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# Global Weekly Flash


Madrid, 18 October 2013
Economic Analysis

Financial Scenarios
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## Economic data returns to the spotlight

- **US averted default while the Fed´s focus on activity indicators is restored**
  - This week, the US averted default on its debt after the US Senate passed a bill to open the government until January 15 and extend the debt ceiling until February 7. Asset prices rose, mainly bonds, but the movements were not too strong, as markets had barely priced-in a default beforehand. Yet implicit market-risk measures, such as stock markets´ implied volatility, eased as uncertainty (at least for the short term) was dispelled. The yield of the US 1M Treasury bill declined strongly to September levels, but yields of longer-term T. bills fell only moderately, acknowledging that the US government had postponed the problem to early 2014. The US 5Y credit-default swap also fell (to 34.5bps from 48 pbs) though remained above September levels (around 20bps). Despite the news, the Chinese rating agency Dagong downgraded the US credit rating to A- from single A, retaining a negative outlook and potentially affecting CDSs. On the other hand, Moody´s Investors Service said that the US debt ceiling agreement "includes credit-positive elements" for its rating. Against this background, the US dollar fell strongly, reaching its lowest level against the euro since October 2011. Commodity-linked currencies and EM currencies also registered gains against the dollar, consequence of the US temporarily averting a default and some encouraging signs about the Chinese economic cycle.
  - With the government totally operational, US economic releases will resume. This will allow the Fed to restore its focus on economic data when deciding the start of the upcoming tapering.

- **Next week, the ECB will unveil details on how it will conduct banks´ Asset-Quality Review (AQR)**
  - This exercise will serve as a preliminary examination of banks' balance sheets. Investors will focus on the time tables and methodology to be followed. Details on the methodology will be crucial in winning investor's confidence on the AQR. In particular, investors will be looking for any change in asset risk-weighting, especially regarding risk weights of sovereign debt. Investors expect the ECB to issue a harmonize definition for assets, which would raise confidence on the reviews. Results from the AQR and bank stress tests are expected to be jointly released by October-November 2014. However, to reinforce the credibility of the exercise, it is important to establish backstops before that date. These backstops -- determined nationally -- are meant to address any legacy problem when a bank cannot recapitalize itself in the markets. At their last Eurogroup meeting, eurozone ministers did not make any progress on backstops, with eurozone authorities currently pressing national governments to create national backstops. Nevertheless, they opened the door to the very contentious possibility, in highly exceptional cases, of direct ESM bank recapitalization even before November 2014. As of now, if a government bank fails to raise capital and its government is not able to support it, then that government has to request the ESM financial assistance under the current framework: indirect bank recapitalization based on the Spanish model. Moreover, before any public fund is used to address any capital shortfall, the new state aid rules should be applied (namely, a partial bail in). Next week, the EU council will continue to address the process leading to a Banking Union, but significant progress is not expected. At next week's Council European meeting, leaders will follow up on progress to foster growth, jobs and competitiveness in Europe, and they will discuss ways to improve funding to SMEs through risk-sharing instruments.

- **Clear exit strategies for European program countries are crucial to maintain investors´ improved sentiment toward peripherals**
  - This week, the Eurogroup reviewed the reform and fiscal-adjustment programs. Eurozone finance ministers stated that Ireland´s and Spain's programs were on track (to be ended in December) and announced that, next November, exit strategies for both countries would be discussed in detail by the Eurogroup. It was also announced that a comprehensive review of the Greek program would take place towards the end of the year; while Portugal's exit strategy would be discussed early next year.
  - Peripherals announced draft fiscal budgets, showing their alignment with the required fiscal consolidation process. Italy, Portugal and Ireland presented their draft 2014 fiscal budgets, meeting their deficit goals on the back of ongoing fiscal-consolidation efforts and a slightly better macroeconomic outlook. Italy expects its fiscal deficit to decline (from 3% of GDP in 2013 to 2.5% in 2014), mostly driven by spending cuts. It also started a process of reduction of the tax wedge on labor that will take three years to implement. Portugal plans a large deficit cut (from 5.5% of GDP in 2013 to 4% in 2014), which includes consolidation measures equal to 2.4% of GDP (mostly based on cuts to wages and pensions). Ireland expects a deficit of 4.8% in 2014, after its 7.3% target for 2013 (which will probably remain above the actual deficit).

