



Weekly Observatory

July 13, 2009

Financial markets: signs of increasing risk aversion ahead of second quarter earnings

The impressive appreciation of the yen together with increasing volatility in stock markets and significant demand for US bond auctions hint that risk appetite is fading. With the G8 summit behind, market participants will focus on second quarter earnings session for US banks. Additionally, the release of May foreign inflows for the US economy will serve to corroborate the strong demand of US debt from official investors. Apart from that, bonds could also find support in the reduction in inflation risk and the absence of US issuance as well as negative net issuance across Europe next week. For further details, see [Flow Watch](#) (in Spanish).

United States: consumers continue to limit use of credit in response to weak job market

Initial jobless claims dropped below 600K, to 565K, for the first time since January. Although the figure further substantiates that claims have come down from their peak, the high number is a reminder of the ongoing weakness in the job market. May's consumer credit results illustrate that consumers are reacting to the unfavorable employment conditions by paying off their debts and limiting the use of new credit, which, coupled with the tight credit conditions, caused credit outstanding to drop (by \$3.2bn) for the seventh consecutive month. The lower use of credit, in addition to the increased propensity to save, could indicate that consumer spending will remain weak in 3Q09. For further information, see [US Weekly Observatory](#).

Euro area: green shoots, for one month at least

Positive news came from industrial production, which increased much more than expected in France and Germany in May, as well as from industrial new orders in Germany, suggesting that the industrial sector could be experiencing an improvement from very depressed levels. In addition, the second estimation of euro area GDP confirmed its quarterly drop of -2.5% in Q109, with minimal revisions by components. Regarding consumer prices, the final inflation rate in Germany remained constant at 0% y/y, confirming the preliminary reading. Finally, there has been little news from ECB members, which continues to stress that the bank has no plans to introduce new non-standard policy measures for now and would not have problems implementing an exit strategy. For further information, see [Europe Weekly Observatory](#).

Asia: credit growth diverging trends

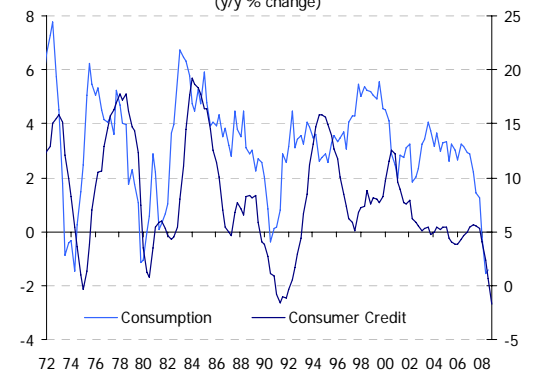
Bank lending soared in China in June, it slowed down in Korea but it accelerated in household loans and posted the lowest pace of growth in Japan. Prices in India, Taiwan and Philippines continued falling year-on-year, albeit the sequential trend is on the upside. Meanwhile, the pace of decline in industrial output and exports moderated except in Japan. As expected, central banks in Australia and Korea kept their policy rates unchanged while Indonesia and Philippines cut by 25 bps each. Markets will focus on the Bank

US banks that will release second quarter earnings

Banks	Date	EPS e
Charles Schwab	13-jul	0.178
Goldman Sachs Group	14-jul	3.567
M&T Bank Corp	14-jul	0.605
JPMorgan Chase & Co	16-jul	0.167
Colonial BancGroup	16-jul	-0.667
First Horizon National Corp	17-jul	-0.328
BB&T Corp	17-jul	0.216
Citigroup Inc	17-jul	-0.28
Webster Financial Corp	17-jul	-0.447
Morgan Stanley	17-jul	-0.39
BlackRock Inc	17-jul	1.527
Merrill Lynch & Co Inc	17-jul	-0.28
Bank of America Corp	17-jul	0.086

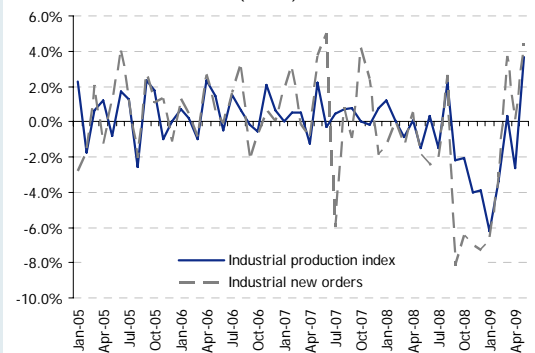
Source: Bloomberg

US: Consumer Credit Outstanding vs. Consumption (y/y % change)



Source: BEA and Federal Reserve

Germany: Industrial Sector (% m/m)



Source: Eurostat

of Japan's monetary policy meeting expected to keep its key rate unchanged, and its outlook for Japan's economic activity and prices. For further information, see [Asia Weekly Observatory](#).

