Global Weekly Flash

Greece and the eurogroup: An agreement in extremis that will not solve the problem permanently

- After successive delays, the next Eurogroup meeting (Monday) is likely to take decisions to avoid a Greek debt default on March 20, when EUR 14bn bonds mature; however it is not sure that the whole aid will be delivered. Most importantly, even if an agreement on a second aid package is reached, the Greek debt problem would be far from over, considering the high implementation risk of the Greek program, the huge challenge to successfully deal with new measures and the still high debt ratio (according to Bloomberg, the Greek debt sustainability analysis carried on by the Troika, to published yet, concluded that debt-to-GDP ratio may raise to 129% in 2020, in line with our projections, exceeding the current target of 120% of the GDP, which may mean additional financing needs). The main reason behind these delays is that the eurozone officials want signs of a stronger commitment from Greek parties' leaders to comply with the conditions of the second bail-out, even minority parties that are gaining momentum in the voting polls. In this way, given the recognition that there is a high implementation risk over the Greek financial plan, Europe wants to monitor Greece even more closely than before and the new aid package will likely give priority to the debt service over other Greek payments. This suggests that the option of a escrow account to pay Greek debt has increased its probability of being one of the new measures imposed to Greece. On the other hand, according to the press the ECB is close to exchange its Greek government bonds, bought under the securities market programm (SMP), with new ones which would be immune to eventual CAC´s. The exchange would be made at cost price, implying that the ECB contributes with the rescue of Greece with foregone profits.
- Beyond Greece, the Troika is currently in Portugal to carry out the third review of the Portuguese stability program. In 2011, Portugal has fulfilled its program commitments on fiscal targets, thanks to one-off measures. Given action taken on structural reforms and the fact that it is early in the year to detect fiscal slippages, no surprises are expected from this examination.
- On the other hand, structural reforms are ongoing in Spain. Last Friday the Spanish government approved labour market reform which, in our view, is a step in the right direction. We specifically welcome the measures adopted in three major areas: The reform of the collective bargaining system, together with other measures aimed at providing more flexibility to companies in setting their working and salary conditions, the reduction of firing costs and the possibility of dismissing staff for economic reason. Although there are some lack of detail that need to be specify and measure may suffer some modification when at the Parliament, theses measures should help to improve the overall competitiveness of the Spanish economy.

- **Economic activity contracted in the 4Q11 in Europe with domestic demand dragging down, particularly in peripheral growth. The ongoing recovery in the US economy should help Mexico**
  - Eurozone activity contracted in 4Q11 by 0.3%q/q, as expected, being widespread across both core and peripheral countries, except France .With more positive signs coming from January's confidence surveys, our updated MICA model points to zero or slightly negative growth in 1Q12, although with very little information available.
  - A breakdown of the 4Q11 GDP growth by countries showed contractions on quarterly basis: Germany by -0.2%, Spain by -0.3% q/q (positive contribution from foreign demand did not off set negative contribution from domestic demand), Italy by -0.7% q/q (the second consecutive fall), France by 0.2% q/q in the 4Q11 (as investment accelerated significantly and foreign demand increased its positive contribution to the GDP), Portugal by -1.3% q/q, which is less than expected due to positive contribution of next export as import fell more than anticipated, so the Portuguese GDP fell -1.6% in 2011, in line with Troika's expectations; and Greek economy contracted by 7% y/y nsa in 4Q11, which implied a contraction of -7% in 2011, a deeper recession than the Troika anticipated for this year (-6%).

- In the US, underlying economic trends have continued improving in January on core retail sales, the manufacturing component of the industrial production, and also the housing sector, that has gained some momentum in last month. The drop in jobless claims to 348.000, the lowest level since March 2011 provides further support to the recovery. Furthermore, the US lawmakers have reached a provisional agreement that will extend the payroll tax cuts ten months. The most recent proposal would maintain the 2% tax rate reduction (from 6.2% to 4.2%), extend unemployment benefits, and delay reductions in Medicare physician compensation. The current draft, however, indicates that unemployment assistance will be reduced from 99-weeks to 73-weeks for the most severely impacted states. In total, the measures may avoid a negative impact on 2012 GDP growth of around 0.2-0.7%.
- The Mexican economy grew 0.4% q/q sain in vs. BBVA Research forecast by 0.5%. The recent improvement in activity indicators in the U.S. points to GDP to grow in 1Q12 close to 4T11 figures.
- The ongoing increase in oil prices, driving by geopolitical tension, introduces some risk in the global growth outlook. Oil prices have increased 3% this week, a +12% year-to-date.

