

Global Weekly Flash

Madrid, 13 September 2013
Economic Analysis

Financial Scenarios

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Quiet markets await the FOMC meeting

Early in the week, risk-taking increased thanks to upbeat readings in China and a reduction in geopolitical risks in the middle east, as a diplomatic solution to the Syrian conflict has arisen. Yet the rally soon faded, and markets now await the FOMC meeting.

- **The start of QE3 tapering is to be announced on September 18th**
 - Weak monthly payroll gains (learnt last week) have slightly eroded markets' belief on next week's tapering announcement. Moreover, speeches from several Fed members, emphasizing that inflation has been below the FOMC target, have also generated debate. In our view, the Fed's forward guidance has evolved from guiding market expectations of the federal funds rate to additionally guiding market expectations of LSAP. The delay of a tapering announcement by the FOMC would increase uncertainty. It would create further volatility in the equity and bond markets, given that investors' expectations are mostly settled on a September FOMC announcement to taper. Thus, we maintain our projection that the FOMC will announce LSAP tapering in its September 17-18th meeting and mark a timely start to prepare for further policy normalization in 2015.
- **Sentiment in China is bolstered by strong activity indicators and benign inflation**
 - Recent data released confirmed a rising trend in external demand, which increased more than expected in August across China's main trade partners (7.2% y/y vs. consensus: 5.5%). Furthermore, activity indicators showed also a healthy result. The industrial production grew above expectations, while urban fixed asset investment rebounded and retail sales also rose. The pickup in investment was underpinned by ongoing infrastructure projects and a further strengthening of manufacturing investment, boosted by strong credit growth. With Q3 GDP growth now likely to exceed our previous expectation of 7.5% YoY, our full-year growth projection of 7.6% in 2013 appears well within reach, if not higher. That said, we remain cautious on the growth outlook for 2014 (7.6%) given headwinds from financial fragilities (including rising corporate debt and shadow banking activity) and the constraints they pose to further policy easing. Meanwhile, CPI inflation remained stable in August (2.6% YoY), well within the government's 3.5% ceiling, providing support to government policies. Japanese machinery orders have disappointed, suggesting that the corporate sector may still be cautious despite the healthy pickup in investment seen in Q2 GDP. Nevertheless, with overall growth momentum and confidence indicators improving, we expect full-year 2013 GDP to exceed our previous projection of 1.7% by a modest margin.

- **Real data remains mixed in the eurozone despite confidence indicators beating expectations**
 - September's sentiment confidence indicator for the euro zone has also surprised positively. The Bank of France sentiment indicator reached in August its highest level since 2011, in line with expectations and confirming the good trend signaled by other sentiment indicators. On the other hand, the eurozone industrial production fell against expectations of rebound in July, while Italian GDP 2Q13 GDP was revised slightly downwards, due to weak domestic demand. On the positive side, The European Parliament (EP) has voted to create a single supervisory mechanism and appoints the BCE as the Single Supervisor of European banks, paving the way for establishing a banking union. The regulation will enter into force following the approval by the EU Council and the publication in the Official Journal of the EU. Its entry into force will enable the ECB to fully assume its supervisory tasks twelve months later.

- **Most EM central banks kept rates constant ahead of the FOMC meeting**
 - In Latin America, after Banxico cut its interest rate last week, the central bank of Peru and Chile decided to hold interest rate unchanged (at 4.25% and 5%, respectively). However, the Peruvian central bank left the door open to ease monetary policy by reducing reserve requirements rates, while the Chileans remained tilted to easing rates once the uncertainties about the tapering dissipate. Rates in Colombia, Brazil and Chile were broadly in line with expectations, with prices supporting no change in the monetary stance in Colombia and Chile, while the rate of deceleration in Brazil is in line with continuing the monetary tightening. Furthermore, Brazilian retail sales expanded much more than expected at the start of 3Q13, contrasting with trend of industrial production. In Mexico, August's inflation data confirmed the lack of demand-side inflation pressures, while the contraction of the industrial and construction outputs in July continued pointing to ample economic slack.
 - In Asia, both central banks of Korea and the Philippines held interest rates constant (at 2.5% and 3.5%, respectively). On the other hand, Bank Indonesia unexpectedly hiked interest rates, the fourth time since June, bringing the benchmark policy rate to 7.25% (a cumulative increase of 150bps since June). The move is in response to high inflation (8.8% in August, well above the official target of 3.5-5.5%) and downward currency pressures.