- **Europe activity data continued to trend up**
  - In August, eurozone industrial production rose at a moderate rate, in line with expectations: production climbed in core countries while it continued to increase in peripherals. The German Zew Business Expectations index has risen in line with expectations: the highest since April 2010. Car registrations in Europe rose strongly in September (5.4%YoY, its highest rate since 2011). The trade surplus also widened more than expected due to higher exports. Italy's trade surplus increased for 15th month in a row, evidence that exports are being the main short-term GDP driver in Italy and peripheral countries.

- **US economic releases were scarce due to the government shutdown**
  - Economic releases affected by the US shutdown will resume next week, including September's payroll figures. The Federal Reserve released the Beige Book, signaling a slightly less optimistic view on the economy. In the report, the Fed stated that the US economy had grown at a "modest to moderate" pace in recent months, highlighting that the uncertainty originated by the fiscal deadlock had been felt throughout the country. On the other hand, October's Philadelphia Fed Survey index fell less than expected after a strong outturn in September. Its components also suggest a brighter outlook: the "new orders" index surged, reaching its best result in 30 months, while unfilled orders, shipments and delivery times showed strong readings. Initial jobless claims fell but stayed above expectations (this data may have been affected by technical problems in the state of California backlog and the government shutdown). Last week, the Labor Department attributed 15,000 unemployment claims to layoffs amongst Federal Government contractors triggered by the government shutdown.

- **China's Q3 GDP rebounded in line with expectations, and will probably sustain its momentum in the near term**
  - GDP growth picked up in the third quarter (7.8% YoY, BBVA: 7.7%; consensus: 7.8%), driven by domestic demand. However, activity indicators for September showed a slightly moderating trend. This was especially true for exports, suggesting that growth may be flat in the coming quarters (consistent with our expectation of full-year growth of 7.7% in 2013 and 7.6% in 2014). We expect growth momentum to be sustained through the first half of 2014, but to trend down thereafter as recent mini-stimulus measures wear off. This outlook, however, is subject to downside as the authorities

curtail rising financial fragilities associated with rapid credit growth, and as they implement reforms to rebalance growth over the medium term. Regarding September activity indicators, coming off of the strong outturns in August, the September indicators eased somewhat but nevertheless remained robust. On the supply side, industrial production growth eased to 10.2% y/y. On the demand side, urban fixed asset investment growth remained steady at 20.2% y/y Retail sales growth was also broadly flat, at 13.3% y/y. Most concerning to us was weaker-than-expected export growth for September (-0.3% y/y), due to a slowdown in demand from ASEAN economies. However, export trends over recent months have been generally encouraging on improving demand from the US and EU; also, the monthly data are volatile and subject to distortions from over invoicing during the same period last year. Regarding other Asian countries, Singapore preliminary Q3 GDP beats expectations on resilient service sector. Elsewhere, we expected India will keep the repo rate unchanged at next week's RBI meeting, as core inflation measures remained at low levels. However, we do not rule out the possibility of a rate hike in the coming months if external financing pressures re-surface.

- **Economic indicators for 3Q signal less dynamism in Brazil and resiliency in Peru**
  - In Brazil, despite positive readings for August´s retail sales and other activity indicators, high-frequency data support our forecast that GDP will grow significantly decelerate in 3Q13 (even if September´s activity indicators come out strong). In Peru, August´s GDP accelerated to 4.3% YoY, in line with our forecast. Moreover, recent indicators suggest that economic activity will gradually become more dynamic. Chile´s central bank unexpectedly decided to cut the monetary policy rate by 25bp (to 4.75%), starting an easing cycle due to the recent deceleration of economic activity. Although we did not anticipate the timing of the first slash, which we had forecasted for November's meeting, the cut in the policy rate remains in line with our baseline scenario. All in all, we still forecast that the monetary policy rate will be cut by at least another 75bp over the next three quarters.

