BBVA | RESEARCH

Weekly Watch

Global

Madrid, 5 August 2011

Economic Analysis

Financial Scenarios
Sonsoles Castillo
s.castillo@bbva.com
+34 91 374 44 32

Cristina Varela Donoso
cvarela@bbva.com
+34 91 537 7825

María Martínez Álvarez
maria.martinez.alvarez@bbva.com
+34 91 537 66 83

Javier Amador
javier.amadord@bbva.com
+34 91 537 3161

Felipe Insunza
felipe.insunza@grupobbva.com
+34 91 537 76 80

Global Interest Rates
Interest Rates Europe and USA
José Miguel Rodríguez Delgado
josemiguel.rodriguez@grupobbva.com
+34 91 374 68 97

Global Credit
Europe Credit. Financials
Antonio Vilela
antonio.vilela@grupobbva.com
+34 91 374 56 84

Global Equity
Strategy
Javier Requena
javier.requena@grupobbva.com
+34 91 537 83 99

Markets →

Highlights →

Calendar →

Markets Data →

Actions taken did not convince

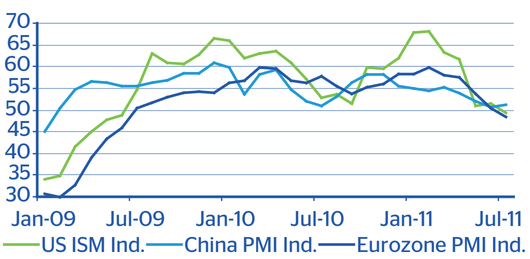
The risky assets sell-off worryingly intensified this week in a context of widespread crisis of confidence, even though the US is no longer in the brink of default – an agreement on the debt ceiling was reached on Monday. Increasing risks of a much weaker growth outlook (see highlight) have added to concerns over US fiscal sustainability and especially over fiscal consolidation in the EZ which would be even much more challenging. In an attempt to halt sovereign debt contagion – Spanish and Italian yields have consistently hit fresh highs – the ECB decided to expand liquidity (reintroducing a six-month LTRO) while at the same time resuming the bond purchasing program (SMP). Rather than bolstering confidence, markets reacted badly. Nervousness is likely to continue next week as: a) the sums put on the table by the ECB are unlikely to be large enough to have an impact because its stance on the matter seems mostly unchanged – it has only reluctantly decided to buy bonds again and with opposition from more than one member, and b) "Markets remain to be convinced that we are taking the appropriate steps to resolve the crisis," as Mr Barroso said in a letter to EU leaders. Elsewhere, central bank intervention in Switzerland and Japan to counter appreciation pressures has only been a mild success as safe-haven inflows continue. Next week some verbal encouragement (concrete actions are unlikely) could come from the FOMC's monetary policy meeting statement.

Highlights

Increasing doubts about a rebound in 3Q11 growth

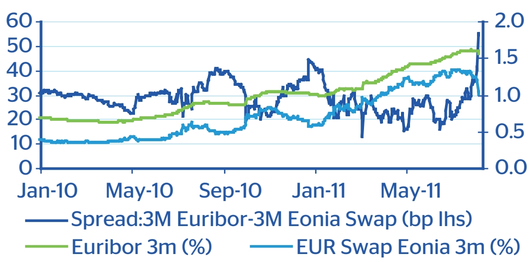
July's PMI data surprised on the downside in the US and Europe, while in China the increase was lower than expected. The three indexes are around the 50 level, increasing uncertainties about the expected recovery in global growth in the 2H11. The reading of PMI components paints a very bleak picture of the forthcoming months for the manufacturing sector, as new orders fell in US and Europe and increased only slightly in China. Meanwhile, the inventory and employment indexes shrank in the US. Although Chinese PMI data helped to allay concerns of a hard landing in China, the reading of the recent US and Eurozone indicators introduces a downside risk to growth expectations, especially considering that further stimulus (monetary and/or fiscal) will not be in place going forward .The US economy created 117,000 mores jobs in July, a figure which exceeded low expectations, but still pointing to a weak labour market.

