

Economic Watch

Global Outlook

December 2016



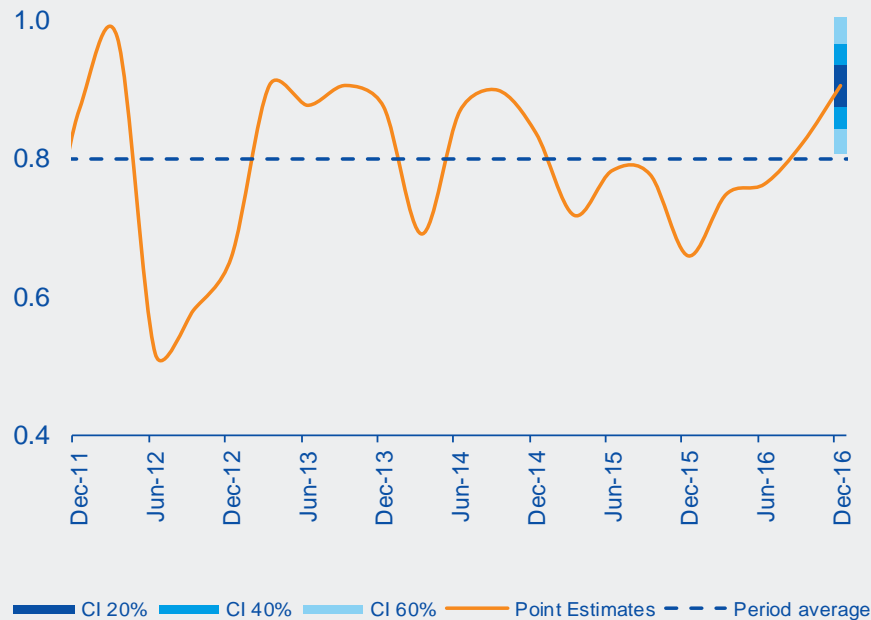
Broadly unchanged global scenario after Trump's victory, with uncertainty

- Our GAIN-model estimates quarterly global GDP growth at close to 0.9% QoQ in 4Q (from 0.8% in previous quarters), although data is sparse
- Developed countries seem to be performing better than emerging economies in recent months:
 - Positive data (mostly confidence) in both the US (led by the expected fiscal impulse) and Europe (driven by increasing new orders in addition to domestic drivers)
 - Strengthening recovery in emerging Asia, supported by China's stabilization and improving trade
 - Slow exit from recession in Latam, with weak confidence and disappointing data
- Minor changes on global GDP growth forecasts for 2016-17: marginal upward revision for the US due to a projected fiscal impulse, with no significant spill-overs on China or Europe. Higher uncertainty could affect negatively emerging countries
- Risks are tilted to the downside and eminently political, mostly in advanced countries, but also derived from China's imbalances

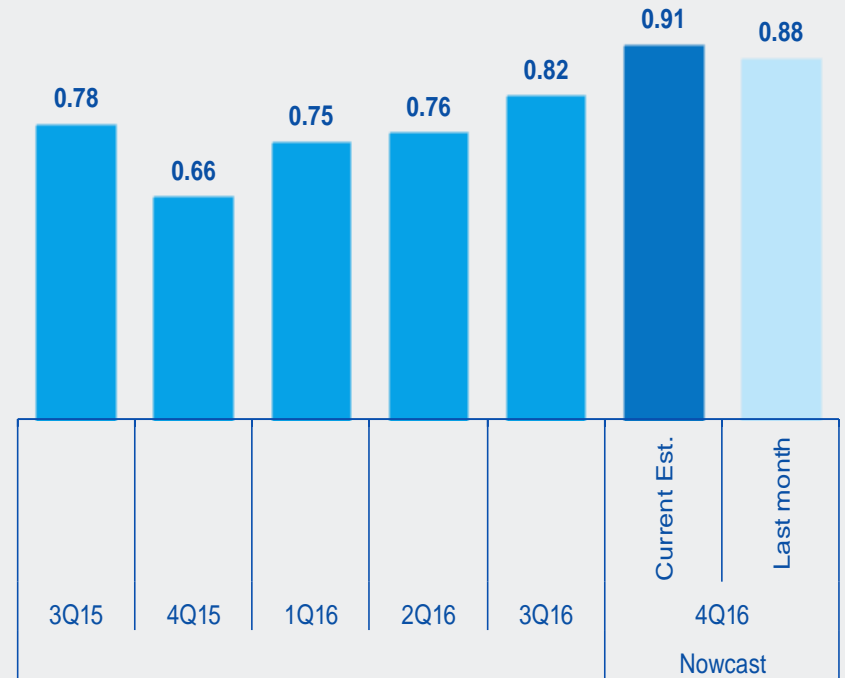
GLOBAL GDP

Global growth is expected to gain further momentum in 4Q16

World GDP growth
forecasts based on BBVA-GAIN (% , QoQ)



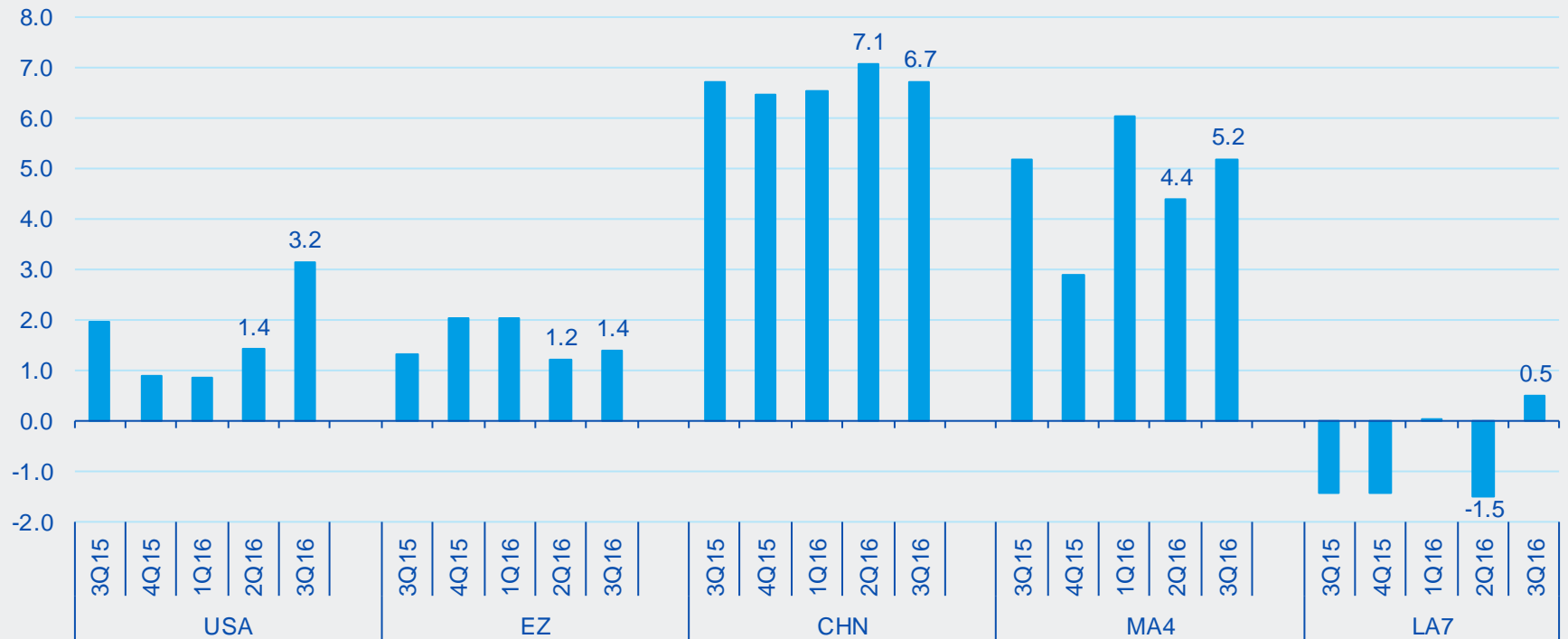
World GDP growth: change in forecasts
QoQ %