- **Markets driven by Chinese macro data and by next week's FOMC meeting**
 - There have been two fundamental **market drivers** this week: at the start of the week, markets moved on **positive Chinese macro** data (which pointed to China's picking up), while from Wednesday onwards, markets have moved on whether the Fed will taper its asset purchases at next week's FOMC meeting (and on the appointment of the next Fed chairman). Concerns about escalation in Syria. All in all, a risk-on mood prevailed for most of the week. In this context, higher risk-taking has helped improve investors' sentiment toward EM currencies and equity markets, which have been punished since markets started pricing-in the Fed's tapering.
 - **Equity markets worldwide have closed the week in green.** This was thanks to the accumulated gains at the start of the week. The second half of the week has been dominated by quiet markets, which await next week's FOMC vote on tapering. As an illustration, the US S&P peaked on Thursday (+2.1%), and closed the week adding 1.95% WoW. The best performers have been the Asian indices -- led by Indonesia (+7.4%), Thailand (+4.8%) and India (+4%) -- and followed by some European -- such as the IBEX (+3.31%) and the DAX (+2.9%).

- **EM sovereign bonds profit from increasing risk appetite.** Yields have fallen in most emerging economies, especially in Latin America: the Colombian, Peruvian and Mexican 10Y yields have dropped by 42.9bps, 35.7bps and 16.6bps respectively. There have been mixed results in Asia, with some 10Y yields, such as the Indonesian (-37.3bps) and the Malaysian (-13bps), falling over the week. EMBI sovereign spreads have also eased in EMs. The EMBI Global spread fell by 13 pbs, while the Latin American decrease by 11bps and Asia by 30bps. German 10Y yield added 1.6bps during the week, while the US 10Y gained 2bps. On the other hand, the Spanish 10Y continued to improve, with its yield easing 4.7bps, while the Italian 10Y gained 5.7bps (and widened a negative gap with the Spanish bond). The country risk premium for Spain has fallen under Italy's. Investors have continued to punish Portugal's 10Y bond, with its yield rising above 7%.
- **The USD depreciated early in the week** against all its major peers (according to the DXY index). However, as markets begun to worry about the FOMC's upcoming vote on tapering, the dollar partially recovered. As a result, most currencies appreciated against the dollar this week, led by EM currencies such as the Polish zloty (+2.4%) and the Indian rupee (+2.76%). Both the euro and the pound also appreciated against the dollar.
- The price of gold has dropped 4% during the week, as investors anticipate the tapering decision. Crude oil has also fallen, due to easing geopolitical concern about Syria.

Next week: investors will focus on the FOMC meeting September 17-18th and on the German federal elections that will be held on September 22nd. In the macro calendar: the US is expected to release August's industrial production and consumer price index. In the eurozone, September's consumer confidence will be published. In Spain, the Spanish Treasury will sell bills on Tuesday and 3Y and 5Y- bonds on Thursday.

