Global Weekly Flash

Welcome 2013

Markets started 2013 with a rally as the US Congress passed a bill to avert the fiscal cliff. With risk appetite, safe haven assets recorded losses i.e., 10-year Treasury yields rose around 20bp while similar 10-year German Bunds increased around 21bp since new year started. In this context, peripheral risk premia narrowed notably across the board this week.

- **New year brings partial resolve to Fiscal Cliff**
  - After months of uncertainty and struggle to reach a compromise in Congress, lawmakers finally voted on a deal to avoid falling completely off of the fiscal cliff in order to avoid a significant impact on economic activity, at least in the short-term. The deal will extend the Bush tax cuts for individuals making less than $400,000 (families less than $450,000) and will also maintain existing policy on long-term unemployment benefits for 2 million people through 2013. Furthermore, the agreement does limit some deductions for those making $250,000 (married couples making $300,000), partially helping Obama to keep his campaign promise to raise taxes on the "wealthiest Americans." Under the deal, tax rates on capital gains and dividends will increase from 15% to 20%, remaining lower than the pre-2001 rates. Obama's stimulus tax credits will be extended for five more years, and the alternative minimum tax (AMT) will be permanently adjusted for inflation. Doctors who take Medicare patients will continue to receive reimbursements, but outside of Obama's healthcare law. Initial estimates suggest that the deal would result in approximately $600bn in new tax revenues throughout the next 10 years. The deal does not address the expiring payroll tax cuts, so consumers will see a dip in disposable personal income.

  - Despite the compromise on taxes, a solution to the automatic spending cuts defined in the Budget Control Act of August 2011 was postponed. These cuts to federal spending, referred to as the sequester, will total $110bn per year across both defense and non-defense programs. Given the severity of these spending cuts to economic growth, Congress decided to delay the sequester for two months, ultimately kicking the can further down the road as we have expected all along. In addition, the deal does not address the debt ceiling which will need to be increased in order for the Treasury to continue borrowing. Negotiations will continue through the next few months with the hopes of preventing another credit ratings downgrade as in summer 2011. For further information: U.S. Flash.

- **FOMC Minutes details reveal in-depth discussion on thresholds and QE3 Timing**
  - The December 2012 FOMC meeting was another significant turning point in the Fed's strategy for monetary policy accommodation. Not only did the committee vote to continue purchasing mortgage-backed securities (MBS) on an open-ended basis, but it also decided to purchase additional Treasury securities and replace its calendar-based guidance with set thresholds for increasing the target fed funds rate. Establishing the thresholds for 6.5% unemployment and 2.5% inflation was a big step for increased public transparency that could potentially align market expectations for interest rates with that of the Fed. Most participants favored the new thresholds, agreeing that these remain consistent with the prior calendar target of mid-2015. However, some committee members were concerned that the thresholds would be interpreted incorrectly as immediate triggers and/or the Fed's long-run objectives, rather than just a target for when a change to monetary policy would be appropriate.
  - In addition to the new policy guidance thresholds, FOMC members also discussed the continuation of asset purchases, both in the form of MBS and long-term Treasury securities. While many participants agreed that the purchases are beneficial to real activity and the economic recovery as a whole, some noted concerns that rising inflation could make it difficult to reverse such accommodation. The meeting minutes also revealed important details regarding the duration of QE3. Most FOMC members felt comfortable that QE3 would only be appropriate through the end of 2013, with some among the group suggesting an even earlier deadline. It will be interesting to see if the discussion has changed in the upcoming meetings, however, with the new resolve to the fiscal cliff doing little to boost the economic outlook for the year. Bernanke has emphasized that the Fed will be very careful not exit this strategy prematurely, so we may see some delays if the looming fiscal uncertainty has further impacts on business and consumer activity. Although FOMC members were mostly in agreement that QE3 has been effective thus far, it is clear that the potential negative impact of ongoing purchases could rise as the size of the Fed's balance sheet increases.
  - Finally, fiscal concerns dominated discussions of the economic outlook, causing slight downgrades for near-term growth prospects. For further information: Fed Watch.