GLOBAL GDP

Rebound in the US and stability in the EZ in 3Q16, while Asia could have stabilized and Latam is emerging from recession

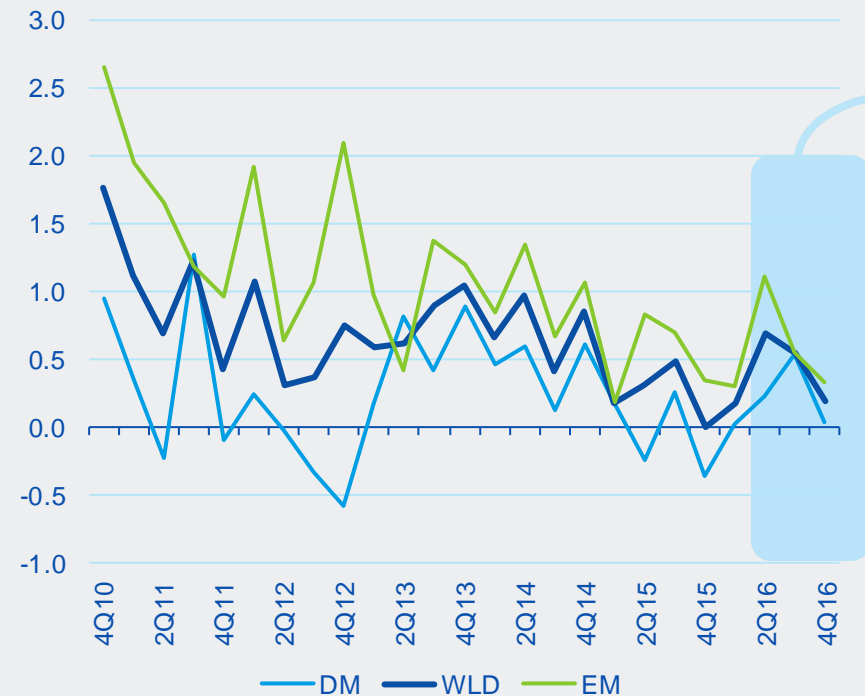
GDP: selected regions
SAAR, %



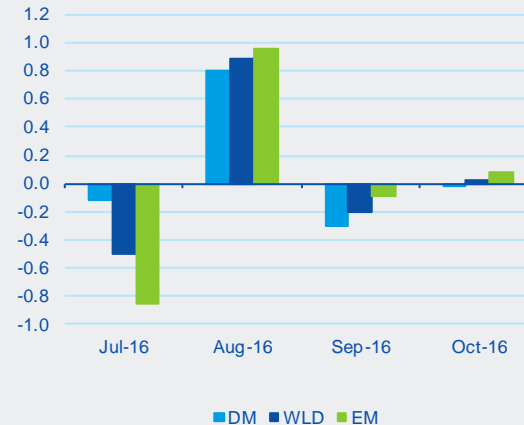
INDUSTRIAL PRODUCTION

Subdued industrial production at the beginning of 4Q16...

World Industrial Production
QoQ, %



World Industrial Production
MoM, %

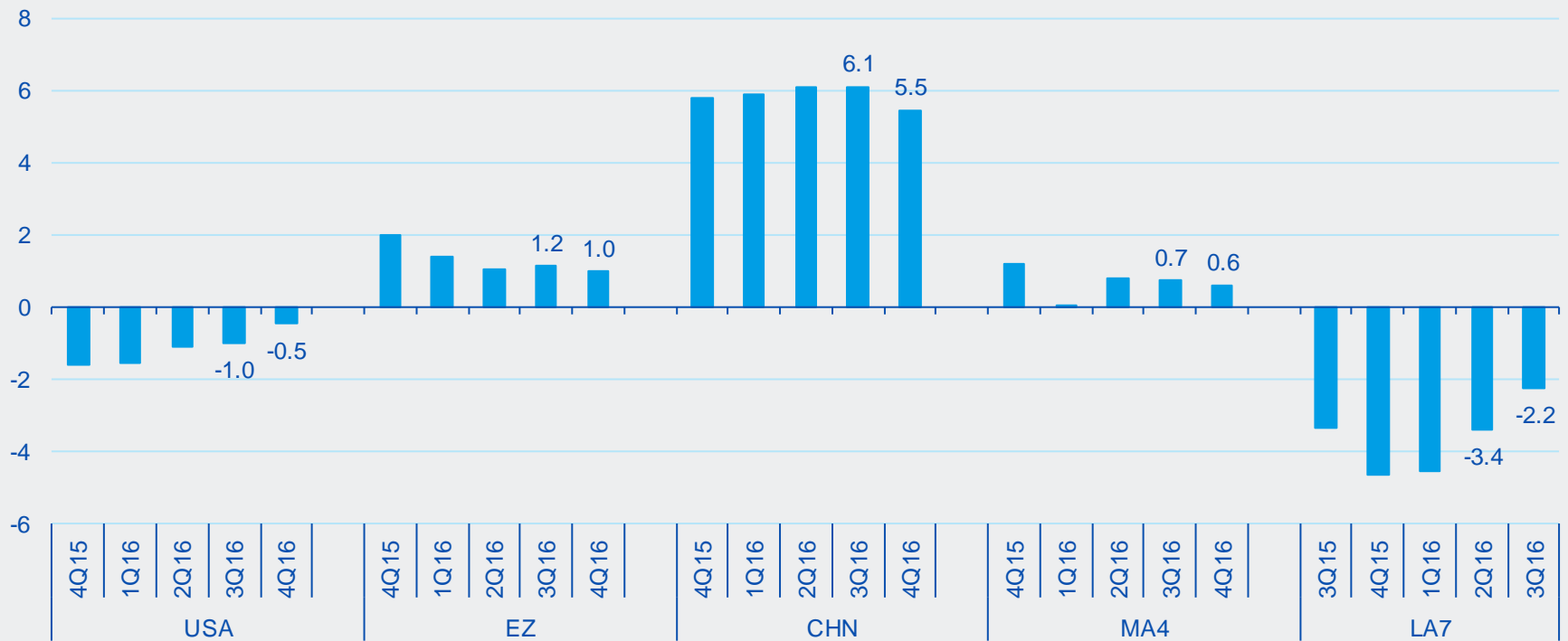


- The industrial recovery in DM fails to gain ground in October, but tailwinds (improving global demand and confidence) is strengthening
- Across EM, the slowdown was widespread, so the worrying signs since early this year remain

