

Global Weekly Flash

Madrid, 19 July 2013
Economic Analysis

Financial Scenarios

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Bernanke's dovish tone boosts market sentiment

- **Chairman Bernanke's testimony to Congress incorporates many dovish twists to restore confidence**

- Bernanke's semi-annual testimony reemphasized the data-driven nature of QE3 and stressed that the Committee's plans for winding down QE3 remains on course. However, Bernanke was cautious to keep policy flexibility by stating that the asset purchase program can be dialed up if the fiscal and global restraints prove to be stronger than expected. This could also be a reaction to the sharp increase in interest rates over the past two months, and thus was an attempt to promote a more gradual correction in long-term yields. Despite the dovish tone of the testimony, we maintain our baseline scenario of Fed tapering later in 3Q13 and ending the program in 2Q14, when the unemployment rate has dropped to around 7%.

- **Bernanke's dovish undertone boosts risky assets and bond prices**

- US equity has been also aided by good earning results in the banking sector, positive economic data, and, more recently, Moody's decision to raise US sovereign rating to stable (from negative). US bonds started improving after Bernanke emphasised the data-dependency of the Fed's strategy, but the trend stopped later in the week, as economic indicators started signaling that the economic cycle was gathering momentum. Sovereign debt has improved across the board. The 10Y German yield has fallen 6bps, while the spread against the 10Y US yields has continued at high levels). Despite political uncertainties, peripheral sovereign debts have outperformed core countries' debts. Several reasons are behind such performance: the Greek Parliament approved new austerity measures demanded by the troika, investors gave a respite to Portugal ahead of this Saturday's deadline for a "national salvation programme" agreement, and the troika concluded its 11th revision to Ireland, stating that the country remains "on track". Moreover, IMF officials have suggested that Ireland can request a precautionary line -- a backstop arrangement before the end of its assistance programme --, which would smooth the country's return to the markets. However, uncertainty about peripherals remains, as shown by the continuing flow toward low-yielding 2Y German bonds. All in all, this week's positive environment has helped Spain's Treasury to sell EUR 3.06bn in 3Y, 5Y and 10Y bond actions, reaching more than 74% of its projected gross long-term debt issuances for 2013. The USD has lost ground against all major currencies, except for the Japanese yen. Oil prices have continued to rise, the price of precious metals has remained stable and the price of several industry metals has fallen.

- **Surprisingly, BoE's minutes show that the Monetary Policy Committee had unanimously agreed to hold its monetary policy and to leave unchanged the current QE stimulus, betting on the adoption of forward guidance**
 - The minutes show that members were concerned with how markets reacted to earlier statements from the Fed, signaling that recent improvement in economic indicators do not grant any tapering. The BoE will provide in its August Inflation Report and assessment of its "forward guidance" strategy.
- **ECB eases collateral and haircut rules, in a move to restore credit to the corporate sector**
 - The ECB has expanded the list of collateral accepted under the Eurosystem Collateral Framework, replacing "the current requirement of two 'triple A' ratings with the requirement of two 'single A' ratings for the six classes of ABS." Moreover, the haircuts applicable to ABS will be reduced under the permanent and temporary Eurosystem Collateral Framework. To counterbalance the rise in risks, the ECB has increased the "risk control measures for retained covered bonds." This measure may revamp the credit channel to the corporate sector, by invigorating the ABS markets and promoting cross-border risk-taking.
- **In China, GDP slowed down in 2Q13 and authorities have reiterated 7.5% growth target. In the US, macro data has been mixed. In the euro area, the debt crisis has continued to weigh on German sentiment**
 - As expected, China's GDP slowed down in 2Q13 (7.5% YoY) while supported by public investment. With this announcement, authorities reiterated a 7.5% growth target for the year. Meanwhile, industrial production has continued to weaken, while investment and retail sales are holding up, the former backed by public spending. Moreover, released FDI data has been encouraging. FDI inflows increased more than expected in June (20.1%), marking its fifth straight month of gains (+8.3% YoY for 2Q13). Meanwhile, housing prices have continued to rise at a rapid, albeit decelerating, rate. China's property prices rose in June (5.9% YoY, previous: 5.3%), according to our estimates based on monthly price data covering 70 cities from the National Bureau of Statistics (NBS). But on a sequential basis, we estimate that the rise in monthly prices declined to 0.8% MoM nsa compared to a 1.0% in each of the previous two months.
 - **In the US**, retail sales for June were slightly disappointing, showing modest improvement in some sectors but not enough to compensate the fall in other. In particular, when excluding autos and gas, retail sales dropped well below expectations. In addition, housing data have disappointed this week: housing starts saw a significant decline in June (-10%, previous: +8.9%) and building permits also fell below expectations (marking its second straight decline). On the positive side, industrial production rose in June, led by manufacturing and mining activity. Capacity utilization edged up in June (77.8%), as a response to the surge in durable goods production. Both manufacturing and new orders are in line with the stronger activity we expect for 2H13. Moreover, the Philadelphia Fed's manufacturing survey index unexpectedly surged in July to its highest level since March 2011, while initial jobless claims fell more than expected last week. Finally, the headline consumer price index for June was higher than expected, as energy prices weighed in after a rather weak performance in May.
 - **The German ZEW economic sentiment index** fell more than expected in July, but the ZEW for the Eurozone surpassed expectations. The euro-area trade surplus narrowed by EUR 0.6bn in May. As expected, June's inflation rose on rising energy prices, and thus it should moderate again.

