

ECONOMIC WATCH

GLOBAL OUTLOOK

FEBRUARY 2017



Global scenario: more growth, but with old and new risks across regions

- Our GAIN-model estimates quarterly global GDP growth at close to 1% QoQ in 1Q17 (after strengthening in 2H16):
 - The momentum is driven mostly by industrial activity and improving global trade, while higher new orders point to further support in coming months
 - Retail sales suggest that private consumption remains key in the recovery
 - Strong confidence and upbeat financial markets, despite increasing political uncertainty
- New quarterly projections: Increased growth by end 2016 and its inertial effect, together with the fiscal stimulus and deregulation expected in the US, have led us to moderately revise up our forecasts for the US and Europe, and slightly more for China, while those for Latin American have been revised downwards, mainly due to idiosyncratic factors.
- Risks are tilted to the downside and are linked to politics and protectionism; in the medium term they also derive from China's imbalances.
- The balance of risks on inflation is changing towards much less deflation risks and more inflation in advanced economies. The Fed and the ECB are reflecting it. There is still no evidence on second round effects from higher energy prices, but surveys suggest increasing pressures due to higher costs and to more robust domestic demand

SHORT-TERM INDICATORS

FEBRUARY 2017

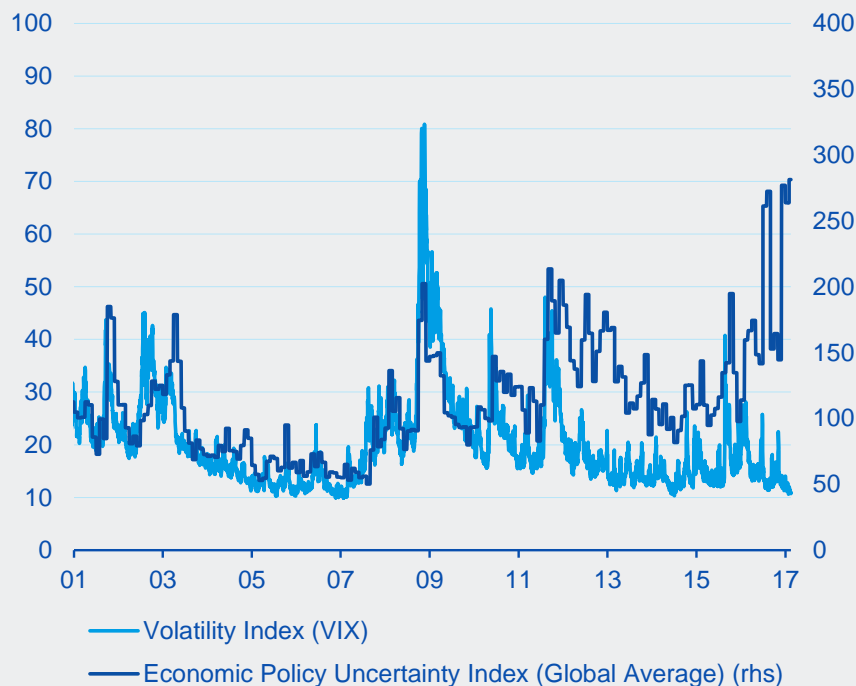


FINANCIAL MARKETS

Global volatility remains low as the positive economic mood outweighs political uncertainty, except in Europe

US EQUITY VOLATILITY AND ECONOMIC UNCERTAINTY INDEX

Normalized index

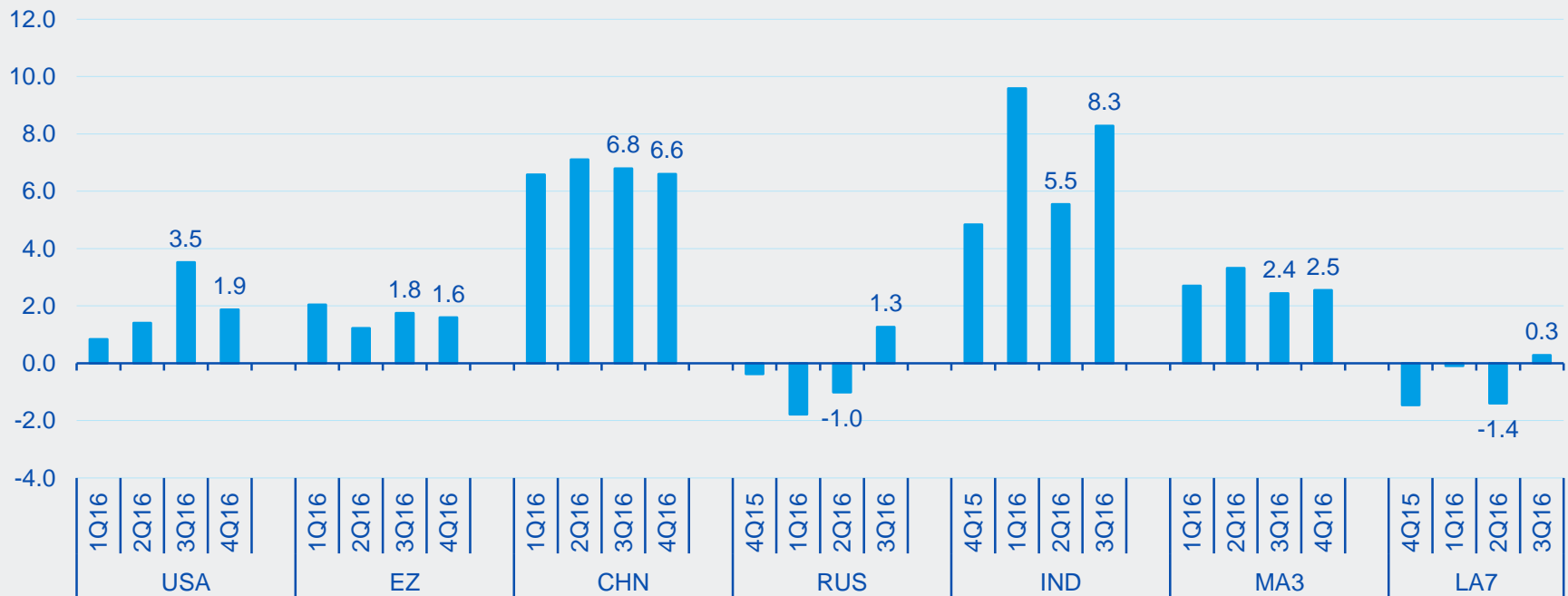


- Political uncertainty around the elections calendar and ongoing concerns about Greece increase European country risk premia and weigh on assets.
- US bond yields slightly increased, helping the recovery in EM assets.
- Portfolio flows: appetite for EM & US returned while EZ's recovery still missing due to ongoing uncertainties. In China, the pressure of the capital outflows continued despite the capital controls, weighing on the currency.
- Political risk weighs slightly on the euro, while EM currencies gain some ground. The Latin American currency index is only 2% below pre-US-election levels, while the Asian currency index is 1% lower.