- **If economic activity continues to stabilize, the need for additional monetary policy easing in developed economies would continue to decrease. Yet, the room for easing in most emerging markets is still there**
  - **January FOMC Minutes: a subtle change points to a somewhat lower probability of QE3.** Possibly the main hint from the minutes of the January FOMC meeting is that the probability of another round of asset purchases is now somewhat lower as a larger majority of members needs to see worsening economic conditions before thinking of further policy action. **At the January meeting fewer members (only “a few members” vs. “a number” of members in December) judged that the outlook could justify further asset purchases in the near-term.** “Other members” considered that QE3 would only be appropriate if the economy “lost momentum”. Also of note is that despite recent better-than expected data, the FOMC stated that “...the outlook had not changed greatly since December”. All in all, fewer members favor another round of QE which suggests that **while QE3 remains a possibility, its probability appears to have decreased somewhat.**
  - Meanwhile, **the Bank of England** (BoE) indicated in its February Inflation Report that the MPC **does not see a strong case for further QE,** and albeit it retains the easing bias, it seems that a turn for the worse in the economy is required to prompt another increase of asset purchases, as in the case of the Fed. Thus**, it seems that both the Fed and the BoE now see their current policy stances as appropriate.**
  - In a surprise move, the Bank of Japan (BoJ) eased monetary policy through an expansion in its asset-purchasing program by ¥10 trillion ($130 billion), boosting its asset-buying and lending scheme to ¥65 trillion yen in total. Meanwhile, in China, the PBoC vowed to continue its “prudent” monetary policy stance, and set an M2 target for 2012 of 14%, in line with expectations, and signals a modest loosening of policies, including a probable increase in the authorities’ informal lending target of RMB 8-8.5 trillion for 2012. We continue to expect cuts in the RRR and possible interest rate reductions during the course of the year.
  - In Latin America, the Brazilian government announced this week a restriction of 1.25% of GDP of expenditures budgeted for the year which should help to fulfill the fiscal target by the end of the year. This should help the CB to drive the SELIC down to a single-digit this year and also to prevent significant hikes next year. Meanwhile, Banxico inflation report supports our monetary pause stance. The monetary authority highlighted that the recently observed rise in inflation is transitory and of Non-core nature mainly and the exchange rate depreciation has limited effects over inflation. The central bank stressed that economic slack remains and that output gap will close slower than previously expected.

NEXT WEEK: markets will closely follow the Eurogroup and Ecofin meetings that will take place on Monday and Tuesday, respectively. G20 meeting will also attract attention as an increase in the funds available to the IMF will probably be discussed. Manufacturing indicators in the US, China and the eurozone will give clues on whether activity continues to stabilize.

Calendar: Indicators

Eurozone: Flash consumer confidence (February, February 21st)

Forecast: -20.4	Consensus: -20.1	Previous: -20.7

Consumers' sentiment is expected to have improved slightly further for the second month in a row, confirming the interruption of the sharp fall observed since mid-2011, but remaining clearly below its long-term average (-1.2 standard deviations below). In addition, the worsening of the labour market combined with negative effects of fiscal consolidation on households' disposable income should continue to take its toll on consumers' confidence. Overall, these figures suggest that private consumption should remain very subdued or contract slightly at the beginning of the year. This, combined with ongoing fiscal adjustment and gloomy prospects for investment, should drive domestic demand down, leaving exports as the main support of activity in coming months.

