Global Weekly Flash

Greek debt restructuring goes ahead with CACs

The participation rate in the Greek PSI will reach 95.7% according to the official communiqué. The Greek law bond participation rate was 85.8%, i.e. EUR 152bn out of EUR 177bn, with bondholders tendering their bonds for exchange or consenting to the proposed amendments, paving the way for CACs' activation and the restructuring of EUR 177bn of bonds under domestic law. Foreign law bond participation was 69%, EUR 20bn out of EUR 29bn. Moreover, the Greek Republic has decided to extend the invitation period for Greek bonds under foreign law until March 23rd. All in all, the total participation rate up to now is of 83.5% (i.e. EUR 172bn out of ht EUR 206bn total private debt). However, the Greek government has strongly suggested that they will activate CACs for Greek law bonds and then the final participation will reach 95.7%, in line with the 95% targeted by Greece and the Troika to launch the second bail-out programme. The Eurogroup today has welcomes the participation rate reached by the Greek PSI. The upcoming events to watch are: ISDA decision (today) on triggering CDS, the net exposure to sovereign Greek CDS is of around USD 3.2bn, while the gross exposure is of EUR 68.9bn; the Eurogroup meeting next Monday, which is expected to approve the second bailout programme; IMF decision on its contribution to the package (March 15th) and the exchange of bonds properly (bonds under Greek-law next Monday and bonds under foreign-law on April 11). Overall, the bond swap happened as expected. However, strong uncertainties regarding Greece will continue to be there in the coming quarters linked to the performance of Greek stability programme on growth and reforms.

- **Central Banks, except central bank of Brazil, maintained their wait-and-see-stance**
  - Most of the central banks that held policy meeting this week have maintained their wait-and-see stance, in view of the improving economic data and increasing price pressure, due to higher oil prices. The ECB, the BoE, the Bank of Korea, the Bank on Indonesia, the Bank of Canada, the Reserve bank of Austria, and the Bank of Peru hold their monetary policy unchanged.
  - The ECB, as widely expected, left the key policy rate unchanged at 1.0%. The tone of the ECB's communiqué was a bit more upbeat, and the wording less dovish. Medium-term inflation risks are characterised as "still broadly balanced" (the "still" was added and might signal a potential revision in coming months) though it was added a reference to "upside risks prevailing" to the upwardly revised 2012 inflation outlook. Inflation is now expected to stay above 2% in 2012. On activity, the reference to downside risks remains but the one to "high uncertainty" has been dropped. Overall, the slightly more positive activity data in early 2012, together with somewhat higher price pressures due to oil prices and the disappearance of the tail risk of a fallout due to liquidity injections make us no longer believe that rates will be cut further unless conditions worsen again markedly.
  - Meanwhile, the Brazilian Central Bank surprised increasing the pace of easing by cutting the Selic rate by 75bps (versus 50bps market expectations), to 9.75%. The weakness seen in recent economic data, the GDP growth increased by only 2.7% in 2011, the industrial production fell 2.1% m/m in January and consumption remained almost unchanged; alongside the strength seen in the Brazilian Real exchange rate have been the factors behind the strong CB movement.
  - Next week, the FED will decide on monetary policy. It is expected to remain on hold as consistent with the newly-issued assessments of appropriate monetary policy by FOMC participants. We expect next week's Federal Reserve statement to highlight improvements in employment, general economic activity and firmer inflation as a result of higher energy prices. However, we also expect the statement to point to continued challenges to high growth as a result of household deleveraging, a damaged housing sector, and uncertainty in European sovereign debt. The statement will show that the Federal Reserve remains focused on high excess resource slack – in particular, excessively high unemployment duration and foreclosed home inventories – and is also unconvinced of the sustainability of the recovery. Recent rumours in the press regarding a possible plan to utilize sterilized bond purchases – asset purchases offset by term deposits or reverse repos – highlight the Federal Reserve's preparations for a potential post-Operation Twist scenario of insufficient growth and near-trend inflation. In general, if the economy arrives as we forecast in a mediocre pace of employment and growth by the time Operation Twist ends in late June, this sterilized system could in theory allow the Fed to maintain downward pressure on long term rates. The effect on long-term interest rates would be the same as Operation Twist, but not the same as quantitative easing (QE) with money supply expansion. In slow growth and liquidity trap conditions where the relative holdings of assets are key to stimulating changes in long-term rates, and there is no clear risk of deflation, then this sterilized bond purchase could be an option. The total impact could be similar to Operation Twist and not as strong as QE with money supply expansion. The risk assumed by the Fed is higher in a sterilized bond purchase.

