Global Weekly Flash

Global activity seems to be stabilising, but credit conditions have tightened further

- **The improvements showed by the manufacturing PMIs across the main areas, combined with additional monetary policy easing, are supporting the risky assets rally**
  - The US PMI increased 1 point to 54.1 in January. The gap between new orders and inventories kept increasing suggesting further improvement in manufacturing sector in the US in months ahead. The surge in payroll figures and the better-than-expected non manufacturing PMI in January has also increased the US outlook. Meanwhile, in January the Chinese PMI continued in levels slightly above 50, against expectations that it would fall back below the 50 threshold. However, in this case, the gap between new orders and inventories narrowed increasing uncertainties about the outlook. Additionally, strong seasonal effects from the Chinese New Year should be considered. Nevertheless, the positive outturn in Chinese PMI is the latest in a series of indicators since December suggesting that the Chinese economy is avoiding a hard landing. The manufacturing PMI in the eurozone also rebounded in January but it nonetheless remained weak (48.8). The gap between new orders and inventories increased but continued in negative territory suggesting that the manufacturing sector is still contracting. Furthermore, most of the improvement seen in the eurozone PMI index came from Germany, where the fall in retail sales bring doubts about the sustainability of the recovery in manufacturing sector. In Spain, GDP fell 0.3% q/q in the 4Q11 and recent soft data (both consumer and industrial confidence) along with employment figures point to a further decline of GDP in 1Q12.
  - Recent reports on bank lending conditions introduce additional uncertainties about the economic outlook in Europe. The ECB bank lending survey showed a greater tightening in bank lending standards and lower demand for bank loans in 4Q11 than in 3Q11. Both funding constraints and a deteriorating economic outlook are the main factors explaining the tighter credit conditions. Still, the eurozone Bank lending standards to corporate are halfway compared to the Lehman episode. The eurozone banks expect lending standards to tighten further but they not expect a deterioration in bank wholesale funding, probably reflecting the ECB's 3Y LTRO. Meanwhile in the US, the loan survey reported stronger demand for commercial and industrial loans due to a more optimistic business outlook. However lending conditions remained tight and were relatively unchanged on net compared to last quarter. Lastly, IIF EM bank lending conditions survey shows that EMEs banks are suffering a substantial worsening in international funding conditions and a tightening in credit standards.

- **The European Summit did not bring in significant news. Lack of growth expectations in European peripherals is still a matter of concern**
  - The summit was in line with expectations, which were low. It is another step in the strategy to sign a fiscal treaty in March (not details yet), in line with German demands. The agreement on new ESM treaty has been reached. This treaty will have to be ratified by the 17 euro area member states and the ESM is expected to enter in force in July 2012. The EFSF/ESM joint lending capacity is currently EUR500bn, subject to a reassessment in March 2012. The most important change concerns the PSI: the possibility of a PSI loses steam as its provision has been move from an operative article in the initial treaty to a recital one in the update treaty. Additionally, although it was positive that growth was the main focus of the summit, the results was scarce, since there has not been relaxation of fiscal targets or sizeable new funds. A promising idea would have been to allow countries to stick to their structural deficit commitments, but not to compensate for cyclical slippages in order to avoid a downward deficit-growth spiral; however, this has not been talked upon. The initiatives to promote employment do not sound new and are not convincing, while the amounts involved in growth initiatives are very small in comparison to the sharp fiscal adjustment that many countries in the area will have to achieve in 2012. The strong asymmetry between strong fiscal discipline, on the one hand, and rewards to crisis countries in the form of mechanisms that help to reduce spreads in the short term and revive growth, on the other, still persists. All in all, the support from the ECB will continue to be necessary to avoid further stress. In the mean time, agreement on Greek PSI has still not been reached.

- ## Tentative signs of debt market reopening for European banks
  - January was a strong month in terms of bank issuances but until the end of the month, only the North European countries were able to issue debt, in an early effort to replace the huge amount of financial debt due to mature this year. Early this week, first Intesa with senior unsecured and after Santander with covered bonds, raise cash in an attempt to what could be a reopening of markets. Those issuances were the first since the summer as the debt markets were completely closed to banks from peripheral countries
  - It is crucial that these issuances pose a real reopening of debt markets for all institutions in troubled countries and not just for larger entities, so that the debt markets return to normal conditions
  - The reform of the Spanish banking system announced this week seems to point in the right direction: an homogeneous balance sheet cleaning so as to improve the soundness of the entities, which should be able to get funding in the international markets. The way the plan is implemented is crucial to guarantee its succeed. Its main shortcoming is that uncertainty remains on whether "zombie entities" will be allowed to continue operating in the markets. These entities could merge with others and obtain contingent capital (CoCos). Given the high cost of CoCos, only those entities in a worse situation will ask for them.

