Economic Research Department

BBVA

Global

Weekly Observatory

April 6, 2009

Financial markets: markets react positively to the G20 summit

Stock markets have reacted positively to the outcome of the G20 summit. The S&P 500 rose by over 2% this week, while the Eurostoxx 50 did it by over 5%. This improvement in global risk aversion has also affected exchange rate markets, especially the Yen. As investors become more optimistic about future stock market returns, demand for the Yen reduces (as it is considered as a safe haven) in favor of more risky asset, leading to decreases in the value of the Japanese currency. In this line, the yen against the dollar depreciated by 1,8% over the last week. Finally, European yields moved up after the ECB decided to lower interest rates by only 25 bps when a 50 bps cut was widely expected. For further information, see [Flow Watch (in Spanish)].

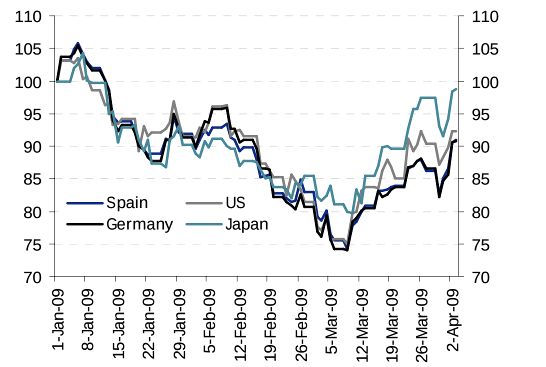
United States: The past week's indicators brought mixed results for March

March's unemployment rate increased to 8.5% and the non-farm payroll dropped 663K jobs, bringing the total job losses for the first quarter to 2.1M. The decline in employment is widespread and, as a result, we can expect to see further declines in personal income and consumer spending in the near future. Furthermore, consumer confidence remained low but steady. In addition, the low level of the ISM Manufacturing Index (36.3) suggested further contraction in the manufacturing industry, but the levels have increased over the past three months, which indicates that the pace of contraction has eased. In the next week, we expect a further increase in the budget deficit as the fiscal stimulus package increases government spending. For further information, see [US Weekly Observatory].

Euro area: ECB surprises the markets by cutting less than expected

Confidence data from the European Commission surveys published this week suggest a larger contraction of GDP in Q109, although showing some signs of stabilization in some sectors. In contrast, the unemployment rate in the euro area rose in February to 8.5% from 8.3% in January; with upward revisions for past months, it cumulates an increase of 1.3pp in 12 months. The flash estimate of inflation showed it decelerating rapidly from 1.2% in February to 0.6% in March, in line with our forecasts. Against this background, the ECB surprised the markets and cut its key interest rate by only 25bp, leaving the refi rate at 1.25%. Mr. Trichet announced that the ECB would decide on further non-standard measures at its next meeting and suggested that the current 0.25% is the floor for the deposit rate. Now we see two 25bp cuts of the refi rate in May and June, to 0.75%, and possibly and additional one in August or September. For further information, see [Europe Weekly Observatory].

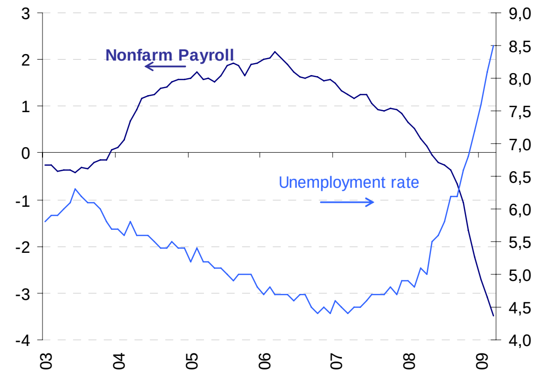
Stock Market Evolution since Jan'09



Source: Bloomberg

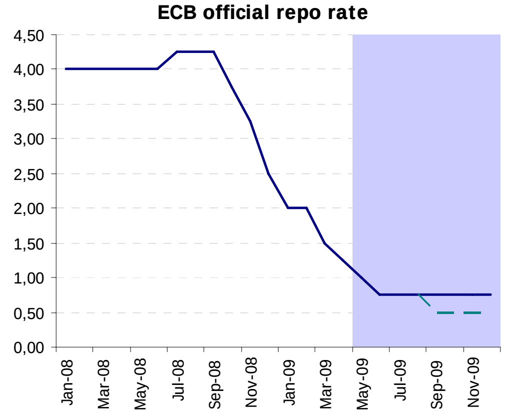
Nonfarm Payroll and Unemployment Rate

(Yoy % change, value)



Source: BLS

ECB official repo rate



Source: ECB and ERD BBVA

Asia: expectations of bottoming closer

Japan's Tankan business conditions forecast and purchasing manager indices across the region point for the first time this year that the economic plunge is expected to hit bottom, though current business sentiment remains extremely weak. Retail data show further deterioration in domestic consumption, while exports and output have moderated their pace of decline. The markets will focus on the monetary policy meetings in Japan and Australia, expecting their policy rates to remain unchanged. For further information, see Asia Weekly Observatory.

Latin America: Leading indicators maintain the bearish tone in activity

Data released this week suggest weakening expected activity for 1Q09; the latest information on industrial production for Brazil, and from leading indicators in Chile, point toward this conclusion. In Chile's case, authorities endorsed a fresh set of measures to foster credit. External demand kept on falling in Argentina for February, albeit at a lower rate. The slowdown in activity lowers price pressures: this time, Peru published inflation data for March, showing a fall in the y/y rate of 1.9 pp with regards to December. For further information, see Latin America Weekly Observatory.