- **Cyclical indicators broadly in line with our expectations, including the announcement of the NPC on 2012 GDP growth target lowered to 7.5%.**
  - In the US payroll figures increased by 227.000 more-than-expected in February. Additionally, initial jobless claims have increased in the last week but the 4week m.a. has been declining since 2H11. All in all, there are signs of slightly improvement of labour market.
  - In the EZ, GDP contraction was confirmed at -0.3% q/q in the Q4, as a result of weakening domestic demand: private consumption fell by 0.4% and investment by -0.7%. Regarding data from 1Q12, consumption might have picked up in January, as retail sales data indicate (+0.3% m/m), while the German industrial sector may lose momentum in the coming months as production gained 1.6% m/m, while industrial new orders (-2.7% m/m in January). As for February, PMI Composite data suggested the private sector activity fell slightly below the 50 threshold to 49.3, on weaker services sector's activity. German private sector growth eased but continued above the expansion level, while the situation in France was broadly stabilized. Italy remained in contraction while Ireland registered an impressive improvement rising to 53.3.
  - In China, both activity and credit indicators for the first two months of the year confirmed a continuation in moderating growth trends while the tone of supply and demand data were mixed. Industrial production eased to 11.4% from 12.4% as we expected and urban fixed asset investment (YTD) rose by a better-than-expected 21.5%. Meanwhile retail sales grew well below expectations 14.7% (vs. consensus 17.3%) and newly released real estate market data show further weakening in demand trends. On inflation we find that for January/February period was 3.9%, down from 4.1% in December, providing some reassurance that inflation is on a downward trend. Our expectation of further policy loosening and fiscal support remains in place. The National People's Congress (NPC) announcements were in line with our expectations. As has been widely reported, the 2012 GDP growth target has been lowered to 7.5%, from 8.0% in recent years. In our view, this official growth goal can be seen as a floor, rather than a projection of the expected growth outturn.
  - In Latin America. Inflation surprised on the downside in Mexico by decreasing to 3.87% y/y in February from 4.05% y/y in January, thanks to lower than expected non-core inflation. We maintain our view that inflation will rise above 4% in the coming quarters, with balanced risks. On activity, Chilean Economic Activity Index grew strongly by 5.5% y/y in January. The Chilean Central Bank will keep the policy rate at 5.0% in its next meeting due to next week.
  - Next week, the Eurogroup will ratify the Greek second bail-out. Additionally, the Troika will publish the assessment on Greece and IMF will announce its participation in the Greek bail-out. Furthermore, the Federal Reserve will hold its monetary policy meeting on March 13th.

Calendar: Indicators

Eurozone: Industrial production (January, March 14th)

Forecast: 0.5% m/m	Consensus: 0.7% m/m	Previous: -1.2% m/m

We expect industrial output to have increased in January, but not enough to offset the decline observed in previous months. Although January's industrial output should have remained around -0.5% below the average Q411 level, the sharp declining trend observed at the end of 2011 seems to have been stopped. This is also suggested by soft data for the industrial sector, as confidence improved somewhat at the beginning of 2012, though remaining in contractionary territory. Overall, these figures are in line with our scenario that envisages still weak prospects in Q112, although the trough should be behind us.