Chart 1
Manufacturing new orders



Source: BBVA Research

Chart 2
Interbank markets



Source: BBVA Research

Markets

High volatility continues to dominate the markets

The ambiguous ECB's stance on purchases of non-core bonds and the US macro data have increased volatility in global financial markets. The market has readjusted the value assigned to full allotment after the ECB decision to expand liquidity and expected forward rates for the Eonia stand at around 1% from today through the next 12 months. In equity markets, the low volume (below the last 20-day average), the doubts about the US economy and the disappointing results of European banks have eliminated the gains made by the Dow Jones YTD, while in credit markets we have witnessed a significant widening across the board so far this week. In FX, Despite Trichet's less hawkish commentary, we continue to message a EURUSD 1.3800 – 1.4400 trading range in the coming months.

Economic Analysis

Europe
Elvira Prades
elvira.prades@bbva.com
+34 91 5377936

US
Boyd Nash-Stacey
Boyd.Stacey@bbvacompass.com
+1 713 881 0655

Asia
Zhigang Li
zhigang.li@bbva.com.hk
+852 2582 3162

Chen Fielding
fielding.chen@bbva.com.hk
+852 2582 3297

Calendar: Indicators

France: GDP (2Q11, August 12th)

Forecast: 0.2% q/q	Consensus: 0.3% q/q	Previous: : 0.9% q/q

Comment: recent data suggest a significant slowdown in Q2 to rates (of around 0.2% q/q) below its potential growth. Overall, we continue to see a French recovery rooted in domestic demand, with resilient private consumption, supported by the improvement in the labour market, and a clear recovery in investment, once capacity utilization reverts to its long-term average. As a result, our forecasts point towards an increase in the contribution of domestic demand to economic growth in 2011. With regard to the external sector, the slowing dynamism of exports should be offset by a larger increase in imports, resulting in a negligible contribution to growth. Therefore, the French economy could grow by around 2% in 2011 and decelerate in 2012. **Market impact:** A very negative surprise could be interpreted by markets as a faster moderation in economic growth than anticipated.

Eurozone: Industrial production index (June, August 12th)

Forecast: 0.1% m/m	Consensus: 0.1% m/m	Previous: 0.3% m/m

Comment: we expect industrial production to have virtually stagnated in June, after the modest increase observed in the previous month and the negative surprises in Germany and Italy. This reflects that the industrial sector has lost steam in the second quarter, in line with signs from soft data available for Q2 and somewhat expected after the strong momentum observed over the last year. Nevertheless, the industrial recovery should proceed at a slower pace in coming months, as demand from emerging economies should continue to be supportive, especially in equipment and intermediate goods. Overall, available data showed further evidence that the cyclical peak should already be behind us. **Market impact:** A very negative surprise could be interpreted by markets as a faster moderation in economic growth than anticipated.

US: International Trade Balance (June, August 11th)

Forecast: -$46.9bn	Consensus: -$47.5bn	Previous: -$50.2bn

Comment: the trade balance is expected to narrow in June, mostly due to a weakened dollar and expanding exports in the service sector. Import prices were down slightly in June and likely deflated the value of imports, while a slower-than-expected recovery of the U.S. economy may have reduced demand for other imported goods. Auto imports have been declining as a result of the Japanese earthquake disruptions, however supply chains are expected to recover in the coming months. Thus, we expect only limited improvements in the overall trade balance. **Market Impact:** modest changes in the trade balance should warrant little response from investors, however unexpected movements in export or import flows could have implications for GDP growth and increase market anxiety.

US: Retail Sales (July, August 12th)

Forecast: 0.3%	Consensus: 0.4%	Previous: 0.1%

Comment: crude and refined crude prices accelerated in July possibly giving a nominal boost to retail gasoline sales. However, we expect auto sales to decelerate and health services to decline, resulting in a modest MoM retail sales increase. July's leading monthly service surveys reported that health services contracted in July, though it did indicate the food service sector was growing. Furthermore, Autodata reported an increase in auto sales in July. Strong auto sales in combination with strong food service sales suggest a positive MoM gain and the possibility of an upside bias to the July report. **Market Impact:** a positive retail sales report could moderate negative demand expectations, following last week's MoM decline in personal consumption expenditures (PCE). Extreme market uncertainty will likely result in an asymmetric movement, suggesting greater downside risk to a negative report.