Spain: the adjustment continues, but the drops in employment and activity seem to be stabilizing

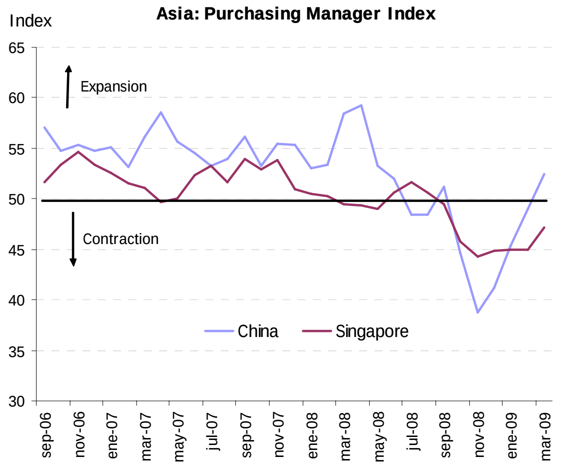
The most important data release in Spain this week showed an increase in unemployment of the order of 124,000 people in March. By sectors, the increase was widespread, but nearly half of the monthly rise was recorded in services. Also, Social Security inscription (monthly average) fell by 54,500 people in March. As seen in the graph, these figures confirm that the adjustment in the Spanish labour market continues, but also that the drops in employment are showing some signs of stabilization. Retail sales and industrial production (both for the month of February), seem to be pointing in the same direction.

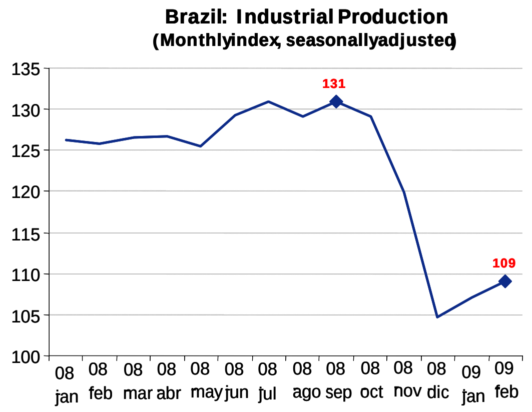
Mexico: unemployment jumps, inflation slowing its fall

Next week Banxico releases inflation figures for March. We forecast a 0.59% m/m increase in Total CPI and an increase of 0.54% m/m for the core index, (6.06% y/y and 5.83% y/y respectively). We expect growth in agricultural, housing services and merchandise prices and a deceleration in administered prices. Inflation will continue falling but at a slower pace due to the persistency of the core component. For formal employment we anticipate a fall of (-)0.3% m/m, a loss of 325,000 jobs during the 12 month period finishing in March. The strong contractions in construction and manufacturing will continue as well as slight growth in services. For further information see Mexico Weekly Observatory (in Spanish).

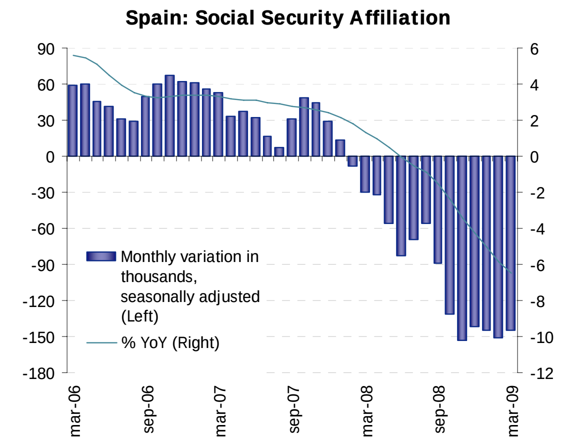
Commodities: commodities prices ahead

The optimism regarding the measures proposed by the G-20 reached commodities markets and helped to drive prices up. According to a USDA report, US farmers will sow fewer acres this spring for the first time in four years. The report provided additional stimulus to agricultural prices. For further information, see Commodities Observatory.

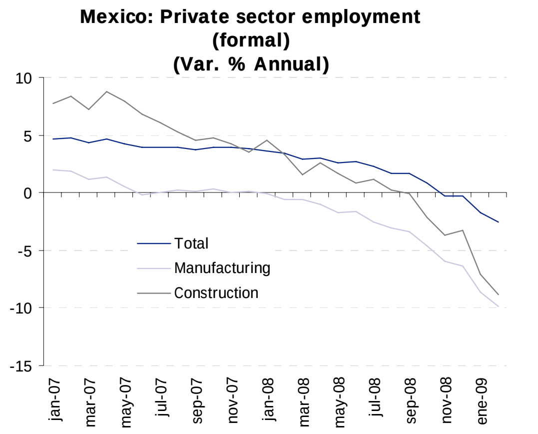




Source: Bloomberg



Source: BBVA ERD, using data from Ministry of Labour and Inmigration



Financial Markets: Nicolás Trillo
Nicolas.trillo@grupobbva.com
Financial Markets: Antonio Díez
Antonio.diezlosrios@grupobbva.com
Financial Markets: Marcos Dal Bianco
Marcosjose.dal@grupobbva.com
United States: Kristin Lomicka
Kristin.Lomicka@compassbank.com
Euro area: Agustín Garcia
Agustin.garcia@grupobbva.com
Euro area: Miguel Jiménez
mjimenezg@grupobbva.com
Latin America: Sandra Molina
Sandra.molina@grupobbva.com
Asia: Ya-Lan Liu
Yalan@bbva.com.hk
Spain: Ignacio Gonzalez-Panizo
Ignacio.gonzalez-panizo@grupobbva.com
Mexico: Pedro Uríz
pedro.uriz2@bbva.bancomer.com
Commodities: Enestor Dos Santos
enestor.dossantos@grupobbva.com