INDUSTRIAL PRODUCTION

... which was widespread , with less negative figures in the US and Latam

Industrial Production: selected regions
YoY, %



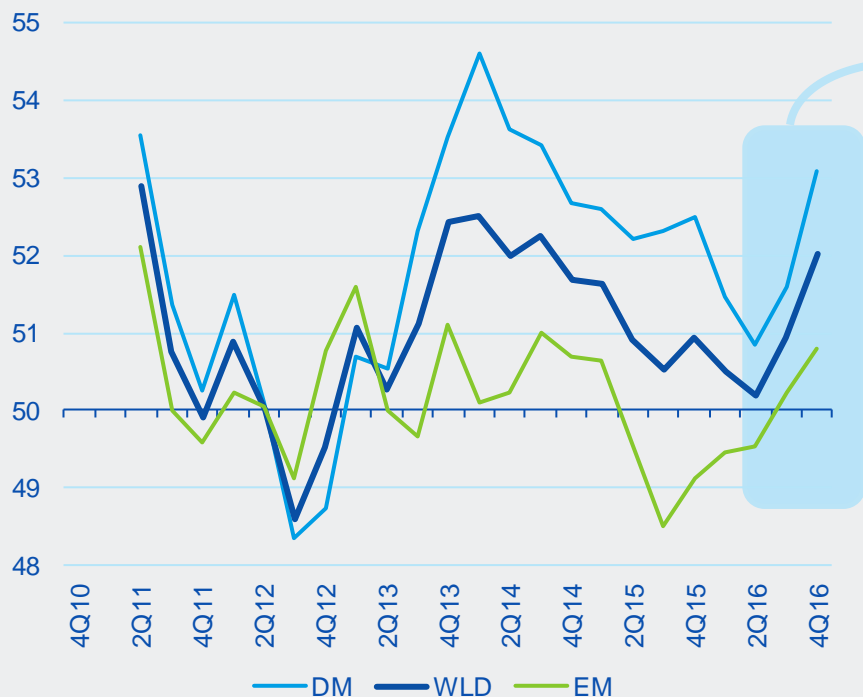
* 4Q16 calculated using data for October for EZ and MA4; October and November for USA and CHN
Source: Haver and BBVA Research

PMI: MANUFACTURING

Although the sharp increase in manufacturing confidence in 4Q should underpin the impulse of the industrial recovery...

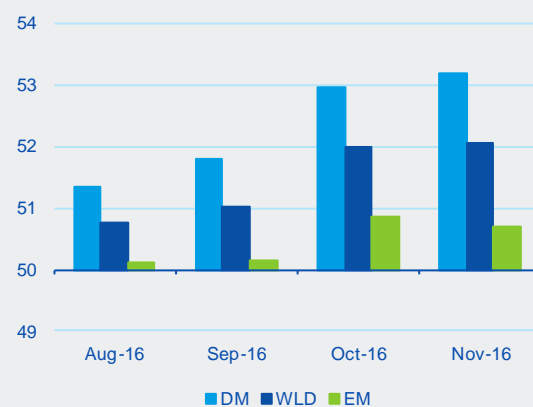
World Manufacturing PMI

Level ± 50



World Manufacturing PMI

Level ± 50



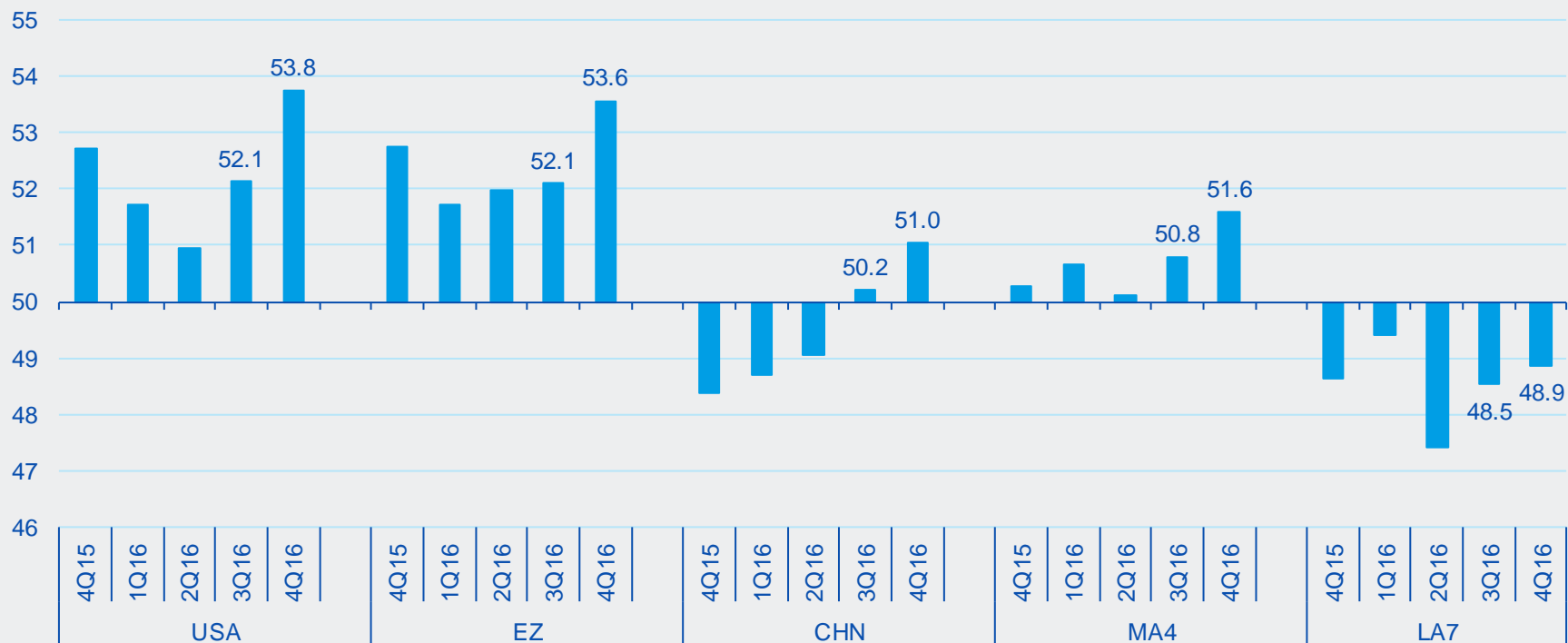
- Strong new orders boost manufacturing confidence that is leading to job creation despite rising cost pressures
- Incipient signs that the demand may be outstripping supply, but firms' profits and capex growth remains slow, still weighing on investment

PMI: MANUFACTURING

...especially in DM's and Asia, while PMIs remain below the 50 points threshold in Latam