GLOBAL GDP

Stable growth in the EZ and China in 4Q, while the US recovery eased after rebounding in 3Q. Latam is emerging from recession

GDP: SELECTED REGIONS
SAAR, %

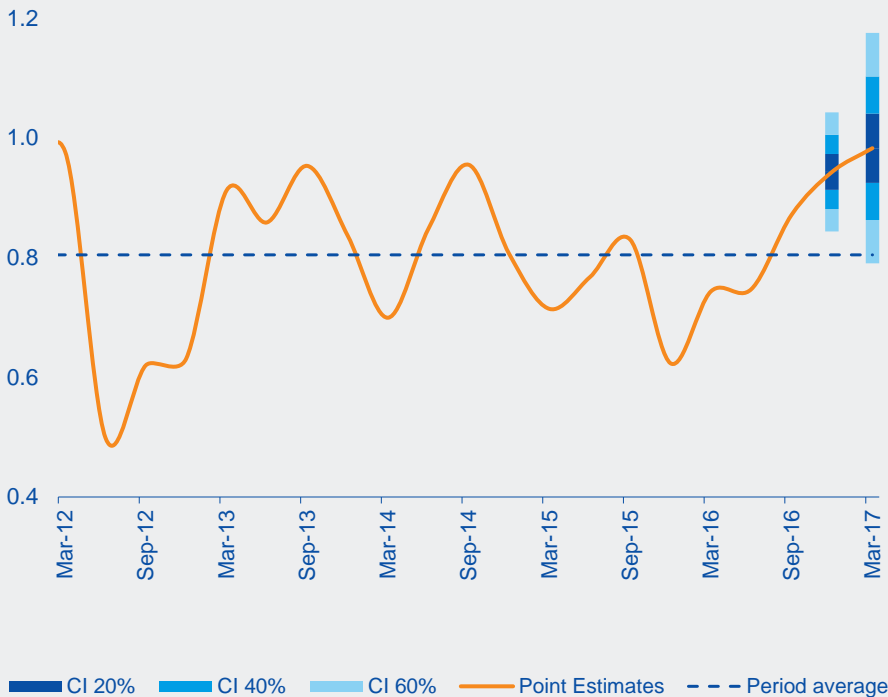


GLOBAL GDP

Global growth strengthened in 2H16 (0.9% QoQ) and it could be gathering pace in 1Q17

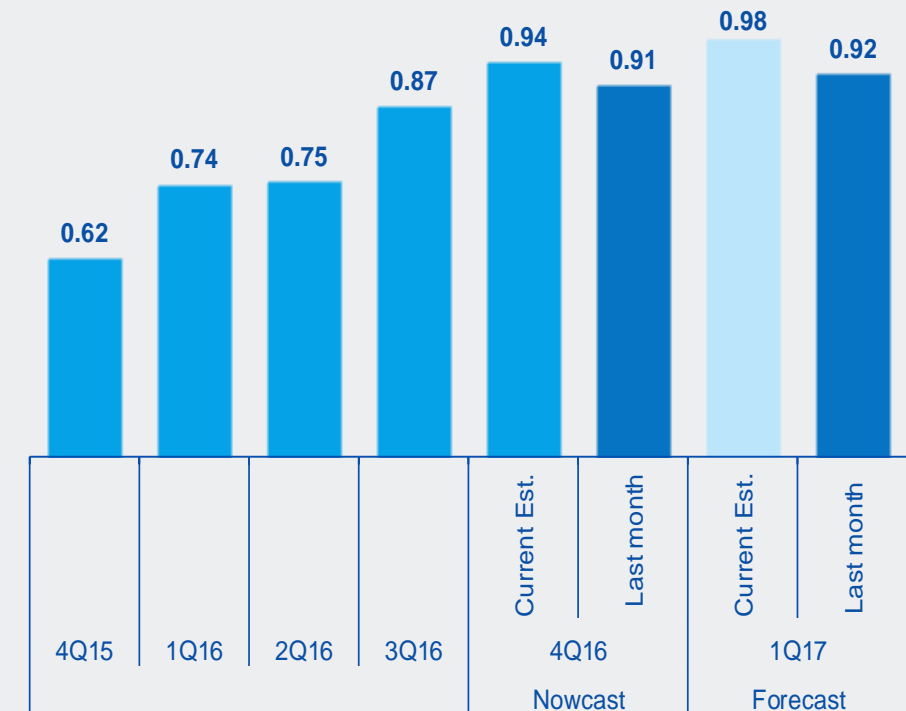
WORLD GDP GROWTH

forecasts based on BBVA-GAIN (% , QoQ)



WORLD GDP GROWTH: CHANGE IN FORECASTS

QoQ %

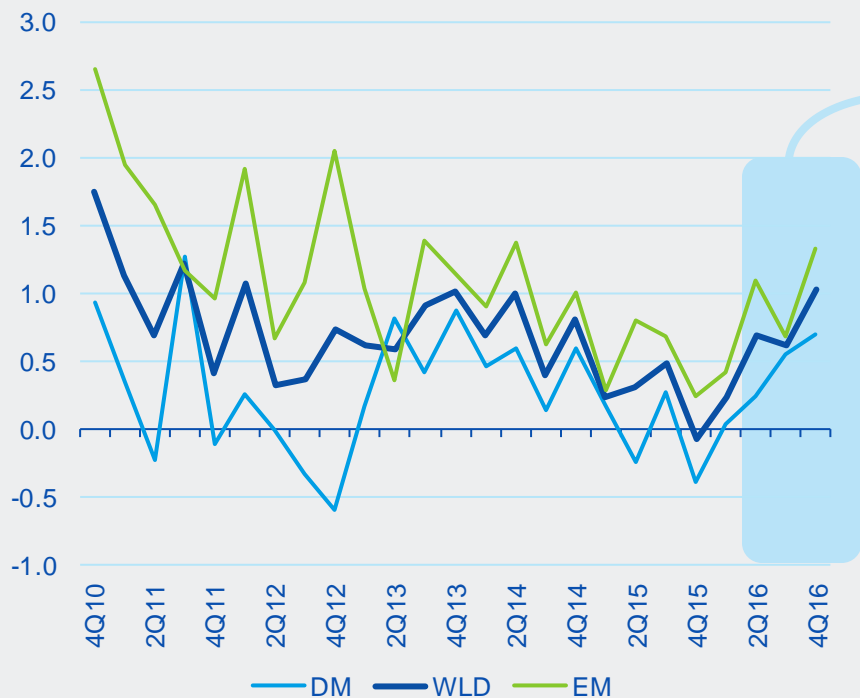


INDUSTRIAL PRODUCTION

Industrial output exhibited a solid quarterly growth in 4Q16, despite disappointing figures in December

