

BBVA Research

Macroeconomic Outlook

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CRU's 10th World Copper Conference

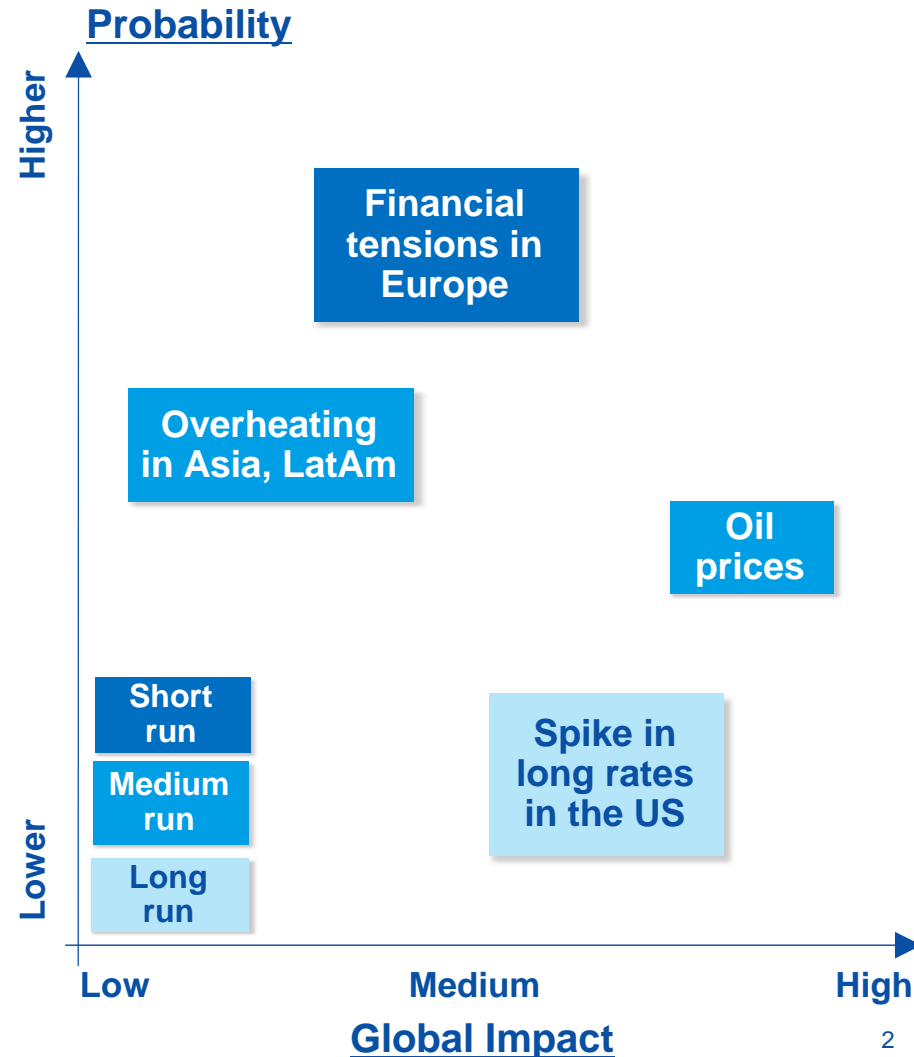
Santiago, April 5, 2011

Recovery, but plenty of risks too

Baseline Scenario

- Decouplings in the global economy will continue, both growth and policy wise
- Oil prices will remain high and volatile
- Outlook for the US has improved, but a fiscal adjustment is needed.
- Institutional and economic reforms in Europe will likely be partial.
- Asia and Latin America will continue growing strongly. Overheating risks have increased
- In the long run, the crisis will dent potential growth in advanced economies. Most Emerging markets will come out relatively unscathed.

Taxonomy of Economic Risks



Outline

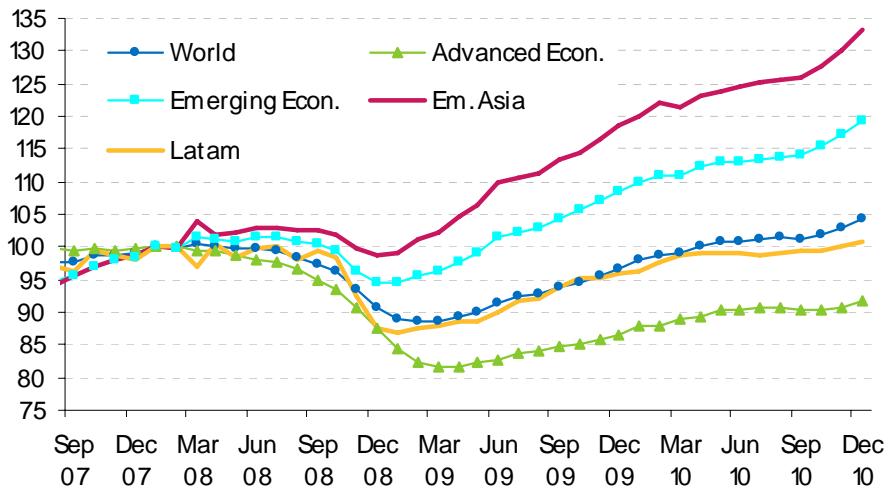
- 1 Exiting the great recession: decouplings and global shocks
- 2 Global Outlook and Copper Markets
- 3 Developed Markets look somewhat better
- 4 Emerging economies on track for a controlled slowdown
- 5 The long run and the potential of emerging countries

Decouplings and global shocks

After the synchronized hit of the crisis, advanced and emerging economies have been exiting at very different paces

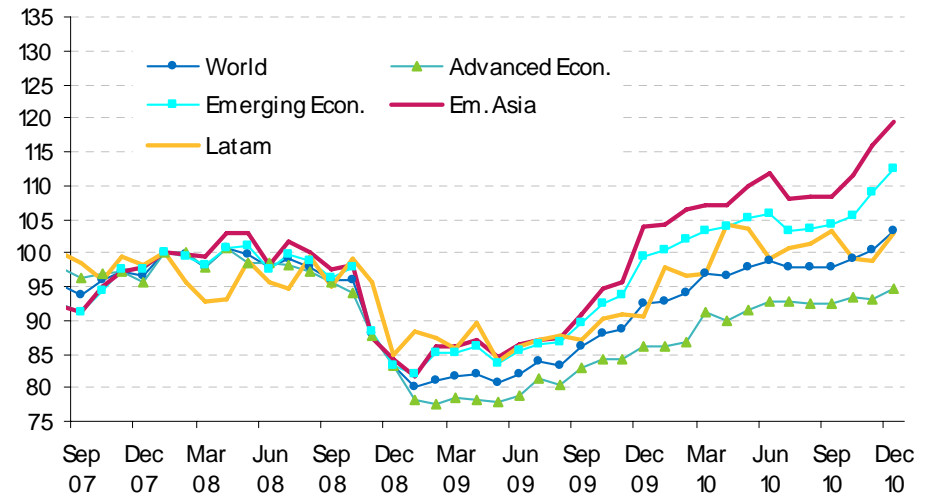
Industrial production (Index Jan 2008=100)

Source: BBVA Research and CPB



Exports (Index Jan 2008=100)

Fuente: BBVA Research and CPB

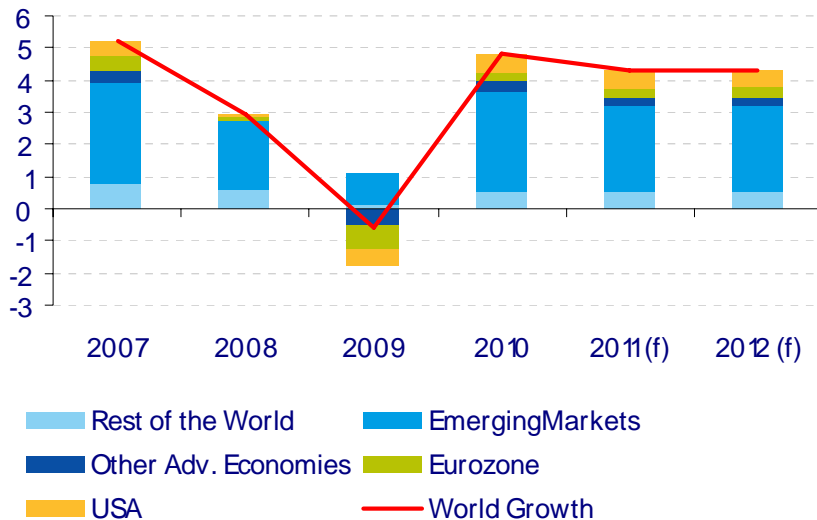


Decouplings and global shocks

The outlook is for continued strong global growth with many decouplings: emerging/advanced, US/EMU, and within EMU

