



# Weekly Observatory

July 6, 2009

## Financial markets: interest rates fall as expectations of official rate hikes moderate

The worse-than-expected US unemployment data this week carried over to a generalized fall of the level of the yield curve. The yield curve steepened as this fall was stronger in its short-end supported by a moderation of the expectations of official rates hikes and added speculation that the global recession will be longer-than expected. Similarly, this increase in risk aversion strengthened the yen and the dollar this week against the main currencies in the world. For further details, see [Flow Watch](#) (in Spanish).

## United States: full view of second quarter data indicates economic contraction has slowed

This week's release of June data completed the second quarter for many important indicators, supporting the view that economic contraction has eased in 2Q09. Even though job-destruction in non-farm payroll rose after declining for five months, it did so at a slower pace in the second quarter, with non-farm payroll dropping 1.3M jobs compared to 2.1M in 1Q09. Consumer confidence also slipped in June after booming the previous two months. Nevertheless, the index rose 61.7% over that of 1Q09, indicating that consumers believe the worst of the economic downturn has passed. Meanwhile, the ISM rose for the sixth consecutive month, coming in at a level that indicates economic expansion for the second month in a row. For further information, see [US Weekly Observatory](#).

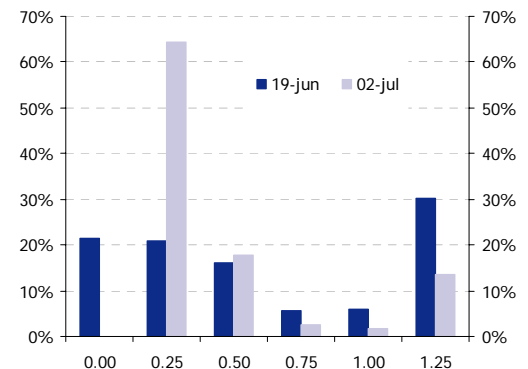
## Euro area: improving confidence, but unemployment is accelerating

Confidence indicators from the European Commission rose markedly this week, much better than the mild improvement expected. Together with the slight upwards revision of PMI indicators published last week, they continue to point to a much less negative outlook for the euro area provided by soft indicators for Q2. Real indicators do not reflect this view yet. The unemployment rate rose very significantly in May to 9.5%, including both a revision of last month's release and an upward surprise, while retail sales gave also a negative surprise after a positive result in April. As for inflation, the flash estimate for June was -0.1% y/y after 0% in May, slightly less negative than projected as energy prices seem to have been higher. The ECB gave no surprises and remained in a wait and see mode, as explained in our ECB Watch. For further information, see [Europe Weekly Observatory](#).

## Asia: no bottoming sign for exports

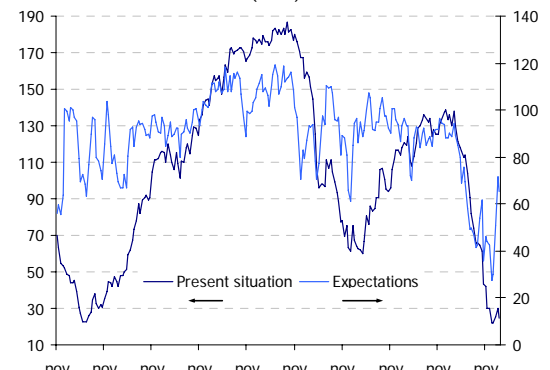
Exports continued contracting across the region over a year ago, albeit Korea and India showed a rebound. Industrial production however, reflected a sequential uptrend in Japan, Korea and Thailand as purchasing manager indices continued to rise. The Tankan survey in Japan and the business sentiment index in Thailand showed business confidence improving. On the monetary policy front, Indonesia cut its benchmark interest rate by 25 basis points, as widely expected. Market attention will be focused on the release of

## US: monetary policy expectations in options markets for January-2010



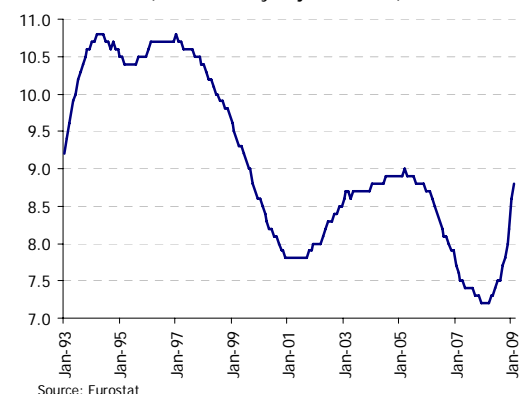
Source: Bloomberg

## US: Consumer Confidence (Index)



Source: The Conference Board

## Euro area: Unemployment rate (% seasonally adjusted data)



Source: Eurostat

Japan's current account balance and machinery orders, likely to improve. For further information, see [Asia Weekly Observatory](#).