Latin America: inflation remains subdued, allowing for further cuts in rates

Several countries released inflation data for June. Brazil, Colombia and Mexico surprised with a lower than expected number. Inflation in Venezuela shows greater resilience and remains high. Overall, the absence of price pressures enables the region to extend interest rate easing. This week, Chile and Peru cut rates further, by 25 and 100 bps, respectively. For next week, we highlight the release of CPI in Argentina and the monthly GDP for Peru. For further information, see [Latin America Weekly Observatory](#).

Spain: inflation on pace to fulfil our annual forecasts

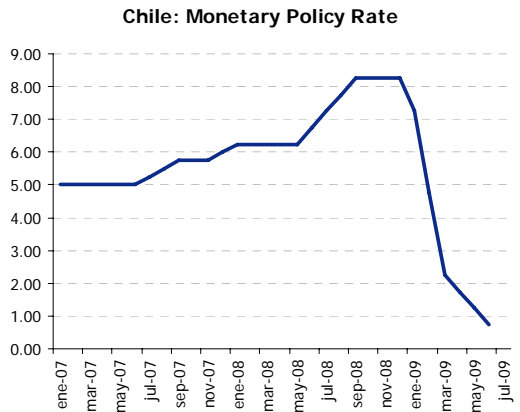
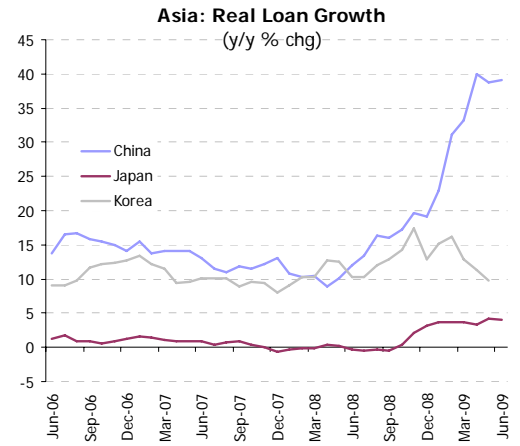
As in the rest of the world, the year-on-year drop in commodity prices is bringing inflation down in Spain. In particular, a 1% fall in prices was confirmed for the month of June relative to a year ago, strongly influenced by a decrease of 14% y/y in energy prices. Although headline inflation came a little bit below our forecast (0.9% y/y), core inflation came as expected at 0.8% y/y, the main difference being the stronger-than-expected fall in unprocessed food. Overall, this reinforces our base line scenario that states that prices would fall on average by 0.2% in 2009.

Mexico: more clues on influenza impact

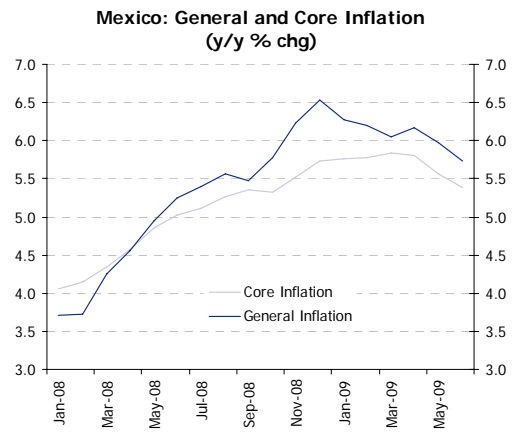
June's monthly inflation was 0.18% (vs. 0.23% BBVA estimation); core inflation was 0.28% (vs. 0.30% BBVA) annually the general reached 5.74% while core reached 5.39%, the latter with its biggest two-month downwards adjustment since 2001. Administrated and concentrated prices keep pushing general inflation down because of the public prices frozen early in 2009. We maintain our perspective that inflation will keep falling in 2009. Consumer Confidence soared (4% m/m) in June due to improvements in all of its components but specially the perception on the current economic situation of the country (6.6%). Next week we will have more information about the influenza economic impact with the May's Industrial Output release and Banxico probably will finish its easing rates cycle with a 25 bp cut to 4.50%. For further information see [Mexico Weekly Observatory](#) (in Spanish).

Commodities: flows choked this week on dollar movement

The dollar appreciation helped to reduce the appetite for commodities as a hedge against inflation and prices displayed a generalized drop this week. International authorities intensified in the last days the discussions about tighter control of financials flows into commodities futures markets. For further information, see [Commodities Observatory](#).



source: BCCh and BBVA forecast



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