**Next week**: As the US government reopens, we expect the release of those macroeconomic indicators delayed by the shutdown (including September's non-farm payrolls and unemployment rate). In Europe, the focus will be on the announcement of the first details about banks´ AQR, and the eurozone and German PMIs for October. In China, October's HSBC/Markit PMI manufacturing and the property price index composed of 70 Chinese cities will be released. In Mexico, Banxico will hold its monetary policy; we continue to expect a 25bp cut in October, due to downside risks in economic activity and little inflationary pressures.

# Weekly Indicators

Week October, 14 - October, 18

| CC | Indicator | Period | Cons. E | Prior | Obs. * |
|---|---|---|---|---|---|
| United States | Empire State Manufacturing Survey | Oct | 7.00 | 6.09 | 1.52 |
| | Initial Jobless Claims ('000) | 12 Oct | 335 | 374 | 358 |
| | Continuing Claims ('000) | 5 Oct | 2915 | 2905 | 2859 |
| | Philadelphia Fed Survey | Oct | 16.0 | 22.3 | 19.8 |
| Eurozone | Industrial Production SA MoM | Aug | 0.8% | -1.5% | 1.0% |
| | CPI MoM | Sep | 0.5% | 0.1% | 0.5% |
| | Trade Balance SA (B) | Aug | 11.8 | 11.1 | 12% |
| France | CPI MoM | Sep | -0.30% | 0.50% | -0.20% |
| Germany | ZEW Survey Current Situation | Oct | 31.3 | 30.6 | 29.6 |
| | ZEW Survey Expectations | Oct | 49.6 | 49.6 | 52.8 |
| Italy | General Government Debt (Bn) | Aug | -- | 2072.9 | 2060 |
| | Trade Balance Total (Mn) | Aug | -- | 5948 | 958 |
| UK | CPI MoM | Sep | 0.3% | 0.4% | 0.4% |
| | ILO Unemployment Rate 3Mths | Aug | 7.7% | 7.7% | 7.7% |
| | Retail Sales Incl. Auto MoM | Sep | 0.4% | -0.9% | 0.6% |
| China | CPI YoY | Sept | 2.80% | 2.60% | 3.10% |
| | New Yuan Loans (Bn) | Sept | 675 | 711.3 | 787 |
| | GDP YoY | 3Q13 | 7.80% | 7.50% | 7.80% |
| | Industrial Production YoY | Sept | 10.20% | 10.40% | 10.20 % |
| Japan | Industrial Production YoY | Sept | -- | 0.90% | -0.70% |
| Peru | Unemployment Rate | Sep | -- | 5.60% | 5.90% |
| | Economic Activity YoY | Aug | 4.50% | 4.50% | 4.30% |
| Brazil | Economic Activity MoM | Aug | 0.20% | -0.33% | 0.08% |

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

# Calendar: Indicators

## Eurozone: EC consumer confidence (October, October 23rd)

| Forecast: -14.4 | Consensus: -14.5 | Previous: -14.9 |
|---|---|---|

We expect consumer confidence to have improved slightly again in October, continuing the upward trend observed over the first half of the year, especially in 2Q13, and thus returning to its historical average. This trend, combined with recent stabilization in labour market conditions, suggest that the mild growth of private consumption observed in 2Q13 is likely to continue in the following quarters, but it is likely to remain subdued due to the still high unemployment rate and tightened credit conditions. Overall, these figures are in line with our macroeconomic scenario that envisages subdued but steady growth of private consumption over 2H13. Across countries, strong differences in private consumption performance are likely to linger, being relatively robust in core economies, especially Germany, while it should remain weak in the periphery.

## Eurozone: Flash PMI Composite (October, October 24th)

| Forecast: 52.6 | Consensus: 52.3 | Previous: 52.2 |
|---|---|---|

We expect the composite PMI to increase again in October, but the gain should be more moderate, as observed in September after the significant improvements registered in both July and August. These figures suggest that the pace of the recovery in the eurozone could be stabilizing, in line with our projection for GDP quarterly growth of around 0.2% / 0.3% q/q in the second half of 2013. Across sectors, we expect a more moderate gain in the manufacturing index than in the services component, as the latter could be benefeting from the relative dynamism of domestic demand. Across countries, we also expect a widespread gain in confidence, especially in the periphery where these indicators could shed more light on the exit from recession of these countries.