- **China's December PMI points to ongoing recovery. Meanwhile Euro zone manufacturing weakness continues, although composite output index improves**
  - In China, official NBS PMI remained unchanged at 50.6 in December (BBVA: 50.9; consensus: 51.0), marking the third consecutive month of expansion in manufacturing. By components, output (52.0) and new orders (51.2) continue to lead the recovery, while raw material inventory (47.3), employment (49.0), and supplier delivery time (48.8) still lag behind. Meanwhile, new export orders fell slightly to 50.0 from 50.2, as global headwinds pose the biggest risk to the economy. In a separate data release on Monday, the private sector HSBC PMI surprisingly rose to 51.5 from 50.5. Taken together, the outturns are in line with our view that the economy is strengthening gradually on domestic demand, boding well for our projections of about 8.0% growth in 2013 from 7.6% in 2012.
  - Regarding Europe, the Eurozone final manufacturing PMI was revised down slightly (-0.2) from the flash estimate (46.1), but the final services reading was unchanged at 47.8. Overall, this translates into an improvement of the composite index for the second consecutive month (to 47.2), though still in recessionary territory. Meanwhile, German retail sales increased 1.2% in November, rebounding from the 1.3% drop registered the previous month, and above expectations (0.8%). Finally, Eurozone money supply growth slowed slightly in November, as the annual growth rate of the broad monetary aggregate M3 stood at 3.8% in November 2012, after 3.9% in October 2012. Credit data continue to be weak and stable, with credit extended to the private sector decreasing by 0.8% annually in November, at the same pace as in the previous month, and loans to households and non-financial corporations stable at +0.4% y/y and -1.8% y/y, respectively.
  - Turning to the US, the ISM manufacturing index rose from 49.5 in November to 50.7 in December. The ISM index quickly recovered as firms, despite the fiscal cliff hazard, continue to produce on strengthening demand. The new orders index remained unchanged at 50.3 in December while production decelerated slightly. To further bolster the positive sentiment, the employment index saw significant gains as hiring, despite the aforementioned fiscal uncertainty, rose to 52.7 from an extremely weak 48.4 in November. Besides, the New Home Sales report for November shows continued strength, growing to 377K from its 339K level at the start of the year. This is good news for the housing market as the overall sentiment is still positive about the industry and new home sales have continued to show that there is demand. Meanwhile, consumer confidence fell in December to 65.1 as the fiscal cliff decision has everyone on edge, waiting to hear whether taxes will be affected next year. Although not its lowest level for 2012, the almost 9.0% plummet from 71.5 (in November) does suggest that the problem in Washington is being assessed by the nation and both consumers and firms alike are on edge.
  - Finally in Latinamerica, December PMI figures in Mexico and Brazil remained in expansionary territory. Particularly, according to the Mexican PMI, manufacturing in December (52.8) expanded at a lower rate than in November 2012 (53.8). Meanwhile, for the fourth consecutive month, Brazil's manufacturing PMI remained in expansionary territory at 51.1 in December. While this marks a deceleration when compared to November's 52.2, it is still a sign of the slow recovery of the manufacturing sector.

Next week: The ECB will hold its monetary policy meeting on January 10. On the economic front, in the euro zone, retail sales for November will be released. In the US, consumer credit and international balance will be published, and in China, CPI inflation for December will also be released.

Calendar: Indicators

Eurozone: Retail sales (November, January 8th)

Forecast: 0.6% q/q	Consensus: 0.4% q/q	Previous: -1.2% q/q

We expect seasonally adjusted retail sales in the Eurozone to have rebounded slightly in November after the sharp drop in October in monthly terms (-1.2% m/m, s.a.) and the increase registered by German sales (+1.6% m/m, s.a.). Nonetheless, we expect this rebound to be technical as the mood of Eurozone consumers continues to be negative, with the index of consumer sentiment declining again in November after some stabilization after the summer. Indeed, in a 3-month moving average, sales are expected to be slightly negative, reflecting the fact that private consumption will contract over the last quarter, as the economy is in a recession driven by poor domestic demand.

Germany: Industrial production (November, January 9th)

Forecast: 1.2% m/m	Consensus: 1.0% m/m	Previous: -2.6% m/m

After the sharp drop of industrial production in October (-2.6% in monthly terms, seasonally adjusted), the index is bound to have recovered in November by about 1%, reflecting not only the rebound effect but also an improvement in manufacturing PMIs and the industrial confidence indicator from the European Commission for that month, which reflect a less negative outlook of confidence indicators for the end of the year, despite the fact than the PMI for manufacturing receded again in December. These data still reflect the recession for the German economy in the last quarter of the year, but point to an expected better outlook for the beginning of the year, pulled by recovering exports to countries outside the Eurozone.

U.S.: Consumer Credit (November, January 8th)

Forecast: $13.2B	Consensus: $12.0B	Previous: $14.2B

Total outstanding consumer credit continues to increase at a strong pace, though overall trends suggest that it is driven most fervently by student loans accounted for in the nonrevolving component. Nonrevoling credit increased $10.7B in October, while revolving credit rose only $3.4B. Excluding government-issued credit (i.e. student loans), nonrevolving credit has remained mostly flat throughout the past few years. Therefore, the data is somewhat deceiving because while positive, it is driven mostly by student loans rather than consumer activity which is what drives consumption. On the other hand, moving into the holiday shopping months will likely keep upward pressure on revolving figures, providing a stronger outlook on consumer activity towards the end of 2012. In addition, a significant jump in auto sales (and thus, auto loans) for November suggests further gains in overall consumer credit.

