

Global Weekly Flash

Madrid, 12 April 2013
Economic Analysis

Financial Scenarios

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Markets digest Japan's QE

- **The rally in financial market continued this week although it lost some steam at the end of the week**
 - Global equity indices rose, led by developed markets (Japanese Nikkei shot up by 7%). European equity had also a strong performance, led by the banking sector, which rose around 4% (correcting part of the fall registered after Cyprus's bailout). Similarly, most peripheral long-term yields continued to fall during the week, despite the news about the resolution of the Portuguese Constitutional Court and the pending problems in the eurozone (see below). In the US equity market climbed, boosted by lower-than-expected weekly jobless claims. But, surprisingly, this positive economic news prompted a shy (if any) sell-off in the US Treasury bond market. A weak reaction to positive news may be explained by changes in investors' expectations, which now include potential large inflows from Japanese investors (after BoJ monetary policy boost) and supportive measures from central banks in developed countries (according to the last IMF stability report, central bank should smooth the removal of QE). This week, the dollar weakened against major currencies except the Yen. The latter maintained its downward trend as a consequence of BoJ new monetary policy. Commodity prices had a mixed behavior this week. Crude prices fell significantly (around 2-4% depending on the reference), precious metals remained steady and industrial metals increased. Concerns about European growth weighed on oil Brent prices, while the US oil inventories remained at high levels and the International Energy Agency trimmed again its forecast for 2013's oil demand.
- **No surprises in the latest FOMC minutes. They show that the FOMC is slightly more optimistic on the economic cycle, reinforcing our expectations regarding the path of monetary policy.**
 - The FOMC acknowledged positive changes in employment, manufacturing, consumer and business spending, and the housing sector. That said, unemployment remains high and GDP growth projections remain uncertain. Moreover, it is important to note that this discussion occurred before the release of March's weak employment report. Regarding the Fed's asset purchase program, the common view among participants is that the macroeconomic benefits of the current program continue to outweigh the likely costs and risks of those purchases. We continue to expect that the current pace of purchases will proceed until mid-2013, assuming that the latest deceleration in payroll growth is only temporary and that the committee continues to see benefits to the program. After that, we will likely see a slowdown in the pace of purchases until the end of 2013 and into 2014, as the economy continues to gradually improve and the risks/costs from having an ever-larger Fed's balance sheet start outweighing its benefits.

- **In Europe, at today's Eurogroup meeting, ministers gave green light to Cyprus financial aid, the loan extension to Ireland and Portugal and the ongoing discussion regarding a Banking Union**
 - Once again, it was a busy and complicated agenda for the ministers. Early in the day, the Eurogroup endorsed the details of Cyprus's bailout (ahead of next week's parliament votes in some countries). The final approval of the ESM is expected by April 24. On the extension of loans to Portugal and Ireland, the green light will probably boost confidence in eurozone institutions backing the euro, especially after the Portuguese Constitutional Court blocked important austerity proposals. The seven-year extension might help these two countries - at least it should help Ireland- in their way to return to international funding markets. In this regard, a leaked document from the Troika warns about the high level of funding needs that both countries will face in coming years. According to the document, Ireland is in better standing to tap the markets, describing Portugal's recent market access as "... only partial and...tentative". The Ecofin should ratify the Eurogroup's positions when they meet later today and tomorrow.
 - The Eurogroup meeting comes just a few days after the **European Commission concluded in-depth reviews in thirteen member states**, pointing to Slovenia and Spain experiencing excessive macroeconomic imbalances that need to be closely monitored. For Spain, deterioration in the levels of public debt and unemployment more than offset the improvement in the current account balance. The deterioration is more the consequence of the negative economic environment experienced in 2012. Slovenia, where uncertainties have intensified after the Cyprus's bailout, is cautioned since, while in a still manageable position, the economy is quickly building up excessive macroeconomic imbalances.
- **On the macro side, lower-than-expected jobless claims in the US helped restore confidence**
 - In the labor market (after weak payroll figures released last week), while Europe released mixed but still weak data. February's industrial production, for the euro area as a whole, improved more than expected but dropping above expectations in some periphery countries. Divergence among Eurozone countries is increasing. In Germany, trade figures disappointed as exports felt more than expected
- **In China, lower-than-expected inflation readings helped alleviate concerns about monetary tightening**
 - Inflation increased by 2.1% YoY after jumping by 3.2% YoY in February. On the other hand, exports rose less than expected in March, suggesting that weak global demand weighed on China. However, for 1Q13 as a whole, exports growth remained solid. Imports continued to rise, pointing to strong domestic demand. Nonetheless, **Fitch downgraded China's sovereign credit rating from AA- to A+**, citing a number of "underlying structural weaknesses" in the Chinese economy, including low average income, lagging standards of governance, and a rapid expansion of credit.
- **In Latin America, inflation in Brazil and Mexico increased more than expected**
 - In Brazil, March's inflation was above the upper-bound of its target range (6.59% YoY), but core and diffusion measures revealed that price pressures eased somewhat in March, leading us to believe that the SELIC rate will remain constant. Meanwhile headline inflation in Mexico increased in March (although Banxico's balance of risks has not changed significantly) but going forward core prices should remain stable. Both the Chilean and Peruvian central banks kept their monetary policies unchanged, with the

