



# Weekly Observatory

October 5, 2009

## Financial markets: European financial markets reactivate

Two Italian banks, UniCredit SpA and Intesa Sanpaolo SpA, unveiled capital-raising plans aiming to strengthen their capital ratios, while BNP Paribas SA announced that it would launch a €4.3 billion rights issue with the objective of repaying the aid received by the French Government. The results of the second one-year "full allotment" auction by the ECB showed banks scaling-back substantially their demand for funds to the monetary authority as the market is already flooded in liquidity. In the FX market, the dollar has appreciated against the euro, pound and yen, amid concerns about the strength of the recovery which moderates market's optimism; while emerging currencies (Brazil, Korea, Perú, Taiwan) appreciated against the dollar due to their relatively better economic prospects. For further information see [Flow Watch](#) (in Spanish).

## USA: PCE picked-up in August pointing to an increase in 3Q09

Consumer demand picked up in August as illustrated by the 1.3% rise in personal consumption expenditures (PCE), in line with our expectation of an increase in PCE in 3Q09. While spending on durable goods received a boost from the Cash for Clunkers program, consumption of non-durable goods and services also contributed significantly to the overall increase. Nevertheless, PCE will continue to face challenges moving forward. For example, job destruction unexpectedly accelerated in September (263,000), as shown in the BLS Employment Report. In addition, the unemployment rate jumped to 9.8%, the highest since June 1983. The ongoing job losses are a testament to the challenges an individual continues to face in the labor market, and confirm our expectation of a slow recovery. For further information, see [US Weekly Observatory](#).

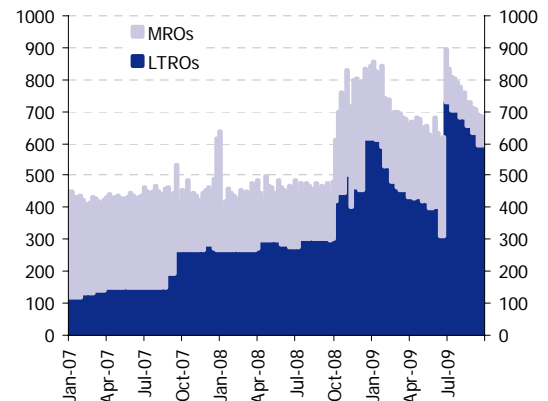
## Euro area: confidence continued to improve but at a slower pace

Economic sentiment improved further in September in the Euro area. The improvement was of 2 points, lower than in previous months but still substantial, cumulating 9.6 points in Q3. The increase in September was much larger in France than in Germany, while in Italy and Spain the index fell. The unemployment rate continued growing at a slow pace (0,1% per month) and it stands at 9.6% for the area as a whole, signalling a subdued deterioration in the labor market. As for inflation, the flash of HICP for September came at -0.3% y/y after -0.2% in August, as we expected, pulled by lower fuel prices. We still foresee positive inflation as from November. On the ECB, we do not expect for next week's meeting key rate moves or major changes over recent weeks' prudent mood, though it will be interesting to see if Mr Trichet repeats this week's remarks on the strength of the dollar (see ECB Watch note). For further information, see [Europe Weekly Observatory](#).

## Asia: optimism reigns

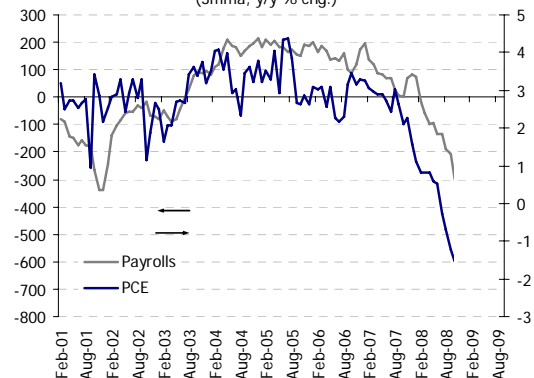
China's Purchasing Managers' Index for September reached a new high above 50. Bank of Japan's Tankan survey reflects a broad-based improvement in business sentiment led by Japanese large manufacturers. In August, Japanese industrial output climbed for a sixth straight month, albeit in line

ECB: lending to Euro area credit institutions (€bn)

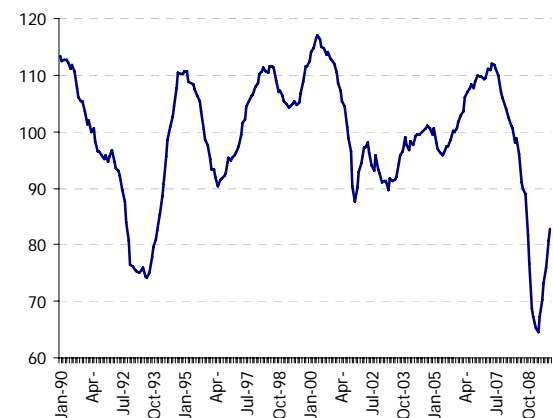


Source: ECB

US: Real PCE & Private Non-Farm Payrolls (3mma, y/y % chg.)



Eurozone: Economic sentiment indicator (EC survey)



Source: European Commission Survey

with market's forecasts; however, deflationary pressure is gradually increasing as the decline in nationwide core CPI accelerated from July. Elsewhere, Korea's and Indonesia's exports fell much less than expected in September and August, respectively on the back of improved external demand. Philippines' central bank meeting kept its policy on hold as expected. Business/economic news out of China will thin out until Oct.8 as the country celebrates its Golden Week national day public holiday. Japan's current account and machinery orders for August will likely dominate markets' attention. For further information, see [Asia Weekly Observatory](#).