U.S.: International Trade (November, January 11th)

Forecast: -$41.0B	Consensus: $-40.8B	Previous: $-42.2B

The trade balance for the U.S has seen a positive trend throughout the second half of 2012, falling from -$49.6B in April to a low of -$40.3B in September. In October, the trade deficit increased again but only slightly to -$42.2B and is showing significant improvements from this time last year. In terms of exports, while they did decline in October by a harsh 3.6%, they have posted gains throughout 2012 and continue to chug along despite leading trade partners like Europe and China experiencing weaker economic growth. Imports also declined in October but for the first time in three years. For November, a sharp drop in crude oil prices should help put downward pressure on the nominal petroleum trade balance. The national ISM manufacturing survey suggests that both exports and imports continued to decline in November, though the services index noted a large jump in imports for the month. Still, given the usual reversal in export growth, we expect that external demand will outweigh any increase in imports, although the improvement in the trade balance will likely be minimal.

China's CPI inflation for December (January 11th)

Forecast: 2.3% y/y	Consensus: 2.4 y/y	Previous: 2.0% y/y

China's December inflation will likely show an increase from the prior month due to strengthening domestic demand as well as rising food prices. Recent economic indicators (including December PMI) have pointed to an ongoing rebound in China's growth momentum, driven by an increase in domestic demand, lending support to the prices of raw materials and other commodities. Meanwhile, food prices continue to increase prior to the Chinese New Year. Looking ahead, inflation is expected to rise further in 2013, averaging 3.3% in 2013, up from 2.6% in 2012. That said, the general inflation outlook is expected to remain relatively benign given the government's stated targets of 4% and 3.5%, respectively, for 2012 and 2013, providing room for further monetary easing in H1 2013 if the external environment deteriorates.

Markets Data

				Close	Weekly change	Monthly change	Annual change
Interest rates	(changes in bps)	US	3-month Libor rate	0.31	0	-1	-28
			2-yr yield	0.28	4	5	3
			10-yr yield	1.96	26	37	0
		EMU	3-month Euribor rate	0.19	1	0	-110
			2-yr yield	0.08	10	8	-8
			10-yr yield	1.55	24	20	-31
Exchange rates	(changes in %)	Europe	Dollar-Euro	1.301	-1.6	-0.5	2.3
			Pound-Euro	0.81	-0.7	0.0	-1.5
			Swiss Franc-Euro	1.21	0.1	-0.1	-0.5
		America	Argentina (peso-dollar)	4.93	0.3	1.5	14.1
			Brazil (real-dollar)	2.05	-0.1	-2.0	10.2
			Colombia (peso-dollar)	1763	0.1	-2.7	-6.3
			Chile (peso-dollar)	473	-1.3	-1.2	-7.3
			Mexico (peso-dollar)	12.83	-1.5	-0.7	-6.6
			Peru (Nuevo sol-dollar)	2.55	-0.1	-1.2	-5.4
		Asia	Japan (Yen-Dollar)	88.35	2.8	7.1	14.8
			Korea (KRW-Dollar)	1063.68	-0.6	-1.6	-8.5
			Australia (AUD-Dollar)	1.041	0.4	-0.4	1.8
Comm.	(chg %)		Brent oil ($/b)	110.9	0.2	1.9	-1.9
			Gold ($/ounce)	1635.9	-1.2	-3.4	1.1
			Base metals	529.1	-0.1	1.7	1.6
Stock markets	(changes in %)	Euro	Ibex 35	8414	3.5	6.7	1.5
			EuroStoxx 50	2695	2.6	4.0	17.3
		America	USA (S&P 500)	1459	4.1	3.6	14.2
			Argentina (Merval)	2975	4.2	20.5	7.4
			Brazil (Bovespa)	62765	3.0	8.8	7.1
			Colombia (IGBC)	14822	0.7	3.0	14.6
			Chile (IGPA)	21321	1.2	4.7	5.3
			Mexico (CPI)	44371	1.5	4.6	20.6
			Peru (General Lima)	21120	2.8	4.6	6.7
			Venezuela (IBC)	471445	0.0	15.0	305.9
		Asia	Nikkei225	10688	2.8	12.9	27.4
			HSI	23331	2.9	4.8	25.5
Credit	(changes in bps)	Ind.	Itraxx Main	103	-14	-15	-75
			Itraxx Xover	418	-61	-62	-334
		Sovereign risk	CDS Germany	40	-2	10	-71
			CDS Portugal	401	-48	-62	-714
			CDS Spain	273	-23	-9	-178
			CDS USA	38	1	1	---
			CDS Emerging	192	-18	-30	-122
			CDS Argentina	1395	-70	-345	513
			CDS Brazil	102	-7	-7	-59
			CDS Colombia	91	-6	-7	-61
			CDS Chile	69	-4	-8	-61
			CDS Mexico	92	-7	-6	-60
			CDS Peru	91	-7	-6	-84