Eurozone: HICP inflation (February, March 14th)

Forecast: 2.7% y/y	Consensus: 2.7% y/y	Previous: 2.6% y/y

We expect Eurostat to confirm that HICP inflation stepped up in February to 2.7% y/y, against our previous expectation of no change. The detailed breakdown could show also some stabilization in core inflation, likely linked to the increase of some industrial goods' prices after the effect of January's sales, while the rebound in energy prices should be somewhat higher than anticipated. Overall, these figures, if confirmed, suggest that the moderation in inflation could be slower than previously projected due to the recent increase in oil prices but also to the stabilization of some components of core inflation. As a result, HICP inflation is likely to remain slightly above the ECB target until the last quarter of the year.

US: Retail Sales, Ex Auto (February, March 13th)

Forecast: 0.9%m/m, 0.5%m/m	Consensus: 1.0%m/m, 0.7%m/m	Previous: 0.4%m/m, 0.7%m/m

Retail sales have been underwhelming throughout the past few months, and recent data suggest that similar trends should continue in February. Rising gas prices most likely lifted nominal sales but may have discouraged consumers from big spending. Weekly retail sales reports have been mixed due to weather-related disruptions, particularly as February often stands as a transition month from sales of winter to spring goods. Still, we expect that nominal headline sales will grow at a slightly faster pace compared to January.

US: Consumer Price Index, Core (February, March 16th)

Forecast: 0.3%m/m, 0.2% m/m	Consensus: 0.4% m/m, 0.2% m/m	Previous: 0.2% m/m, 0.2% m/m

Energy prices are likely to drive headline inflation in February after increasing in January for the first time since September. Despite rising oil and gas prices, the household energy index declined in January for the fourth consecutive month, a trend that is likely to continue. Rent, food, and medical care prices continue to increase, but at a relatively steady pace, and we expect that commodity price pressures will decline in the coming quarters. In general, inflation trends are still unfolding in line with the Fed's projections, and well-anchored inflation expectations limit potential upward pressure to core prices. However, any significant increase in oil prices would push inflation higher as it happened last year.

India: WPI Inflation (February; March 14th)

Forecast: 6.4% y/y	Consensus: 6.7%y/y	Previous: 6.6% y/y

The coming week will be crucial for investor sentiment in India, with February WPI inflation be watched for cues on the RBI's March 15 monetary policy meeting. This will be followed by the central government budget due on March 16, in which we will be looking for bold measures on fiscal consolidation and growth supportive policy reforms. We expect inflation to continue moderating on strong base effects, softer food prices and, and lower price pressures from slowing growth. A sustained moderation in inflation, especially core, would increase the probability of a 25 bps interest rate cut by the Reserve Bank of India (RBI) in its March 15 policy meeting, which remains our base case. We also expect the RBI to enact a 50bps cut in the cash reserve ratio given the tightness in interbank liquidity. We expect RBI to cut policy rates by 100-150 bps in 2012.