main interest rate set at 5% in Chile and at 4.5% in Peru. We do not discard that Peru's central bank will continue using adjustments to reserve requirement for foreign currency in order to preemptively moderate credit growth, particularly in dollars, thus, avoiding to add pressures that further strengthen the local currency.

Next week: On Thursday, the Italian parliament meets to elect a new President. The German parliament is expected to vote on the rescue loans for Cyprus. On the macro calendar, China's Q1 GDP figures will be published, where we expect them to indicate modest growth. In the US the publication of the Beige Book and March's industrial production will focus investors' attention. Besides, several Fed officials will deliver speeches, which may give some clue about the QE exit strategy. In the euro-area, trade and current account balances for February will be released. In Spain, the Treasury will issue bonds and Treasury bills. Meanwhile, Slovenia will try to obtain EUR 500 mill on April 17 in 18M bills.

Weekly Indicators

Week April, 8 - April, 12

CC	Indicator	Period	Cons. E	Prior	Obs. *
	Wholesale inventories (MoM)	Feb	0.50%	1.20%	↓ -0.30%
	Jobless claims (th)	6-Apr	360	385	↑ 346
United States	Producer price index	Mar	-0.1%	0.7%	↓ -0.6%
	Retail sales	Mar	0.1%	1.1%	↓ -0.40%
	Michigan Consumer confidence	Apr-p	78.30	78.60	↑ 72
Euro zone	Euro-Zone Ind. Prod. sa (MoM)	Feb	0.2%	-0.4%	↑ 0.4%
	Euro-Zone Ind. Prod. wda (YoY)	Feb	-2.3%	-1.3%	↓ -3.1%
	Industrial Production MoM (sa)	Feb	0.5%	0.0%	→ 0.5%
	Trade Balance (EUR bn)	Feb	15.00	13.7	↑ 16.80
Germany	Current Account (EUR bn)	Feb	14.20	11.3	↑ 16.00
	Imports SA (MoM)	Feb	-0.1%	3.3%	↓ -3.8%
	Exports SA (MoM)	Feb	-0.3%	1.4%	↓ -1.5%
	Consumer Price Index (MoM)	Mar F	0.5%	0.5%	→ 0.5%
Spain	Industrial output WDA (YoY)	Feb	-4.9%	-5.0%	↓ -6.5%
	Consumer price index (YoY)	Mar	2.5%	3.2%	↑ 2.1%
China	Exports YoY	Mar	11.7%	21.8%	↓ 10.0%
	Imports Yoy	Mar	6.0%	-15.2%	↑ 14.1%
	Money supply- M2(YoY)	Mar	14.6%	15.2%	↑ 15.7%
Japan	Current account (¥bn)	Feb	457.50	-364.80	↑ 637.40
Mexico	Trade Balance (US \$ million)	Feb F	46.00	46.10	↑ 46.10
	Industrial production (YoY)	Feb	0.9%	1.7%	↓ -1.2%
	Economic activity index (MoM nsa)	Feb	-0.7%	1.3%	↑ -0.52%
Brazil	IBGE inflation (MoM)	Mar	0.5%	0.6%	↓ 0.5%
	Retail sales (MoM)	Feb	1.50%	0.6%	↓ -0.4%
Chile	Trade Balance (US \$ million)	Mar	500	68	↑ 1,134
Peru	Trade Balance (INEI)	Feb	-165	-468	↑ -88

* e. Forecast/ * Magenta- Below consensus forecast. Green-Above consensus forecast. Yellow- In line consensus forecast.
 Source: Bloomberg and BBVA Research

Calendar: Indicators

Eurozone: Trade Balance (February, April 15th)

Forecast: 9.2B	Consensus: 9.3B	Previous: 9.0B
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We expect the trade balance will remain at the levels observed in January (BBVA: 9.2B, Consensus: 9.3), mainly supported by a sustained external demand, which seems to be recovering (exports growing at 0.4% m/m on seasonally adjusted terms, 2.4 y/y) and also by weaker imports (0.21% m/m, and -3% y/y), the latter due to a still weak domestic demand.