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
Spain	01/03/2013	**Flash España: Afiliación a la Seguridad Social y desempleo registrado en diciembre** La evolución positiva e inesperada de los registros del mercado de trabajo en diciembre cerró un trimestrecaracterizado por la moderación del deterioro de la afiliación y del paro registrado
	01/03/2013	**Flash Sistemas Financieros: El agregado de depósitos y pagarés de hogares y empresas vuelve a aumentar en el mes de noviembre** El agregado de depósitos de hogares y empresas registra el mayor incremento en los últimos 2 años, repuntando 17bn€
	01/02/2013	**Flash España: Avance del IPC de diciembre** El indicador adelantado del IPC de diciembre confirma la estabilización del crecimiento de los precios al consumo
	01/02/2013	**Flash España: Matriculaciones de turismos: el aumento de diciembre motivado por el PIVE cierra un año aciago** Cuando se corrigen los datos brutos de la estacionalidad propia del mes, las estimaciones de BBVA Research indicanque el número de turismos matriculados en diciembre creció el 2,7% m/m
US	01/03/2013	**Fed Watch. FOMC Minutes: December 11-12th** Details Reveal In-Depth Discussion on Thresholds and QE3 Timing
	01/02/2013	**U.S. Flash. Manufacturing Activity Rebounds Modestly in December** The ISM manufacturing index rose from 49.5 in November to 50.7 in December. New orders held steady at 50.3 while production decelerated slightly
	01/02/2013	**U.S. Flash. New Year Brings Partial Resolve to Fiscal Cliff** Congress finally settles on fiscal agreement, but a lot left up in the air. Among the various issues addressed, the Bush tax cuts will expire for the wealthy
	12/31/2012	**U.S. Weekly Flash. New Homes Sales grew 4.4% in November as the Northeast recovers and South grows** The New Home Sales report for November shows continued strength, growing to 377K from its 339K level at the start of the year **Spanish version**
Latam	01/04/2013	**Latam Daily Flash** Public investment growth in Peru; Industrial production indicator to be released today in Brazil
	01/03/2013	**Latam Daily Flash** December PMI figures in Mexico and Brazil; Monetary policy minutes in Chile
Argentina	12/31/2012	**2012 Argentina Automobile Market Outlook** Foreign-exchange restrictions and the slump in exports triggered a significant fall in production and sales in the automobile sector in 2012
Peru	01/02/2013	**Inflación anual se mantuvo dentro del rango meta en diciembre** El aumento de 0,3% de los precios al consumidor de diciembre reflejó, principalmente, factores de naturaleza estacional y estuvo en línea con lo esperado (BBVA y Consenso: 0,3%).
Mexico	01/02/2013	**Flash Migración México. Remesas a México registran 5 meses consecutivos con disminuciones** En noviembre las remesas hacia México en dólares cayeron 5.1% a tasa anual
	12/31/2012	**Aportaciones compartidas para pensiones en Colombia, México y Perú: Experiencias y perspectivas"** Aunque Colombia, México y Perú implementaron importantes reformas estructurales a mediados de la década de 1990, los niveles de cobertura de protección social son muy limitados.
Asia	01/04/2013	**Asia Daily Flash | 4 January 2013: India's service PMI picks up; Inflation rises in the Philippines** Equity markets in Japan and Mainland China reopened today after being closed since Monday for the holidays.
	01/03/2013	**Asia Daily Flash | 3 January 2013: Korea will frontload budget in 2013; Hong Kong¿s retail sales surge** Asian equities continued to rise today following the positive response in the US equity markets over the fiscal cliff.
	01/03/2013	**Five challenges for India in 2013** After a disappointing 2012, India heads for an uncertain 2013. Here are five key challenges we would recommend the Indian economic authorities to focus on.
	01/02/2013	**Asia Daily Flash | 2 January 2013: China's PMI points to ongoing recovery; Korea's exports fall; Singapore avoids recession; India's PMI rises** Equities in Asia were higher today as the US Congress passed a bill to temporarily avert the fiscal cliff.

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