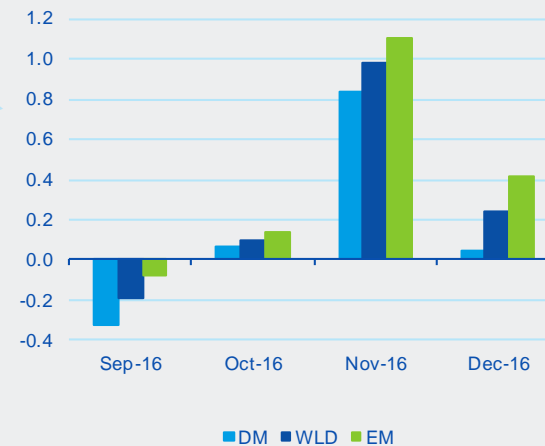
WORLD INDUSTRIAL PRODUCTION

QoQ, %



WORLD INDUSTRIAL PRODUCTION

MoM, %



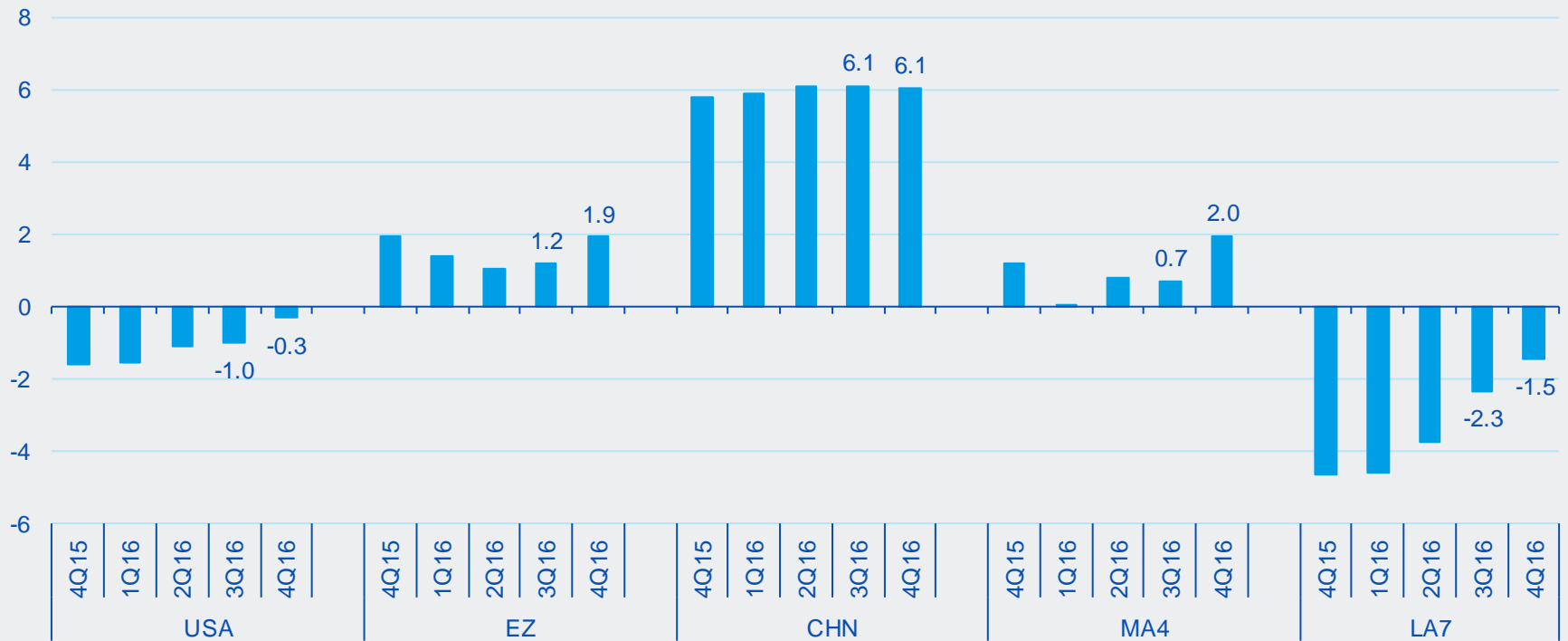
- Across DM's, the ongoing industrial recovery in the eurozone contrasts with the weaker figures in the US
- In EM, the industrial production begins to gain ground driven by China's performance

INDUSTRIAL PRODUCTION

The improvement of industrial production is more apparent in the Eurozone and emerging Asia

INDUSTRIAL PRODUCTION: SELECTED REGIONS

YoY, %



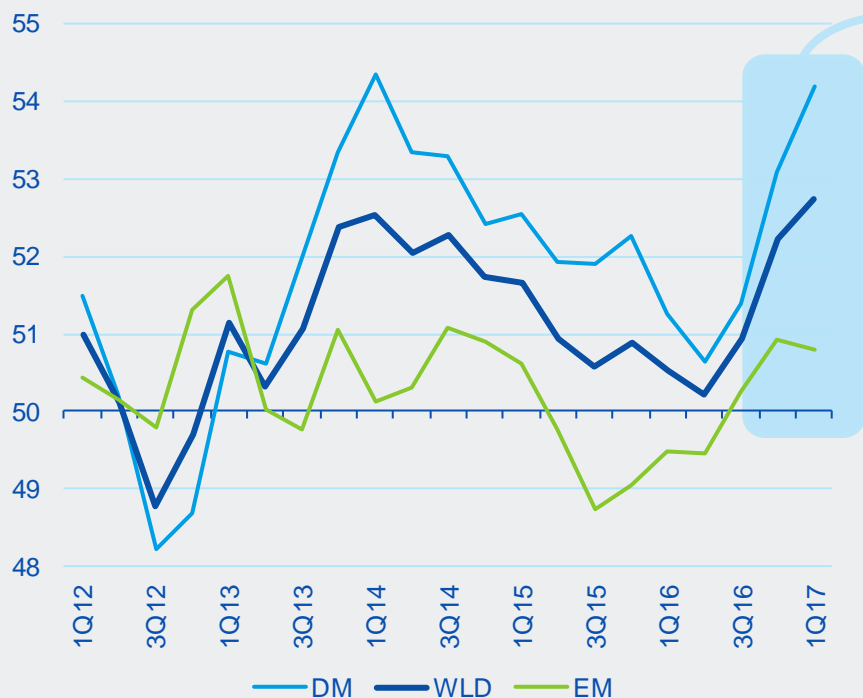
* 4Q16 calculated using data for October and November for LA7
 Source: Haver and BBVA Research

PMI: MANUFACTURING

Manufacturing confidence signals a solid start for 2017...