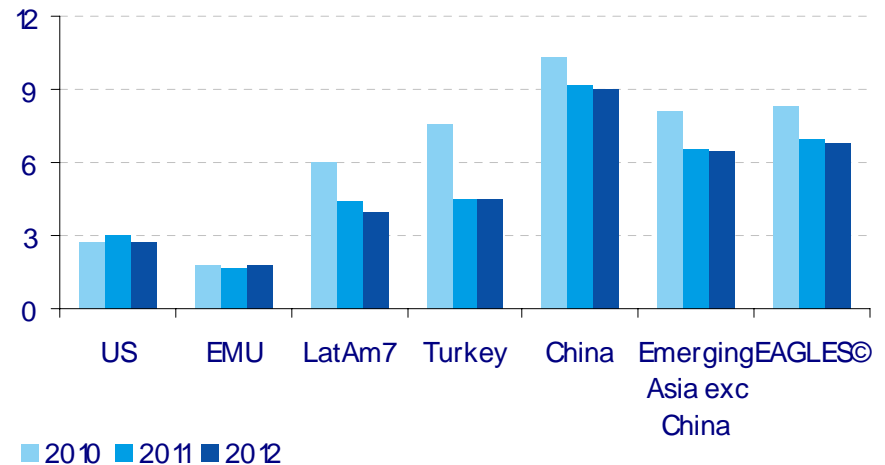
Contributions to GDP growth (%)

Source: BBVA Research



GDP growth forecasts (%)

Source: BBVA Research

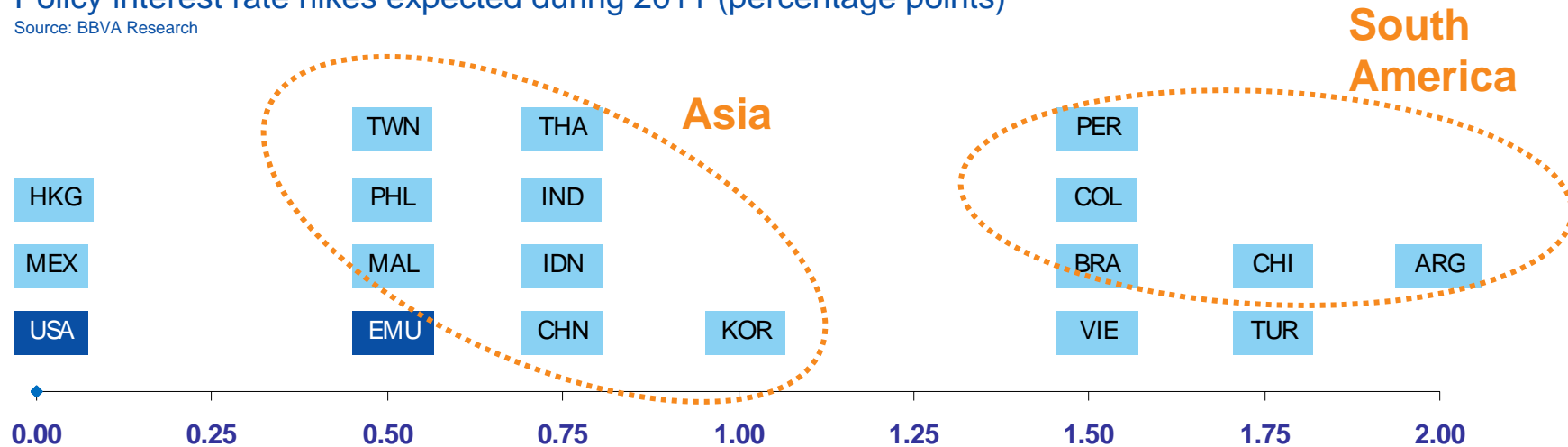


Decouplings and global shocks

Diverging growth leads to a decoupling of fiscal and (especially) monetary policies

Policy interest rate hikes expected during 2011 (percentage points)

Source: BBVA Research

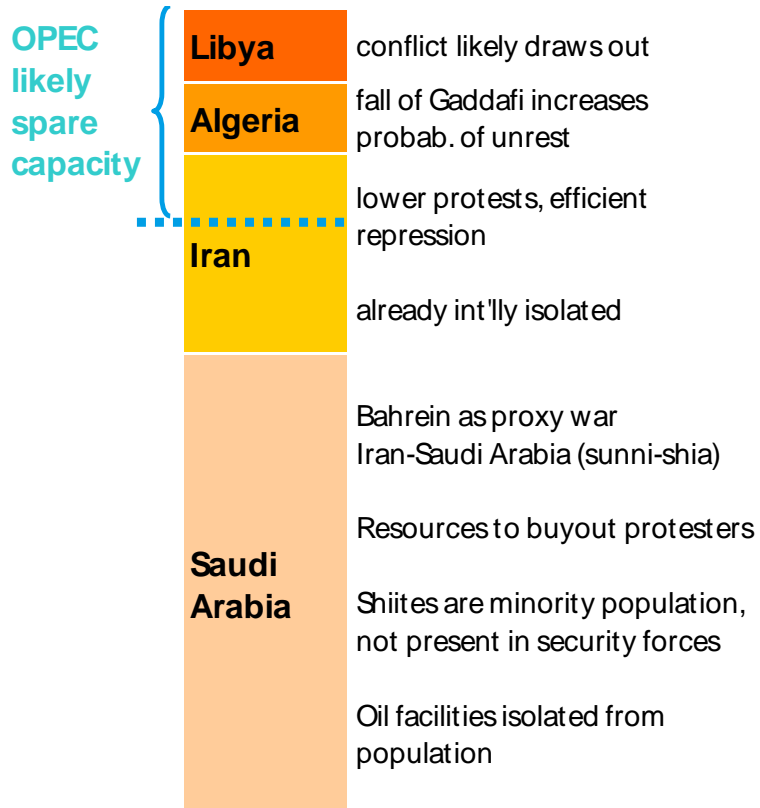


Decouplings and global shocks

Geopolitical scenarios for the MENA region are highly uncertain, and fallout on oil markets depends on many unknowns

Heat map of unrest in MENA oil producing countries
(height of boxes proportional to oil production on Dec. 2010)

Source: BBVA Research



Effect on oil markets depending on:

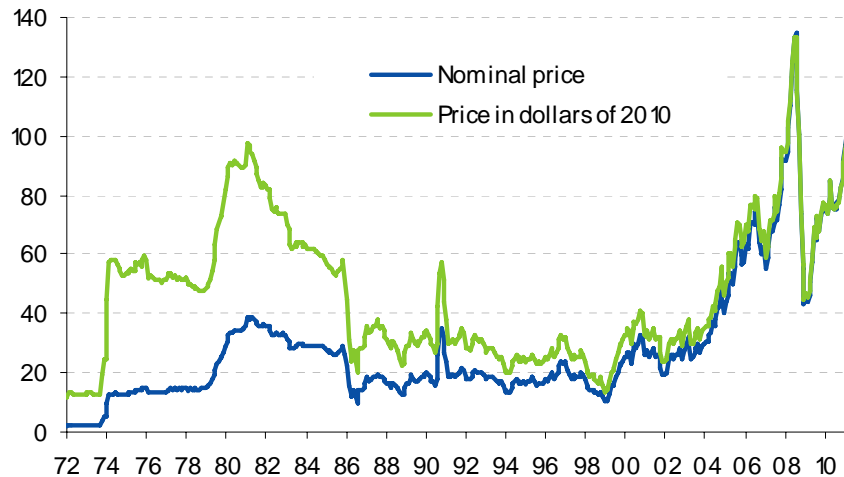
- True extent of reduction in production
- True level of OPEC spare capacity
- OPEC (Saudi Arabia) possible new target price
- Willingness of OECD countries to use strategic oil reserves
- Lingering geopolitical risk premium

Decouplings and global shocks

The recovery risks being derailed by an oil shock, especially in advanced economies. Contrary to 2004-2010, recent price spike derives from a negative supply shock, potentially more damaging to growth.

