Global Weekly Flash

German extreme low interest rates have encouraged flows toward other European Core countries

The agreement reached at the Eurogroup meeting, together with fiscal measures taken by Spain, helped to restrain the worsening in European peripherals debt markets. Concerns on the global economic slowdown continue to weight on central banks.

- Following last EU Summit, the Eurogroup has taken some steps. First, in order to efficiently conduct any eventual intervention in debt secondary market, the ECB is ready to act as agent of the EFSF. Second, regarding Spain, the Eurogroup agreed on the draft of the MoU underlying the financial assistance for the recapitalization of the Spanish financial institutions, which is expected to be signed on July 20. As expected, the financial aid will be provided via the EFSF until the ESM becomes available without seniority status. A first tranche amounting to EUR30bn will be available by the end of July to have it ready in case of emergency. According to the draft MoU, the programme for the restructuring and recapitalisation of banks would run until June 2013. The conditionality would be very strict for those banks receiving public capital, particularly regarding holders of non-senior debt and segregation of impaired assets. Meanwhile horizontal conditionality would be mainly concerned with solvency and the supervisory and provisioning system, and a closely monitoring of liquidity conditions of the system. Additionally, the Eurogroup gave an extra-year to Spain to bringing its deficit below the 3% of GDP level, with headline deficit targets of 6.3% of GDP for 2012, 4.5% of GDP for 2013 and2.8% of GDP for 2014 while at the same time they sets a number of recommendations to Spain, both on the fiscal and the structural front, to be implemented and monitored according a strict calendar. And thirdly, regarding the roadmap towards banking supervision and the direct recapitalisation of the banks for the ESM, the Commission is expected to present proposals in September.

- This week, the Spanish government announced measures amounting to EUR65bn through 2014 that significantly increase the likelihood of meeting the new public deficit target at the end of 2012 (6.3% of GDP) in 2013 and 2014.

- Despite those steps forward, other factors have arisen as a reminder that the road ahead is not free of obstacles. Finland requires some kind of collateral from Spain in exchange of its aid for Spanish banks; and the ratification process of the ESM is been delayed, the German Constitutional Court failed to give its go-ahead to the new ESM Treaty increasing concern that the ESM may not enter into force even in September. So far, the 44% of the ESM capital subscription has backed the ESM treaty, while it is necessary that at least 90% of the capital subscription ratify it in order the ESM to enter into force.

- Decisions taken in the eurozone at the beginning of the week provided some relief to the Spanish and Italian sovereign debt. The Spanish cost fell by 29bp and its 10Y yield spreads against the German 10Y yield tighten by -15pbduring the week. Italy managed to sell EUR5.2bn in medium and long bond reaching it issuance target although Moody's investor services cut two notches the Italian to sovereign rating to Baa2, which is two steps above speculative grade. In the meantime, safe-have flows towards Germany bondsand US Treasuries have continued as global growth concerns linger.

- Over the last week, Bond yield spreads between European Core countries and Germany have been narrowing since June. In fact, not only Germany but also France sold T-bills at a negative yield this week. Probably flows to the short part of the government curve have been encouraged by the decision on the ECB to bring the deposit facility rate to zero. In this regard, European banks' use of the ECB's deposit facility fell to its lowest level since December. However, it is too early to think that this is signalling a change in banks strategy, as the slump in deposits was more or less matched by a rise in banks' holdings in their ECB current accounts. On FX markets, the Euro reached two-year low to 1.219 against the dollar.

- **Chinas´s GDP growth in 2Q12 allayed fears of an even sharper slowdown, while the action/wording of Central banks across the board continued to be bias to curtail the risk of a greater slowdown**
  - China's GDP growth slowed to 7.6% in Q2, down from 8.1% y/y in Q1, broadly in line with expectations (consensus: 7.7%; BBVA: 7.4%). Underlying the outturn was a decline in the contribution of consumption and a pickup in investment, consistent with government efforts to step up the pace of infrastructure spending as private activity slows. June activity indicators also painted a similar picture with signs that the slowdown may be stabilizing. In particular, June fixed asset investment (21.2% y/y) and retail sales (13.7%y/y) maintained their momentum, although industrial production (9.5% y/y) continued to slow. We expect GDP growth to accelerate in the second half of the year as the government steps up its stimulus measures. Following the June and July interest rate cuts, we expect up to two more rate cuts during the remainder of the year, along with another 150bps of cuts in the RRR. Fiscal policy is also providing support through stepped up investment projects. We anticipate that full-year GDP growth will be short of our previous 8.3% projection by around a half percentage point...