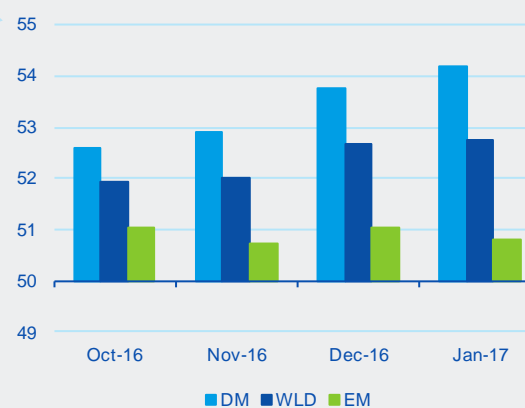
WORLD MANUFACTURING PMI

Level ± 50



WORLD MANUFACTURING PMI

Level ± 50



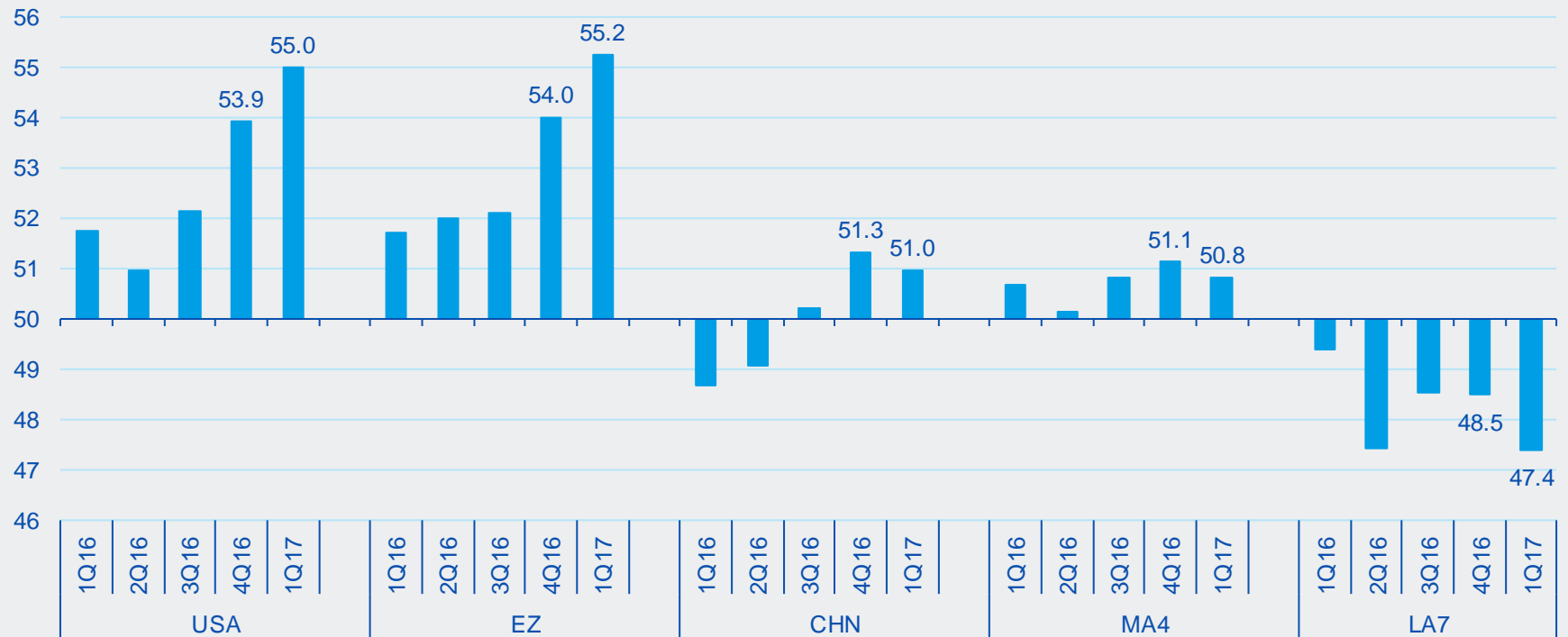
- The improvement was led by the investment goods sector. The combination of rising demand, increased backlogs of work and improved confidence encouraged firms to take on extra staff in January.
- Input cost inflation accelerated to its fastest rate since 2011, reflecting rising commodity prices

PMI: MANUFACTURING

... in most regions, especially Europe and the US

MANUFACTURING PMI: SELECTED REGIONS

Level \pm 50



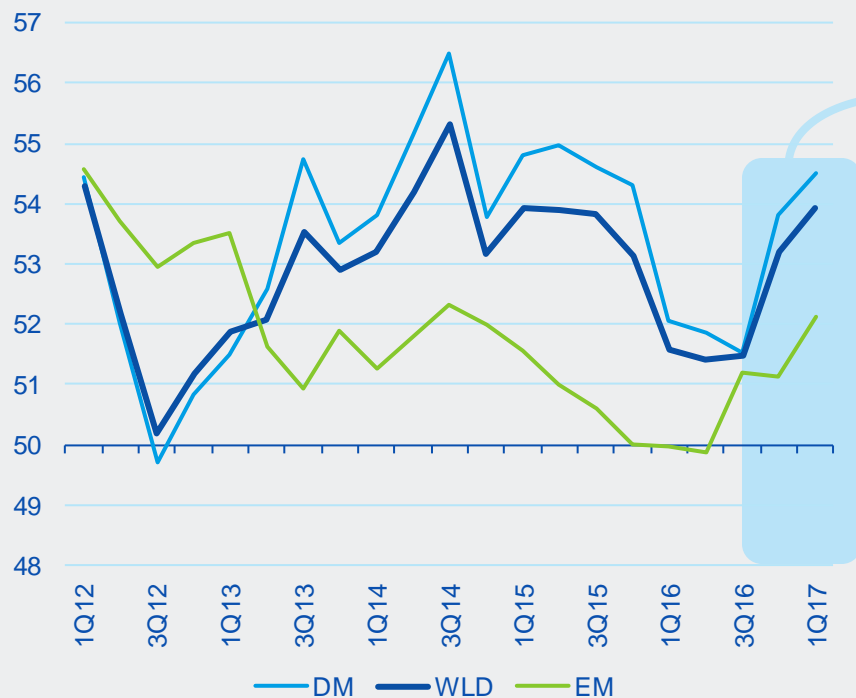
* 1Q17 calculated using data for January
 Source: Haver and BBVA Research

PMI: SERVICES

The services PMI gathered further steam at the beginning of 1Q17...

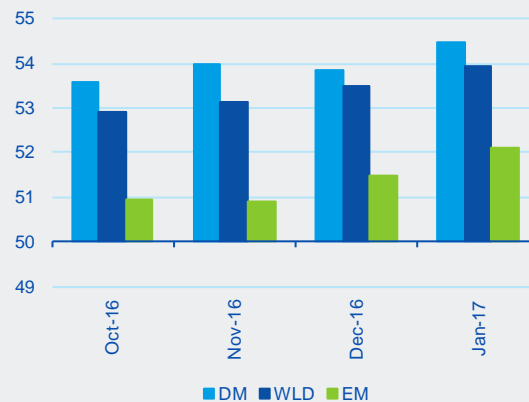
WORLD SERVICES PMI

Level \pm 50



WORLD SERVICES PMI

Level \pm 50



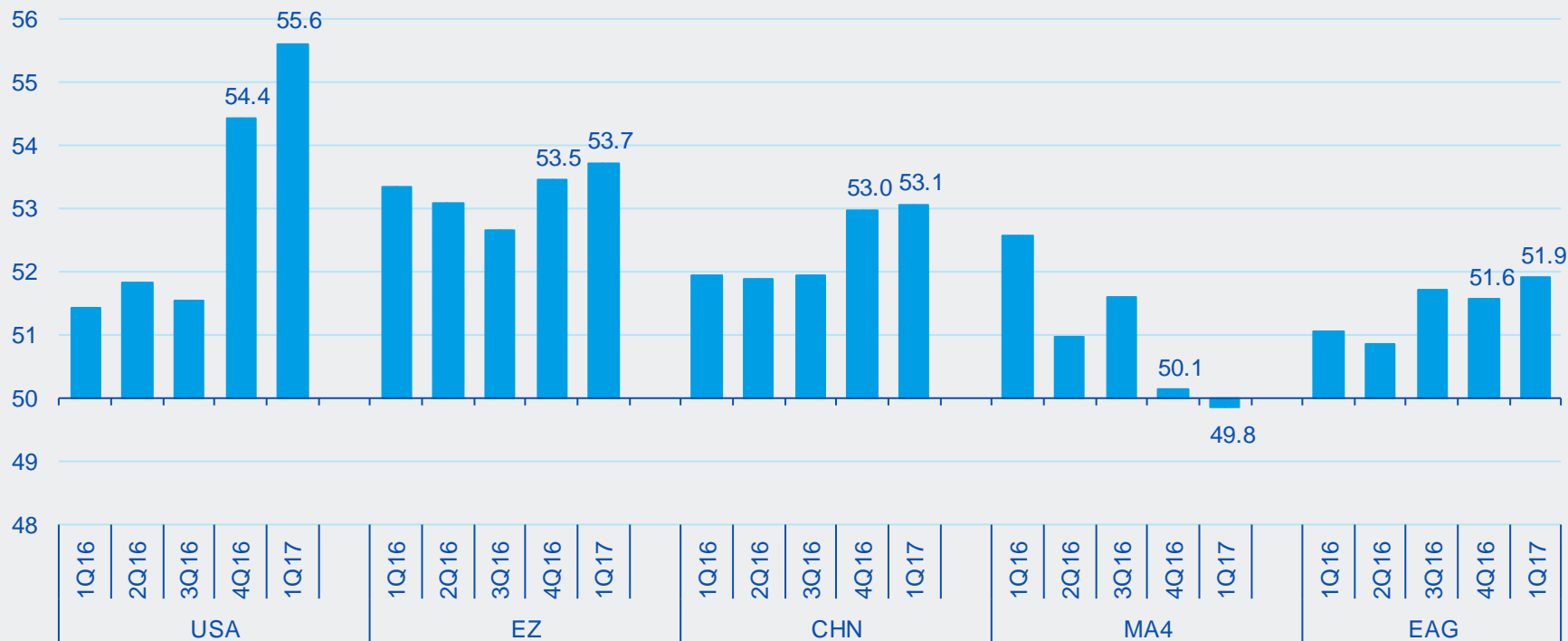
- Global service sector expands at a faster pace in January
- Rates of expansion in output, new orders and employment all improved, providing a boost to business confidence
- Cost inflation accelerated in January, leading to an increase in output charges

