



Weekly Observatory

November 30, 2009

Financial markets: strong flight to quality after Dubai news

The Dubai Government announced that it is to extend by 6 months the maturity of upcoming debt amortizations of state-owned companies. It caused intense movement in the markets, which showed a strong flight to quality. CDS sovereign spread increased abruptly in Middle-East countries, but it also affected other economies like Indonesia (rises in CDS by 12% after the notice) or Switzerland (14%). Greece and Ireland, among EMU countries, also showed significant rises in its sovereign CDS. Also, sovereign debt yields experienced important falls, especially in the US (2-year bond yields are at 1-year minimum), and in the EMU yields of 2, 5, and 10-year bond fall 12, 14 and 11 bps in a week, respectively. In the currency market there was also an intense appetite for safe assets, and hence the dollar and the yen experienced significant appreciations. Regarding US Treasury auctions, they were met with good demand despite an increase in the quantity auctioned, with high bid-cover ratios and demand from emerging countries' central banks. For further information, see [Flow Watch](#).

US: household demand picks-up in the beginning of 4Q09

Even amid poor labor market conditions, consumer spending rose in October by 0.7%, indicating that consumption could rise in 4Q09. While spending on non-durable goods and services continued to increase steadily, heightened auto sales boosted durable goods consumption. Nevertheless, growth in personal outlays is expected to be slow, which is reflected in the flat trend in consumer confidence over the past seven months. Demand for housing also picked-up further in October as sales of both existing and new homes rose. Increasing affordability, stable home prices and the extension of the tax credit for homebuyers will continue to support this market in the near-term. For further information, see [US Weekly Observatory](#).

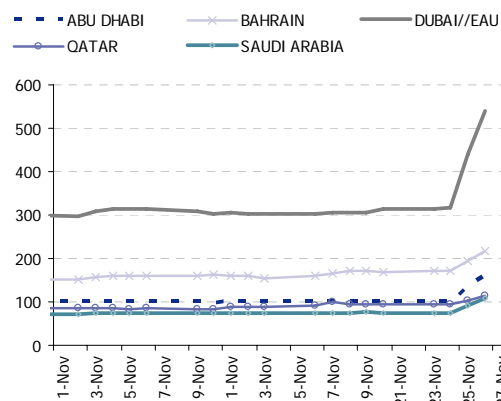
Euro area: recovery continues, but loans to private sector decline

Monetary aggregates data for October showed that loans to non-financial corporations in the euro area continued to fall (-0.4% m/m; -1.2% y/y), while loans to households increased slightly, but at lower rates than in previous months. Regarding activity, in September euro area industrial new orders rose robustly and cumulated growth of 7.8% q/q in Q309. Confidence data from both PMI and EC surveys for November further increased and confirmed that the recovery should continue in Q4 at a moderate pace. In Germany, the first release of GDP confirmed a 0.7% q/q growth, which was driven by investment and a very strong contribution of inventory change. In the UK, GDP growth was revised slightly upwards in Q3 to -0.3% q/q, although imports grew more than expected and led to a negative contribution of net exports. ECB council members continued to send signals of some announcements next week on retiring liquidity measures, but in a context of caution and without clear signs of what will be decided. For further information, see [Europe Weekly Observatory](#).

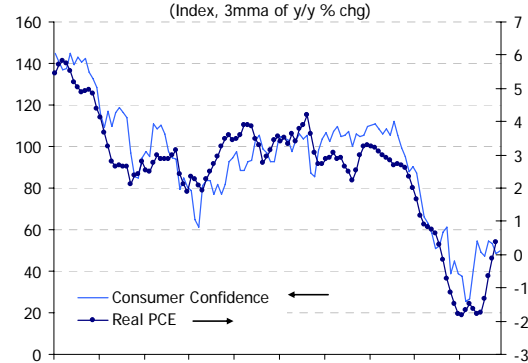
Asia: GDP growth seen across Asia in 3Q09

GDP figures released this week have confirmed that all Emerging Asian economies have expanded in 3Q09 albeit in most cases below their

Middle east countries: 5-y sovereign CDS

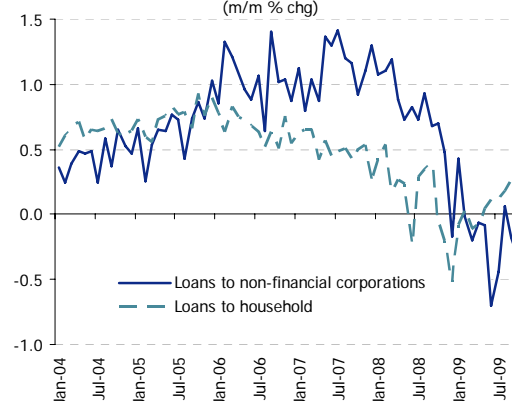


US: Consumer Confidence and Real Personal Consumption Expenditures
(Index, 3mma of y/y % chg)



Source: Conference Board & BEA

Eurozone: Loans to private sector
(m/m % chg)



Source: ECB

respective 2009 figures. As such, doubts remain as to the sustainability of the economic recovery, as the decline in exports accelerates, denting consumer and business confidence. Nevertheless, industrial output seems to be rising once more after the brief hiatus in September, while inflation is picking up in emerging economies but not in Japan. On the policy front, Malaysia left its benchmark policy rate unchanged and Japan indicated it might reintroduce its corporate debt-purchasing program after it expires in March, should it be necessary. Next week, markets will focus on Australia's monetary policy rate, India's 3Q09 GDP growth and industrial production figures from Japan. For further information, see [Asia Weekly Observatory](#).