Eurozone: Flash PMI composite (February, February 22nd)

Forecast: 50.6	Consensus: 50.6	Previous: 50.4

February's PMI figures are especially relevant to take the pulse of the economic situation in Q1, after the unexpected confidence rebound in January. Our forecasts point to a slight improvement in the composite indicator in February driven by a better performance in both services and manufacturing components. Nonetheless, these estimates mean that confidence levels should have stabilized at those observed in Q3 11 (well below its long-term average) when activity was virtually flat. If confirmed, these data suggest that the contraction of GDP by end-2011 should have been short-lived, although it is too early to tell. We remain cautious about the economic outlook in Q1, despite the slight improvement of our short-term MICA model which now points to zero instead of clearly negative growth, since risks clearly remain biased downwards.

US: Existing Home Sales (January, February 22nd)

Forecast: 4.65M	Consensus: 4.66M	Previous: 4.61M

Existing home sales appear to be the bright spot in housing activity, having increased for three consecutive months and recovering somewhat from post-recession lows. A positive housing market index in January suggests that demand conditions are improving. However, YoY gains have been slowing despite accelerating growth on a monthly basis. Although continued weakness in the employment situation and a more uncertain consumer outlook may limit demand, we expect that existing home sales will increase slightly in January.

US: Consumer Sentiment (February, February 24th)

Forecast: 73.0	Consensus: 72.8	Previous: 72.5

Consumer sentiment declined in the beginning of February for the first time since August, mostly due to deterioration in the current conditions component. Although the six-month outlook is relatively unchanged, consumers are showing some uncertainty in regards to the job market, attitudes that conflict the latest employment data. Although the index declined from January, consumer sentiment is still better than most of 2H11. The most recent data do not suggest any significant boost in consumer sentiment, and we expect that the index will increase only slightly to remain below January's level.

Taiwan Export Orders for January (February 20)

Forecast: -7.6% y/y	Consensus: -4.8% y/y	Previous: -0.7% y/y

Export growth in the Asia region has been slowing due to weaker external demand, especially from the EU. Taiwan's export-dependent economy entered into a technical recession in Q4 2011. Export growth has been declining, and reached -16.8% yoy in January, although the outturn was heavily influenced by distortions from the Chinese New Year in January. Taiwan's export orders will be watched for signs of the external demand outlook (export orders are a good 3-month leading indicator). Looking ahead, risks remain tilted to the downside given the uncertain external outlook, although continued growth in China should help sustain exports and growth in the region.

Markets Data

				Close	Weekly change	Monthly change	Annual change
Interest rates	(changes in bps)	US	3-month Libor rate	0.49	-1	-7	18
			2-yr yield	0.29	2	6	-46
			10-yr yield	2.01	2	11	-157
		EMU	3-month Euribor rate	1.04	-3	-17	-4
			2-yr yield	0.25	1	5	-115
			10-yr yield	1.92	1	14	-133
Exchange rates	(changes in %)	Europe	Dollar-Euro	1.315	-0.3	2.4	-3.8
			Pound-Euro	0.83	-0.8	-0.2	-1.2
			Swiss Franc-Euro	1.21	-0.1	0.0	-6.7
		America	Argentina (peso-dollar)	4.36	0.3	0.8	8.2
			Brazil (real-dollar)	1.71	-0.7	-2.9	3.0
			Colombia (peso-dollar)	1782	-0.2	-2.3	-5.0
			Chile (peso-dollar)	486	1.4	-2.1	3.6
			Mexico (peso-dollar)	12.80	0.0	-3.8	6.5
			Peru (Nuevo sol-dollar)	2.68	-0.3	-0.5	-3.1
		Asia	Japan (Yen-Dollar)	79.31	2.2	3.3	-4.6
			Korea (KRW-Dollar)	1126.45	0.2	-1.0	1.4
			Australia (AUD-Dollar)	1.071	0.3	2.8	5.6
Comm.	(chg %)		Brent oil ($/b)	119.2	1.6	7.7	16.3
			Gold ($/ounce)	1720.5	-0.1	3.6	23.8
			Base metals	546.4	-0.4	2.8	-11.2
Stock markets	(changes in %)	Euro	Ibex 35	8643	-1.7	2.6	-21.9
			EuroStoxx 50	2517	1.5	5.3	-18.0
		America	USA (S&P 500)	1358	1.1	3.8	1.1
			Argentina (Merval)	2791	2.5	-2.5	-21.1
			Brazil (Bovespa)	65890	3.0	6.8	-3.2
			Colombia (IGBC)	14554	3.3	8.1	3.0
			Chile (IGPA)	21483	2.2	5.1	0.8
			Mexico (CPI)	38295	0.4	2.1	2.1
			Peru (General Lima)	22426	-0.3	7.5	-2.7
			Venezuela (IBC)	135900	2.1	15.5	104.2
		Asia	Nikkei225	9384	4.9	9.7	-13.5
			HSI	21492	3.4	9.2	-8.9
Credit	(changes in bps)	Ind.	Itraxx Main	140	5	-23	43
			Itraxx Xover	616	19	-68	234
		Sovereign risk	CDS Germany	88	3	-13	35
			CDS Portugal	1146	3	-118	691
			CDS Spain	401	38	-4	152
			CDS USA	38	-2	-9	---
			CDS Emerging	259	-6	-39	41
			CDS Argentina	783	-15	-50	168
			CDS Brazil	139	-1	-18	24
			CDS Colombia	129	-2	-21	12
			CDS Chile	99	-6	-27	22
			CDS Mexico	136	-1	-14	22
			CDS Peru	150	-6	-28	39