PMI: SERVICES

... across the board, except in emerging Asia

SERVICES PMI: SELECTED REGIONS

Level ± 50



* 1Q17 calculated using data for January

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

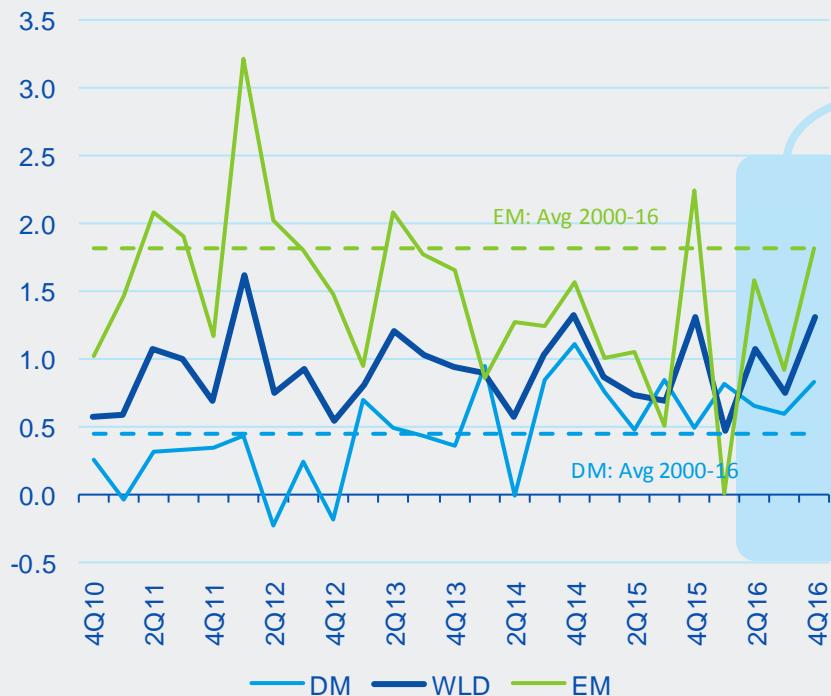
Source: Markit and BBVA Research

RETAIL SALES

Retail sales decreased sharply in December, but still point to robust consumption over the last quarter of 2016

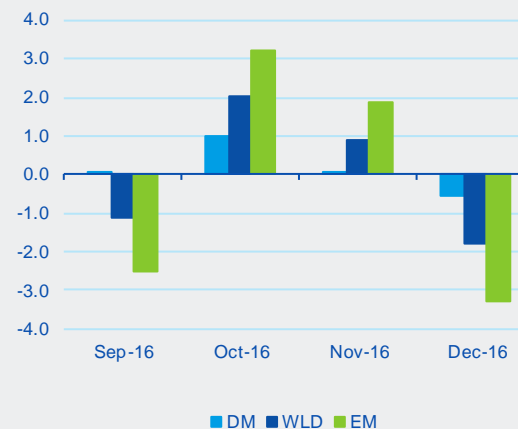
WORLD RETAIL SALES

QoQ, %



WORLD RETAIL SALES

MoM, %

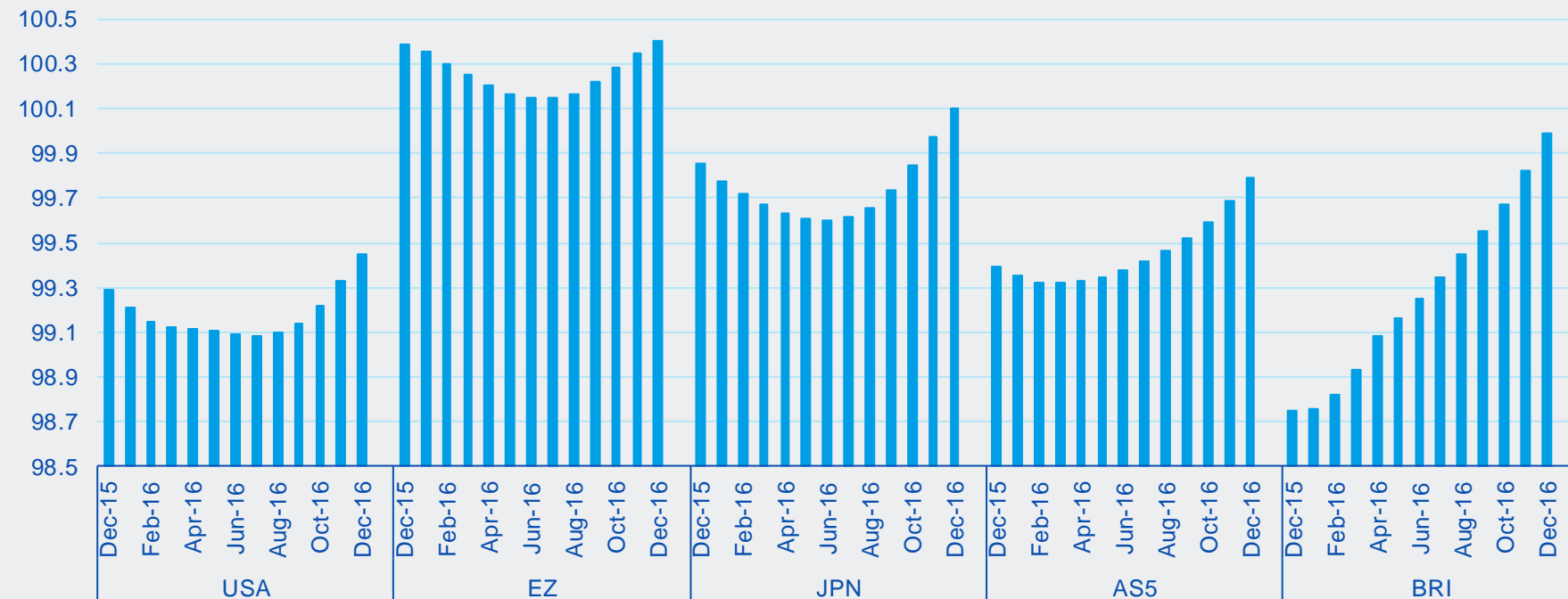


- The robust private consumption in DM's is unlikely to strengthen further in coming quarters
- Divergence across EM: good performance in China and the rest of Asia, but still poor figures in Latam

LEADING INDICATOR

OECD leading indicators continue to point to growth gaining momentum across the board