Weekly Indicators

Week September, 9 - September, 13

CC	Indicator	Period	Cons. E	Prior		Obs. *
United States	Initial Jobless Claims ('000)	Jul	330	323	↓	290
	PPI MoM	Aug	0.20%	0.00%	↑	0.30%
	Retail Sales MoM	Aug	0.40%	0.20%	↓	0.20%
	U. Michigan Consumer Sentiment	Sep	82	82.1	↓	76.8
Euro zone	Industrial Production SA (MoM)	Jul	0.00%	0.70%	↓	-1.50%
Germany	CPI (YoY)	Aug F	1.50%	1.80%	↑	1.50%
Italy	GDP SA (QoQ)	2Q F	-0.20%	-0.20%	↓	-0.30%
	Industrial Production sa (MoM)	Jul	0.00%	0.30%	↓	-1.10%
France	Bank of France Bus. Sentiment	Aug	97	95	→	97
	Industrial Production (MoM)	Jul	0.50%	-1.40%	↓	-0.60%
	Manufacturing Production (MoM)	Jul	0.70%	-0.40%	↓	-0.70%
	CPI (MoM)	Aug	0.50%	-0.30%	→	0.50%
UK	ILO Unemployment Rate 3Mths	Jul	7.80%	7.80%	↓	7.70%
Japan	GDP SA QoQ	2Q F	1.0%	0.6%	↓	0.9%
	Trade Balance (Billion JPY)	Jul	-862.4	-139.2	↓	-943.3
	Consumer Confidence	Aug	44	43.6	↓	43
	Machine Orders MoM	Jul	2%	-3%	↓	0%
China	CPI YoY	Aug	2.6%	2.7%	→	2.6%
	Industrial Production YoY	Aug	9.4%	9.4%	↑	9.5%
	Retail Sales YoY	Aug	13.3%	13.2%	↑	13.4%
	New Loans (Billion CNY)	Aug	730	699.9	↓	711.3
	Money Supply M2 YoY	Aug	14.6%	14.5%		14.7%
Peru	Trade Balance (USD Million)	Jul	--	-78		-486
	Reference Rate	Sep	4.25%	4.25%		4.25%
Mexico	CPI MoM	Aug	0.34%	-0.03%	↓	0.28%
	Industrial Production MoM	Jul	0.40%	0.00%	↓	-0.08%
Colombia	Consumer Confidence Index	Aug	23	25.1	↓	13.4
Chile	Trade Balance (USD)	Aug	-725	-254	↑	-525
	Overnight Rate Target	1-Sep	5.0%	5.0%		5.0%
Brazil	FIPE CPI - Weekly	1-Sep	0.28%	0.23%	↓	0.21%
	Retail Sales MoM	Jul	0.30%	0.50%	↑	1.90%
	Economic Activity MoM	Jul	-0.65%	1.13%	↑	-0.33%

* e. Forecast/ * Magenta- Below consensus forecast. Green-Above consensus forecast. Yellow- In line consensus forecast.
 Source: Bloomberg and BBVA Research

Calendar: Indicators

Eurozone: HICP inflation (August, September 16th)

Forecast: 1.3% y/y	Consensus: 1.3% y/y	Previous: 1.6% y/y
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HICP inflation is likely to be confirmed at 1.3% y/y in August, slowing 0.3pp from the July figures, mainly driven by the fall of energy inflation resulting from the base effect depletion of the rise in prices of these products a year earlier. Although our forecasts are in line with the flash estimation figures, they suggest some upside risks to the final figures with a slightly lower slowdown of 0.2pp. Regarding core inflation, it is expected to remain broadly unchanged at 1.3% y/y, but with minor changes across components. Inflation in non-energy industrial goods should have declined slightly, offset by a slight increase in services inflation. Overall, we continue to see inflation hovering around the current rates throughout the year and remaining well below the ECB's target in 2014.

Eurozone: EC consumer confidence (September, September 20th)

Forecast: -14.8	Consensus: -14.3	Previous: -15.6
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We expect consumer confidence to have improved slightly again in September, continuing the upward trend observed over the first half of the year, and especially in 2Q13. Nonetheless, households' sentiment remains at very low levels, and combined with the deteriorating labour market and still tight credit conditions, suggest that households' spending will not accelerate in the short-term, though it should not drain economic growth in coming quarters. Overall, these figures are in line with our macroeconomic scenario that envisages subdued but steady growth of private consumption over 2H13. Across countries, strong differences in private consumption performance are likely to linger, being relatively robust in core economies, especially Germany, while it should remain weak in the periphery.

US: Industrial Production (August, September 16th)

Forecast: 0.3%	Consensus: 0.4%	Previous: 0.0%
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Industrial production is expected to accelerate in August after a disappointing flat reading in July. Mining has recently been the strongest component of the industrial production index, with utilities in the negative for four consecutive months. Manufacturing had been improving since some weakness seen in early 2Q13, although the sector's output did decline slightly in July. Various manufacturing indices, such as the ISM and regional Federal Reserve Surveys, suggest modest improvement in August, although the progress appears to be gradual at best. Slow global demand continues to have a lingering impact on production in the U.S. While we continue to expect the second half of the year to be stronger than the first, fiscal and monetary concerns could create temporary headwinds that would curb domestic demand, putting further downward pressure on industrial production.