- **In Latam**, May's indicators of economic activity have been weak. Activity contracted more than expected in Brazil, whereas softer external demand meant that industrial production remained sluggish in Mexico and Peru. In particular, Peru's GDP grew 5% YoY, reflecting the slowdown in manufacturing and primary sectors. In Colombia, trade figures anticipate a recovery in consumption, but manufacturing remained sluggish.

Next week: The Fed will release the Chicago activity index, existing home sales, new home sales and durable orders. Other releases include the University of Michigan Confidence index in the US, July's HSBC manufacturing PMI in China, July's IFO in Germany, and July's Manufacturing and Services PMI indexes in the eurozone. This Saturday, Portugal reaches a potential agreement and Japan holds Upper House Parliamentary elections..

Weekly Indicators

Week July, 15 - July, 19

CC	Indicator	Period	Cons. E	Prior		Obs. *
United States	Retail sales	Jun	0.8%	0.6%	↓	0.4%
	Consumer Price Index (MoM)	Jun	0.3%	0.1%	↑	0.50%
	Industrial Production (MoM)	Jun	0.3%	0.0%	→	0.30%
	Building Permits (MoM)	Jun	1.5%	-3.1%	↓	-7.50%
	Housing Starts	Jun	5.0%	6.8%	↓	-9.90%
	Philadelphia Fed Survey	Jun	7	12.5	↑	19.80
Euro zone	CPI (MoM)	Jun	0.1%	0.1%	→	0.10%
	Euro-Zone Trade Balance (Euro Bn)	May	16.2	15.2	↓	14.6
Germany	Zew Survey (Current Situation)	Jul	9.00	8.60	↑	10.60
	ZEW Survey (Econ. Sentiment)	Jul	40.00	38.50	↓	36.30
UK	CPI (MoM)	Jun	-0.10%	0.20%	↑	0.20%
	ILO Unemployment Rate (3mths)	May	7.8%	7.80%	→	7.8%
China	GDP (YoY)	2Q	7.5%	7.7%	→	7.5%
	Industrial Production (YoY)	Jun	9.1%	9.2%	↓	8.9%
	Retail Sales (YoY)	Jun	12.9%	12.9%	↑	13.3%
	Actual FDI (YoY)	Jun	0.7%	0.3%	↑	20.1%
Japan	All Industrial Activity Index	May	1.2%	0.4%	↓	1.1%
Mexico	Unemployment rate	Jul	4.97%		↑	4.99%
Brazil	IBGE CPI IPCA-15 (MoM)	Jul	0.13%	0.38%	↓	0.07%

* 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 (July, July 23rd)

Forecast: -17.8	Consensus: -18.4	Previous: -18.8
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We expect consumer confidence to have improved slightly again in July, continuing the upward trend observed over the first half of the year, and especially in 2Q13. Nonetheless, households' sentiment remains at very low levels (around 1 standard deviation below its historical average), and combined with worsening labour market conditions and still tight credit conditions, suggest that households' spending will not accelerate in the short-term, though it should not drain economic growth in coming quarters. 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 (July, July 24th)

Forecast: 49.4	Consensus: 49.3	Previous: 48.7
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We expect the PMI composite to have increased again in July to revert to those levels observed by mid-2011, when the eurozone GDP grew at a modest pace, and thus sustain our view of mild economic recovery in coming quarters. Overall, these projections might be in line with our scenario that already envisages a quarterly GDP growth by now in 2Q13, to remain subdued but a steady pace in 2H13. By components, the manufacturing index is expected to increase slightly again in July, being the figures of new export orders especially relevant to assess the impact of the recent slowdown in global demand. The service sector is also expected to improve, more markedly than in manufacturing, but remaining subdued as depressed domestic demand will continue weigh on sentiment, especially in the periphery.