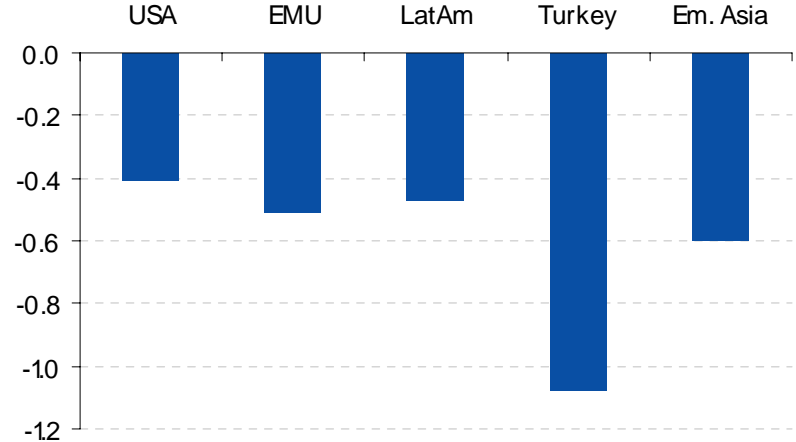
Oil prices in real terms

Fuente: BBVA Research



Effect on 2011 growth of oil prices sustained at 130 USD

Source: BBVA Research and OEF



Outline

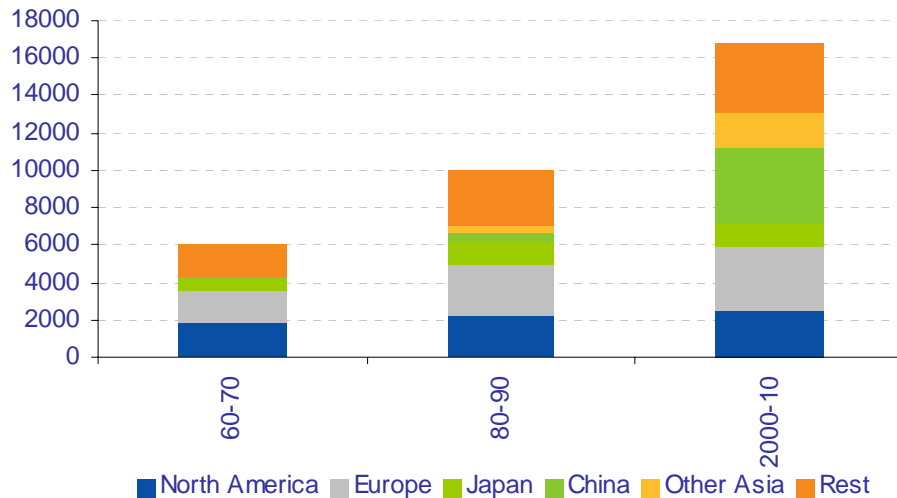
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Global Outlook and copper

- Large shifts in copper use at the global level, as a consequence of shifts in industrial capacity localization
- China and other Developing countries in Asia are the main sources of demand growth
- However, we know very little about the relative origin of final demand for copper
- Evidence from the crisis suggests that Asia has become the critical final consumer of copper.

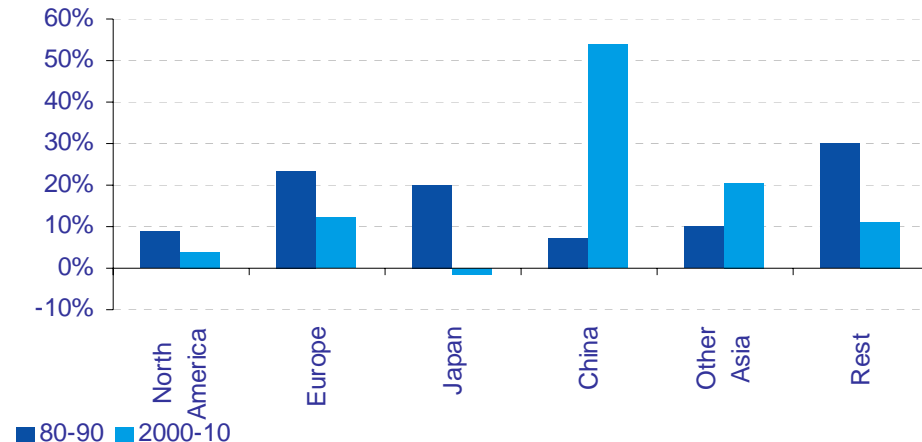
Copper Use by regions

Source: Cochilco, WBMS



Contributions to increases in copper use

Source: Cochilco, WBMS:

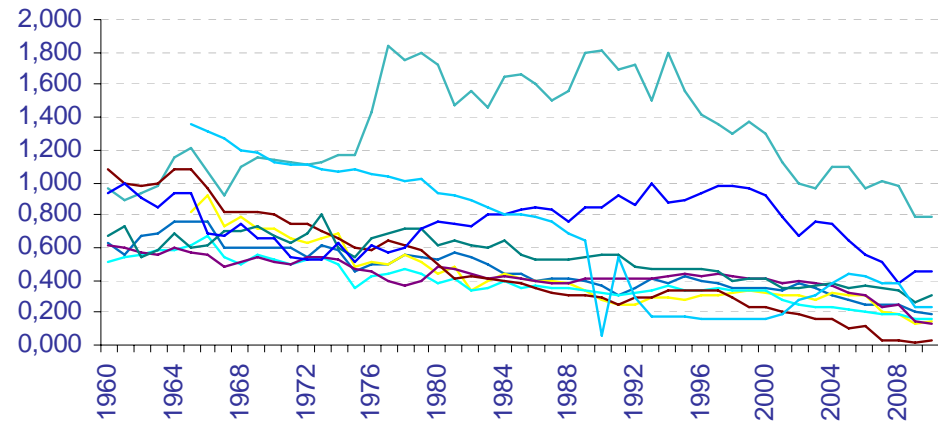


Global Outlook and copper

- GDP growth is strongly correlated with copper consumption in key Emerging Countries.
- Not so much in the US, Europe and other declining copper users.
- Intensity of use in all major players has already peaked out and is descending, with the exception of China

Declining Users of Copper

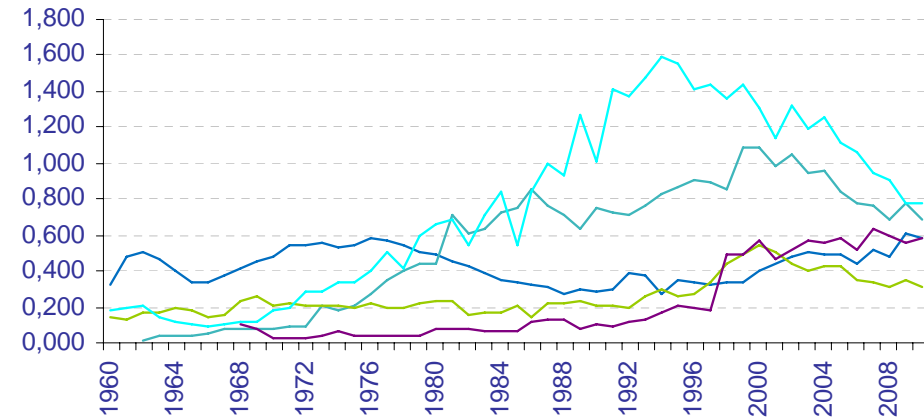
Source: Cochilco, WBMS, IMF:



— Australia — Belgium — Canada — USA — France
 — UK — Japan — Finland — Russia

Rising Users of Copper

Source: Cochilco, WBMS, IMF:



— China — Korea — Mexico — Taiwan — Turkey

Outline

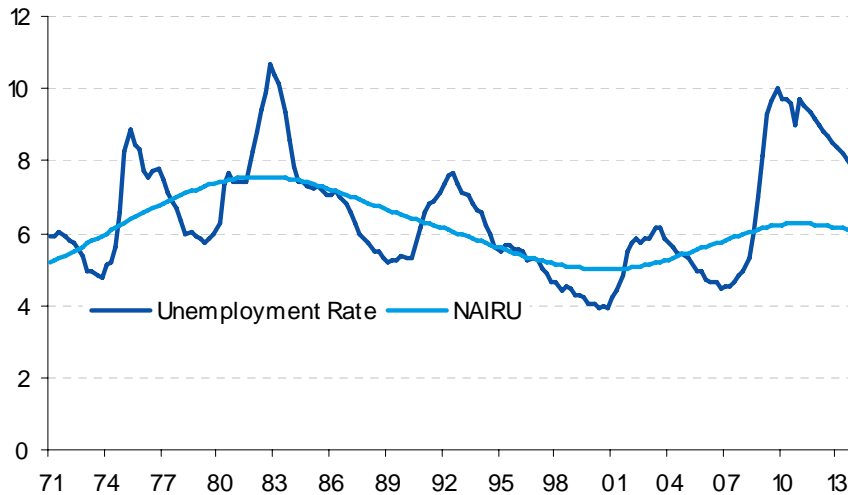
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Brighter outlook in the US

Data confirms a low probability of a double dip in the US, as fiscal and monetary policy continue supporting growth. Risks are roughly balanced

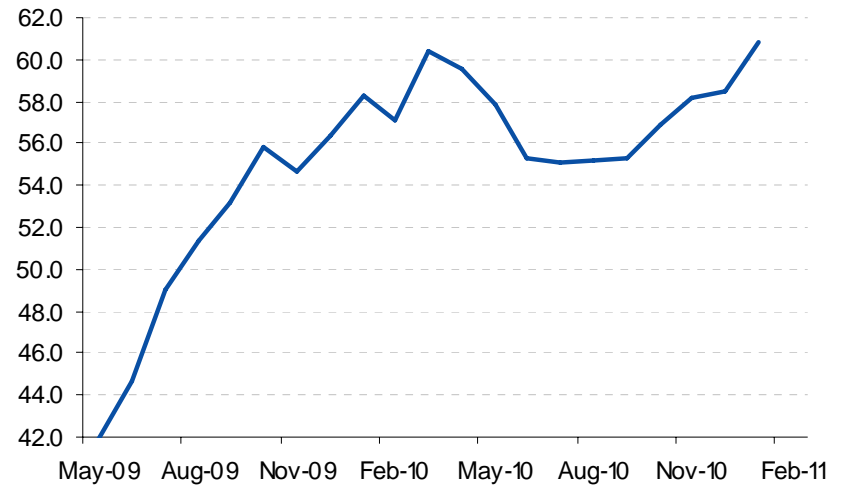
US: unemployment rate

Source: BBVA Research and Bureau of Labor Statistics



US: Business confidence

Source: BBVA Research and Haver Analytics

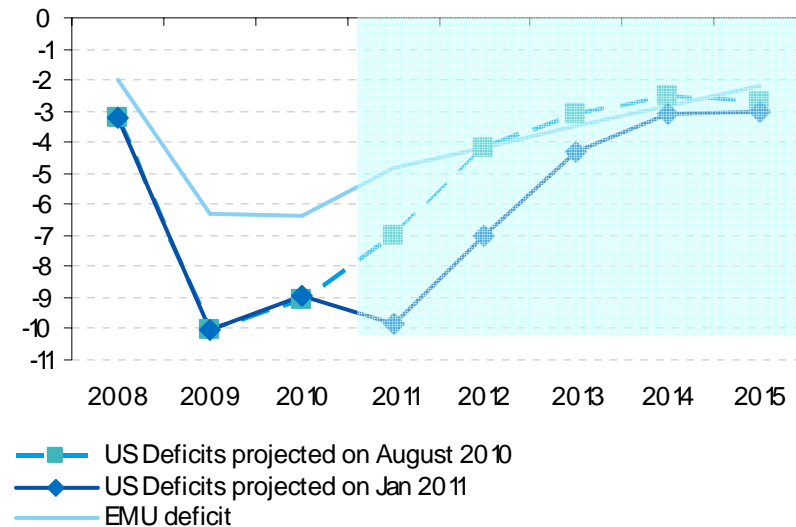


Brighter outlook in the US

But some cyclical vulnerabilities remain... and long-term fiscal risks emerge.

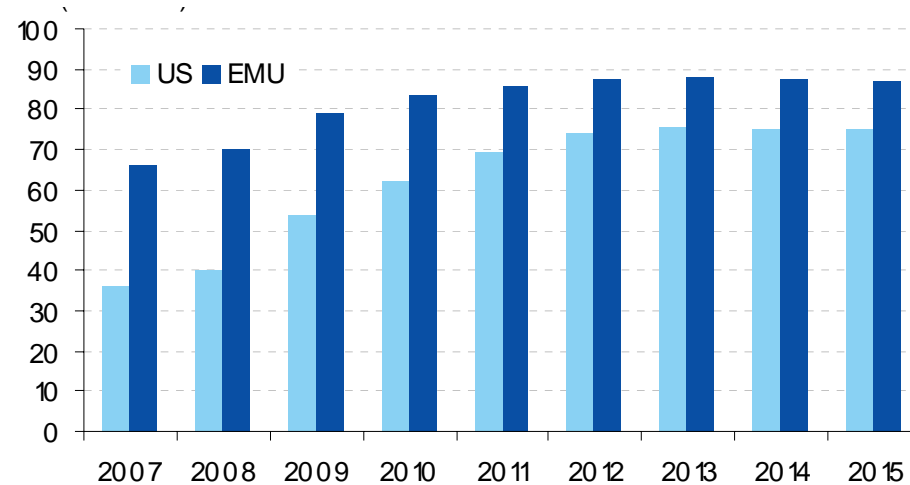
US and EMU public deficits (% of GDP)

Source: BBVA Research and CBO



Public Debt in US and EMU (% GDP)

Source : BBVA Research and CBO

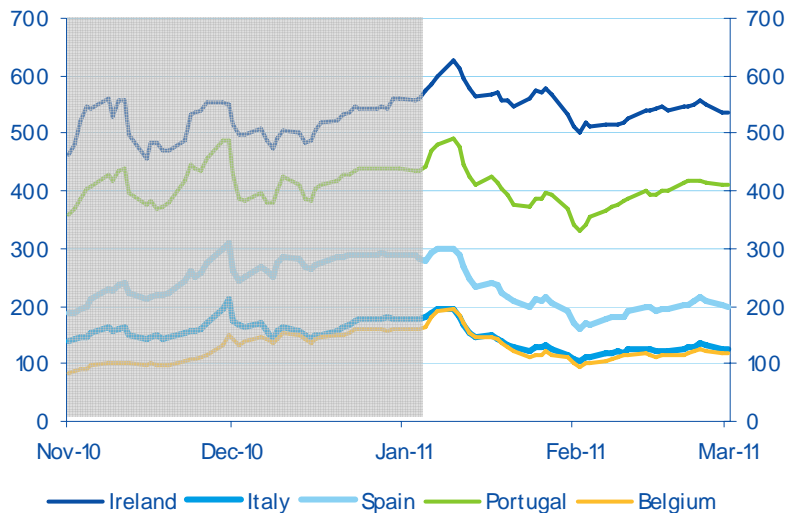


A window of opportunity in Europe

In the fourth quarter of 2010, financial tensions surged again in Europe. Possibility of actions by European authorities reduced stress and opened up a window of opportunity that is closing fast