OECD Leading Indicator Index



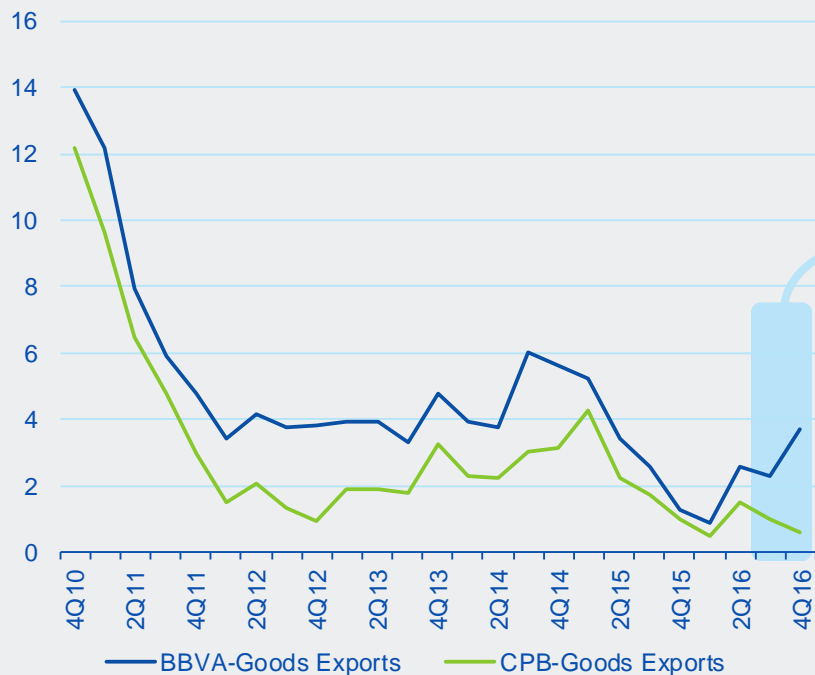
Briics: Brazil, Rusia, India, Indonesia, China, South Africa.
AS5: (Major Asian 5): China, India, Indonesia, Japan, South Korea.
 Source: OECD and BBVA Research

GLOBAL TRADE

Goods exports accelerated sharply in December suggesting that the recovery of global trade is on track

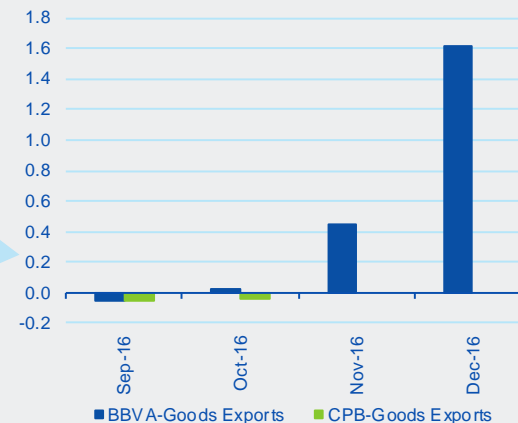
WORLD EXPORTS OF GOODS (CONSTANT PRICES)

YoY %, Index Jan-12=100



WORLD EXPORTS OF GOODS (CONSTANT PRICES)

MoM, %



- Significant improvement of exports in December boosted by US, India and EZ (except Germany)
- Exports orders also rose at the quickest pace since 2014 pointing to a stronger international trade flows in the coming months

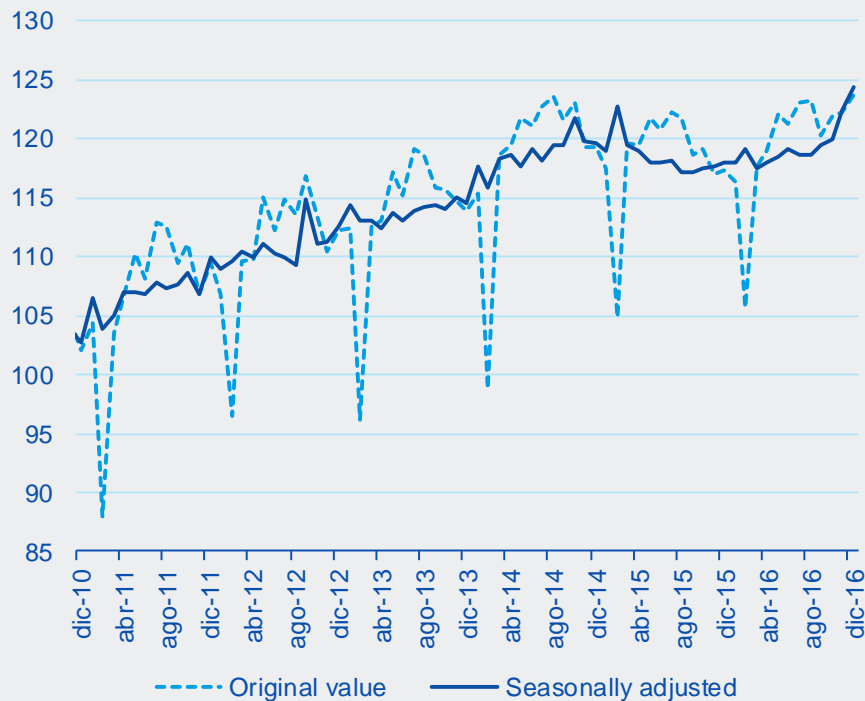
* Based on BBVA-Trade Index
Source: CPB and BBVA Research

GLOBAL TRADE

Freights continue to provide upbeat signs on global trade

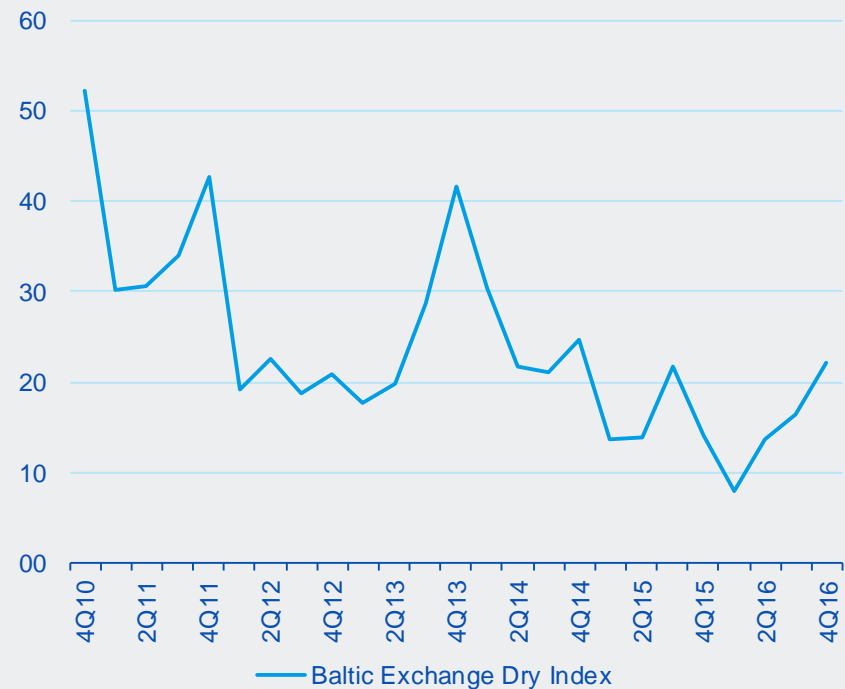
RW/ISL CONTAINER THROUGHPUT INDEX

Index, 2010=100



BALTIC EXCHANGE DRY INDEX

Index, Jan-05=100



GLOBAL TRADE

Exports of services declined again in December, but still present a solid quarterly growth pace

