp decline observed in previous months, especially in September. Despite this estimated increase, this would imply that output could fall about -1% over Q3, when it grew by 0.7% q/q. In addition, confidence indicators are not very positive about the sector performance in Q4, despite the slight improvement recorded in November, mainly due to poor expectation of orders, especially from abroad. Given the high correlation between the business cycle and industrial production, all these figures suggest that German activity could have slowed further or even contracted mildly in Q4, after rising more than expected in the previous quarter..

### US: ISM Manufacturing Index (November, December 3<sup>rd</sup>)

Forecast: 51.2	Forecast: 51.2	Forecast: 51.2
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The ISM Manufacturing Index is expected to show continued growth in manufacturing activity in November, but at a slightly slower pace compared to the previous month. Hurricane Sandy likely had some impact on the sector, given that both the Empire State and Philadelphia Fed surveys noted significant contraction in manufacturing for the month. Even still, we expect that some of the positive momentum from October will carry over and offset some of the weakness from the storm. New orders rose in October signaling a moderate increase from September, still low for the year but increasing steadily for the past 3 months. The production index has also been increasing over a similar period, up 11% since August, and the acceleration in new orders points to further gains in future output. Employment in manufacturing shows signs of improvement as more respondents pointed to higher employment than lower in the survey, even though the index fell 2.6 points. Overall, optimism is still present for the time being, but uncertainties moving into 2013 will likely limit significant expansion in the sector.

### US: Nonfarm Payrolls and Unemployment Rate (November, December 7<sup>th</sup>)

Forecast: 120K, 7.9%	Forecast: 120K, 7.9%	Forecast: 120K, 7.9%
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October's employment report showed some evidence for the unemployment rate holding below 8%, with nonfarm payroll growth accelerating from the previous month. However, recent indicators suggest that November's report may not be quite as exciting. The initial jobless claims for the first half of November have been particularly high and volatile given Hurricane Sandy's impact, jumping back up to 450K, far above October's high of 392K. Other data for November also does little to convey optimism: various surveys measuring businesses sentiment noted a drop in the view on current conditions, alluding to a hesitant if not stagnant approach to hiring until the fiscal cliff is decided upon. In line with our forecasts, we expect the unemployment rate to remain the same or shift marginally higher as payrolls increase at a much slower pace due to looming uncertainties.

### China: PMI for November (December 1<sup>st</sup>)

Forecast: 50.9	Consensus: 50.8	Previous: 50.2
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Economic indicators in China have been turning up since September, suggesting that the growth slowdown bottomed out in Q3. The official PMI reading for November will be watched for further signs of the strength and durability of the pickup. After falling to a low of 49.2 in August, PMI and has been rising for two consecutive months. We expect a further increase for November, especially after the private sector HSBC/Markit flash PMI for November (released last week) showed a strong rise to its highest level in 13 months, on strong production and new orders. The pickup is evidence that recent government stimulus measures are working to counter external headwinds, although exports have also showed some improvement in recent months. On this basis, we expect Q4 GDP to 7.5-8.0% from 7.4% y/y in Q3, which would bring full-year GDP growth to at least 7.6% in 2012.

# Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.31	0	0	-22
		2-yr yield	0.25	-2	-3	0
		10-yr yield	1.61	-8	-8	-42
	EMU	3-month Euribor rate	0.19	0	-1	-128
		2-yr yield	0.01	1	-3	-29
		10-yr yield	1.37	-6	-9	-76
Exchange rates (changes in %)	Europe	Dollar-Euro	1.300	0.2	0.3	-2.9
		Pound-Euro	0.81	0.1	0.8	-5.7
		Swiss Franc-Euro	1.20	0.0	-0.2	-2.4
	America	Argentina (peso-dollar)	4.83	0.3	1.4	12.8
		Brazil (real-dollar)	2.11	1.2	3.8	17.7
		Colombia (peso-dollar)	1815	-0.5	-0.9	-6.5
		Chile (peso-dollar)	479	0.0	-0.4	-6.9
		Mexico (peso-dollar)	12.92	-0.4	-1.4	-5.3
		Peru (Nuevo sol-dollar)	2.58	-0.3	-0.6	-4.6
	Asia	Japan (Yen-Dollar)	82.68	0.3	3.6	6.0
		Korea (KRW-Dollar)	1082.85	-0.3	-0.7	-4.3
		Australia (AUD-Dollar)	1.042	-0.4	0.5	2.0
Comm. (chg %)		Brent oil (\$/b)	110.8	-0.5	1.9	0.8
		Gold (\$/ounce)	1730.2	-1.3	0.6	-0.9
		Base metals	512.4	1.0	2.6	-2.8
Stock markets (changes in %)	Euro	Ibex 35	7950	0.5	1.4	-7.1
		EuroStoxx 50	2589	1.2	3.4	10.5
		USA (S&P 500)	1416	0.5	0.3	13.8
	America	Argentina (Merval)	2408	2.9	3.6	-8.4
		Brazil (Bovespa)	57836	0.5	1.3	-0.1
		Colombia (IGBC)	14144	-0.3	-4.3	8.7
		Chile (IGPA)	20325	-0.2	-2.8	1.6
		Mexico (CPI)	42091	0.4	1.1	14.5
		Peru (General Lima)	20165	-0.3	-3.0	-0.1
	Asia	Venezuela (IBC)	408272	6.1	13.4	256.1
		Nikkei225	9446	0.8	5.8	9.3
		HSI	22030	0.5	1.8	15.7
Credit (changes in bps)	Ind.	Itraxx Main	123	2	-7	-55
		Itraxx Xover	497	1	-30	-244
	Sovereign risk	CDS Germany	30	0	4	-66
		CDS Portugal	496	-29	-3	-552
		CDS Spain	283	-35	-15	-101
		CDS USA	36	0	7	---
		CDS Emerging	235	-17	-2	-63
		CDS Argentina	2329	-736	594	1332
		CDS Brazil	107	3	-6	-52
		CDS Colombia	100	0	-3	-55
		CDS Chile	78	0	-3	-48
		CDS Mexico	100	0	-2	-56
		CDS Peru	100	0	-4	-59