US: Existing Home Sales (June, July 22nd)

Forecast: 5.21M	Consensus: 5.24M	Previous: 5.18M
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Existing home sales are expected to rise in June but a slower pace than in prior months as rising mortgage rates and reduced affordability may hold back home buyers. The recent rise in mortgage rates may be discouraging homebuyers that were hoping to keep their payments tied to a lower rate, causing them to refrain from purchasing a new home at this point. Rising home prices should help to keep inventories growing due purely to the opportunities presented by a seller's market in much of the U.S. With this in mind, the deceleration we expect to see in June may be just a short-term hiccup as headwinds from borrowing rates and record low inventories make finding the right home a little more difficult. We also expect the median sales price of homes to decelerate slightly as the 8.5% rise in April may be difficult to replicate with aspects of the housing market slowing. Affordability may be the hardest hit component of the report however, as the aforementioned rate increases will hurt potential homebuyers.

US: Durable Goods Orders, Ex. Transportation (June, July 25th)

Forecast: 1.8% m/m, 0.6% m/m	Consensus: 0.9% m/m, 0.5% m/m	Previous: 3.6% m/m, 0.6% m/m
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Durable goods orders are expected to rise in June for the third consecutive month, propelled significantly by the transportation component. Throughout June there was an increase in orders for Boeing aircraft after the Paris airshow which debuted a handful of new products and future designs. These orders are expected to be logged in June and July as the final contracts are made and should help boost the aircraft portion of transport within the overall durable goods report. Excluding transportation, the situation may emerge similar to May with a modest rise in orders coming from a wide variety of subcomponents. Computers and electrical equipment have been strong aspects of the report along with non-defense capital goods. These are the components that help drive a more optimistic sentiment as they translate into business expansion rather than sporadic aircraft purchases or defense-driven orders. In terms of indicators for new orders excluding transportation, the latest Federal Reserve manufacturing surveys were only mixed for the month, with the Empire State report showing a decline in new orders while the Philadelphia Fed survey noted a significant increase. Nevertheless, the series remains volatile and businesses apprehensive as varying indicators from employment to housing show a mixed picture about the outlook for the coming quarters.

South Korea: Preliminary GDP (Q2, July 25th)

Forecast: 2.0% y/y; 0.9% q/q	Consensus: 1.9% y/y; 0.7% q/q	Previous: 1.5% y/y; 0.8% q/q
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We expect quarterly GDP growth, albeit still quite modest, to show a further improving trend for a second straight quarter. While private consumption has been weak due to the burden of high levels of household debt, recent export and investment trends have improved, along with a boost from the government's 1.3% of GDP fiscal stimulus package in April and an interest rate cut by the BoK in May (the first since October, bringing the policy rate to 2.5%). Nevertheless, we remain cautious due to headwinds from slowing growth in China, Korea's largest export market, some loss of competitiveness from the depreciating Yen, and volatile capital flows due to QE tapering. Our full-year GDP projection stands at 2.7% for 2013, up from the outturn of 2.0% in 2012, but is subject to downside risks.