China: China CPI for July (August 9)

Forecast: 6.3% yoy	Consensus: 6.3% yoy	Previous: 6.4% yoy

Comment: with growth moderating in line with a soft landing, controlling inflation has become one of the most pressing near-term economic challenges in China. In recent quarters, the inflation rate has exceeded the authorities' 4% comfort range by a wide margin due mainly to rising food prices. We believe that inflation has now probably peaked, and should start declining in July on the impact of recent tightening measures, softening food prices (especially for pork), and base effects. **Market impact:** a higher-than-expected reading could raise expectations of more monetary tightening.

Home →
Markets →
Highlights →
Markets Data →

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest Rates (changes in bps)	US	3-month Libor rate	0.27	2	3	-14
		2-yr yield	0.29	-7	-13	-22
		10-yr yield	2.48	-32	-63	-34
	EMU	3-month Euribor rate	1.56	-4	0	66
		2-yr yield	0.84	-32	-74	10
		10-yr yield	2.37	-17	-56	-15
Exchange Rates (changes in %)	Europe	Dollar-Euro	1.420	-1.3	-0.9	7.1
		Pound-Euro	0.87	-0.8	-3.1	4.4
		Swiss Franc-Euro	1.08	-4.3	-9.9	-21.2
	America	Argentina (peso-dollar)	4.15	0.3	0.9	5.6
		Brazil (real-dollar)	1.59	2.3	1.3	-10.0
		Colombia (peso-dollar)	1793	0.8	1.5	-1.2
		Chile (peso-dollar)	463	1.1	-0.1	-10.0
		Mexico (peso-dollar)	11.98	2.1	3.0	-5.7
		Peru (Nuevo sol-dollar)	2.74	0.0	-0.3	-2.2
	Asia	Japan (Yen-Dollar)	78.47	1.7	-3.1	-8.0
		Korea (KRW-Dollar)	1071.60	1.6	0.4	-7.5
		Australia (AUD-Dollar)	1.047	-4.7	-2.1	14.5
Comm. (chg %)		Brent oil ($/b)	108.2	-7.3	-4.8	34.9
		Gold ($/ounce)	1658.1	1.9	8.4	37.6
		Base metals	586.8	-1.4	-2.4	17.9
Stock Markets (changes in %)	Euro	Ibex 35	8647	-10.2	-15.3	-18.8
		EuroStoxx 50	2378	-10.9	-16.0	-14.4
	America	USA (S&P 500)	1195	-7.5	-10.8	6.5
		Argentina (Merval)	3110	-6.4	-10.2	28.2
		Brazil (Bovespa)	52174	-11.3	-16.6	-23.4
		Colombia (IGBC)	13421	-4.4	-3.2	0.2
		Chile (IGPA)	19780	-6.5	-12.6	-4.9
		Mexico (CPI)	33186	-7.8	-9.0	0.8
		Peru (General Lima)	20449	-6.9	5.1	39.1
		Venezuela (IBC)	93198	4.1	15.8	44.0
	Asia	Nikkei225	9300	-5.4	-7.8	-3.5
		HSI	20946	-6.7	-7.0	-3.4
Credit (changes in bps)	Ind.	Itraxx Main	132	16	22	29
		Itraxx Xover	514	76	102	43
	Sovereign risk	CDS Germany	72	8	28	32
		CDS Portugal	974	50	58	742
		CDS Spain	430	67	135	237
		CDS USA	55	-7	2	---
		CDS Emerging	238	25	28	27
		CDS Argentina	641	47	49	-145
		CDS Brazil	127	13	18	12
		CDS Colombia	123	11	17	3
		CDS Chile	75	4	0	-1
		CDS Mexico	125	14	18	10
		CDS Peru	140	17	13	35

Source: Bloomberg and Datastream

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates´ salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.