  - In the US, minutes of the FOMC June meeting suggested that Fed's President Mr. Bernanke has still a number of participants to convince before providing additional accommodation, though recent data continues to embolden his presumed position towards more action. Overall, the discussion in the minutes did not change our view of the growing likelihood of additional quantitative easing. In the same line, the BoJ kept unchanged the monetary stimulus.

  - Meanwhile, some central banks from emerging markets take action. The Bank of Korea cut rates by 25bps for the first time in three years, a move that surprised markets. The move came after lower-than-expected inflation in June (2.2% y/y), and indicators of slowing growth. And the Central Bank of Brazil cut the Selic rate by 50bp, bringing the rate down to the all-time historical low of 8.0%. Finally, the Central bank of Chile and Peru maintained monetary policy rate on hold, but both emphasized the risk from external demand.

Many important events take place in the coming week. On July 17 the IMF will update world growth forecast. The Fed semi-annual monetary policy report will take place on July 18-19.On July 19 German and Finnish parliaments will debate on the aid to the Spanish banks. This is one day ahead of the expected ratification of the Spanish MoU by the Eurogroup meeting. In that meeting Greece will renegotiate its bailout plan. Finally, next week several eurozone members will test the investors' appetite for Treasury bills as Netherland, France, Germany and Spain hold auctions. Spain will also sale bonds.

Calendar: Indicators

Eurozone: HICP inflation (June, July 16th)

Forecast: 2.4% y/y	Consensus: 2.4% y/y	Previous: 2.4% y/y

We expect HICP inflation to be confirmed at 2.4% y/y in June, in line with national figures already released, but against our previous expectation of a slight moderation driven by both energy and core components. Given last month indications of slowing gasoline prices, the upwards surprise is likely to derive from core inflation having remained stable or even increased slightly instead of decreasing. Looking forward, we continue to expect a slower moderation of inflation in coming months, remaining above the ECB target over the third quarter and reverting to around 2% by the end of the year.

Eurozone: Trade Balance (May, July 16th)

Forecast: €6.4bn	Consensus:	Previous: €6.2bn

We expect the trade surplus to have widened again in May, but at a more moderate pace than in the previous month. We forecast both exports and imports to have rebounded somewhat after the sharp falls registered in the previous two months, but not enough to offset them. In particular, exports levels could have declined up to May around -0.5% over Q1, although the drop anticipated for imports is still larger, around -2.0% over Q1, dragged by the worsening of domestic demand. In addition, these figures suggest that net exports could have contributed positively again to quarterly GDP growth in Q2, although by less than in Q1 (+0.4pp), and thus they will not be enough to offset the negative contribution of the domestic demand. As a result, we estimate a quarterly GDP drop of around -0.3% q/q in Q2.

US: Retail Sales, Ex Auto (June, July 13th)

Forecast: 0.1%m/m, 0.0m/m%	Consensus: 0.3%m/m, 0.1%m/m	Previous: -0.2%m/m, -0.4%m/m

Falling gas prices have dragged down nominal retail sales in recent months, yet trends may be slightly more positive in June. Auto sales rebounded from a decline in the previous month, with gains in both the car and truck components that should lift the headline retail sales figure. Furthermore, real retail sales actually increased 0.1% in May, suggesting that lower gas prices have finally encouraged some increased spending despite weakening consumer confidence reports. On the downside, the chain store sales report for the month suggests a slower pace of YoY growth compared to May, which is discouraging for the ex-auto estimate. Other retail sales reports also note some of the slowest weekly growth rates since January.

US: Consumer Price Index, Core (June, July 17th)

Forecast: -0.1%m/m, 0.2%m/m	Consensus: 0.1%m/m, 0.2%m/m	Previous: -0.3%m/m, 0.2%m/m

Consumer prices are expected to decline for the fourth consecutive month, mostly on account of lower gas prices. Crude oil prices in June declined to the lowest levels in more than a year, falling at the fastest monthly pace since December 2008. Commodity price indices have also declined, while natural gas prices continue to rise but at a slowing pace. Wage growth accelerated in June, which could put upward pressure on core inflation. Furthermore, robust increases in shelter and healthcare prices are still driving the core figure, which is expected to remain steady near 0.2% growth for the fourth straight month.