Eurozone: HICP inflation (March, April 16th)

Forecast: 1.7	Consensus: 1.7	Previous: 1.8
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Though French inflation data was finally above-consensus forecast, headline inflation in the Euro Area is expected to be confirmed at 1.7% y/y in March, reflecting the expected slowdown (BBVA: 1.7% y/y, Consensus: 1.6%) from 1.8% y/y in February, and after 2% y/y in January. This performance is mainly due to the strong base effect in energy prices, while food inflation remains stable. Core inflation could have rebounded slightly (+0.1pp) up to 1.5% y/y. Looking forward, inflation is expected to slow further in April after remaining relatively stable in March. Thereafter, inflation could rise again but would hover around 1.6% during the second half of the year. Core inflation might remain more stable, fluctuating around the current rates along this year.

US: Consumer Price Index, Ex Food & Energy (March, April 16th)

Forecast: 0.1% m/m, 0.2% m/m	Consensus: 0.0% m/m, 0.2% m/m	Previous: 0.7% m/m, 0.2% m/m
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Headline inflation for March is expected to return to its more normal monthly growth pace as energy prices, specifically oil and gasoline, declined over the past month. Offset slightly by higher natural gas prices, we expect the energy component to drive the headline figure at a minimal clip upwards compared to its impressive uptick in the last report. As for food prices, the Department of Agriculture's index for prices paid to farmers rose by only 1.5% after a sharp 8.3% decline in the month prior, so we expect that these pressures will be mostly subdued in the coming report. Overall, the headline figure is not expected to increase by much and core prices will likely follow the same path. We continue to expect shelter prices to increase as housing supply remains low during the start of the spring buying season, pushing up prices for rental properties. Medical services, which also tend to put upward pressure on core inflation, should remain relatively subdued as the affordable care act continues to unfurl.

US: Industrial Production & Capacity Utilization (March, April 16th)

Forecast: 0.2% m/m, 78.2% m/m	Consensus: 0.2% m/m, 78.4% m/m	Previous: 0.7% m/m, 78.3% m/m
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Although most of the production data for March is mixed, we expect that the industrial production index will show some signs of growth but at a subdued pace as key indicators point toward a slowdown. The ISM manufacturing survey lost 2.9 points and the production component dropped sharply in March after a stronger report in February. On the other hand, the Federal Reserve surveys most heavily related to the manufacturing areas proved to be resilient. Both the Philadelphia and Empire State surveys showed some growth, although both were at a slower pace than in February, while the Dallas Fed's production index rose dramatically. The Chicago Fed's Midwest manufacturing survey grew as well, continuing its upward trend from its turnaround last October. Another recent driver of production has been the auto sector, which continues to grow as foreign demand continues to increase now that U.S. auto makers are producing more quality, economical small cars. Auto production, according to Automotive News, increased in March which should add positively to the overall industrial production that the Fed surveys point toward.

China: GDP growth (1Q13, April 15th)

Forecast: 8.2% y/y	Consensus: 8.0% y/y	Previous: 7.9% y/y
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We expect the quarterly GDP outturn to show a modest improvement in China's year-over-year growth momentum, based on recent high-frequency indicators for exports, investment, and credit growth. Nevertheless, there are downside risks given weaker-than-expected retail sales and industrial production outturns. Going forward, we expect growth to face headwinds from sluggish external demand (recent strong export outturns are unlikely to be sustained). Our projection for full-year growth remains at 8.0%. Downside risks are present due to the uncertain external outlook, and possible constraints in loosening already accommodative policies in view of financial fragilities. We will also be watching for the release of monthly indicators for March due to be released on the same day, including IP, retail sales, and investment.