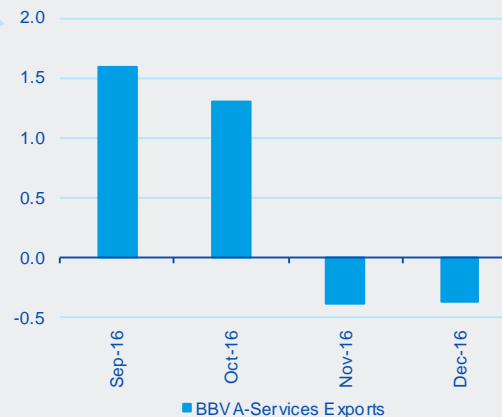
WORLD EXPORTS OF SERVICES (CONSTANT PRICES)

YoY, %



WORLD EXPORTS OF SERVICES (CONSTANT PRICES)

MoM, %



- After the strong rebound in 3Q16, recent disappointing figures suggest that a more moderate pace henceforth, but at relatively strong rates

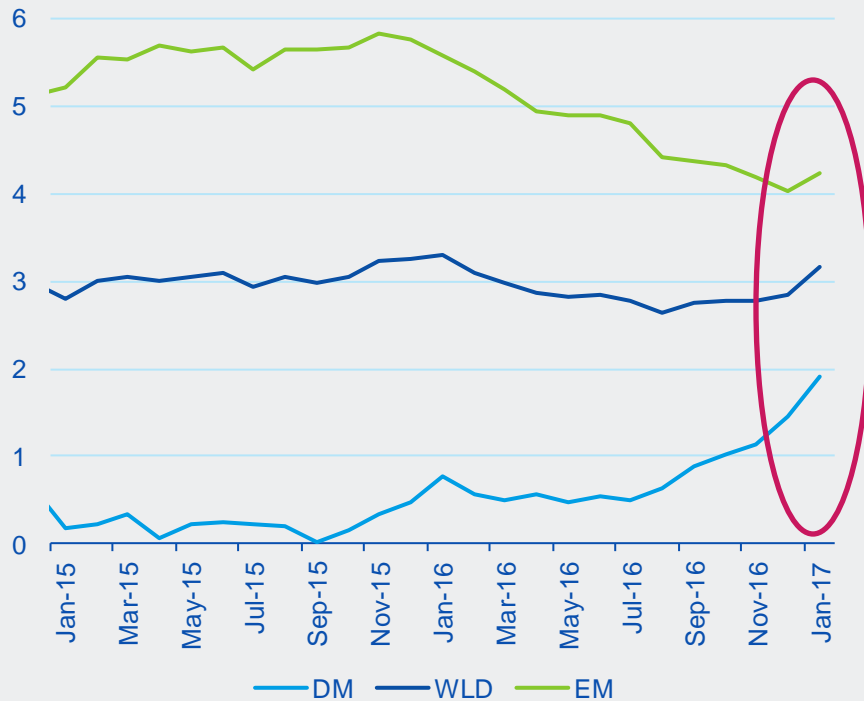
* Based on BBVA-Trade Index
Source: CPB and BBVA Research

INFLATION

Global inflation increased sharply in January driven partly by commodity prices...

WORLD HEADLINE INFLATION

YoY, %



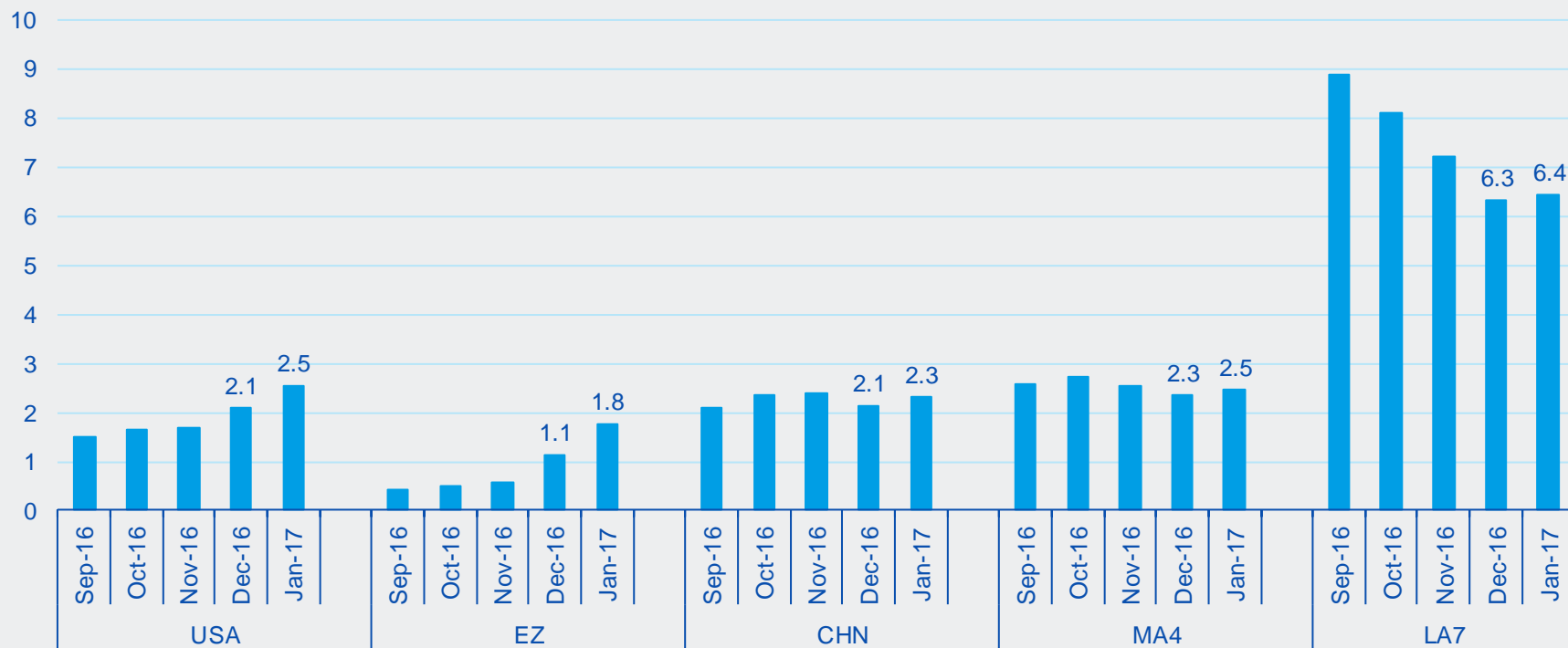
- In DM's, recovering inflation reflects the base effects from energy prices that should step up in coming months, while in EM's inflation returned to growth in January.
- Surveys to January continued so far point to input cost pressures, mostly in DM's but also in EM's fostered by rising global commodity prices and the strength of domestic demand

INFLATION

...especially in Europe and US, with a more moderate increase in emerging markets

HEADLINE INFLATION: SELECTED REGIONS

YoY, %



NEW PROJECTIONS & GLOBAL RISKS

FEBRUARY 2016



NEW PROJECTIONS

Global recovery proceeds, with old and new risks

Positive trends continue...