## US: Existing Home Sales (September, October 21st)

| Forecast: 5.51M | Consensus: 5.28M | Previous: 5.48M |
|---|---|---|

Existing home sales have finally reached a recovery high for the first time since the government tax credit caused a brief spike in demand in late 2009. As is the usual trend, sales in July and August of this year were relatively strong despite the fact that rising prices and mortgage rates are hurting affordability for potential homebuyers. Most recently, however, mortgage rates have stabilized in line with the Fed's commitment to QE3 which should help boost home sales for the time being. While there are still some lingering concerns regarding the housing market, it appears that activity is moving in the right direction, albeit very gradually. On an annual basis, sales of existing homes have been growing at double digits rates through most of 2013, and we expect this to continue throughout the second half of the year.

## US: Consumer Sentiment (October, October 25th)

| Forecast: 74.5 | Consensus: 75.0 | Previous: 75.2 |
|---|---|---|

The initial reading for consumer sentiment in October was somewhat discouraging, with the index hitting the lowest level since January. Expectations have been a big drag lately, having declined throughout the past four months as underlying sentiments from recent Fed announcements and fiscal issues put a damper on the economic outlook. Consumer views on current conditions have held up so far, but we expect that sentiment could fall back if Congress does not come to an agreement soon to end the shutdown and avoid a government default. On the other hand, falling gas prices and low inflation expectations provide consumers a little boost with added purchasing power. With this in mind, we expect the final consumer sentiment reading for October to decline slightly, remaining below levels seen since the start of this year.

## South Korea: Q3 GDP growth (October 25th)

| Forecast: 3.3% y/y | Consensus: 3.1% y/y | Previous: 2.3% y/y |
|---|---|---|

GDP growth has been rising in sequential terms for the past three quarters on the effects of stimulus measures, including a fiscal package and a 25bp rate cut by the BOK in May, along with improving external demand. A pickup in investment in the first half of the year is especially encouraging, and reflects the resilience of the economy in the face of external volatility from expectations of QE tapering. However, while we expect Q3 GDP growth to rise in year-on-year terms, sequential growth is expected to remain steady at 1.1% q/q sa in Q3, the same rate as in Q2. The effects of the stimulus measures are gradually wearing off, and external demand, while improving, remains somewhat subdued as seen in worse-than-expected exports for the month of September (-1.5% y/y). We expect full-year growth to reach 2.7% and 3.7% in 2014.