Manufacturing PMI: selected regions

Level \pm 50

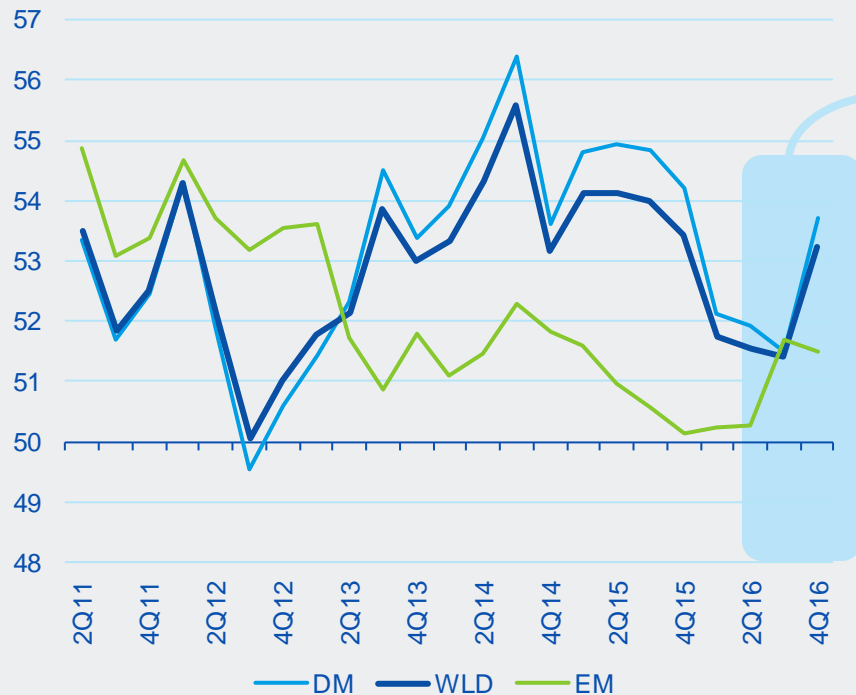


PMI: SERVICES

The confidence upturn in the service sector by year end is likely to extend in coming months...

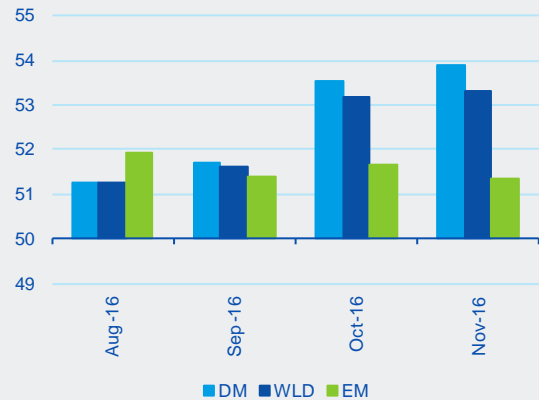
World Services PMI

Level ± 50



World Services PMI

Level ± 50



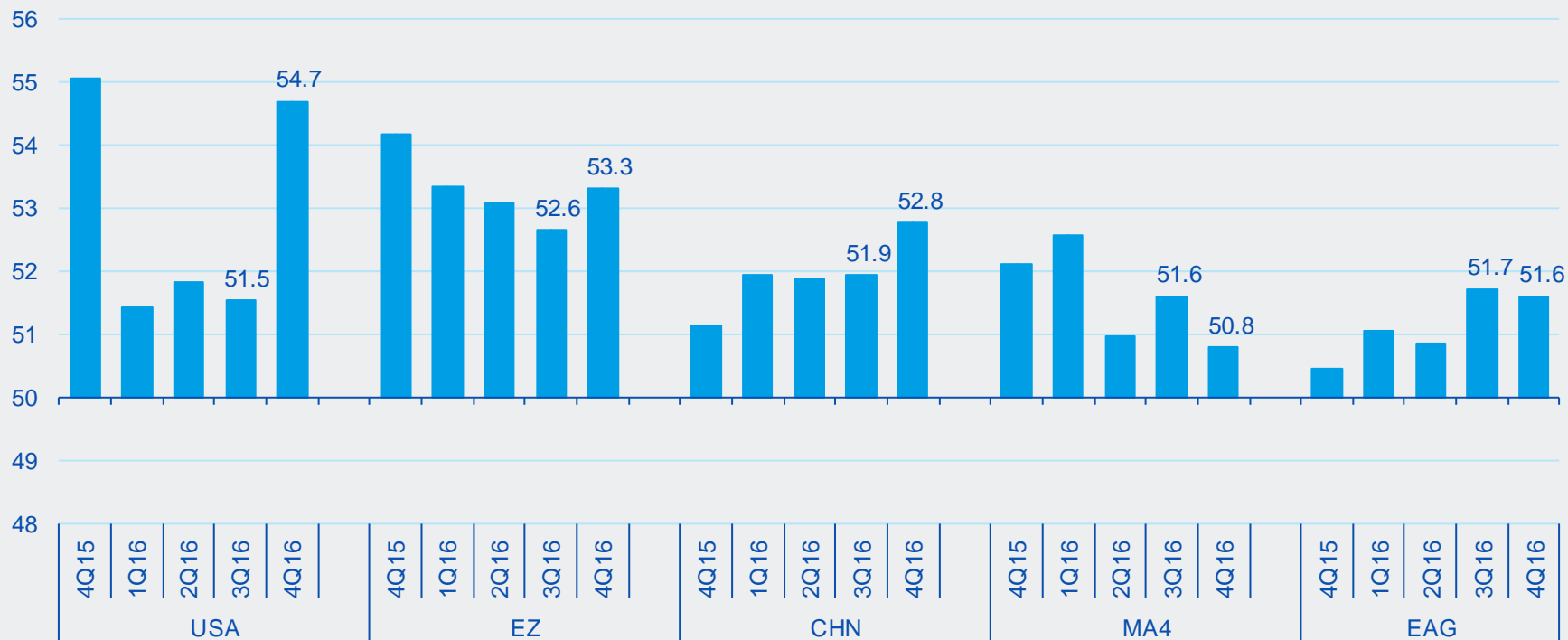
- Global service sector expands at quickest pace in a year, but still remained below the long-run survey average
- Increasing output and new orders point to achieve growth in the service sector in coming months
- Average output prices continued to rise, albeit only moderately

PMI: SERVICES

... especially in DM, where confidence strengthened in 4Q, while flattened in EM (except China)

Services PMI: selected regions

Level \pm 50



* 4Q16 calculated using data for October and November

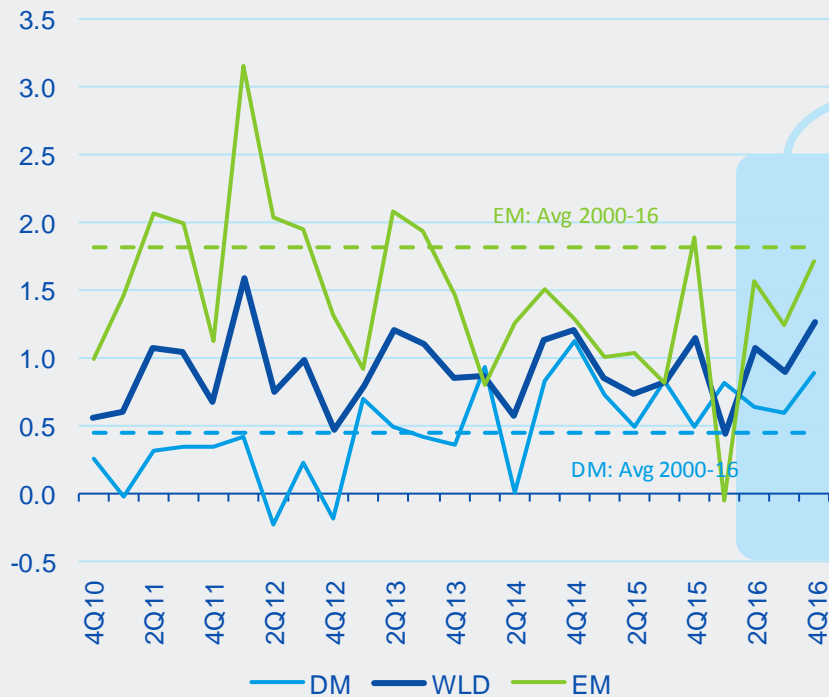
EAG (Eagles): Bangladesh, Brazil, China, Egypt, India, Indonesia, Iran, Malaysia, Mexico, Nigeria, Pakistan, Philippines, Russia, Turkey, Vietnam