Taiwan: Export Orders (June, July 20th)

Forecast: -2.9% y/y	Consensus: n.a.	Previous: -3.0% y/y

As an important leading indicator for the Asia region's export demand, Taiwan's export orders for June will be watched for further signs of a slowdown. Taiwan's semi-conductor and electronics-intensive production place the economy at the forefront of the global supply chain. Due to weakening external demand, Taiwan's exports dropped through the first two quarters of 2012, down -4.0% yoy in Q1 and -5.4% yoy in Q2, resulting in slowing production. PMI fell back to within the contraction zone (below 50) in June, at 49.2. We expect export orders to remain sluggish in June, mainly due to weakening orders from the EU and, increasingly, weaker imports in China.

Markets Data

				Close	Weekly change	Monthly change	Annual change
Interest rates	(changes in bps)	US	3-month Libor rate	0.46	0	-1	21
			2-yr yield	0.25	-2	-4	-10
			10-yr yield	1.48	-7	-11	-142
		EMU	3-month Euribor rate	0.49	-6	-18	-112
			2-yr yield	-0.05	-4	-18	-127
			10-yr yield	1.23	-10	-26	-147
Exchange rates	(changes in %)	Europe	Dollar-Euro	1.219	-0.9	-3.0	-13.9
			Pound-Euro	0.79	-0.7	-2.8	-10.2
			Swiss Franc-Euro	1.20	0.0	0.0	4.1
		America	Argentina (peso-dollar)	4.55	0.3	1.3	10.2
			Brazil (real-dollar)	2.04	0.4	-1.8	29.3
			Colombia (peso-dollar)	1787	0.2	0.2	1.7
			Chile (peso-dollar)	494	-0.9	-1.7	6.8
			Mexico (peso-dollar)	13.43	0.3	-4.3	14.4
			Peru (Nuevo sol-dollar)	2.63	-0.5	-1.8	-4.1
		Asia	Japan (Yen-Dollar)	79.28	-0.5	-0.3	0.2
			Korea (KRW-Dollar)	1150.20	1.1	-1.6	8.7
			Australia (AUD-Dollar)	1.017	-0.5	2.3	-4.6
Comm.	(chg %)		Brent oil ($/b)	101.9	3.8	4.9	-13.1
			Gold ($/ounce)	1583.6	0.0	-2.1	-0.6
			Base metals	498.0	-1.4	-3.2	-16.2
Stock markets	(changes in %)	Euro	Ibex 35	6575	-2.4	-0.6	-30.7
			EuroStoxx 50	2235	0.0	4.3	-16.5
		America	USA (S&P 500)	1335	-1.5	1.5	1.4
			Argentina (Merval)	2351	-1.4	9.3	-29.3
			Brazil (Bovespa)	53421	-3.6	-4.0	-10.2
			Colombia (IGBC)	13508	-1.5	-2.8	2.8
			Chile (IGPA)	20908	-1.0	1.7	-6.7
			Mexico (CPI)	40268	1.1	8.4	11.4
			Peru (General Lima)	19955	-3.1	-4.1	-1.9
			Venezuela (IBC)	248706	0.1	2.9	189.1
		Asia	Nikkei225	8724	-3.3	1.6	-12.5
			HSI	19093	-3.6	0.3	-12.7
Credit	(changes in bps)	Ind.	Itraxx Main	169	-3	-13	46
			Itraxx Xover	668	-16	-40	209
		Sovereign risk	CDS Germany	90	-9	-18	31
			CDS Portugal	826	-24	-211	-317
			CDS Spain	569	-9	-31	223
			CDS USA	50	1	0	---
			CDS Emerging	266	-13	-38	44
			CDS Argentina	1179	-12	-64	550
			CDS Brazil	149	-4	-11	32
			CDS Colombia	132	-6	-16	17
			CDS Chile	109	-6	-12	33
			CDS Mexico	126	-4	-20	11
			CDS Peru	151	-5	-13	22