US: Consumer Price Index, Core (August, September 17th)

Forecast: 0.2%, 0.2%	Consensus: 0.2%, 0.1%	Previous: 0.2%, 0.2%
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Oil prices are again expected to be a key driver of inflation in August, though it is unlikely that the consumer price index will accelerate much from July's rate. Both Brent and WTI crude oil prices increased for the month but at a slower pace compared to July. On the other hand, natural gas prices have declined for four consecutive months, offsetting oil's influence in the energy inflation index. Aside from energy, we do not see any signs of extreme food prices increases, with food inflation holding steady below 0.2% for the past few months. Excluding food and energy, shelter and medical care services continue to put the most upward pressure on the index. Although deflationary concerns have mostly subsided, core CPI is still just 1.7% on a YoY basis, while core PCE has held below 1.2% for the past four months, well below the Fed's 2.0% target.

India: WPI Inflation (August, September 16th)

Forecast: 5.6% y/y	Consensus: 5.7% y/y	Previous: 5.8% y/y
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Comment: Despite slowing growth, inflation pressures have recently resurfaced from rising oil prices and a sharp depreciation of the rupee. Against this backdrop, along with capital outflow pressures, the August WPI inflation outturn will be an important input to the RBI's September 20th monetary policy decision, where we expect rates to remain on hold. We expect easing demand, weak pricing power for producers and a high base effect to keep inflation contained. That said we expect RBI to signal an eventual shift towards a growth supportive policy stance early next year once external pressures ease and inflation risks subside.

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.25	0	-1	-13
		2-yr yield	0.44	-2	11	19
		10-yr yield	2.89	-4	18	103
	EMU	3-month Euribor rate	0.22	0	0	-3
		2-yr yield	0.22	-5	0	12
		10-yr yield	1.98	3	15	27
Exchange rates (changes in %)	Europe	Dollar-Euro	1.328	0.8	0.2	1.2
		Pound-Euro	0.84	-0.7	-2.1	3.4
		Swiss Franc-Euro	1.24	0.0	-0.3	1.6
		Argentina (peso-dollar)	5.73	0.4	2.8	22.6
	America	Brazil (real-dollar)	2.28	-1.0	-1.8	13.5
		Colombia (peso-dollar)	1920	-1.6	1.6	7.0
		Chile (peso-dollar)	505	-0.3	-0.6	7.4
		Mexico (peso-dollar)	13.05	-0.9	2.5	2.7
		Peru (Nuevo sol-dollar)	2.77	-1.3	-0.8	6.9
	Asia	Japan (Yen-Dollar)	99.32	0.2	1.2	26.7
		Korea (KRW-Dollar)	1086.88	-0.6	-2.8	-2.7
		Australia (AUD-Dollar)	0.924	0.6	1.3	-12.4
	Comm. (chg %)		Brent oil (\$/b)	112.1	-3.5	1.7
		Gold (\$/ounce)	1314.1	-5.6	-1.7	-25.8
		Base metals	523.7	0.0	-0.7	-0.6
Stock markets (changes in %)	Euro	Ibex 35	8942	3.3	1.7	9.7
		EuroStoxx 50	2867	2.3	0.5	10.5
	America	USA (S&P 500)	1687	1.9	0.1	15.1
		Argentina (Merval)	4452	6.5	14.6	75.0
		Brazil (Bovespa)	53557	-0.4	5.2	-13.8
		Colombia (IGBC)	13974	1.5	0.5	-3.6
		Chile (IGPA)	18795	0.6	1.3	-8.3
		Mexico (CPI)	40910	2.5	-3.6	0.5
		Peru (General Lima)	16483	-2.9	-0.1	-24.9
	Venezuela (IBC)	1523440	6.5	18.3	415.0	
	Asia	Nikkei225	14405	3.9	2.5	57.3
HSI		22915	1.3	1.7	11.1	
Credit (changes in bps)	Ind.	Itraxx Main	97	-7	3	-21
		Itraxx Xover	390	-22	-5	-70
	Sovereign risk	CDS Germany	27	-1	1	-23
		CDS Portugal	534	0	94	80
		CDS Spain	235	0	12	-107
		CDS USA	23	1	1	---
		CDS Emerging	311	-20	10	118
		CDS Argentina	2717	-213	400	1783
		CDS Brazil	180	-17	-4	79
		CDS Colombia	122	-12	-1	31
		CDS Chile	91	-7	0	13
		CDS Mexico	115	-11	-4	27
		CDS Peru	135	-12	4	35