NEXT WEEK: ECB meeting and in China both export and CPI figures will keep investors attention. Additionally, there are some rumours suggesting the possibility of an ECOFIN meeting at the end of next week to deal with the official support to Greece.

- **The ECB will not yet close the door on further policy loosening but might signal a wait-and-see approach for the coming months. The focus is on helping banks**.
  The ECB will retain the dovish tone of its last statement while it continues to signal that at this stage it remains cautiously alert as it assesses the effects of recent policy moves. The central bank will likely reaffirm its belief that the three-year LTRO was successful in avoiding a "credit crunch" and will be pleased with the tentative signs of a reopening in bank funding markets and with the reduction in yield spreads. Moreover, it will continue to anticipate substantial demand at the next three-year LTRO (29 February) as a broader collateral base will apply. Nonetheless, at the same time, it will remain cautious and indicate its concern with the significant downside risks to growth and the ongoing progress on the "fiscal compact" but particularly on the individual countries' (needed) structural reforms initiatives; and with the recent results from the Bank lending survey and credit growth in the euro area. In this context, our baseline expectation continues to be an additional 25bp rate cut but the odds that it would take place further ahead than previously thought (8 March) may increase more after the meeting. Simply put: Draghi will not shut the door on further easing, but the outlook for any future cut is unlikely to become clearer after the meeting.

Calendar: Indicators

Germany: Industrial production (December, February 7th)

Forecast: 0.2% m/m	Consensus: 0.0% m/m	Previous: 0.6% m/m

Although industrial production is expected to have stabilised in December, this implies that industrial output could have contracted significantly throughout Q4, by around -1.6% q/q, after growing at steadily robust rates in previous year and a half. Given the strong correlation between the economic cycle and industrial production, these data are in line with our expectations of a GDP contraction in Q4. More positive news came from January soft data, as they improved and suggest that the trough should be behind us. But the manufacturing PMI continues to suggest that this sector has stagnated at the beginning of the year, while the slowdown in exports might also negatively affect manufacturing in coming months.

Germany: Trade balance (December, November 8th)

Forecast: €14.6bn	Consensus: €14.4bn	Previous: €16.2bn

The slowdown in global demand will continue to take its toll on the performance of German exports, which have remained virtually stagnant in December. Therefore, these data might confirm the sharp deceleration in exports growth over Q4, growing a mere 0.3% q/q after 2.1% q/q in the previous two quarters. Although imports have increased slightly in December, the average growth in Q4 could have declined slightly. Thus, net exports might have made a small positive contribution or at least not have drained growth. As a result of this performance expected for exports and imports in December, the trade balance surplus might have narrowed a bit. For coming months, dwindling industrial orders from abroad are raising concerns about how quickly economic activity could return to positive growth rates.

US: International Trade (December, February 9th)

Forecast: -$48.0B	Consensus: -$48.6B	Previous: -$47.8B

The international trade balance is expected to widen only slightly in December following a worse-than-expected deterioration in November. Exports have declined throughout 4Q11, highlighting the negative impact from the slowdown in Europe, and trends are likely to be similar at year-end. Imports jumped significantly in November with a boost from oil and autos, however, growth should be slower in December due to reduced auto demand and a fall in oil prices. Declines in both import and export prices should deflate the overall value of trade, however, we expect that imports will slightly outweigh exports for the month.

US: Consumer Sentiment (February, February 9th)

Forecast: 74.0	Consensus: 75.0	Previous: 75.0

Consumer attitudes toward current and future conditions have improved steadily throughout the past few months. However, gains in consumer confidence appear to be diminishing as the employment situation remains weak. Rising gas prices and increasing consumer inflation expectations are a concern to consumers as they see their spending power decline in the coming months. Although consumer activity has remained relatively constant, we do not expect a meaningful rise in consumer sentiment for February.

China: CPI Inflation (January, February 9th)

Forecast: 4.3% yoy	Consensus: 4.1% yoy	Previous: 4.1% yoy

January's inflation outturn will be watched to gauge the expected pace of further policy easing. After peaking at a worryingly high level of 6.5% y/y in July, headline inflation eased during the remainder of 2011, falling back to near the authorities' 4% comfort level in December. The decline has been due to favorable base effects, as well as a broad-based easing of food and non-food price components following the authorities' tightening measures earlier in the year. We expect the moderating trend to continue on favorable base effects, with inflation bottoming out at around 3% by mid-2012. For the time being, however, we anticipate a temporary uptick in January inflation due to seasonal effects from the Chinese New Year when demand for various food items is high. Markets will also be watching for a batch of other important indicators in the coming week, including trade and credit aggregates.