Markets Data

				Close	Weekly change	Monthly change	Annual change
Interest rates	(changes in bps)	US	3-month Libor rate	0.47	0	-4	16
			2-yr yield	0.31	4	6	-33
			10-yr yield	2.02	4	3	-139
		EMU	3-month Euribor rate	0.90	-5	-18	-27
			2-yr yield	0.16	0	-9	-149
			10-yr yield	1.80	0	-18	-141
Exchange rates	(changes in %)	Europe	Dollar-Euro	1.322	0.1	-0.4	-4.7
			Pound-Euro	0.84	0.5	-0.2	-3.2
			Swiss Franc-Euro	1.21	-0.1	-0.4	-6.5
		America	Argentina (peso-dollar)	4.34	0.0	-0.1	7.6
			Brazil (real-dollar)	1.76	2.0	2.6	5.8
			Colombia (peso-dollar)	1765	-0.5	-0.8	-5.6
			Chile (peso-dollar)	485	0.3	1.7	1.3
			Mexico (peso-dollar)	12.71	-0.5	0.3	6.6
			Peru (Nuevo sol-dollar)	2.67	-0.2	-0.6	-3.6
		Asia	Japan (Yen-Dollar)	81.77	0.2	6.2	-0.2
			Korea (KRW-Dollar)	1120.20	0.4	0.3	-0.4
			Australia (AUD-Dollar)	1.063	-1.1	-1.6	5.0
Comm.	(chg %)		Brent oil ($/b)	125.2	1.2	6.8	10.0
			Gold ($/ounce)	1697.4	-0.9	-2.1	19.8
			Base metals	544.3	-0.5	-0.8	-11.2
Stock markets	(changes in %)	Euro	Ibex 35	8306	-3.0	-6.1	-20.1
			EuroStoxx 50	2517	-1.2	0.1	-12.7
		America	USA (S&P 500)	1366	-0.3	1.2	4.7
			Argentina (Merval)	2684	-2.7	-1.3	-21.1
			Brazil (Bovespa)	66908	-1.3	1.6	0.3
			Colombia (IGBC)	14973	-1.6	6.5	3.0
			Chile (IGPA)	21484	-0.7	3.1	3.7
			Mexico (CPI)	37815	-1.3	-0.9	4.8
			Peru (General Lima)	23033	-0.6	1.3	5.7
			Venezuela (IBC)	161405	4.2	29.6	137.8
		Asia	Nikkei225	9930	1.6	10.1	-3.2
			HSI	21086	-2.2	0.3	-9.3
Credit	(changes in bps)	Ind.	Itraxx Main	132	1	1	29
			Itraxx Xover	574	1	10	176
		Sovereign risk	CDS Germany	77	0	-5	30
			CDS Portugal	1214	22	17	698
			CDS Spain	398	27	46	141
			CDS USA	34	-1	-5	---
			CDS Emerging	239	1	-18	26
			CDS Argentina	804	18	26	175
			CDS Brazil	130	-2	-7	16
			CDS Colombia	119	-2	-10	5
			CDS Chile	94	0	-9	25
			CDS Mexico	123	-5	-11	15
			CDS Peru	132	-5	-23	16

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
US	03/08/2012	**Economic Watch: Housing Market Outlook: 2012** Rental demand surges, as home ownership declines. Home prices will continue to slide across the U.S. due to the high inventory of distressed properties. Non-distressed property prices will remain under pressure
	03/08/2012	**Banking Watch: Consumer Credit: Monthly Situation Report** Seasonally-adjusted consumer credit grew $17.8bn in January following greater-than-expected increases of $20.0bn and $16.3bn in November and December, respectively
	03/08/2012	**Banking Watch: Quarterly Credit Quality Update** Commercial bank asset quality appears to be improving, with declines in both delinquency and charge-off rates. Residential loans continue to weigh on overall conditions
	03/08/2012	**Flash US: Bank of Canada Weighing Global Risks** Overnight rate remains at 1%. Bank of Canada statement suggests European contagion, slower North American growth risks have declined.
	03/06/2012	**Economic Watch: Monthly US Outlook** Positive Economic Data Lifting Spirits, But is it Sustainable? *(Spanish version)*
	03/05/2012	**Weekly Flash. 4Q11 GDP Growth Revised up to 3.0%, January Spending Disappointed** The second estimate for 4Q11 real GDP growth was little changed from the advance release. According to BEA’s second estimate, the U.S. economy grew 3.0% SAAR in 4Q11, slightly higher than the previous estimate of 2.8% SAAR *(Chinese version)* *(Spanish version)*
EMU	03/05/2012	**Europe Flash: "Euro summit: Fiscal compact not very stringent and no go-ahead for Greek bailout yet"** The EU summit that took place on March 1 and 2 developed mostly as expected. It advanced in the solution of the Greek programme, but did not provide the full go-ahead for the new funds. The new fiscal agreement was signed among 25 countries, but it does not sound particularly stringent.
Spain	03/07/2012	**Flash España: "Producción industrial en enero"** Los datos observados en diciembre y enero, junto a las señales adelantadas de los indicadores cualitativos de febrero, muestran un tono algo menos contractivo de la actividad industrial respecto a lo observado al inicio del 4T11 que, embargo, no permite anticipar mejora coyuntural significativa a corto plazo
Latin America		
Chile	03/08/2012	**Flash Chile: Inflación mensual se ubica en 0,4% en febrero, muy por arriba de las expectativas**
	03/05/2012	**Flash Chile: Actividad económica crece 5,5% a/a en enero, muy por sobre las expectativas**
Colombia	03/05/2012	**Economic Watch: Colombia and the United States open their doors** Free Trade Agreement will boost Colombia's product and competitiveness *(Spanish version)*
	03/05/2012	**Flash Colombia: Inflación permanece estable por moderación en precios de los alimentos** En febrero, la inflación se ubicó en 0,61% m/m, por debajo de lo previsto (BBVA: 0,74% m/m; consenso: 0,79% m/m). En términos anuales, la inflación se mantuvo prácticamente estable en 3,55%.
Peru	03/08/2012	**Flash Perú: Tasa de política monetaria: no se anticipan cambios en los siguientes meses** En línea con lo esperado (BBVA y Consenso), el Banco Central mantuvo la tasa de política monetaria en 4,25%.
Other countries	03/05/2012	**Evento: El Medio Oriente: Una Oportunidad que España no puede desperdiciar** En los ámbitos económicos y empresariales de este país, hablar del Medio Oriente se me antoja aun más exótico que hablar del Lejano Oriente. **Autor:** Alicia García-Herrero