Source: Markit and BBVA Research

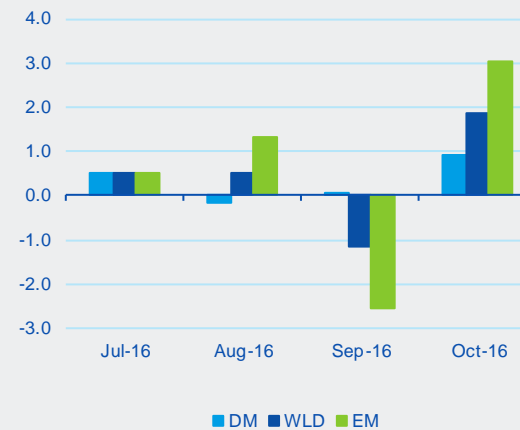
RETAIL SALES

Retail sales increased in October across the board, so robust consumption should remain as the key driver of the recovery...

World Retail Sales
QoQ, %



World Retail Sales
MoM, %



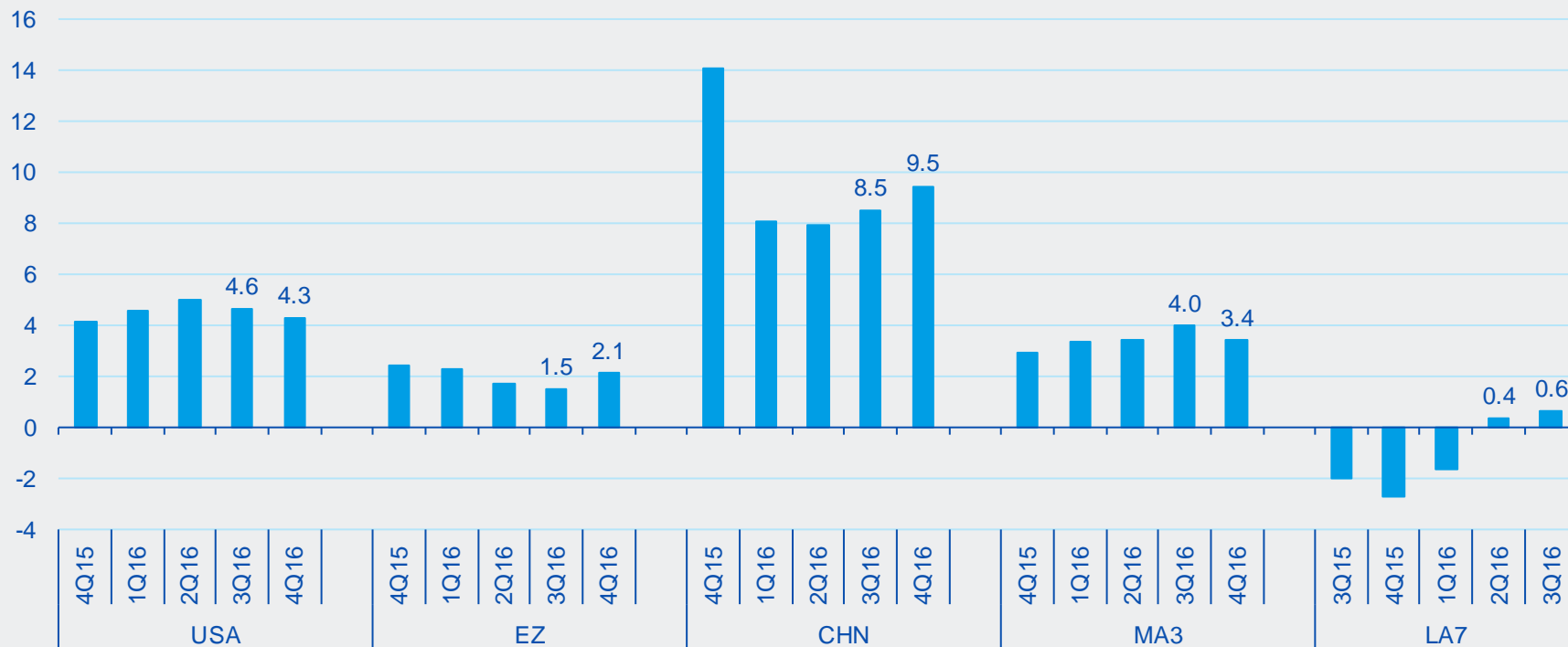
- Private consumption in DM's remains strong but it is unlikely to strengthen further in coming quarters
- Across EM, good performance in China and the rest of Asia, but still subdued figures in Latam

RETAIL SALES

... but is slowing as compared to last year, except in Latam

Retail Sales: selected regions

YoY, %



* 4Q16 calculated using data for October for USA, EZ, CHN and MA3; October and November for CHN

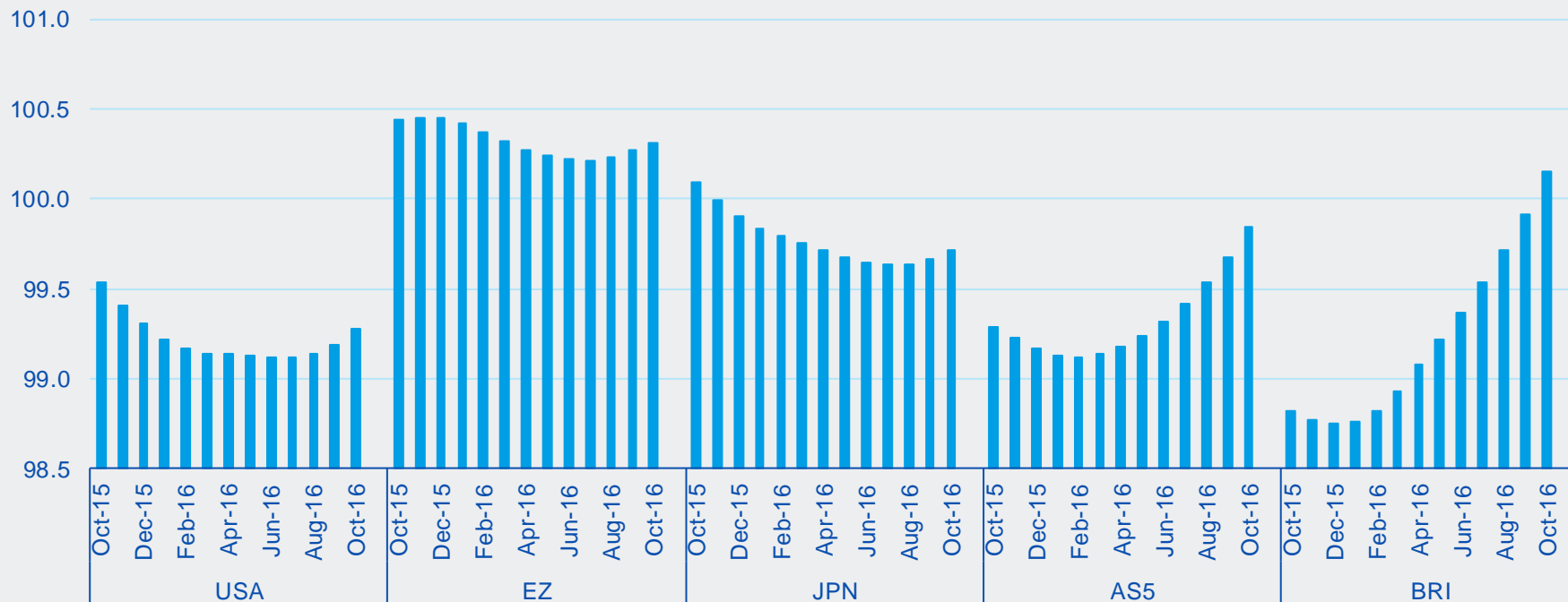
MA3 (Major Asian 5 ex China and India): Indonesia, Japan, South Korea.