Sovereign CDS differentials against Germany

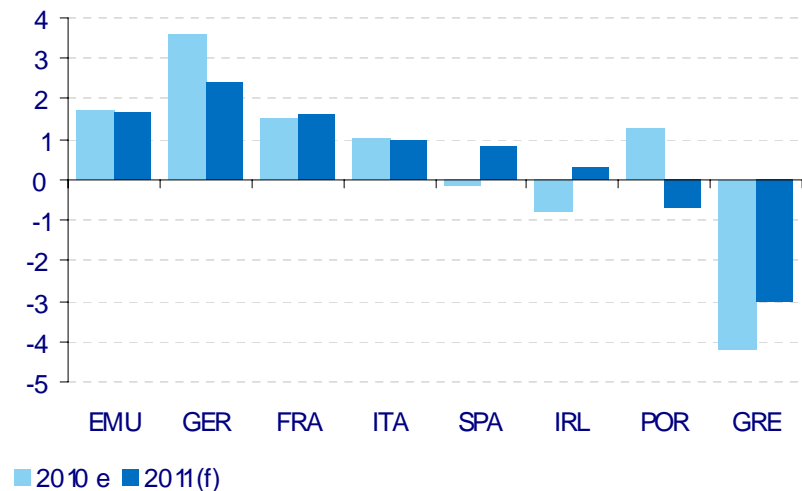
Source: BBVA Research and Bloomberg



EMU: Growth forecasts

(GDP growth rates, y-o-y)

Source: BBVA Research



Outline

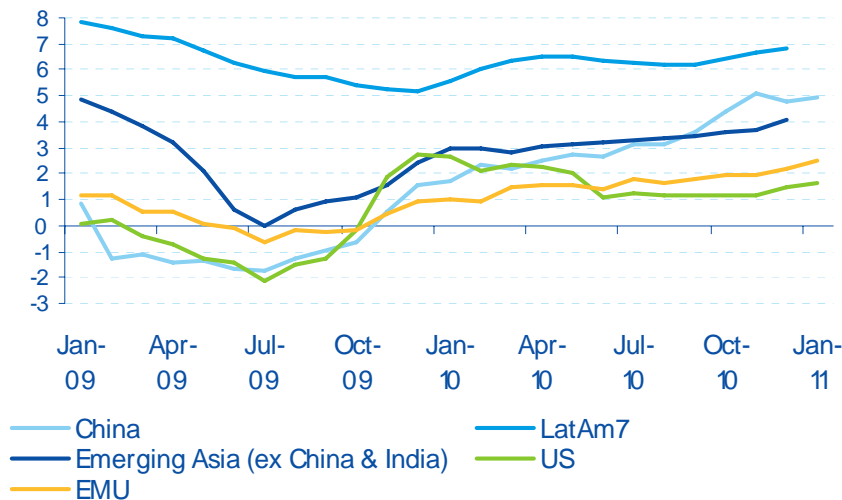
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EMEs: controlled slowdown

Increase in commodity prices and buoyant domestic demand raise risk of overheating in Asia. The baseline scenario is one of controlled deceleration.

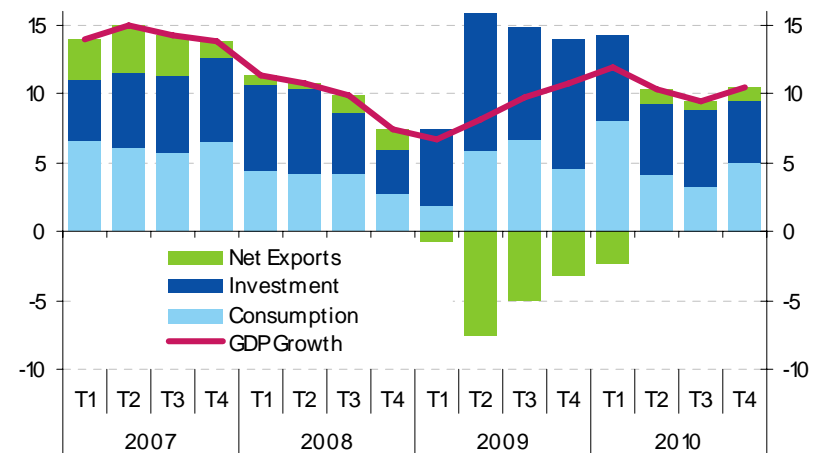
Inflation (% , y-o-y)

Source: BBVA Research and Datastream



China: Contributions to GDP growth

Source: BBVA Research and CEIC



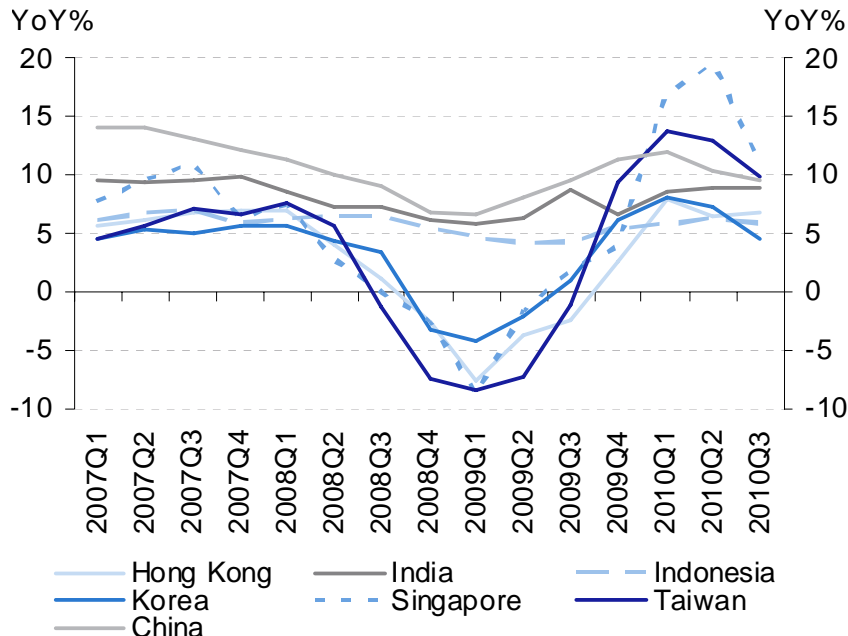
EMEs: controlled slowdown

Strong recovery in Asia meets inflation threat

- Strong domestic demand (investment) and a recovery in industrial exports led Asian growth.
- Inflationary pressures come mostly from imported raw materials, oil and food.
- Global capacity growth of natural resources based products has problems to keep up with strong Asian growth.

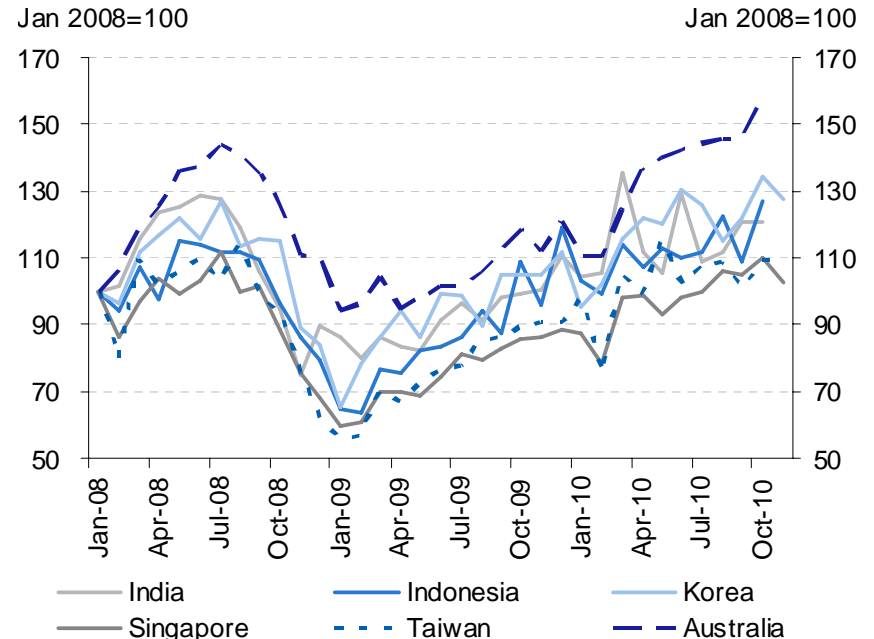
After a strong rebound, GDP growth is moderating