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.26	0	-1	-19
		2-yr yield	0.30	-4	-1	10
		10-yr yield	2.49	-9	14	103
	EMU	3-month Euribor rate	0.22	0	1	-23
		2-yr yield	0.09	-2	-8	16
		10-yr yield	1.52	-4	-4	35
Exchange rates (changes in %)	Europe	Dollar-Euro	1.314	0.6	-1.1	8.1
		Pound-Euro	0.86	-0.4	0.3	10.7
		Swiss Franc-Euro	1.24	-0.1	0.1	2.9
	America	Argentina (peso-dollar)	5.46	0.7	2.2	19.7
		Brazil (real-dollar)	2.24	-1.4	0.5	10.4
		Colombia (peso-dollar)	1883	-1.2	-0.7	5.8
		Chile (peso-dollar)	502	-0.4	0.5	2.7
		Mexico (peso-dollar)	12.56	-2.0	-5.2	-6.0
		Peru (Nuevo sol-dollar)	2.77	-0.2	0.8	4.8
		Asia	Japan (Yen-Dollar)	100.36	1.1	4.1
	Korea (KRW-Dollar)		1121.75	-0.2	-0.8	-1.7
	Australia (AUD-Dollar)		0.920	1.6	-1.1	-11.4
	Comm. (chg %)	Brent oil (\$/b)	108.1	-0.6	1.9	1.2
		Gold (\$/ounce)	1296.1	0.8	-4.1	-18.2
Base metals		519.4	-0.3	-0.2	3.4	
Stock markets (changes in %)	Euro	Ibex 35	7952	1.4	-1.8	27.3
		EuroStoxx 50	2716	1.6	1.2	21.4
	America	USA (S&P 500)	1689	0.5	3.7	24.0
		Argentina (Merval)	3404	5.5	10.9	38.4
		Brazil (Bovespa)	47354	4.0	-1.1	-12.6
		Colombia (IGBC)	13562	5.6	2.0	-1.2
		Chile (IGPA)	19236	3.4	-2.0	-8.6
		Mexico (CPI)	39954	-0.9	2.3	-2.1
		Peru (General Lima)	15405	2.6	-7.0	-23.1
	Venezuela (IBC)	1253213	0.3	32.6	408.5	
	Asia	Nikkei225	14590	0.6	10.2	68.3
HSI		21362	0.4	1.8	8.8	
Credit (changes in bps)	Ind.	Itraxx Main	102	-6	-6	-67
		Itraxx Xover	403	-31	-40	-259
	Sovereign risk	CDS Germany	30	-1	2	-48
		CDS Portugal	524	-32	158	-306
		CDS Spain	276	-5	19	-329
		CDS USA	24	-3	-4	---
		CDS Emerging	274	-46	-76	11
		CDS Argentina	2519	-752	-1186	1372
		CDS Brazil	164	-23	-21	21
		CDS Colombia	117	-19	-27	-10
		CDS Chile	85	-8	-16	-27
		CDS Mexico	111	-15	-25	-11
CDS Peru	123	-16	-23	-19		

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
Global	07/16/2013	➤ Sobre la normalidad y la anormalidad en economía La pregunta es: ¿Dónde estamos?, ¿En una nueva normalidad o una nueva anormalidad?
EMU	07/18/2013	➤ Fragmentation in European Financial Markets: Measures, Determinants, and Policy Solutions This paper measures fragmentation in four European financial markets and develops a new measure of global fragmentation using these markets as inputs
	07/16/2013	➤ Europe Flash: Inflation up in June due to energy prices, but expected to moderate again The inflation pace will remain below the ECB's target in 2H13 and 2014
	07/16/2013	➤ Global & EU Regulatory Update The fragmentation is more worrying in the Eurozone: re-nationalization of financial markets puts at risk the euro
	07/16/2013	➤ La crisis en la Unión Europea La expansión y la crisis han generado importantes desequilibrios que van a ser una pesada losa durante muchos años en muchas economías europeas
Spain	07/18/2013	➤ Presentación "Situación Asturias 2013" Asturias, que tocará fondo en 2013, volverá a crecer más que España en 2014
	07/18/2013	➤ Situación Asturias 2013 Asturias, que tocará fondo en 2013, volverá a crecer más que España en 2014
	07/16/2013	➤ Flash España: El déficit público aumentó en mayo El déficit público acumulado hasta mayo de 2013 se habría situado por encima del 3,0% del PIB, en torno a 1,9 puntos porcentuales más que en el mes anterior
US	07/17/2013	➤ Fed Watch. Chairman Bernanke's Testimony to Congress Report Incorporates Many Dovish Twists to Restore Confidence (Spanish version)
	07/17/2013	➤ U.S. Flash. Beige Book Points To Modest Growth Across Districts Modest to moderate growth cited for all of the reported Fed districts. Construction and housing sectors experienced only modest growth
	07/17/2013	➤ U.S. Housing Flash. Housing Starts Decline but Single Family Units Remain Strong Housing starts declined 9.9% in June with the majority of the drop in multi-family. Building permits fell by 7.5%, marking the second straight decline since April
	07/16/2013	➤ U.S. Flash. Industrial Production Strengthens on Mining & Manufacturing Total output increased 0.3% in June after a flat reading in May. Manufacturing and mining both provided upward momentum
	07/16/2013	➤ U.S. Inflation Flash. Headline Inflation Rises on Higher Energy Prices Headline inflation increased 0.5% in June after a modest 0.1% gain the month before. Energy prices rose 3.4%, marking the largest monthly increase since February
	07/15/2013	➤ U.S. Flash. Retail Sales Decelerate as Unexpected Sectors Stunt Growth Retail Sales increased only 0.4% in June as key sectors weakened. Excluding autos and gas the figure was less optimistic, declining 0.1%
	07/15/2013	➤ U.S. Weekly Flash. Consumer Credit Expanded Quickly in May as Revolving Credit Surged Unexpectedly Total outstanding consumer credit accelerated again in May, up \$19.6bn for the largest gain in one year (Spanish version)
	Latam	07/19/2013
07/18/2013		➤ Latam Daily Flash: Imports fall in Colombia Today markets will focus on the monetary policy minutes in Brazil, to confirm hints from the BCB of further rate hikes going forward.