Source: Haver and BBVA Research

LEADING INDICATOR

OECD leading indicators point to growth momentum is picking up in DM and to a strengthening recovery in Asia

OECD Leading Indicator Index



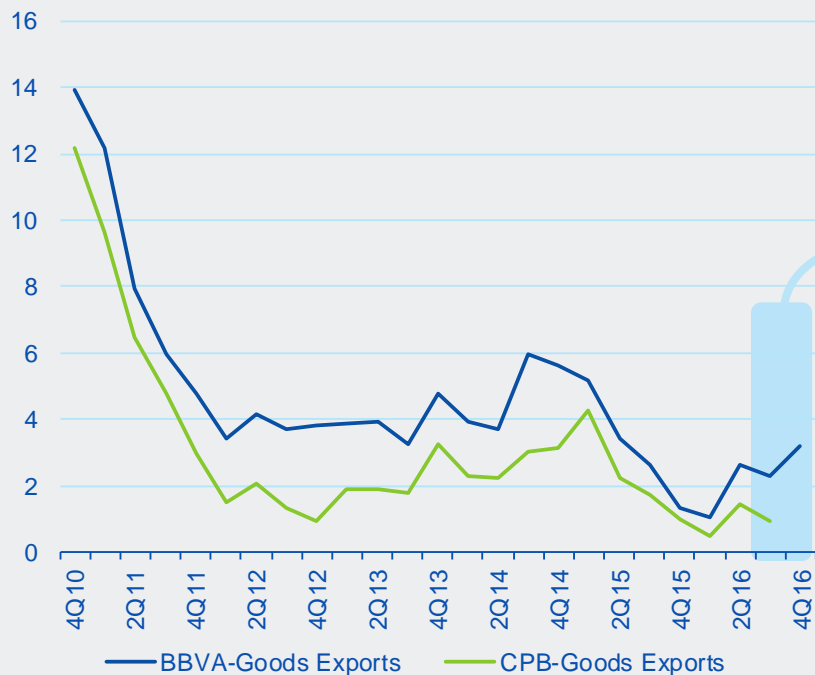
Briics: Brazil, Rusia, India, Indonesia, China, South Africa.
AS5: (Major Asian 5): China, India, Indonesia, Japan, South Korea.
 Source: OECD and BBVA Research

GLOBAL TRADE

Global goods' export growth seems to have strengthened, mainly supported by Asian economies

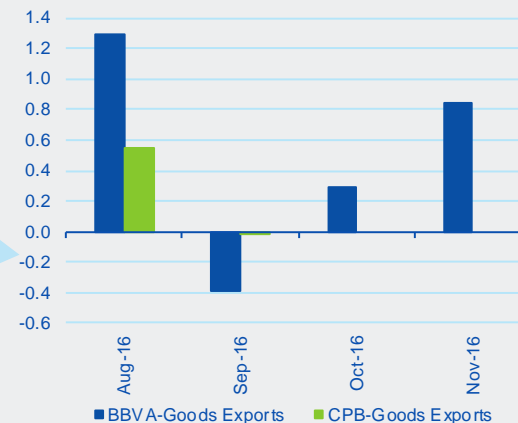
World Exports of Goods (constant prices)

YoY %, Index Jan-12=100



World Exports of Goods (constant prices)

MoM, %



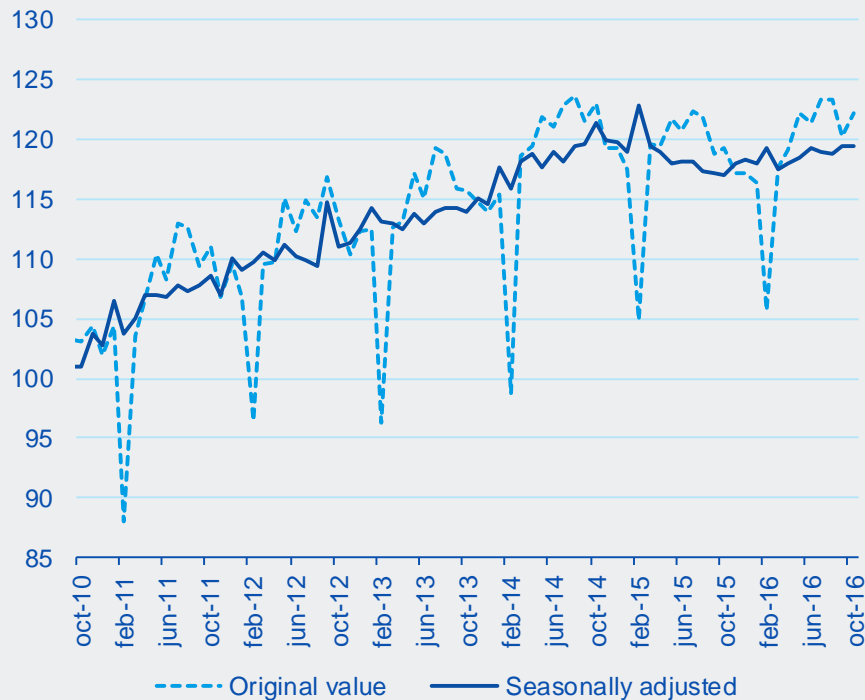
- Still limited data for November, mainly Asian figures, point to an ongoing improvement in 4Q
- Exports orders point to a bit favorable outlook in recent months for Europe, while they could be curbed in the US by appreciating dollar
- Concerns in Latam persist after poor figures in October

* Based on BBVA-Trade Index
Source: CPB and BBVA Research

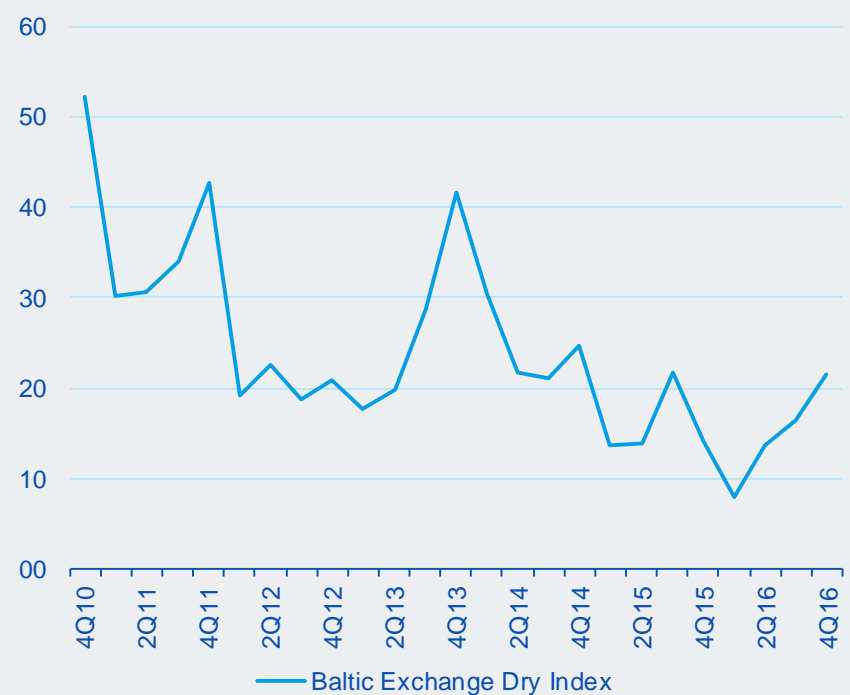
GLOBAL TRADE

Freights continued to suggest that a moderate upward trend in global trade is on track