Source: CEIC and BBVA Research



Export performance remains robust, despite signs of a slowdown

Source: CEIC and BBVA Research



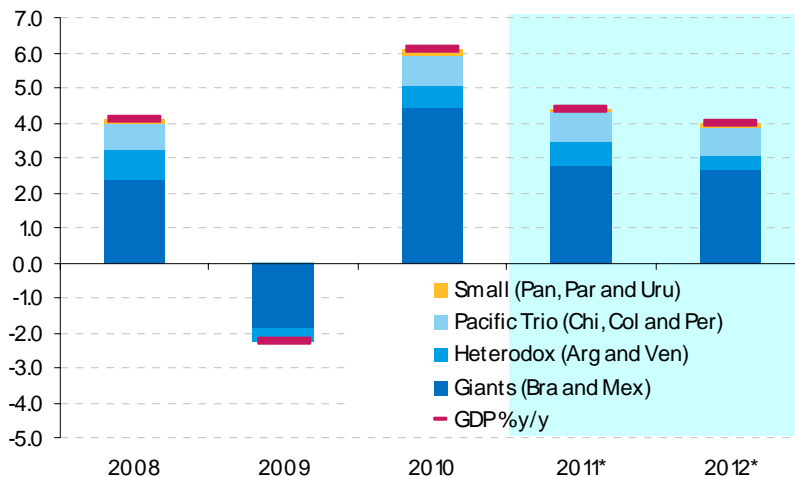
EMEs: controlled slowdown

Latam will converge to potential growth, with growing external deficits.

- Growth will continue to be supported by domestic demand, after strong readings in 2010.
- High growth and commodity prices have increased public revenues, but expenditure has not adjusted as expected.
- High commodity prices have only partially compensated the pressure of strong domestic demand on imports. External deficits will continue growing.

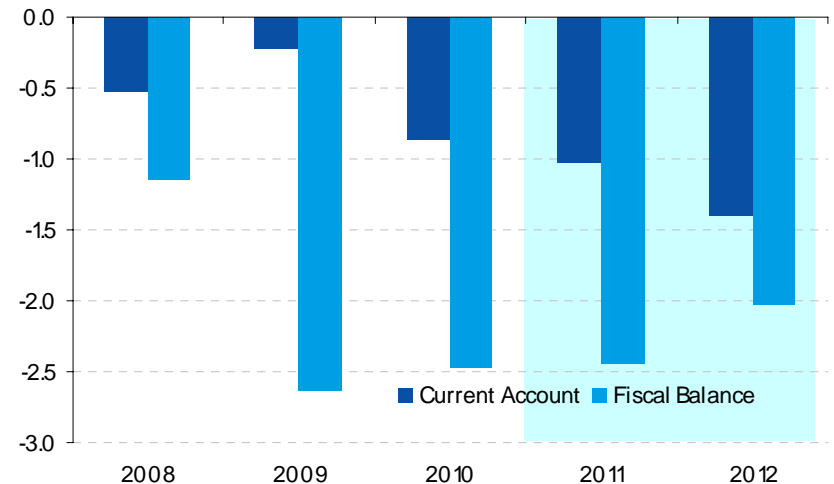
Contributions to Latam growth (% annual)

Source: BBVA Research



Latam: Fiscal and external balance (% GDP)

Source: BBVA Research



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Rising Middle Classes will be key

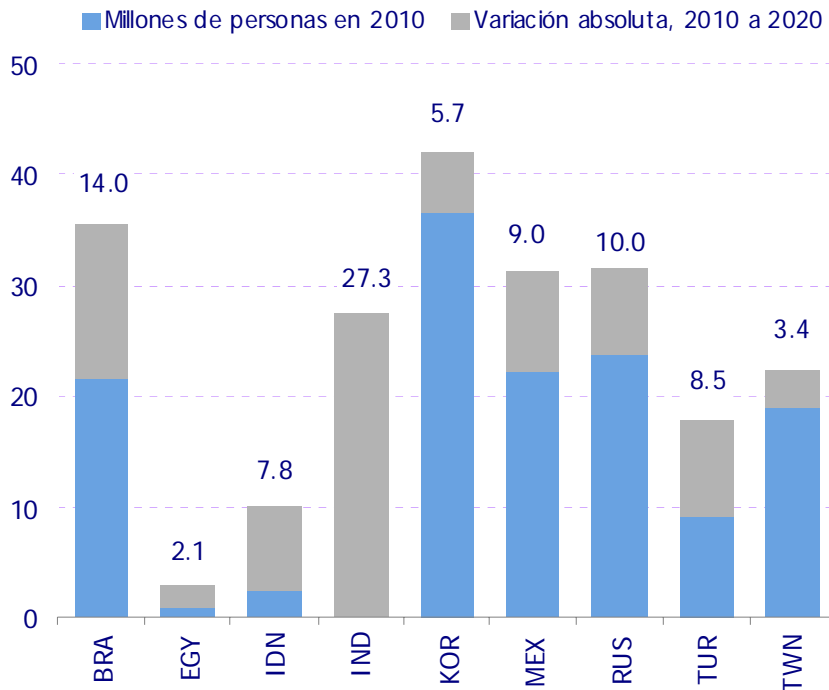
EAGLES hold the key for markets growth

- Fast growth, large and growing populations will translate into higher absolute GDP growth.
- But there is also a “non-linear” effect: large numbers of people will leave poverty and will begin purchasing durables, houses, cars as they surpass some critical thresholds.
- In China alone we expect about 180 million additional people will cross that threshold by 2020

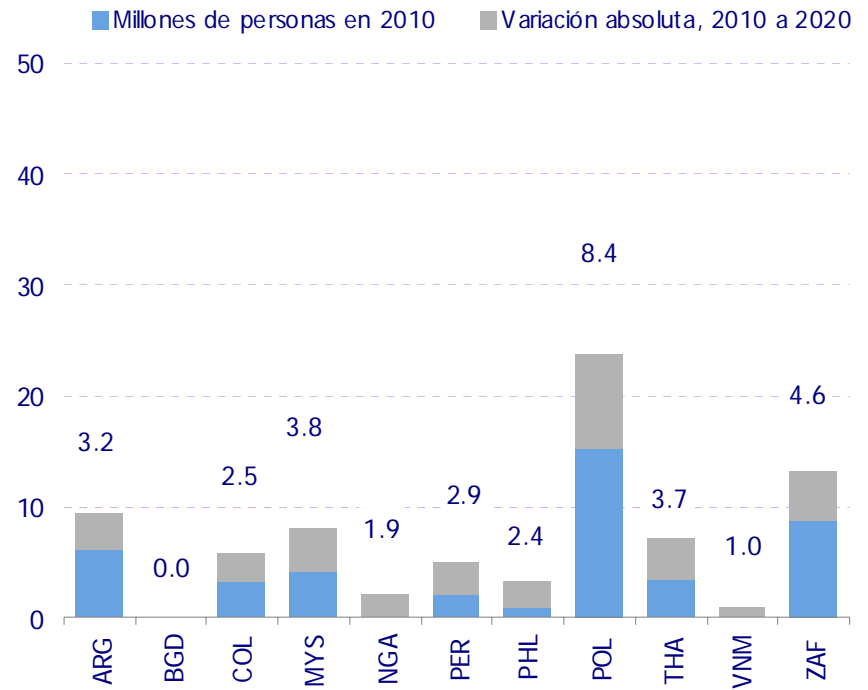
Size of population with income higher or equal than middle-income (millions)