Source: Bloomberg and Datastream

# Weekly Publications

Country	Date	Description
EMU	11/26/2012	<p>➤ <b>Europe Flash: "Mixed signals from soft data point to a slowdown in the German economy in Q4"</b> Well into the closing quarter, confidence in the German economy looks hazy, as recently published indicators do not point to the same direction.</p>
Spain	11/30/2012	<p>➤ <b>Flash España: "Avance del IPC de noviembre"</b> El indicador adelantado del IPC de octubre confirma la desaceleración esperada del crecimiento de los precios al consumo</p>
	11/29/2012	<p>➤ <b>Flash España: "Confianza industrial y del consumidor en noviembre"</b> Los datos cualitativos observados en noviembre vuelven a mostrar movimientos opuestos en la confianza de los agentes económicos</p>
	11/29/2012	<p>➤ <b>Flash España: "Visados de construcción de vivienda de obra nueva septiembre 2012"</b> Durante el mes de septiembre se firmaron 3.154 visados de vivienda de obra nueva, un dato ligeramente inferior al esperado</p>
	11/29/2012	<p>➤ <b>Presentació "Situació Catalunya. Segon semestre 2012"</b> Catalunya afronta la necessària reducció dels nivells de dèficit i l'estabilització del deute públic en un context d'atonía de la demanda interna i un moderat dinamisme de les exportacions</p>
	11/29/2012	<p>➤ <b>Situació Catalunya. Segon semestre 2012</b> Catalunya afronta la necessària reducció dels nivells de dèficit i l'estabilització del deute públic en un context d'atonía de la demanda interna i un moderat dinamisme de les exportacions</p>
	11/28/2012	<p>➤ <b>Flash España: "Ventas reales del comercio al por menor de octubre: regresa la atonía tras el efecto del IVA"</b> Una vez corregidas las variaciones estacionales propias del mes, las ventas reales del comercio minorista se estancaron en octubre (-0,1% m/m)</p>
	11/28/2012	<p>➤ <b>Flash Sistemas Financieros: "Aumenta el agregado de depósitos y pagarés de hogares y empresas en octubre."</b> El total de depósitos de las entidades de crédito españolas se han reducido en el mes (-25bn?), parte de esta caída corresponde a entidades de crédito (-14bn?) y administraciones públicas (-8bn?).</p>
	11/27/2012	<p>➤ <b>El desapalancamiento de la economía española</b> Presentación a cargo de Jorge Sicilia</p>
	11/27/2012	<p>➤ <b>Flash España: "Ejecución presupuestaria del Estado a octubre de 2012"</b> El déficit acumulado por el Estado hasta octubre de 2012 vuelve a reducirse por segundo mes consecutivo hasta situarse en el 4,1% del PIB</p>
	11/26/2012	<p>➤ <b>Flash España: "Hipotecas sobre vivienda septiembre 2012"</b> En septiembre se concedieron 21.195 hipotecas sobre vivienda, lo que supone una caída del 1,3% respecto a agosto tras corregir la serie de variaciones estacionales y efectos de calendario (cvec)</p>
	11/30/2012	<p>➤ <b>Flash España: "Avance del IPC de noviembre"</b> El indicador adelantado del IPC de octubre confirma la desaceleración esperada del crecimiento de los precios al consumo</p>
	US	11/29/2012
11/28/2012		<p>➤ <b>U.S. Economic Watch. State Activity Indexes October 2012</b> In October, state activity increased in 36 states, was unchanged in 13 states and declined in 1 state (<a href="#">Spanish version</a>)</p>
11/28/2012		<p>➤ <b>U.S. Flash. Beige Book Hints at Growth but Hindered by Uncertainty</b> Real estate continues to improve across most of the 12 districts. Reports on manufacturing and other sectors were mixed, taking a hit from the storm</p>
11/27/2012		<p>➤ <b>U.S. Banking Watch. Quarterly Credit Quality Update</b> Commercial bank asset quality improved in 3Q12 in all but one category. CI credit conditions have outperformed all others, with consumer lending a close second (<a href="#">Spanish version</a>)</p>
11/27/2012		<p>➤ <b>U.S. Flash. Mixed Report for Durable Goods on Weak Transport Data</b> Durable goods orders remained flat in October but rose 2.3% on a YoY basis. Excluding transportation, orders rose 1.47% MoM, far better than the consensus</p>

- 11/26/2012 > **U.S. Weekly Flash. Strong Housing Indicators Dominate an Otherwise Quiet Holiday Week**  
Existing home sales have mostly maintained an upward trend throughout the past year, but monthly volatility in the data is still common ([Spanish version](#))
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## Latam



### Brazil

- 11/29/2012 > **Flash "CB leaves the SELIC unchanged and reinforces ¿stability¿ view"**  
The SELIC was kept at 7.25% as expected and the accompanying statement brought no surprises. ([Spanish version](#))
- 11/27/2012 > **Revista "Situación Brasil: cuarto trimestre 2012"**  
La economía brasileña se está recuperando en el segundo semestre, tras un año entero de estancamiento. El crecimiento previsto es del 1,6% para 2012 y del 4,2% para 2013

### Chile

- 11/29/2012 > **Producción manufacturera anota fuerte crecimiento en octubre**  
La producción manufacturera aumentó 9,1% a/a en octubre. Las ventas del comercio minorista aumentaron 6,6% a/a y la producción minera creció 0,3% a/a.
- 11/28/2012 > **Minuta de la reunión de noviembre sin mayores cambios en tono de política monetaria**  
El BC se mantendría en pausa por un prolongado periodo de tiempo debido a que el balance de riesgos domésticos y externos se mantiene equilibrado y las expectativas de inflación se mantienen ancladas.
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## Mexico