Markets Data

				Close	Weekly change	Monthly change	Annual change
Interest rates	(changes in bps)	US	3-month Libor rate	0.53	-2	-6	22
			2-yr yield	0.23	2	-3	-51
			10-yr yield	1.94	5	-3	-169
		EMU	3-month Euribor rate	1.10	-4	-22	1
			2-yr yield	0.22	3	4	-122
			10-yr yield	1.94	8	2	-132
Exchange rates	(changes in %)	Europe	Dollar-Euro	1.312	-0.4	1.3	-3.4
			Pound-Euro	0.83	-0.9	0.2	-1.6
			Swiss Franc-Euro	1.21	0.0	-1.0	-7.2
		America	Argentina (peso-dollar)	4.33	0.0	0.7	7.9
			Brazil (real-dollar)	1.72	-1.2	-5.5	2.8
			Colombia (peso-dollar)	1785	-1.2	-5.4	-4.6
			Chile (peso-dollar)	479	-1.4	-6.2	-0.1
			Mexico (peso-dollar)	12.72	-1.9	-6.8	6.0
			Peru (Nuevo sol-dollar)	2.69	0.0	-0.2	-2.8
		Asia	Japan (Yen-Dollar)	76.62	-0.1	-0.1	-7.0
			Korea (KRW-Dollar)	1117.53	-0.4	-2.7	1.4
			Australia (AUD-Dollar)	1.077	1.3	3.9	6.5
Comm.	(chg %)		Brent oil ($/b)	113.4	1.7	-0.3	13.6
			Gold ($/ounce)	1742.3	0.2	8.1	29.2
			Base metals	548.0	-0.1	5.2	-10.5
Stock markets	(changes in %)	Euro	Ibex 35	8775	1.4	2.3	-19.2
			EuroStoxx 50	2500	2.6	6.4	-16.8
		America	USA (S&P 500)	1343	2.0	5.1	2.4
			Argentina (Merval)	2842	0.4	4.7	-21.7
			Brazil (Bovespa)	65321	3.8	10.0	0.1
			Colombia (IGBC)	13953	2.6	7.9	-4.6
			Chile (IGPA)	20758	2.1	2.6	-5.6
			Mexico (CPI)	38045	2.3	1.8	1.6
			Peru (General Lima)	22936	5.0	15.0	-3.2
			Venezuela (IBC)	123595	1.0	6.4	85.4
		Asia	Nikkei225	8832	-0.1	3.2	-16.2
			HSI	20757	1.2	10.8	-13.2
Credit	(changes in bps)	Ind.	Itraxx Main	135	-6	-38	39
			Itraxx Xover	579	-26	-166	177
		Sovereign risk	CDS Germany	85	0	-19	31
			CDS Portugal	1320	-115	228	915
			CDS Spain	354	0	-84	132
			CDS USA	43	-1	-7	---
			CDS Emerging	261	-4	-43	50
			CDS Argentina	763	1	-119	180
			CDS Brazil	142	-2	-16	29
			CDS Colombia	134	-4	-16	20
			CDS Chile	110	-5	-16	35
			CDS Mexico	139	-4	-10	25
			CDS Peru	161	-4	-9	55

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
## Europe	02/01/2012	**Flash:** Eurozone flash inflation remained stable in January Annual inflation stabilized in January against our forecast of a slight deceleration. Although detailed results are not yet available, our models suggest that this slight upward surprise should respond mainly to higher oil prices than incorporated in our update.
	01/30/2012	**Flash:** The services sector lifts confidence in Eurozone Economic sentiment rebounded in January, after a long period of decline. By economic sector, the indices for services, construction sector went up, sentiment in industry remained unchanged, while in retail sales it deteriorated sharply. Confidence among consumers improved.
Spain	02/02/2012	**Flash:** Afiliación a la Seguridad Social y desempleo registrado en enero El mercado laboral aceleró su ritmo de destrucción de empleo en enero, señalando que los registros positivos de diciembre fueron atípicos.
	01/02/2012	**Flash:** Matriculaciones de turismos de enero: comienzo positivo Cuando se corrigen los datos brutos de la estacionalidad propia del mes y del efecto calendario, las estimaciones de BBVA Research indican que el número de turismos matriculados en enero creció un 2,1% m/m. En el conjunto del 1T12, las matriculaciones podrían aumentar en torno a un 3% si febrero y marzo.
	31/01/2012	**Flash:** Visados de construcción de vivienda de obra nueva noviembre 2011 Durante el mes de noviembre de 2011 se firmaron 4.597 visados de construcción de vivienda de obra nueva, retrocediendo un 26,0% respecto al mes de octubre, una vez corregida la serie de variaciones estacionales y efectos de calendario (cvec).
	31/01/2012	**Flash:** Balanza de pagos de noviembre 2011 El déficit de la balanza por cuenta corriente en el acumulado a 12 meses de noviembre registra un ligero ajuste conrespecto al acumulado a 12 meses del mes anterior y se sitúa en los -38,7 mil millones de euros.
	31/01/2012	**Flash:** Avance del IPC de enero El indicador adelantado del IPC de enero confirma nuestras expectativas de continuidad en la moderación del crecimiento de los precios al consumo durante los primeros compases de 2012
## US	30/01/2012	**Flash Semanal:** El crecimiento real del PIB del 4T es el más fuerte de 2011; la postura del FOMC es muy flexible El crecimiento real del PIB del 4T11 se situó en 2.8% trimestral anualizado y desestacionalizado, un poco por debajo de lo que se esperaba, pero todavía en línea con nuestras previsiones de mayor actividad en el cuarto trimestre. *(chinese version) (english version)*
	02/01/2012	**Economic Watch:** Structural Series: Immigration Reform Enhancing Growth through Immigration Policy.
	01/31/2012	**Economic Watch:** Canada Monthly GDP by Industry: Monthly Situation Report Canadian monthly GDP surprised to the downside in November declining -0.1%MoM (BBVA: 0.3%MoM, Consensus: 0.2%). Anemic Mining, Oil Gas, and slowing utility and construction output led to the decline.
	02/01/2012	**Banking Watch:** Senior Loan Officer Survey 2012Q1 A Brighter Outlook for Domestic Lenders.