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
US	02/15/2012	**Fed Watch FOMC Minutes: January 24-25** Despite recent good data, many downside risks *(Spanish version)*
	02/15/2012	**Fed Watch: FOMC Minutes Preview: January 24-25** New era of communication, but continued doubts of the sustainability of the recovery *(Spanish version)*
	02/13/2012	**Economic Watch: State Activity Indexes December 2011** In December, the indexes underscored broad-based growth in the U.S. in 4Q11. The observed expansion is consistent with the 0.7% change in U.S. GDP in the quarter –the fastest rate of the prior six quarters *(Spanish version)*
	02/13/2012	**Weekly Flash. International Trade Data Disappoint, Consumer Activity Remains Mixed** The international trade balance widened more than expected in December to -$48.8bn, mostly due to a 1.3% jump in imports. Reports related to consumer activity were mixed, increasing uncertainty about the strength of the recovery *(Spanish version)*
Europe	02/14/2012	**Europe Economic Outlook. First Quarter 2012** The ongoing European sovereign crisis and global slowdown will lead the eurozone to a mild recession in 2012. European summits served to gain time but further progress in Governance is still required. • The ongoing European sovereign crisis and global slowdown will lead the eurozone to a mild recession in 2012. • Successive European summits since October and the ECB's intervention served to gain time, but further progress is still required.. • ...focused on the completion of the fiscal new Treaty, strengthening the liquidity firewall and reforms in the periphery. • Peripheral countries are in recession for the continuation of financial stress and hardness of the fiscal adjustment.
	02/15/2012	**Europe Flash: "Eurozone GDP -0.3%q/q, as expected, with small negative surprise in Italy compensating for a positive surprise in France"** Bottom line: Eurozone activity contracted in Q4 by 0.3%q/q, as expected, being widespread across both core andperipheral countries, except France
Latin America	02/15/2012	**LatAm Economic Outlook. First Quarter 2012** Latin America will grow by 4.4% in 2011 and somewhat below this figure in 2012 (3.7%), fuelled by domestic demand which is beginning to slow. • Slowdown in the world economy. • The risks to global growth estimates have a strong downward bias, • The monetary authorities are holding back the withdrawal of monetary stimuli longer than expected, • Inflation surprised upwards in recent months. • The strength of external and fiscal balances *(Spanish version)*
Brazil	02/15/2012	**Brazil Economic Outlook. First Quarter 2012** Activity will accelerate over 2012 after having stagnated in the end of 2011. • Activity will accelerate over 2012 after having stagnated in the end of 2011. • Inflation will remain above target. • Monetary policy will continue to be lax. • Meeting the fiscal target this year will be challenging, but not unlikely.
	02/15/2012	**Brazil Flash: "Government announces expenditure cuts to put fiscal accounts on track for meeting fiscal target and to create room for a lower SELIC"** The government announced today a restriction of R$ 55bn (1.25% of GDP) of expenditures budgeted for the year. Weexpect these expenditure cuts to be delivered and the fiscal target (primary surplus equal to R$ 139bn, around 3.2% ofGDP) to be fulfilled by the end of the year.
Chile	02/15/2012	**Situación Chile Primer Trimestre 2012**
	02/14/2012	**Flash Chile: Banco Central mantiene tasa de interés en 5% y sesgo neutral**
	02/14/2012	**Artículo de prensa: El parche antes de la herida** **Autor:** **Fuente:** Diario Financierto