# Markets Data

| | | | Close | Weekly change | Monthly change | Annual change |
|---|---|---|---|---|---|---|
| Interest rates (changes in bps) | US | 3-month Libor rate | 0.24 | 0 | -1 | -8 |
| | | 2-yr yield | 0.31 | -4 | -1 | 1 |
| | | 10-yr yield | 2.57 | -12 | -12 | 81 |
| | EMU | 3-month Euribor rate | 0.22 | 0 | 0 | 2 |
| | | 2-yr yield | 0.17 | -1 | -6 | 6 |
| | | 10-yr yield | 1.83 | -3 | -17 | 24 |
| Exchange rates (changes in %) | Europe | Dollar-Euro | 1.368 | 1.0 | 1.2 | 5.0 |
| | | Pound-Euro | 0.85 | -0.5 | 0.9 | 3.9 |
| | | Swiss Franc-Euro | 1.23 | 0.0 | 0.1 | 2.1 |
| | America | Argentina (peso-dollar) | 5.85 | 0.3 | 1.7 | 23.5 |
| | | Brazil (real-dollar) | 2.15 | -1.1 | -1.5 | 6.2 |
| | | Colombia (peso-dollar) | 1878 | -0.1 | -1.5 | 4.4 |
| | | Chile (peso-dollar) | 496 | -0.5 | -1.2 | 4.4 |
| | | Mexico (peso-dollar) | 12.77 | -1.7 | 0.9 | -0.9 |
| | | Peru (Nuevo sol-dollar) | 2.76 | -0.3 | 0.2 | 6.8 |
| | Asia | Japan (Yen-Dollar) | 97.83 | -0.8 | -0.1 | 23.3 |
| | | Korea (KRW-Dollar) | 1061.65 | -0.9 | -1.8 | -3.8 |
| | | Australia (AUD-Dollar) | 0.965 | 2.0 | 1.4 | -6.6 |
| Comm. (chg %) | | Brent oil ($/b) | 110.1 | -1.1 | -0.5 | -0.1 |
| | | Gold ($/ounce) | 1317.3 | 3.5 | -3.4 | -23.5 |
| | | Base metals | 515.4 | 0.3 | -1.1 | -0.2 |
| Stock markets (changes in %) | Euro | Ibex 35 | 9963 | 3.0 | 9.9 | 25.9 |
| | | EuroStoxx 50 | 3020 | 1.5 | 3.8 | 18.8 |
| | America | USA (S&P 500) | 1733 | 1.8 | 0.4 | 20.9 |
| | | Argentina (Merval) | 5386 | 2.8 | 13.8 | 121.8 |
| | | Brazil (Bovespa) | 55358 | 4.2 | -0.6 | -6.0 |
| | | Colombia (IGBC) | 14327 | 0.6 | 1.7 | -3.5 |
| | | Chile (IGPA) | 18848 | -0.2 | 0.2 | -9.7 |
| | | Mexico (CPI) | 40199 | -1.9 | -4.1 | -5.2 |
| | | Peru (General Lima) | 15734 | 1.8 | -2.6 | -26.6 |
| | | Venezuela (IBC) | 1883508 | 2.9 | 17.5 | 402.7 |
| | Asia | Nikkei225 | 14562 | 1.1 | 0.4 | 61.7 |
| | | HIS | 23340 | 0.5 | 1.0 | 8.3 |
| Credit (changes in bps) | Ind. | Itraxx Main | 88 | -5 | -6 | -33 |
| | | Itraxx Xover | 353 | -18 | -23 | -140 |
| | Sovereign risk | CDS Germany | 23 | 0 | -3 | -11 |
| | | CDS Portugal | 384 | -11 | -136 | -23 |
| | | CDS Spain | 195 | -8 | -34 | -78 |
| | | CDS USA | 35 | 1 | 13 | --- |
| | | CDS Emerging | 263 | -12 | 0 | 50 |
| | | CDS Argentina | 2186 | -6 | -330 | 1211 |
| | | CDS Brazil | 147 | -3 | 1 | 36 |
| | | CDS Colombia | 120 | -1 | 17 | 18 |
| | | CDS Chile | 83 | -1 | 2 | 0 |
| | | CDS Mexico | 104 | -3 | 10 | 3 |
| | | CDS Peru | 128 | -4 | 9 | 24 |