07/17/2013 > **Latam Daily Flash: Awaiting trade figures in Colombia**
Today foreign trade numbers will be published in Colombia, and will provide a clue about the performance of imports and domestic demand.

07/16/2013 > **Latam Daily Flash: GDP decelerates in Peru; consumer confidence declines in Chile**

07/15/2013 > **Latam Daily Flash: Weak economic activity in May in Brazil, Mexico and Peru**

Brazil

07/18/2013 > **Brazil Flash: For the COPOM, the exchange rate depreciation is a natural and expected transition to normality, but entails risks**
Today's minutes reinforce our SELIC forecasts and reduce the chance of a longer tightening cycle

Peru

07/15/2013 > **Flash Perú. PIB se desaceleró en mayo**
La actividad creció 5,0% a/a en mayo, en línea con nuestro estimado, pero por debajo de lo esperado por el mercado (BBVA: 5,1%; Consenso: 5,5%).

Mexico

07/17/2013 > **Presentación Situación Banca México Julio 2013**
Análisis de la Iniciativa de Reforma Financiera

07/17/2013 > **Situación Banca México Julio 2013**
El Gobierno Federal dio a conocer la Iniciativa de Reforma Financiera. En ésta se proponen cambios en leyes y reglamentos que buscan cumplir con los compromisos del Pacto por México

07/15/2013 > **Mexico Real Estate Flash. Construction returns to negative terrain**
Construction fell in May due to lower output in building and public works. The sector continues to lag in comparison to the wider economy
(Spanish version)

07/15/2013 > **Mexico Weekly Flash. The upturn in industrial output was a highlight this week although we maintain a downward bias, awaiting unemployment figures for June**
Industrial output came in above expectations (-0.2% m/m consensus) in May expanding 1.4% m/m (0.5% y/y)
(Spanish version)

Asia

07/18/2013 > **Asia Flash | 18 Jul 2013: China housing prices continue to rise in June; S&P reaffirms Australia's AAA rating; Hong Kong unemployment rate edges down**
The dovish tone of the US Fed Chairman's testimony before Congress yesterday was well-received in Asian stock markets, which had been battered in May and June by worries of QE tapering.

07/17/2013 > **Asia Flash | 17 Jul 2013: China Jun FDI rises; India eases investment limits; Singapore's June exports disappoint**
Asian stock markets closed mixed today ahead of Chairman Bernanke's delivery of the Fed's semi-annual monetary policy report to the U.S. Congress.

07/16/2013 > **India Flash: RBI tightens rupee liquidity to stem currency pressures**
Amidst persistent currency depreciation pressures that have accelerated since early May (around 10% against the US dollar) the RBI yesterday announced measures to tighten rupee liquidity.

07/15/2013 > **Asia Flash | 15 Jul 2013: China's Q2 growth slows to 7.5%; China's June credit aggregates slow; Singapore's Q2 GDP surprises to the upside; India's WPI remains tame**
There was a sense of relief in Asian markets today as China's Q2 GDP growth came in line with expectations at 7.5% y/y.

07/15/2013 > **China Flash : Q2 GDP slows in line with expectations, as authorities reiterate 7.5% growth target**
Second quarter GDP growth registered 7.5% y/y (BBVA: 7.6%; consensus: 7.5%; previous 7.7%), continuing the gradual slowdown in place over the past 4-6 quarters.

07/15/2013 > **India Flash: June WPI inflation unlikely to move the needle on policy rates at RBI's July 30th meeting**
India's WPI inflation edged up in June although at a lower-than-expected pace of 4.9% y/y (consensus: 5.0%) as higher food inflation and a pick up in input prices offset easing demand pressures.

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