Source: BBVA Research

EAGLES



EAGLES' Nest



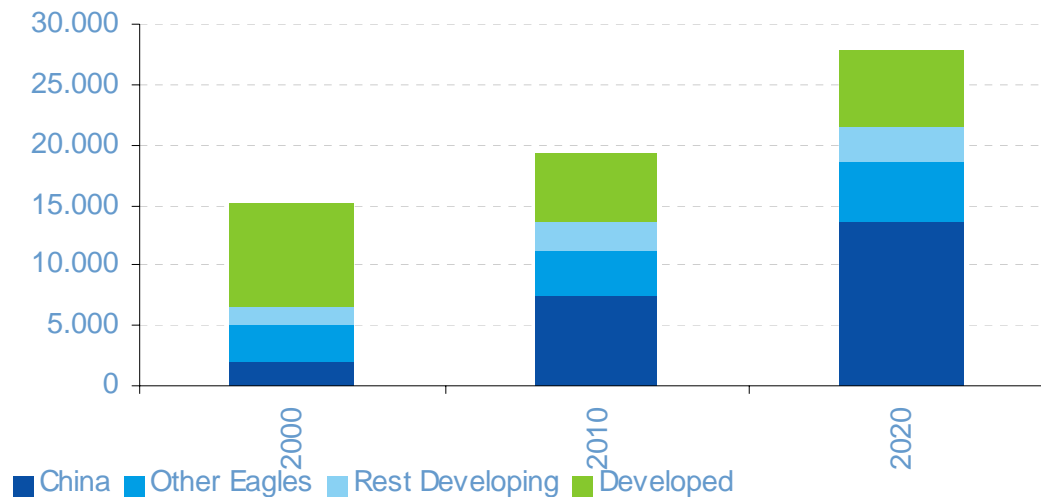
Rising Middle Classes will be key

EAGLES hold the key for the copper market as well

- China will remain the critical market for copper use in this decade...
- Followed by the other EAGLES,
- While the Developed Economies keep losing ground in relative terms.
- Looking into the longer term we have to bear in mind the demographic prospects: China will be gradually replaced as the pool of surplus rural labor is exhausted and the absolute number of working age population becomes a constraint for further growth.

World Copper use by regions

Source:BBVA Research, WBMS



Main messages

- The global economy will continue growing strongly but also decoupling, both growth and policy wise; between advanced and emerging economies; between the US and EMU, and within EMU.
- The incipient oil shock will risk derailing the recovery in advanced economies if it is permanent.
- US will continue growing more strongly than Europe. Outlook for the US has improved, but a fiscal adjustment is needed to avoid a sharp reaction by financial markets.
- Institutional and economic reforms in Europe will be crucial to solve the financial crisis. It is imperative that Europe takes advantage of a window of opportunity that is closing fast.
- Asia and Latin America will continue growing strongly, on track for a mild slowdown. However, overheating risks have increased, as domestic demand is growing too fast, and capital flows could return attracted by higher interest rates.
- In the long run, the EAGLES hold the key for copper market expansion, since high growth and a large and growing population will combine to produce a non linear expansion of purchasing power of durables.
- China will not lead forever: unfavorable demography will begin exerting a toll..

Macroeconomic Outlook

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For our latest forecast summary go to our English language website:

<http://serviciodeestudios.bbva.com/KETD/ketd/ing/index.jsp>

Forecast summary US

BBVA Research U.S.		2008	2009	2010	2011	2012
ECONOMIC ACTIVITY						
REAL GDP (yoy %)		0.0	-2.6	2.8	3.0	2.7
Consumption						
Private Consumption		-0.3	-1.2	1.8	2.8	2.4
Public Consumption		2.8	1.6	1.0	1.3	1.2
Gross Capital Formation		-9.5	-22.6	16.8	5.6	7.6
Domestic Demand (contribution to growth)		-1.1	-3.7	3.3	2.9	3.0
Exports		6.0	-9.5	11.8	9.0	8.1
Imports		-2.6	-13.8	12.7	6.0	7.9
External Demand (contribution to growth)		1.1	1.1	-0.5	0.2	-0.2
LABOUR MARKET						
Employment		-0.6	-4.3	-0.7	1.0	1.8
Unemployment rate (% of labour force)		5.8	9.3	9.6	9.3	8.8
EXTERNAL SECTOR						
Current Account Balance	% GDP	-4.9	-3.0	-3.4	-3.5	-3.4
PUBLIC FINANCES						
General Government balance	% GDP	-3.2	-10.0	-10.2	-10.2	-6.7
PRICES						
CPI, %	avg	3.8	-0.4	1.6	1.3	1.5
CPI, %	eop	0.1	2.7	1.0	0.9	1.1
EXCHANGE RATE						
Exchange Rate (USD/euro), average	avg	1.47	1.39	1.34	1.36	
Exchange Rate (USD/euro), end of period	eop	1.35	1.46	1.42	1.31	
INTEREST RATE						
Official Interest Rate	avg	2.1	0.3	0.25	0.25	0.31
Official Interest Rate	eop	0.6	0.3	0.25	0.25	0.50
Other (specify)						
Other (specify)						

Forecast summary Europe

BBVA Research		2009	2010	2011	2012
ECONOMIC ACTIVITY					
REAL GDP (yoy %)		-4.0	1.7	1.7	1.8
Consumption					
Private Consumption		-1.0	0.7	1.0	1.5
Public Consumption		2.4	0.7	0.4	0.7
Gross Capital Formation		-11.3	-1.0	1.6	2.0
Domestic Demand (contribution to growth)		-3.3	1.7	1.1	1.4
Exports		-13.1	9.7	6.9	5.7
Imports		-11.8	9.9	5.6	4.9
External Demand (contribution to growth)		-0.8	0.0	0.6	0.4
LABOUR MARKET					
Employment		-1.8	-0.4	0.4	0.6
Unemployment rate (% of labour force)		9.5	10.0	10.0	9.9
EXTERNAL SECTOR					
Current Account Balance	% GDP	-0.7	-0.5	0.0	0.1
PUBLIC FINANCES					
General Government balance	% GDP	-6.3	-6.5	-4.7	-3.9
PRICES					
CPI , %	avg	0.3	1.6	1.8	1.6
Core CPI , %	avg	1.3	1.0	1.4	1.3
EXCHANGE RATE					
Exchange Rate (against US\$), average	avg	1.39	1.33	1.27	1.29
Exchange Rate (against US\$), end period	eop	1.46	1.32	1.29	1.30
INTEREST RATE					
Official Interest Rate	avg	3.85	1.23	1.00	1.00
Official Interest Rate	eop	2.50	1.00	1.00	1.00