Markets Data

			Close	Weekly change	Monthly change	Annual change	
Interest rates (changes in bps)	US	3-month Libor rate	0.28	0	0	-19	
		2-yr yield	0.22	-2	-2	-9	
		10-yr yield	1.69	-16	-25	-37	
	EMU	3-month Euribor rate	0.21	0	1	-56	
		2-yr yield	0.01	4	-3	-13	
		10-yr yield	1.21	-8	-25	-52	
Exchange rates (changes in %)	Europe	Dollar-Euro	1.303	1.6	0.5	-0.5	
		Pound-Euro	0.85	0.7	-1.6	3.0	
		Swiss Franc-Euro	1.21	-0.2	-1.2	1.2	
		Argentina (peso-dollar)	5.14	0.3	1.5	17.1	
	America	Brazil (real-dollar)	1.99	-1.5	1.1	9.3	
		Colombia (peso-dollar)	1826	0.1	1.0	3.0	
		Chile (peso-dollar)	469	-0.7	-0.9	-3.1	
		Mexico (peso-dollar)	12.23	-0.8	-4.3	-5.8	
		Peru (Nuevo sol-dollar)	2.58	-0.2	-0.9	-2.8	
		Japan (Yen-Dollar)	97.13	3.1	3.3	19.0	
	Asia	Korea (KRW-Dollar)	1131.69	1.8	4.5	0.0	
		Australia (AUD-Dollar)	1.038	-0.4	1.4	0.7	
	Comm. (chg %)		Brent oil (\$/b)	104.9	-4.7	-5.6	-15.0
			Gold (\$/ounce)	1568.0	-1.9	-1.0	-4.2
		Base metals	536.9	-0.4	0.5	-0.1	
Stock markets (changes in %)	Euro	Ibex 35	7798	-1.5	-6.7	1.8	
		EuroStoxx 50	2585	-1.5	-3.5	8.1	
	America	USA (S&P 500)	1545	-1.5	0.3	10.5	
		Argentina (Merval)	3306	-2.2	2.2	29.3	
		Brazil (Bovespa)	54462	-3.4	-6.0	-14.5	
		Colombia (IGBC)	13678	-3.2	-5.9	-8.5	
		Chile (IGPA)	21082	-2.8	-4.6	-4.7	
		Mexico (CPI)	43031	-2.4	-2.6	9.2	
		Peru (General Lima)	19604	-1.3	-4.7	-17.0	
	Venezuela (IBC)	633888	2.3	2.5	216.4		
	Asia	Nikkei225	12834	3.5	7.6	32.5	
HSI		21727	-2.6	-4.6	5.5		
Credit (changes in bps)	Ind.	Itraxx Main	121	-5	9	-12	
		Itraxx Xover	480	-6	51	-156	
	Sovereign risk	CDS Germany	37	0	-2	-37	
		CDS Portugal	396	-7	13	-708	
		CDS Spain	285	-17	20	-178	
		CDS USA	38	0	-3	---	
		CDS Emerging	259	-7	19	3	
		CDS Argentina	3067	-687	366	2174	
		CDS Brazil	134	-4	8	6	
		CDS Colombia	99	0	3	-17	
		CDS Chile	65	-1	-2	-32	
		CDS Mexico	96	-1	-2	-26	
		CDS Peru	99	1	4	-29	