Confidence improves markedly, manufacturing improves, global trade recovers

Financial markets remain positive despite the sources of uncertainty

The move towards policy rebalancing continues

... but important questions remain open

Uncertainty around US policies, especially fiscal and trade policy

Impact of higher oil prices and fiscal stimulus on inflation

Impact from policies and protectionism on inflation, interest and exchange rates

NEW PROJECTIONS

Global GDP growth broadly unchanged (slow recovery), but upward revisions in advanced economies and China, and downwards in Latam

GROSS DOMESTIC PRODUCT

YoY average, %

	2014	2015	2016	2017	2018
United States	2.4	2.6	1.6	2.3	2.4
Eurozone	1.2	1.9	1.7	1.6	1.6
Spain	1.4	3.2	3.2	2.7	2.7
LatAm *	0.8	-0.3	-1.4	1.0	1.7
Argentina	-2.5	2.6	-2.2	2.8	3.0
Brazil	0.5	-3.8	-3.5	0.9	1.2
Chile	1.9	2.3	1.5	1.6	2.4
Colombia	4.4	3.1	1.9	2.4	3.3
Mexico	2.3	2.6	2.0	1.0	1.8
Peru	2.4	3.3	3.8	3.5	3.6
Eagles **	5.4	4.7	4.8	4.7	4.7
Turkey	5.2	6.1	2.3	2.5	4.5
Emerging Asia	6.7	6.6	6.5	5.9	5.6
China	7.3	6.9	6.7	6.0	5.2
World	3.5	3.3	3.0	3.2	3.3

- Prospects of a pro-growth Trump administration put an upward bias over short-run forecasts for the GDP growth, but uncertainties are high
- Slight upward review for the eurozone GDP growth but with caution, amid high political uncertainty
- China's growth remains somewhat more resilient than previously expected, but the government will prioritize stabilization over growth
- Downward revision in South America to 1% in 2017 due to weaker performance in 2H16, but coming out of recession driven by external sector and private and public investment. Supportive monetary and fiscal policy
- Lower growth in Turkey in the short-term due to tighten monetary policy to stabilize the lira

* 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

NEW PROJECTIONS

The balance of risks on inflation is changing towards less deflation risks and also more inflation

INFLATION

YoY average, %

	2014	2015	2016	2017	2018
United States	1.6	0.1	1.3	2.3	2.0
Eurozone	0.4	0.0	0.2	1.6	1.6
Spain	-0.2	-0.5	-0.2	2.1	1.9
LatAm *	12.1	17.4	32.1	60.1	67.5
Argentina	38.0	26.7	41.2	25.1	16.5
Brazil	6.3	9.0	8.8	4.6	4.4
Chile	4.4	4.4	3.8	2.8	3.0
Colombia	2.9	5.0	7.5	4.1	3.5
Mexico	4.0	2.7	2.8	5.7	4.3
Peru	3.2	3.5	3.6	3.0	2.5
Eagles **	5.1	4.9	4.3	4.6	4.5
Turkey	8.9	7.7	7.8	9.1	7.8
Emerging Asia	3.6	2.6	2.8	3.3	3.6
China	2.0	1.4	2.0	2.7	3.0
World	3.9	3.7	4.8	7.3	7.7

- No changes in the US inflation projections: slowly moving up, but USD strength and stable expectations should contain pressures
- Eurozone inflation revised upwards due to energy base effects along with higher oil prices and a more subdued euro. Still it should be well within the ECB's target
- Unchanged China's price developments: higher commodity prices and the supply contraction caused by over-capacity elimination should push up inflation
- Inflation revised up in South America, but it is trending down in the region towards targets with mild depreciation and the weight of domestic slack
- Higher inflation forecasts in Turkey boosted by the depreciation of the lira and higher energy prices

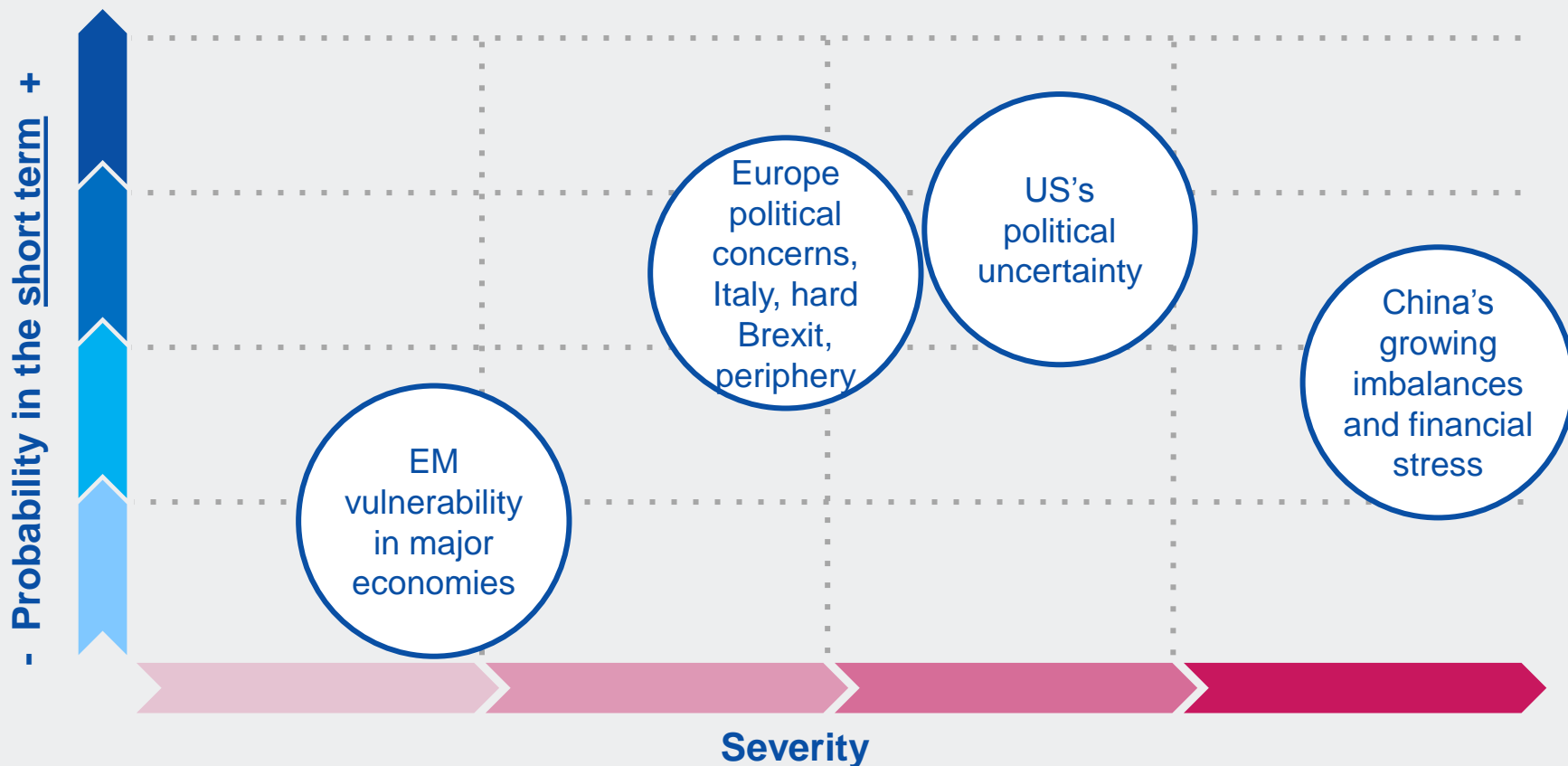
* Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela

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

Source: BBVA Research

GLOBAL RISKS

Risks, especially in advanced economies, are mostly of a political nature



ECONOMIC WATCH

GLOBAL OUTLOOK

FEBRUARY 2017



Disclaimer

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.