Latin America

Country	Date	Description
Brazil	01/31/2012	**Flash:** Industrial production grew only 0.3% in 2011; there is room for improvement in 2012 Industrial production expanded 0.9%m/m in December, which supports the view that economic activity rebounded mildlyin the end of the year. In 2011 as a whole, industrial output grew 0.3% in spite of the solid expansion of domesticdemand (around 3.8%).
	01/31/2012	**Flash:** Fiscal target was fulfilled and public debt declined to 36.5% of GDP The public sector's primary surplus reached R$ 128.7bn (3.1% of GDP) in 2011, reaching the fiscal target fixed for theyear (R$ 127.9bn; 3.1% of GDP). In spite of the primary surplus, interest rate payments weighted on fiscal accountsand drove public sector's total deficit down to 2.6% of GDP.

Colombia	30/01/2012	**Flash:** Banco central aumenta su tasa de interés a 5,0%. Gobierno anuncia medidas para reducir presiones de financiamiento sobre el tipo de cambio El Banco Central decidió aumentar la tasa de interés de referencia en 25pb, hasta 5,0%, dando prioridad al factor local. La decisión está en línea con nuestra expectativa de un incremento en el primer trimestre de 2012.
Mexico	01/02/2012	**Flash:** En 2011 las remesas hacia México registraron su mayor crecimiento anual de los últimos 5 años En 2011 las remesas registraron un crecimiento anual de 6.9% para situarse en 22,730.9 millones de dólares, 7% por encima de su nivel mínimo tras la crisis en 2009, pero 12.7% por debajo se valor máximo en 2007.
	31/01/2012	**Flash:** El crédito hipotecario de la banca comercial, con buen desempeño en 2011 En diciembre de 2011 el número de créditos hipotecarios colocados por la banca creció 4.9% en términos anuales, mientras que el monto aumentó 15.5% en términos reales
	02/02/2012	**Observatorio Económico**: ¿Qué piensan los analistas de las constructoras de vivienda? Las empresas constructoras de vivienda que cotizan en bolsa tuvieron una fuerte caída en el precio de sus acciones en 2011. *(english version)*
	02/02/2012	**Flash:** In 2011, remittances to Mexico recorded its highest annual growth from the last 5 years In 2011 remittances registered an annual growth of 6.9%, achieving an annual flow of 22,730.9 million dollars, 7% above its minimum level after the crisis in 2009, but 12.7% below the peak in 2007.
	01/31/2012	**Flash:** Mortgage lending by commercial banks with good performance in 2011 In December 2011, mortgage lending granted by banks recorded a 4.9% annual increase while the amount lent rose by 15.5% in real terms.
Peru	01/02/2012	**Flash:** Inflación negativa en enero La inflación fue -0,10% m/m (BBVA: 0,0%; Consenso: 0,19%) por el descenso en los precios de servicios de transporte y de alimentos. Con este resultado, la inflación interanual pasó de 4,7% a 4,2%.
Panama	03/01/2012	**Situación Automotriz Panamá 2011:** Ventas de vehículos en Panamá alcanzan máximos históricos en 2011 Tratado de Libre Comercio con Estados Unidos favorecerá la oferta de autos nuevos Bajas tasas de interés permitirán ampliar el acceso al crédito en los próximos años. *(english version)*

Asia	02/01/2012	**Flash:** Upside surprise for January PMI shows growth resilience The official Purchasing Managers Index (PMI) for January surprised to the upside, at 50.5% (BBVA: 49.8%; Consensus: 49.7%), an increase from 50.3% in December.

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