- 11/28/2012 > **Flash Bancario México. Captación bancaria: sus componentes aminoran su expansión**  
En septiembre 2012 la tasa de crecimiento nominal anual de captación bancaria tradicional (vista+plazo) fue 6.6%. Esta tasa fue menor a la del mes anterior (9.3%) y a la del mismo mes de 2011 (13.1%)
- 11/28/2012 > **Mexico Flash. Banco de México: The recent inflation reduction supports the monetary pause**  
Recent decrease in headline and core inflation, as Banxico predicted, leaves aside the preventive rate hike ([Spanish version](#))
- 11/26/2012 > **Mexico Banking Flash. Lending to private sector: positive double-digit growth continues**  
In September 2012, the nominal annual rate of growth of the total balance of commercial bank lending to the private sector was 13.2% ([Spanish version](#))
- 11/26/2012 > **Mexico Banking Watch. The Mexican financial system retreated two places on the World Economic Forum's Financial Development Index 2012, despite an improvement in its overall score**  
Mexico's score on the Global Financial Development Index improved by 0.09 points to 3.25 points. However, it fell back to 43rd place out of the 62 countries from 41st out of 60 in 2011 ([Spanish version](#))
- 11/26/2012 > **Observatorio Económico México. Penetración del Crédito en México: Evolución y Comparación con Algunos Países Latinoamericanos**  
Se puede definir a la bancarización como: ¿establecimiento de relaciones estables y amplias entre instituciones financieras y sus usuarios respecto de un conjunto de servicios financieros disponibles
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## Emerging Economies

- 11/27/2012 > **Presentation: The Future of World Car Fleet: The Road Ahead**  
A BBVA Research model for long-term automobile projections by the Cross-Country Emerging Markets Unit.
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## Other countries

### Paraguay

- 11/28/2012 > **Paraguay Economic Outlook. Second half 2012**  
Paraguay's economy is expected to contract by 1.8% this year, but soar 9.8% in 2013 once the country's agricultural crisis is over and global financial stress eases
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## Asia

- 11/30/2012 > **Asia Daily Flash | 30 November 2012: Japan unveils new stimulus, IP rebounds; India's Q3 GDP growth eases; Korea's IP disappoints**  
Asian markets rallied today in line with global trends, led by the Sensex (+0.9%) and the Shanghai Composite (+0.9%), which rebounded from its recent lows.
- 11/30/2012 > **India Flash: Q3 GDP growth eases to 5.3% y/y, with gradual recovery anticipated**  
India's real GDP growth edged lower in 3Q12 to 5.3% y/y from 5.5% in Q2 as a pickup in the services sector failed to offset weakness in industrial and agricultural activity.

- 11/29/2012 ➤ **Asia Daily Flash | 29 November 2012: Japan retail sales fall; China's stock market keeps declining**  
China's equity markets continue to be an outlier, with the Shanghai index falling by -0.5%, in contrast to strong gains elsewhere in the region.
- 11/28/2012 ➤ **Asia Daily Flash | 28 November 2012: US Treasury: China not a currency manipulator; Strong Philippines 3Q GDP; Thailand holds rates steady**  
Asian markets trended lower today (Nikkei: -1.2%; Shanghai: -0.9%; Hang Seng: -0.7%), ostensibly on lingering worries over the US fiscal cliff.
- 11/27/2012 ➤ **Asia Daily Flash | 27 November 2012: China's industrial profits surge; Moody's: "stable" outlook for India; Korea: measures to curb KRW appreciation; Thailand's IP rises**  
The announcement of the Greek bailout deal lifted sentiment in Asian markets, led by the Sensex (+1.6%) and the Kospi (+0.9%).
- 11/26/2012 ➤ **Asia Daily Flash | 26 November 2012: China: December meeting will offer details on policy; India: Divestment process begins; Singapore's IP remains weak; Thailand's exports rebound**  
The December CEWC meeting in China will offer fresh details on authorities' policy targets. Meanwhile in India the government has started its divestment process

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