**Latin America: too early for the recovery in activity to spill over employment**

Chile provided fresh evidence about its recovery, with industrial production showing a significant surge during August. Yet, labor markets fail to join the bandwagon on the improvement of activity in the region, with the recent reports in Chile and Colombia seeing no improvement in unemployment rates. Inflation in Peru continues its downward trend, just as Moody's announced a possible upward revision of its foreign debt rating. Next week, we will know the September inflation data in Colombia and Brazil, along with new Monetary Policy meetings in Chile and Peru. For further information, see [Latin America Weekly Observatory](#).

**Spain: employment and current account data show further adjustment**

Average social security affiliation in September fell by 66.000 while the unemployed increased by around 80.000, showing that the adjustment in the labor market is still ongoing. On the other hand, the current account deficit showed a better than expected outcome as during July it only amounted to €2 billion. The number of passenger cars registered in September experienced its first y/y growth since April 2008 (18% y/y, 12.4% y/y WDA). This increase, higher than expected, is explained by the favorable development of individuals segment (48.6% y/y), the main beneficiaries of the 2000E Plan. Finally, the CPI flash estimate came out slightly worse than expected (Data: -1% y/y Vs. BBVA ERD: -0.9% y/y) and below consensus (-0.8% y/y), mainly due to a slow recovery in energy prices.

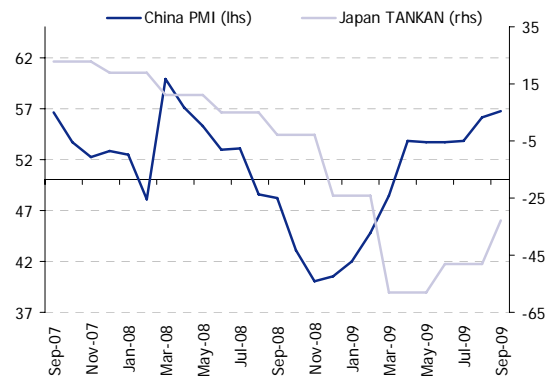
**Mexico: strong activity recovery in July**

The IGAE for July fell -6.9% y/y (vs. -7.7% BBVA), however it rose 2.4% m/m (vs. 2.1% BBVA), boosted by Industrial Production which grew 2.8% m/m. The service sector grew 1.2% m/m, its second consecutive rise. The intensity of recovery path has been boosted by external demand improvement and restocking process. Banxico published its Monetary Policy report for 1S09. The central bank mentions that the disinflation process has been limited by exchange rate depreciation. Among potential inflationary risks for the 2S09, Banxico highlights potential agricultural prices rise, adjustments in regulated prices policy and exchange rate pressures. Next week September's Consumer Confidence and Inflation will be published, we expect prices to continue its lowering trend. For further information see [Mexico Weekly Observatory](#) (in Spanish).

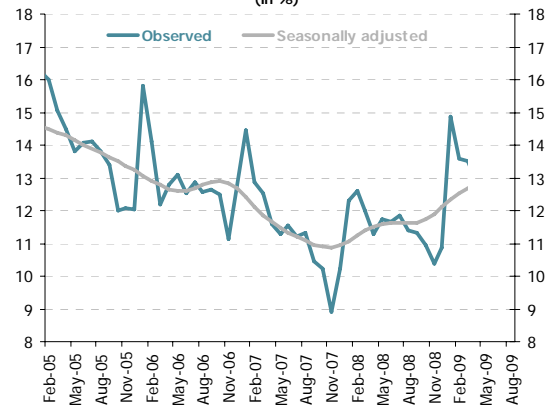
**Commodities: upward correction in oil prices**

The oil price expanded around 5% this week and recovered part of previous week's loss, but it is still below the \$70 mark. Other commodities displayed mixed signs as the impact of a higher oil prices was counterweighted by a relatively stronger dollar and by a drop in equities markets. For further information, see [Commodity Observatory](#).

**China and Japan: Economic indicators**

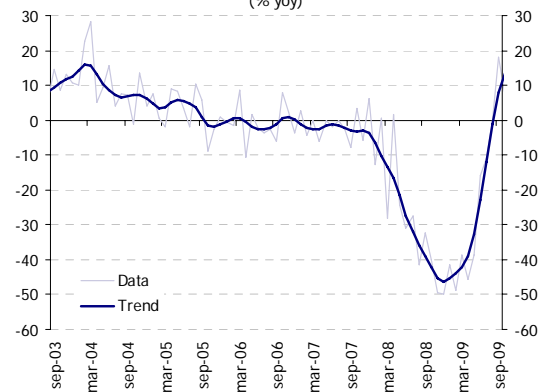


**Colombia: Urban Unemployment Rate (in %)**



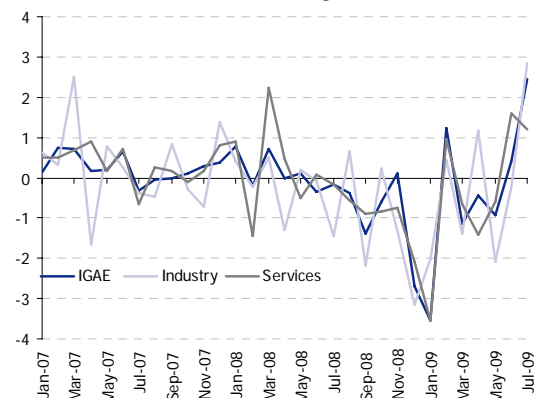
Source: DANE and BBVA ERD

**Spain: Car sales registrations (% yoy)**



Source: BBVA ERD based on ANFAC

**Mexico: IGAE and components (m/m % chg.)**



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