RWI/ISL Container throughput index
Index, 2010=100



Baltic Exchange Dry Index
Index, Jan-05=100



GLOBAL TRADE

Exports of services have slowed in Sept-October after improving markedly by mid year, but still present a solid quarterly growth pace

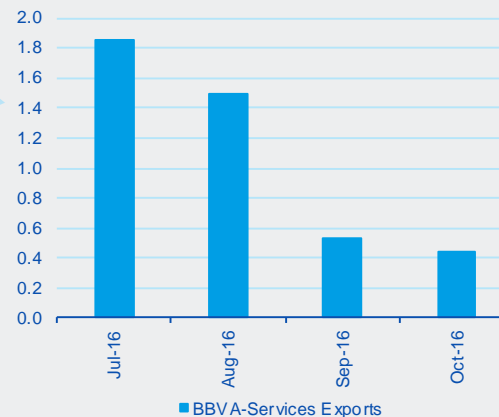
World Exports of Services (constant prices)

YoY, %



World Exports of Services (constant prices)

MoM, %



- Steady quarterly rates along with drops a year ago point to an ongoing acceleration of services exports in coming quarters

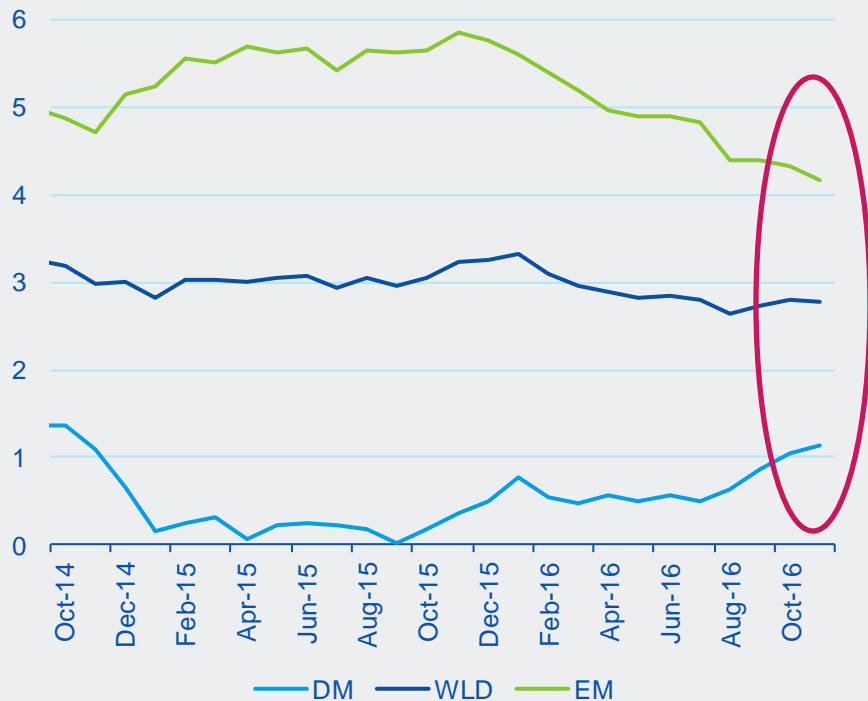
* Based on **BBVA-Trade Index**
Source: CPB and BBVA Research

INFLATION

Global inflation remained stable in November as a result of a moderate increase in inflation in DM's...

World Headline Inflation

YoY, %



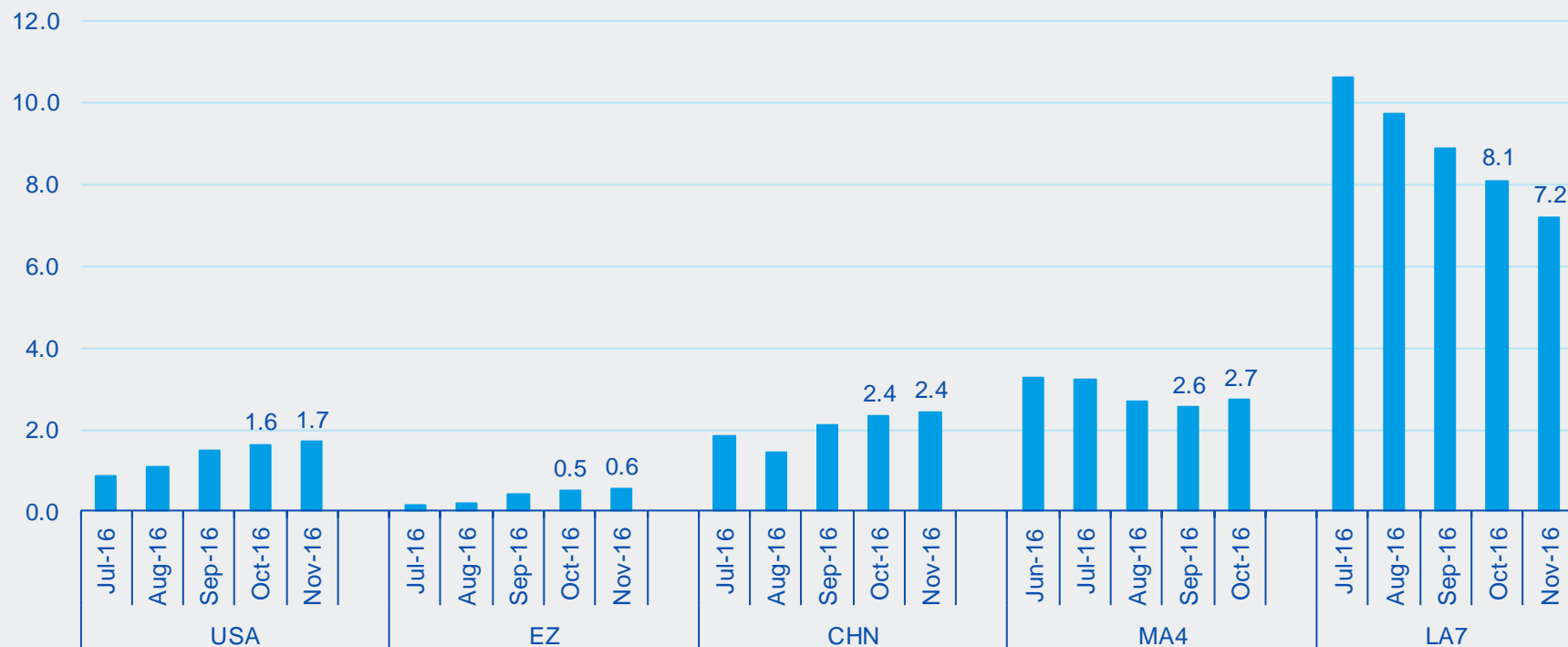
- In DM's, recovering inflation reflects the base effects from energy prices that should step up in coming months
- In EM's, especially in Latam. inflation eased somewhat in the last two months. Currency movements are the main driving force of inflation moderation, but also the slow exit from recession
- Surveys to November so far point to incipient cost pressures, mostly in DMs, but still difficult to feed into significant inflationary pressures

INFLATION

... along with slowing inflation in Latam and some stabilization in emerging Asia

Headline Inflation: selected regions

YoY, %



GLOBAL DRIVERS

Drivers for new projections: positive economic data and expectations for a rebalancing of policy mix towards fiscal stimulus in the US



What comes after Trump's victory?