**Latin America: activity indicators point to greater differentiation among Latin American countries**

During a week marked by the legislative elections in Argentina, several activity indicators for May were published: among these, industrial production keeps on recovering in Brazil, whereas in Chile the IP index registers another month of decline. Thus, unemployment in Colombia increased for an additional month during May. Regarding inflation, Peru's CPI fell below consensus and recorded a second consecutive month of negative variation in June. Next week we expect another battery of activity indicators (from Chile, among others), as well as the IPCA inflation index for Brazil. For further information, see [Latin America Weekly Observatory](#).

**Spain: mixed signals**

The most important data released in Spain this week featured a fall in unemployment of the order of 55,000 people in June. The drop in unemployment constitutes the second monthly fall in a row. Seasonally adjusted, we estimate that monthly unemployment declined by about 7,000 people, which represents the first fall since October 2007. Nonetheless, affiliation to Social Security (monthly average) was down by 5,500 people in June. Once seasonally adjusted, affiliation also fell, this time by about 65,000 people. Further evidence of mixed news stems from the industrial production for May, which dropped by 20.5% y/y (wda), with all components pushing the general index down. Next week's data will include, the HCPI breakdown for the month of June (BBVA ERD: -1% y/y).

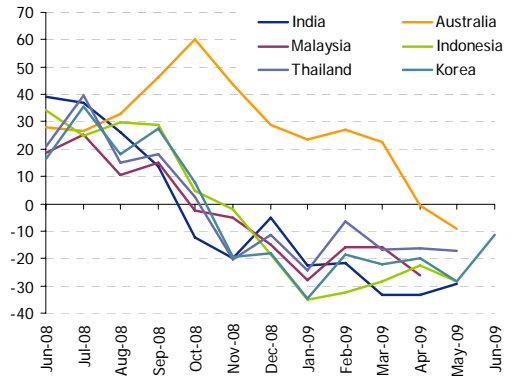
**Mexico: confidence indicators show growth in optimism**

The Producers Confidence Index for June grew 1.2 points compared with May. The improvement was widespread throughout its four components including the ones about the present and future perspectives of the country's economy. All in all, the indicator trend is consistent with a slight easing in its adjustment path. Next week, June Consumer Confidence could show an equivalent judgement for consumer expectations than producers ones. Additionally, inflation will confirm in June its continued downward trend. For further information see [Mexico Weekly Observatory](#) (in Spanish).

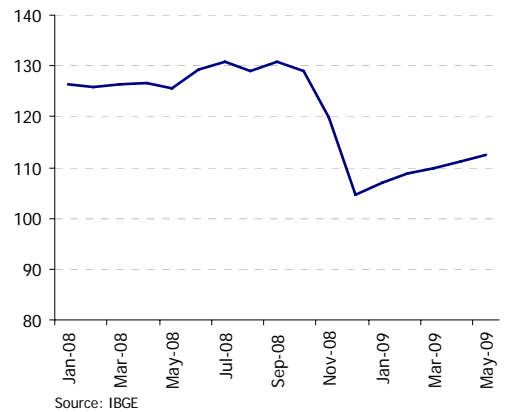
**Commodities: oil and metals fall**

Oil and metal prices declined this week as poorer than expected US unemployment data weakened the perspectives regarding the economic recovery. The dollar appreciation also helped to bring commodities prices down. Agriculture commodities showed mixed results with markets balancing the impact of the USDA report and concerns with weather conditions. For further information, see [Commodities Observatory](#).

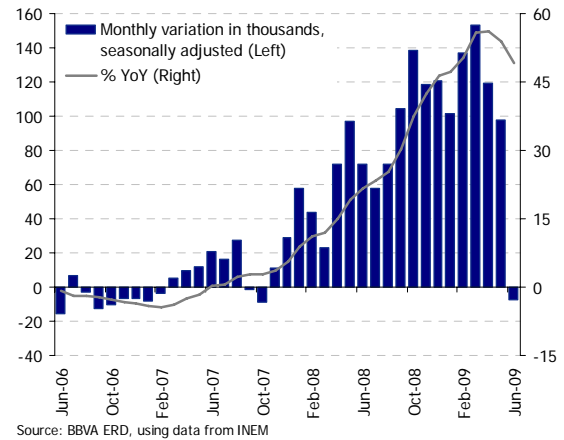
**Asia: Trade Balance**



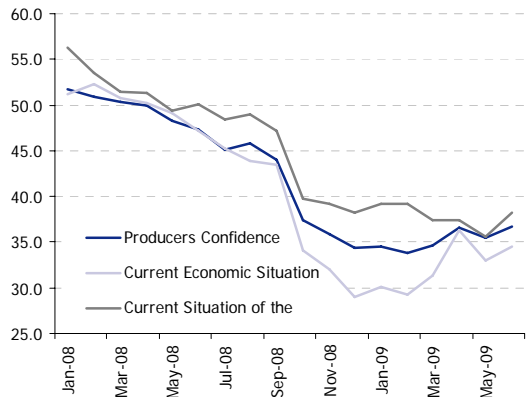
**Brazil: Industrial Production Index**



**Spain: Registered unemployment**



**Mexico: Producers Confidence Index (Base=50)**



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