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
Global	04/08/2013	➤ The Outlook for the Global Economy and for Spain Global economy: economic outlook improves. Spain: will recovery start in 2013?
EMU	04/08/2013	➤ The significance of the eurozone banking union on the road to stability
	04/07/2013	Historia de tres islas Islandia, Irlanda y Chipre han adoptado soluciones muy diferentes para problemas similares
Spain	04/11/2013	➤ Flash España: España: Compraventa de viviendas en febrero de 2013 Los datos de registro de ventas de viviendas del mes de febrero vuelven a recoger un incremento de ventas, aunque más moderado que en los dos meses anteriores.
	04/10/2013	➤ Producción industrial en febrero La producción industrial evolucionó negativamente en febrero debido, fundamentalmente, a la sorpresa a la baja de los bienes intermedios y de equipo.
	04/09/2013	➤ Observatorio Económico España: 1T13: una contracción menos acusada La información conocida del primer trimestre de 2013 sugiere que la actividad económica se está contrayendo menos que en el 4T12.
US	04/10/2013	➤ Fed Watch. FOMC Minutes: March 19th-20th Discussion Intensifies on Risks and Extent of QE3. (Spanish version)
	04/09/2013	➤ U.S. Economic Watch. Job Openings and Labor Turnover Openings Increase at a Quick Pace After Slow Start to 1Q13. (Spanish version)
	04/08/2013	➤ US Weekly Flash. Employment growth fumbles despite the upward revision as payrolls decline sharply Employment growth for March took a proverbial nose dive as the figure missed economists' estimates by more than half. (Spanish version)
Latam	04/11/2013	➤ Latam Daily Flash: Inflation tops the target range in Brazil; Monetary policy to remain unchanged in Chile
	04/10/2013	➤ Latam Daily Flash: Inflation increases in Mexico, although core prices remain stable; Colombian exports decelerate
	04/09/2013	➤ Latam Daily Flash: Peru raises limit for pensions fund's investments abroad; inflation in line with expectations in Chile
	04/08/2013	➤ Presentación Perspectivas Globales y de América del Sur América Latina aumentará su crecimiento del 2,8% en 2012 a 3,6% en 2013 y 3,7% en 2014
	04/08/2013	➤ Latam Daily Flash: Inflation data and Banrep minutes suggest easing cycle is over in Colombia; activity decelerates in Chile
Brazil	04/10/2013	➤ Brazil Flash: Inflation breaches target ceiling in March Annual inflation continued to trend up and reached 6.59% YoY in March, above the 6.5% level (the upper-bound of the target range). (Spanish version)
Chile	04/11/2013	➤ Banco Central mantiene tasa de interés en 5% y su tono neutral El Banco Central mantuvo la tasa de interés en 5% en su reunión de Abril, junto con un sesgo neutral. Destaca apreciación multilateral del peso.
	04/08/2013	➤ Inflación mensual de 0,4% por educación y alimentos en marzo Inflación mensual alcanzó a 0,4% (1,5% a/a) por aumentos en educación y alimentos en marzo, en línea con nuestras expectativas y levemente por sobre las del mercado (0,3% m/m).
	04/08/2013	➤ Projections of dynamic generational tables and longevity risk in Chile This study aims to construct a forecast for mortality rates, based on projection models of the ARMA (p, q) type and non-parametric contrast methodology. The study is based on the case of Chile.

Colombia

- 04/08/2013 > **Flash Colombia. Inflación rebota en Marzo a 1.91% a/a (0.21% m/m), con signos de recuperación de la inflación básica**
Después de cuatro meses de caídas continuas, la inflación al consumidor presentó un repunte a 1.91% a/a (vs. 1.82% en Febrero).

Peru

- 04/11/2013 > **Reunión de política monetaria en abril: sin novedades**
El Banco Central mantuvo en abril la tasa de referencia en 4,25%, en línea con lo esperado.

Mexico

- 04/11/2013 > **Flash Inmobiliario México. La actividad en la construcción ahora da un paso hacia atrás**
En febrero la actividad en la construcción cae 2.3% anual y avanza 0.3 respecto a enero
- 04/09/2013 > **Mexico Inflation Flash. March's CPI: Supply Shocks Push Headline Inflation Upwards; However Core Inflation Remains Bounded**
General: Actual: 0.73% m/m vs. BBVA: 0.67% m/m Consensus: 0.68% m/m. Core: Actual: 0.30% m/m, vs. BBVA:0.34% m/m Consensus:0.35% m/m. **(Spanish version)**
- 04/09/2013 > **Mexico Real Estate Flash. New drop in construction production**
Lower construction production was seen in January. Building fell once again, as did the number of workers hired by the sector's companies. **(Spanish version)**

EAGLEs

- 04/09/2013 > **EAGLEs Quarterly Report. First Quarter 2013**
After bottoming out in Q3/12, growth momentum in Asia has begun to pick up (albeit at a mild pace) while in Latin America the rebound could have started already in Q4/12. **(Spanish version)**

Asia

- 04/11/2013 > **Asia Flash | 11 April 2013: China credit aggregates accelerate in March; Australia unemployment jumps; Korea and Indonesia's central banks stay on hold**
China credit aggregates accelerate in March; Australia unemployment jumps, raising expectations of rate cuts; Korea and Indonesia's central banks stay on hold.
- 04/10/2013 > **Asia Flash | 10 April 2013: Weaker March exports in China are taken in stride; Fitch downgrades China's long term local currency rating; Indonesia's bond oversubscribed**
Weaker March exports in China are taken in stride; Fitch downgrades China's long term local currency rating; Indonesia's bond oversubscribed.
- 04/09/2013 > **Asia Flash | 09 April 2013: China inflation eases; Australia and China reach agreement**
A bigger-than-expected decline in China's March inflation was the catalyst today for an improvement in Asian market sentiment. The Japanese yen levelled off today at 99 per USD.

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