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
US	07/11/2012	**U.S. Flash. Fedwatch: FOMC Minutes June 19-20** Hawkish wing of FOMC rehashes old arguments in new packaging, which underscores that doves need some time to reinforce consensus for more accommodation.
	07/10/2012	**U.S. Flash. Baseline Revisions Catapult Romney past President Obama** Romney has the upper hand according to our revised baseline. Currently Obama is favored in opinion polls, options market probabilities, and our model assuming contemporaneous economic conditions.
	07/09/2012	**Flash Semanal EEUU. El crecimiento total del empleo fue tan solo de 225 mil puestos en el 2T12** El informe de empleo de la BLS correspondiente a junio apunta a un modesto incremento de 8 mil puestos de trabajo en el empleo no agrícola del mes tras la ligera revisión al alza de los datos de mayo (de 69 mil a 77 mil).
	07/09/2012	**U.S. Weekly Flash. Total Employment Growth Only 225K in 2Q12** The BLS employment report for June suggests a modest 80K increase in nonfarm payrolls for the month following a slight upward revision to May's data (from 69K to 77K).
Spain	07/11/2012	**Flash España: "Compraventa de viviendas en mayo de 2012"** En mayo se vendieron 27.286 viviendas, lo que supone, tras corregir la serie de variaciones estacionales y efectos de calendario (cvec), una estabilización de las ventas respecto a abril.
	07/10/2012	**Prolongación de la vida laboral: retos y oportunidades** Se analiza si es conveniente una prolongación de la vida laboral, así como la situación laboral de los mayores en España y los condicionantes de la tasa de empleo de los mayores.
Latin America		
Chile	07/12/2012	**Flash BCCh Chile. Banco Central continúa en pausa y con sesgo neutral** En línea con lo esperado, el Banco Central mantuvo la tasa de política monetaria en 5%. Entre los factores domésticos, menciona que la actividad estaría convergiendo a su crecimiento de tendencia.
Brazil	07/12/2012	**Brazil Flash: "Monetary adjustment process has still some way to go"** The CB' Monetary Policy Committee (COPOM) decided to cut the SELIC rate by 50bps to 8.0%, in line with expectations.
Mexico		
	07/11/2012	**The Adoption Process of Payment Cards -An Agent- Based Approach** We investigate the payment adoption rate under consumers¿ and merchants¿ awareness of network externalities, given two levels of Interchange Fees in a multi-agent card market. (Spanish version)
	07/09/2012	**Mexico Inflation Flash. Inflation reaches its highest level since 2010, 4.34% annually. Base effect and transitory supply shocks will permit inflation to end 2012 below 4%** General: Actual: 0.46% m/m vs. BBVA: 0.43% m/m Consensus: 42% m/m. Core: Actual: 0.22% m/m, vs. BBVA: 0.21% m/m, Consensus:0.21% m/m. (Spanish version)

Asia

07/13/2012 **China Flash: Q2 GDP growth slows in line with expectations, and shows some signs of stabilizing from increased policy support**
China's GDP growth slowed to 7.6% in Q2, down from 8.1% y/y in Q1, broadly in line with expectations (consensus: 7.7%; BBVA: 7.4%).

07/12/2012 **Asia Daily Flash | 12 July 2012: A surprise rate cut in Korea; Japan adjusts policy; China's credit expands; India's IP rises**
Asian markets reacted nervously today ahead of tomorrow's release of Q2 GDP in China.

07/11/2012 **Asia Daily Flash | 11 July 2012: China's spending stimulus to focus on investment; Malaysia's IP rises above estimates**
Chinese Premier Wen Jiabao has stressed the importance of investment, rather than consumption, as the key lever for stabilizing growth in the near term.

07/10/2012 **Asia Daily Flash | 10 July 2012: China's trade surplus widens; Philippines exports rise strongly; EU, China conclude strategic talks**
Despite improving sentiment in Europe, investor's remained bearish in Asia on continued concerns about a slowdown in China.

07/09/2012 **China Flash: June inflation falls below expectations, providing room for more policy easing**
The first important release in a data-packed week was released this morning, showing a steeper-than-expected decline in June headline inflation.

Publications on July 13, 2012 to 13:00, Madrid time

Sonsoles Castillo
s.castillo@bbva.com
+34 91 374 44 32

Cristina Varela Donoso
cvarela@bbva.com
+34 91 537 7825

Javier Amador Díaz
javier.amadord@bbva.com
+34 91 374 31 61

María Martínez Álvarez
maria.martinez.alvarez@bbva.com
+34 91 537 66 83

Ignacio Santiago Llorente
i.santiago.llorente@bbva.com
+34 91 537 76 80

Indicators collaboration

Europe
Miguel jiménez
mjimenezg@bbva.com
+34 91 537 37 76

US
Kim Fraser
Kim.Fraser@bbvacompass.com
+1 713 881 0655

Asia
George Xu
George.Xu@bbva.com.hk

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The content of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates´ salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.