Short run: Trump should accelerate the shift towards fiscal stimulus, allowing monetary policy to start normalizing

Uncertainty remains on

1. The size and composition (tax cuts) of the stimulus at this stage of the cycle
2. The effects of deregulation agenda
3. Impact on the economy: multipliers and relative impact on growth / inflation. Stimulus may arrive too late in the cycle
4. Impact on interest rates and thus on the economy

In the **medium to long term**, the balance of risks is on the downside due to:

1. Protectionist rhetoric during the campaign
2. Lack of productivity improvement
3. Higher debt (and higher debt service)

GLOBAL OUTLOOK

Broadly unchanged global outlook: low growth and a slow recovery, but some revisions across countries, especially in EM

Gross Domestic product
 YoY average, %

	2013	2014	2015	2016	2017
United States	1.7	2.4	2.6	1.6	2.2
Eurozone	-0.2	1.2	1.9	1.6	1.5
Spain	-1.7	1.4	3.2	3.3	2.5
LatAm *	2.8	0.7	-0.3	-1.3	1.3
Argentina	2.4	-2.5	2.5	-2.0	3.2
Brazil	3.0	0.1	-3.8	-3.0	0.9
Chile	4.0	1.9	2.3	1.5	1.9
Colombia	4.9	4.4	3.1	2.0	2.4
Mexico	1.6	2.3	2.6	1.8	1.5
Peru	5.8	2.4	3.3	3.9	4.1
Eagles **	5.4	5.3	4.6	4.8	4.8
Turkey	4.2	3.0	4.0	2.3	3.0
Emerging Asia	6.9	6.7	6.6	6.5	6.0
China	7.8	7.3	6.9	6.6	5.8
World	3.4	3.4	3.2	3.0	3.2

- US growth revised marginally upwards in 2017 as the fiscal boost more than compensates the mildly negative effects on supply from protectionist bias
- Eurozone and China projections unchanged, but the later is tilted to the upside after economic policy measures to stabilize the economy
- Downward revision in Latam stemming from disappointing data (Colombia, Argentina), but also from higher uncertainty and yields, with a differentiated impact on Mexico given the uncertainty on its trading relations with the US
- GDP growth in Turkey revised downwards, after the sharp activity deterioration over 2H16

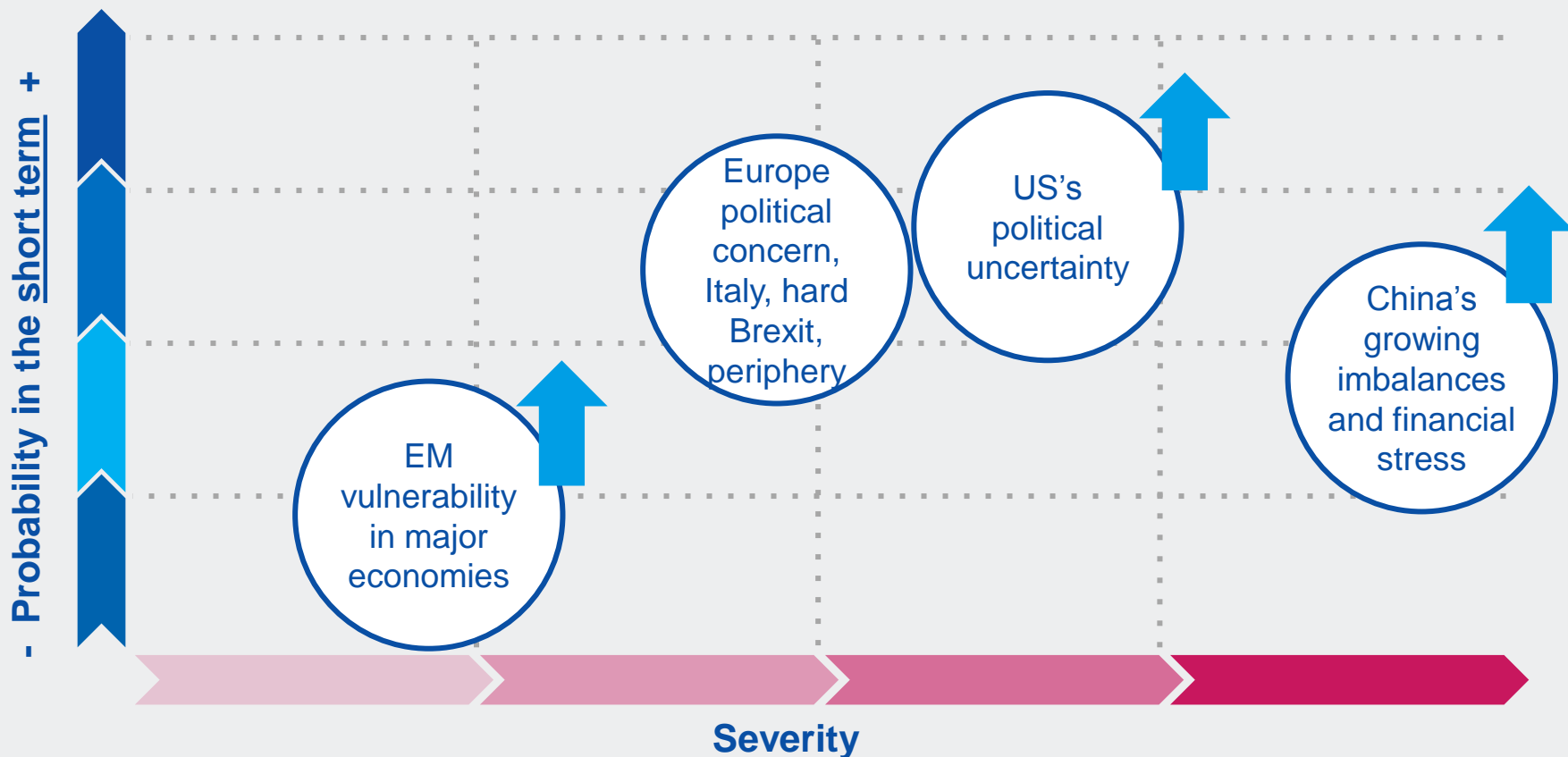
* Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela

** Bangladesh, Brazil, China, Egypt, India, Indonesia, Iran, Malaysia, Mexico, Nigeria, Pakistan, Philippines, Russia, Turkey and Vietnam.

Source: BBVA Research

GLOBAL OUTLOOK

Most of the risks, especially in advanced economies, are mostly of a political nature



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