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
EMU	09/10/2013	➤ Europe Economic Watch: Growth with some upward surprises Recent data suggest that GDP could contract somewhat below our -0.4% forecast for 2013 published three months ago. (Spanish version)
	09/08/2013	➤ Las claves del crecimiento en Europa De cara a los próximos trimestres hay varios factores que pueden determinar si la recuperación se consolida.
Spain	09/11/2013	➤ Flash España: Compraventa de viviendas en julio de 2013: caída tras dos meses de estabilización Los registros de ventas de vivienda del mes de julio reflejan una caída moderada respecto al mes anterior.
	09/10/2013	➤ Los retos presupuestarios de 2014 Con las previsiones actuales, los presupuestos de 2014 serán los del inicio de la recuperación económica.
US	09/11/2013	➤ U.S. Economic Watch. Monthly US Outlook: September Fiscal and Monetary Policy Take Center Stage. (Spanish version)
	09/10/2013	➤ Fed Watch. Ahead of September 17 - 18 FOMC Meeting Start of QE3 Tapering to Be Announced on September 18 th . (Spanish version)
	09/09/2013	➤ U.S. Weekly Flash. Unemployment Rate Drops, but Job Growth Comes in Weaker than Expected August marked the third month of a consecutive decline in the unemployment rate. At the same time the improvement of the labor market was modest with only 169K payrolls added in August. (Spanish version)
Latam	09/13/2013	➤ Latam Daily Flash: Central Banks in both Chile and Peru left their policy rate unchanged. Better than expected retail sales in Brazil
	09/12/2013	➤ Latam Daily Flash: Energy demand and industrial production figures anticipate weak recovery at the beginning of 3Q13 in Colombia and Mexico
	09/11/2013	➤ Latam Daily Flash: In Chile no changes are expected at the next monetary policy meeting, but a rate cut is expected before year-end
	09/10/2013	➤ Latam Daily Flash: Chile's Economic Survey should confirm no changes at Thursday's meeting but cuts before the end of 2013 Trade deficit figures were published for Chile and Peru (for August and July respectively).
	09/09/2013	➤ Latam Daily Flash: Banxico cut the policy rate as we anticipated; the door for an additional rate cut remains open. In Mexico, the government presented its economic reform initiative In Colombia, Brazil and Chile, inflation was broadly in line with expectations, and the prices profiles suggest no changes in monetary stance in Colombia and Chile.
Chile	09/12/2013	➤ Banco Central mantiene TPM en 5% en línea con nuestra expectativa El Consejo destaca la alta volatilidad existente en el ámbito externo, mientras que a nivel local reitera que el consumo privado continúa dinámico. Además, se mantiene el sesgo bajista para la TPM.
Peru	09/12/2013	Flash Perú. Reunión de política monetaria sin novedades El Banco Central mantuvo su tasa de política monetaria de septiembre en 4,25%, en línea con lo esperado.
	09/09/2013	Economic Watc: The regulatory framework for electronic money in Peru and financial inclusion The regulatory framework for offering financial services via mobile devices is still recent. (Spanish version)

Mexico

- 09/11/2013 ➤ **Observatorio Económico México. Reforma Fiscal: Pasos en la dirección correcta, pero insuficiente**
Se incorpora un seguro de desempleo y una pensión universal, y se financian a través de un aumento de impuestos y deuda pública.
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Emerging Economies

- 09/10/2013 ➤ **Jackson Hole y los Emergentes**
Académicos y banqueros centrales se reunieron como todos los años en el idílico Jackson Hole para debatir sobre la economía mundial.
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Asia

- 09/12/2013 ➤ **Asia Flash | 12 Sep 2013: Interest rate hike in Indonesia underscores divergence with the Philippines; Bank of Korea keeps interest rates on hold; Japan's machinery orders disappoint**
Interest rate hike in Indonesia underscores divergence with the Philippines; Bank of Korea keeps interest rates on hold; Japan's machinery orders disappoint.
- 09/10/2013 ➤ **China Flash: August activity indicators strengthen on improving external demand and continued policy support**
Following robust export, inflation and PMI outturns announced in recent days, today's August activity indicators surprised to the upside, providing a further boost to investor confidence.
- 09/09/2013 ➤ **Asia Flash | 09 Sep 2013: Sentiment in China is bolstered by strong exports and benign inflation; Upward revision to Japan's Q2 GDP; Australia votes in a new government, signaling pro-business ori**
Asian equity markets were sharply higher today, led by Thailand (+3.6%), China (+3.4%) and Indonesia (+2.9%) on the release of strong economic indicators.
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Publications on September 13, 2013 to 13:10, Madrid time

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