Forecast Summary Emerging Asia

	AUSTRALIA	JAPAN	CHINA	HONG KONG	INDIA	INDONESIA	KOREA	MALAYSIA	PHILIPPINES	SINGAPORE	TAIWAN	THAILAND	VIETNAM	
GDP	2007	5.0	2.4	14.2	6.4	9.5	6.3	5.1	6.5	7.1	8.5	6.0	5.0	8.5
	2008	2.1	-1.2	9.6	2.2	7.3	6.0	2.3	4.7	3.7	1.8	0.7	2.5	6.3
	2009	1.2	-6.3	9.2	-2.8	6.8	4.6	0.2	-1.7	1.1	-1.3	-1.9	-2.3	5.3
	2010	2.8	4.3	10.3	6.5	9.1	6.1	6.1	6.9	7.3	14.7	10.5	7.7	6.8
	2011	3.0	1.5	9.2	5.0	8.5	6.4	4.5	4.8	4.5	5.0	5.1	4.0	6.9
	2012	3.2	1.5	9.0	4.5	8.0	6.7	4.5	5.4	4.3	4.8	4.9	4.8	7.2
	2013	3.3	1.7	8.9	4.3	8.1	6.8	4.3	5.1	4.2	4.7	4.9	5.0	7.2
	2014	3.2	1.8	8.8	4.2	8.0	7.0	4.0	5.0	4.0	4.7	4.7	5.0	7.4
	2015	3.2	1.8	8.6	4.2	8.0	7.0	4.0	5.0	4.0	4.7	4.7	5.0	7.4
CPI*	2007, average	2.3	0.1	4.8	2.0	5.0	6.0	2.5	2.0	2.8	2.1	1.8	2.2	8.3
	2008, average	4.4	1.4	5.9	4.3	8.7	9.8	4.7	5.4	9.3	6.6	3.5	5.5	23.1
	2009, average	1.8	-1.4	-0.7	0.5	2.1	4.8	2.8	0.6	3.2	0.6	-0.9	-0.8	7.1
	2010, average	2.9	-0.7	3.3	2.4	9.4	5.1	3.0	1.7	3.8	2.8	1.0	3.3	9.2
	2011, average	3.0	-0.2	4.5	5.2	6.2	6.2	3.4	2.7	4.0	3.5	1.7	3.4	9.9
	2012, average	2.6	0.4	4.0	3.7	5.9	5.9	3.0	2.4	4.0	3.0	1.5	3.0	8.2
	2013, average	2.5	0.6	3.7	3.0	6.0	5.4	3.0	2.5	4.0	2.3	1.5	2.7	7.8
	2014, average	2.5	1.0	3.5	2.5	6.0	5.0	3.0	2.5	4.0	2.2	1.4	2.5	7.0
	2015, average	2.5	1.1	3.5	2.5	6.0	4.5	3.0	2.5	4.0	2.2	1.4	2.2	6.5
FX		USD/AUD	YEN/USD	RMB/USD	HKD/USD	INR/USD	IDR/USD	WON/USD	MYR/USD	PHP/USD	SGD/USD	NTD/USD	THB/USD	VND/USD
	2007, year end	0.87	112.5	7.30	7.80	39.4	9334	931	3.33	41.7	1.45	32.4	30.2	16114
	2008, year end	0.67	96.1	6.84	7.75	48.6	10838	1364	3.56	48.3	1.49	33.0	34.8	17433
	2009, year end	0.90	92.1	6.83	7.75	46.6	9395	1166	3.52	46.8	1.40	32.3	33.3	18479
	2010, year end	1.02	81.1	6.61	7.77	44.7	8996	1126	3.06	43.8	1.28	29.3	30.1	19498
	2011, year end	0.99	95.0	6.30	7.80	43.0	8800	1000	3.00	43.0	1.25	28.2	31.5	21000
	2012, year end	0.85	112.0	6.00	7.80	43.0	9000	988	2.95	43.0	1.23	27.8	31.0	22000
	2013, year end	0.83	117.0	5.70	7.80	43.5	9000	975	2.90	43.0	1.22	27.3	30.5	22500
	2014, year end	0.80	117.0	5.47	7.80	44.0	9000	963	2.90	43.0	1.22	26.8	30.0	22500
2015, year end	0.80	117.0	5.47	7.80	44.5	9000	950	2.90	43.0	1.22	26.1	30.0	22500	
Policy Rates		RBA cash rate target	Overnight uncollateralized call rate	1-year base lending rate	Base rate	Repo Rate	BI Rate: for 1 Month SBI Auctions	BOK base rate	Overnight Policy Rate	Overnight RRP rate	3 Months interbank rate	Discount rate on 10-day loan	BoT 1-day Bilateral RP	Prime lending rate
	2007, year end	6.75	0.46	7.47	5.75	7.75	8.00	5.00	3.50	5.45	2.38	3.38	3.25	8.30
	2008, year end	4.25	0.10	5.31	0.50	6.50	9.25	3.00	3.25	5.90	1.00	2.00	2.75	8.50
	2009, year end	3.75	0.10	5.31	0.50	4.75	6.50	2.00	2.00	4.00	0.69	1.25	1.25	8.00
	2010, year end	4.75	0.00	5.81	0.50	6.25	6.50	2.50	2.75	4.00	0.44	1.63	2.00	9.00
	2011, year end	5.25	0.00	6.56	0.50	7.00	7.25	3.50	3.25	4.50	0.45	2.13	2.75	10.50
	2012, year end	5.50	0.25	7.06	0.75	7.50	6.50	4.00	3.50	5.25	0.70	2.63	3.00	9.00
	2013, year end	5.50	0.50	7.06	1.25	7.50	5.75	4.50	3.50	5.25	1.30	3.13	3.25	9.00
	2014, year end	5.50	1.00	7.06	2.00	7.50	5.00	5.00	3.50	5.25	2.10	3.38	3.25	8.50
2015, year end	5.50	1.00	7.06	3.00	7.50	5.00	5.00	3.50	5.25	3.10	3.63	3.25	8.00	

* For India, we use WPI

Forecast summary LATAM

GDP (% a/a)

	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10*	Q1 11*	Q2 11*	Q3 11*	Q4 11*	2009	2010*	2011*	2012*
Argentina	-1.8	-2.3	-4.3	0.2	5.7	9.2	7.6	7.6	5.8	3.6	3.1	5.9	-2.1	7.5	4.6	2.8
Brazil	-2.0	-1.8	-1.3	4.4	8.8	9.1	6.8	5.7	4.5	3.8	3.9	4.2	-0.2	7.7	4.1	4.2
Chile	-2.1	-4.6	-1.4	2.1	1.6	6.3	7.0	5.8	9.2	5.3	4.5	5.2	-1.5	5.2	6.0	5.1
Colombia	-0.4	-0.1	0.8	2.9	4.5	4.4	3.6	4.3	4.6	5.3	5.0	5.2	0.8	4.2	5.0	5.5
Mexico	-8.5	-8.1	-5.6	-2.2	5.1	7.3	5.3	3.1	4.4	3.5	4.0	5.2	-6.1	5.2	4.3	3.8
Panama													3.2	6.8	7.0	6.7
Paraguay													-3.9	14.0	4.5	4.0
Peru	1.9	-1.2	-0.6	3.4	6.2	10.2	9.7	8.5	7.5	7.2	7.0	6.7	0.9	8.7	7.1	6.3
Uruguay													2.9	8.8	5.3	4.2
Venezuela	0.5	-2.6	-4.6	-5.8	-5.2	-1.9	-0.4	-0.4	3.9	2.4	2.4	2.0	-3.3	-1.9	2.6	1.5
Latin America													-2.2	6.1	4.4	4.0

*Forecast

Source: BBVA Research

Table 2

Inflation (% y/y, average)

	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10*	Q1 11*	Q2 11*	Q3 11*	Q4 11*	2009	2010*	2011*	2012*
Argentina	6.6	5.5	5.9	7.1	9.0	10.6	11.1	11.1	11.1	11.0	11.1	11.4	6.3	10.5	11.1	13.0
Brazil	5.8	5.2	4.4	4.2	4.9	5.1	4.6	5.6	5.6	5.3	6.0	5.2	4.9	5.0	5.5	4.7
Chile	5.6	3.1	-0.6	-1.9	-0.3	1.2	2.2	2.5	2.7	2.8	2.9	3.7	1.6	1.4	3.0	3.2
Colombia	6.6	4.8	3.2	2.4	2.0	2.1	2.3	2.7	3.5	3.6	3.6	3.6	4.2	2.3	3.6	3.6
Mexico	6.2	6.0	5.1	4.0	4.8	4.0	3.7	4.2	3.0	3.6	4.2	3.9	5.3	4.2	3.7	4.3
Panama													2.4	3.5	4.7	4.4
Paraguay													2.6	4.6	8.8	8.1
Peru	5.6	4.0	1.9	0.4	0.7	1.1	2.2	2.1	2.3	2.7	2.4	2.9	3.0	1.5	2.6	2.7
Uruguay													7.1	6.7	6.6	6.7
Venezuela	29.6	28.2	28.7	28.1	27.3	31.9	29.8	27.3	27.1	22.9	24.4	27.1	28.6	29.1	25.4	28.0
Latin America													6.4	6.4	6.5	6.7

*Forecast

Source: BBVA Research