Fuente: La Tribuna BD

Mexico

03/08/2012 **Mexico Flash: February's inflation: the decline in non-core prices reduces headline inflation more than expected**

CPI: Observed: 0.20% mom vs BBVA: 0.31% mom Consensus: 0.29% mom. Core: Observed: 0.43% mom vs BBVA: 0.48% mom Consensus:0.47% mom *(Spanish version).*

03/06/2012 **Mexico Pension Watch: "Regulatory and Market Changes in the Retirement Savings System in Mexico towards the right direction"**

In recent years, regulatory changes in the Retirement Savings System (SAR) have been a gradual process to encourage greater growth in savings, increase profitability to accomplish better pensions for members, and recruit more workers to the defined contribution scheme (eg ISSSTE). *(Spanish version).*

03/05/2012 **Mexico Flash: Bank loans to the private sector: continues its positive growth trend**

In January 2012 the annual nominal growth rate of total bank loans was 15.8%.

03/05/2012 **Mexico Flash: Building Growth Slows**

In the last month of 2011, output in building work increased 2.4% in annual terms. Output associated with productive construction again constitutes the driving force in building *(Spanish version).*

Asia

03/08/2012 **China Flash: NPC meeting announcements in line with expectations**

The National People's Congress (NPC) opened on March 5, with key events marked by the government's WorkReport for 2012, macro targets, and the central government budget. Announcements so far have been in line withexpectations.

03/08/2012 **Asia Daily Flash: 8 March 2012**

Asian equity markets advanced today following three days of successive losses, on positive momentum from the US and signs of further progress with Greece's debt exchange. Markets are poised for the release of inflation and activity data in China tomorrow.

03/07/2012 **Asia Daily Flash: 7 March 2012**

- Australia weak Q4 GDP raises growth concerns- SP warns that India's rating hinges on curbing the fiscal deficit- Indonesia to hike subsidized fuel prices

03/06/2012 **Asia Daily Flash: 6 March 2012**

The retracement in Asian equity markets continued for a second straight day, led by declines of -2% in Hong Kong and Singapore. Currencies were also weaker, and the Australia dollar declined after the RBA held interest rates unchanged, but issued a less hawkish statement on the future course of interest rate.

03/05/2012 **Asia Daily Flash: 5 March 2012**

Markets were sharply lower in Asia today. The financial media attributed the declines to news from the first day of China's National People's Congress (NPC) that the authorities have lowered the official GDP target for 2012 to 7.5% from 8.0% in previous years (see below).

EAGLEs

03/06/2012 **EAGLES Quarterly Report. First Quarter 2012**

Economic activity among the EAGLEs continued losing momentum in the last quarter of 2011.External demand was hurt by the Euro zone economic slowdown and the rise of global risk aversion. *(Spanish version)*

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