Latin America: Colombia surprises with a new reduction on its rate

Colombia surprised markets again with a 50 bps cut in its benchmark rate. New data on unemployment in Brazil, Argentina and Venezuela show a labor market recovery in the first country and due to the positive tone in economic activity is also experiencing a surge in its trade deficit. The improvement in the pace of activity was also noted in Peru, which showed an improvement in their economic expectations indicator. Next week we expect employment reports coming from Colombia, November inflation in Peru, and industrial production from Brazil. For further information, see [Latin America Weekly Observatory](#).

Spain: trade balance for September and HCPI flash for November

Spain's foreign trade deficit narrowed again in September (annual accumulated) to €57 bn, following the trend observed during the previous months. Most of the deficit correction is coming from the non-energy trade balance while the energy deficit has been decreasing at lower rates, as the rebound in oil prices during the last year is still slowing down the correction in energy related imports. The HCPI flash showed that headline inflation may have risen by 0.4% in November (BBVA: 0.2%, Consensus: 0.1%), from -0.6% in October. Over the next few months, we still expect y/y headline inflation to be positive, but low. Next week's data will include registered unemployment for November (previous: 98,900 people), as well as October industrial production (previous: -12.5% y/y, wda).

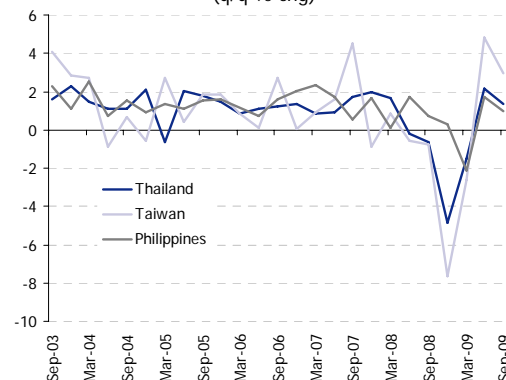
Mexico: inflation breaks 4% threshold

November's bi-weekly inflation data came in lower than expected; total CPI and core CPI grew 0.5% m/m (consensus: 0.6%) and 0.1% m/m (consensus: 0.2) respectively. Total CPI reached 3.9% y/y, down from October's 4.5%. This fall was due to negative variations in food and a better-than-expected seasonal evolution in services, but this trend is near its end because of changes in taxation due in 2010 and administered prices. October's trade balance surprised by being positive at \$96 million, due to a slowdown in imports and a strong rise in exports (crude oil). Next week, the IMEF manufacturing index and consumer confidence for November will be published, both are soft data but both providing early signals of the evolution of industrial production and consumption in 4Q09 respectively. For further information, see [Mexico Weekly Observatory](#) (in Spanish).

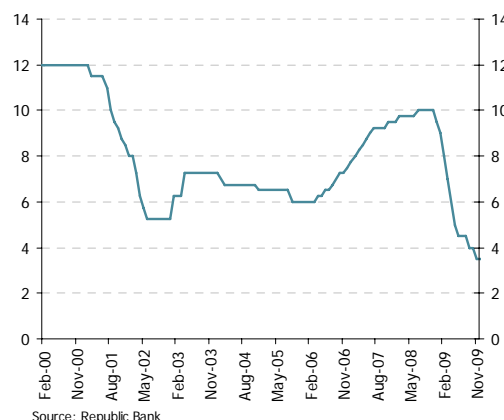
Commodities: oil prices fall amid concerns with Dubai World debt

Concerns related to the Dubai World debt provided support to the dollar and helped drive commodity prices downwards. The oil price declined to \$74 per barrel, after trading for more than five weeks in the \$75 to \$80 range. Gold prices continue to trade near historic highs. Central Banks will be net buyers of the precious metal in 2009 for the first time in more than twenty years. For more information, see [Commodities Observatory](#).

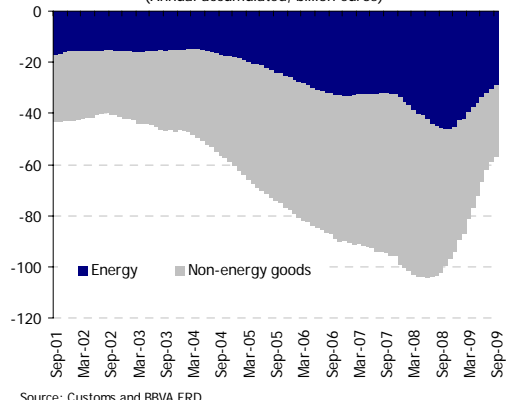
Selected Asian Countries: GDP Growth (q/q % chg)



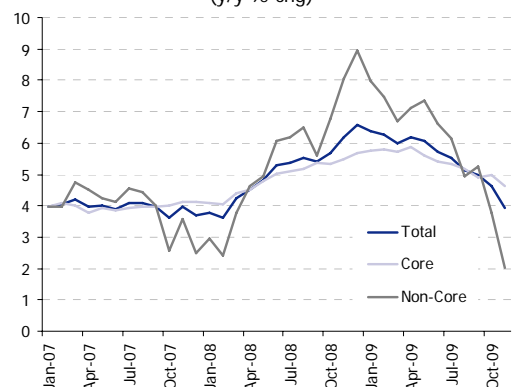
Colombia: REPO rate



Spain: Trade balance (Annual accumulated, billion euros)



Mexico: Bi-weekly CPI (y/y % chg)



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