Colombia

02/13/2012 **Situación Colombia Primer trimestre 2012**
Saludable inicio de la desaceleración a finales de 2011 permite a la economía entrar en una senda de crecimiento más sostenible y con menos tensiones inflacionarias

- La economía mundial se desacelera. Seguirá liderada por las economías emergentes. El crecimiento se recuperará en la segunda mitad de 2012
- Para Colombia esperamos un crecimiento de 5% en 2012 sostenido nuevamente en la demanda interna y con un mayor impulso de la inversión pública
- Ciclo de aumento de tasas del Banco Central no está completo y esperamos nuevos incrementos en la segunda mitad del año

Peru

02/16/2012 **Flash Perú: Crecimiento repuntó en diciembre, pero será algo más moderado a inicios de año**
El PIB se expandió 6,0% interanual en diciembre, por encima de lo previsto (BBVA y Consenso: 5,5%). Ello recoge en parte la aceleración transitoria de algunas actividades primarias.

02/14/2012 **Peru Economic Outlook First Quarter 2012**
We expect economic growth to moderate in 2012 to 5%. The weakness of the global environment will curb foreign demand and private investment dynamism.

- Inflation will fall to 2.3% in 2012.
- The Central Bank will maintain the policy rate at its current 4,25% level in the short term, with a downward bias.
- The most important risk in the short term is a disorderly resolution of the debt crisis in Europe.

Mexico

02/16/2012 **Mexico Flash: 4Q11 GDP in line with expectations (0.4% qoq vs 0.5% estimate), annual deceleration profile will continue in 2012**
Overall in 2011, Mexico grew 3.9%, 1.6 pp less than in 2010. The recent improvement in activity indicators in the U.S. could imply an 1Q12 growth close to 4T11. For the full year remains the outlook for growth of 3.3%

02/15/2012 **Banxico. Banxico’s Inflation Report supports our monetary pause perspective**
Banxico estimates that GDP growth in 2011 was around 4 per cent, while in 2012 and 2013 its forecast lie in the 3 to 4% range.

02/13/2012 **Situación México Primer Trimestre 2012**
México seguirá creciendo por encima del 3%, con inflación y costos de financiamiento anclados y un sistema bancario ajeno al contagio de riesgos externos

- La economía mundial se desacelera. El crecimiento se recuperará en la segunda mitad de 2012, liderado por las economías emergentes
- Inflación, tasas y crecimiento en México. El anclaje de los precios evita el freno de la actividad a través del aumento de tasas

Presentación Situación México Primer Trimestre 2012

02/16/2012 **Observatorio Económico: Ley de Asociaciones Público-Privada, en dirección correcta, con resultados a mediano plazo**
México necesita de mayor inversión para mejorar su competitividad. La Ley de Asociaciones Público-Privadas es un claro impulso a la inversión. Los planes de inversión deben considerar otros sectores que son redituables

Asia

02/10/2012 **Asia Economic Oulook: First Quarter 2012**
Asia’s growth momentum has continued to slow, as expected, due to the weaker external environment. Fourth quarter growth slowed further in the majority of the region’s economies due to lower exports and, in a few cases, from the knock-on effects to domestic demand.

02/10/2012 **China Flash: January 4.5% y/y uptick in inflation should not be a concern**
January headline inflation ticked up by more than expected, to 4.5% y/y (BBVA: 4.3%; Consensus: 4.0%) from 4.1% y/y in December (Chart 1).

02/14/2012 **China Banking Flash:Domestic banks allowed to buy time by rolling over local**
The Financial Times and other media outlets reported yesterday that the Chinese authorities plan to “instruct” banksto roll over their credits to local governments. If confirmed, such a move would both ease the debt burden on localgovernments and prevent a possible wave of defaults on bank balance sheet

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