Source: Bloomberg and Datastream

# Weekly Publications

| Country | Date | Description |
|---|---|---|
| EMU | 10/16/2013 | **Europe Flash: Energy and food prices lowered headline and core inflation in September**<br>Inflation is projected to hover around 1.3% y/y over next year |
| Spain | 10/14/2013 | **Flash España: "Compraventa de viviendas en agosto de 2013: contracción moderada"**<br>Las ventas de viviendas muestran una caída similar al del mes anterior una vez corregidas las variaciones estacionales propias del mes |
| | 10/14/2013 | **La reforma de las pensiones públicas en España: el factor de sostenibilidad**<br>El sistema público de pensiones es una pieza fundamental del Estado de bienestar y, por lo tanto, necesita tener garantizada su sostenibilidad |
| | 10/13/2013 | **Del ajuste fiscal a las políticas de empleo**<br>A principios de año, la Comisión Europea estimaba que el déficit público estructural en España alcanzó al 6% del PIB en 2012. |
| US | 10/17/2013 | **U.S. Banking Watch. Quarterly Credit Quality Update: 3Q13**<br>Commercial banks in the U.S. are certainly seeing an improvement in asset quality, particularly in consumer and CI lending |
| | 10/14/2013 | **U.S. Weekly Flash. FOMC Minutes: Foreseen Government Shutdown Put September Tapering on Hold**<br>The FOMC minutes from the September 17-18th meeting convey that the decision not to proceed with the expected "tapering" plan was a close call.<br>(Spanish version) |
| Latam | 10/17/2013 | **Latam Daily Flash: No changes are expected from Chile's MP meeting. Minutes will provide clues on the end of the tightening cycle in Brazil** |
| | 10/16/2013 | **Latam Daily Flash: GDP grew in line with expectations in Peru; another upside surprise in retail sales in Brazil** |
| | 10/15/2013 | **Latam Daily Flash: Today activity data in Peru and Brazil should provide some clues about GDP performance in 3Q13**<br>Retail sales in Brazil should provide more information on consumption in 3Q13. In Peru the GDP reading is expected to be similar to the previous month's figure. |
| | 10/14/2013 | **Latam Daily Flash: Monetary minutes in Colombia reveal an optimistic BanRep supported by leading indicators for 3Q13** |
| | 10/15/2013 | **Latam Daily Flash: No sign of the end of the monetary tightening cycle in Brazil while Chile surprised by starting an easing cycle** |
| Brazil | 10/17/2013 | **Brazil Flash: COPOM: still no sign of the end of the ongoing tightening cycle**<br>The minutes of last week's monetary meeting maintained the tone and the wording used in previous official communication<br>(Spanish version) |
| Chile | 10/17/2013 | **Banco Central baja la TPM a 4,75% contrario a consenso, pero en línea con nuestro escenario**<br>El comunicado da cuenta de un escenario externo más débil con condiciones financieras menos favorables y un escenario interno marcado por una demanda final que ha reducido su ritmo de expansión. |
| | 10/14/2013 | **Proyectamos IPC de octubre todavía en -0,1% m/m, pero caminando hacia 0% m/m**<br>Hemos observado alzas importantes en alimentos frescos, mientras que transporte interurbano y gasolinas lideran las bajas para octubre. |
| Colombia | 10/15/2013 | **Disminución de pobreza rural: una tarea pendiente.**<br>Los recién publicados datos de pobreza en Colombia son buenos, pero dejan un sinsabor. |
| Peru | 10/15/2013 | **Flash Perú. PIB de agosto en línea con lo esperado**<br>La actividad económica creció 4,3 % a/a en agosto (BBVA: 4,3% y Consenso: 4,5%), impulsada por el desempeño de la minería, construcción, comercio y servicios. |
| | 10/14/2013 | **Peru Economic Watch:E-money: an estimate of potential demand**<br>The Electronic Money Act, approved in 2012, provides an opportunity for extending banking usage through electronic devices<br>(Spanish version) |

## Asia

10/18/2013 **China Flash: Rebound in Q3 GDP in line with expectations, with momentum in the near term likely to be sustained**
Third quarter GDP growth picked up to 7.8% y/y (BBVA: 7.7%; consensus: 7.8%) from 7.5% in the previous quarter, led by domestic demand.

10/17/2013 **Asia Flash | 17 Oct 2013: China and the UK boost financial ties, lifting London as offshore RMB center; China Q3 GDP expected to rise to 7.7% y/y with moderate recovery on track**
Asian markets were generally higher today on news of the US debt ceiling agreement. Predictably, risk-sensitive assets performed best, exemplified by the AUD, rising to 0.96 against the USD.

10/15/2013 **Asia Flash | 15 Oct 2013: Mixed data in China: robust domestic demand amidst external uncertainty; Singapore preliminary Q3 GDP beats expectations; HKMA reaffirms plans to keep currency peg; Risin...**
After re-opening today from a holiday in Hong Kong, Japan, and Indonesia yesterday, most Asian markets closed higher.

Publications on October 18, 2013 to 11:20, Madrid time

**DISCLAIMER**