

Global Weekly Flash

Markets remained focused on Greece and the fiscal cliff

The risk-on mood continued to ease while expectations that the Fed could consider additional measures weighed somewhat on the dollar despite growing tensions in the Middle East

- Eurozone finance ministers did not take any final decision on the next loan tranche disbursement to Greece or the extension of the Greek fiscal consolidation plan; instead they put off the decision until November 20. Nevertheless, they seem to be tilted toward giving Greece a two-year extension to consolidate its deficit. In this week's meeting, finance ministers also discussed the main alternatives to cover Greece's financial gap over the next years, which would be announced at the Eurogroup next week's meeting. Positively, Greece has managed to ease early default fears by successfully issuing EUR 4.6bn, which allowed it to redeem EUR 5bn in T-bills due this week. However, worries about Greece's debt sustainability still linger.
 - On Spain, the other source of concern in Europe, the European Commission released a statement on Spain's compliance with the excessive deficit procedure (EDP). According to the statement, Spain does not need to take further fiscal consolidation measures in 2012 or 2013, but he urged Spain to specify additional permanent measures to curve the Spanish deficit in 2014. Yet, the European Commission sees risks to achieve nominal targets next year, due to optimistic macroeconomic and social security projections for 2013. All in all, what is particularly remarkable is the emphasis that the European Commission gives to the structural adjustment, more than to the nominal figures.
 - Although the European debt crisis lingers, Ireland has managed to issue another EUR 0.5bn in 3M Treasury bills at an average yield of 0.55%. The bid-to-cover ratio was 4.1x. Moreover, the Bank of Ireland on Tuesday raised €1-billion in its most significant bond issue in over three years. The bank sold a covered bond and it offered investors a price of 270 basis points over the reference midswap rate; in line with others eurozone peers. All these signs suggest that the ongoing improvement in the Irish funding markets continues.
- **Eurozone GDP declined again in Q3, but less than expected**
 - The GDP declined by -0.1% q/q in the eurozone as a whole in Q3, after a -0.2% q/q contraction in the previous quarter. Across countries, the better-than-expected performance was widespread. Activity in core countries proved to be resilient, with GDP slowing in Germany less than expected and France avoiding recession. This figure contrasts with our forecast of an intensification in the GDP fall in that period, with poor activity figures for September and with the strong fall in confidence data for Q3 and the beginning of Q4. In the periphery, the fall in GDP was slower than in Q2, especially in Italy, but also in Portugal and Spain. Yet, this does not change our assessment that the Eurozone economy will continue to contract in Q4. Overall, we maintain our GDP forecast for 2012 (-0.5%) and 2013 (+0.3%).
 - **In the US, FOMC meeting minutes signalled that additional asset purchases likely after Operation Twist expires at the end of 2012**
 - The October FOMC meeting minutes highlighted a discussion focused mostly on the implications of the fiscal cliff and its related uncertainty. Despite positive data regarding consumer and housing activity throughout the intermeeting period, committee members noted particular concerns on the business side. FOMC members also addressed the idea of quantitative and/or qualitative thresholds for effectively communicating their forward guidance, but ultimately they concluded that practical issues need to be resolved before moving ahead with any of these strategies. As for the initial assessment of QE3, committee members agreed that the accommodation thus far has helped to ease overall financial conditions. Yet, the meeting minutes suggest a divide among members related to the inflationary effects of additional easing that will likely continue to be an issue throughout the QE3 horizon. We expect that the Fed will increase the size of its accommodation beginning in January 2013 in order to offset the expiration of Operation Twist at the end of the year. The possibility of a full fiscal cliff resolution is becoming smaller by the day, and the FOMC has already acknowledged the impact of uncertainty leading up to a potential deal. Thus, we expect that the Fed will not significantly adjust its policy accommodation even in the off chance that Congress fully addresses the fiscal cliff by the end-of-year deadline.

- In the meantime, economic figures released this week in the US were negatively affected by the hurricane Sandy. Jobless claims for unemployment insurance increased by 78.000 to a level of 439.000 for the week; claims surged by 100.000 after the hurricane Katrina. The Philadelphia Fed index fell by 16.4 points to -10.7 level affected by the hurricane and worries about the fiscal cliff. Finally, retail sales fell by 0.3% in October, after posting a strong growth in September.
- The fiscal cliff is the main source of concern for the US economy by the negative impact on growth of a 4% GDP fiscal withdrawal. Our base assumption is that some sort of agreement will be reached in order to avoid an entire cliff. This way and assuming a fiscal multiplier lower than one; the final impact of fiscal tightening is not expected to be greater than 1% of GDP in 2013. All in all, negotiation process is ongoing, and then the final outcome is very difficult to predict and very likely will prolonged for weeks. Additionally, it is worth noting that debt ceiling must be negotiated again in the first half of 2013.

- **Economic data in China pickup recently, while the new Chinese Politburo should maintain intact the direction of political and economic reforms**

- China's October trade data surprised to the upside, pointing towards further positive momentum in China's economy. Exports increased by 11.6% y/y (consensus: 10.0%) from 9.9% in September. Exports were boosted by intraregional demand, especially from the ASEAN countries. Despite the encouraging outturn, however, uncertainties remain on whether the external recovery is sustainable, given the volatility in monthly trade data. Meanwhile, new banks loans declined in October more than expected to RMB 505.2bn and the M2 growth slowed to 14.1% y/y in October from 14.8% y/y in September. Yet, total social financing increased 63% y/y as many firms and local governments appear to have shifted to non-banking institutions and the bond market to meet their recent funding needs. This is consistent with the recent pickup in China's economic activity. Upon the conclusion of China's 18th National Party Congress, the full leadership line-up was announced, Xi Jinping (current Vice President) and Li Keqiang will take over as President and Premier, respectively. The main conclusion of new Chinese Politburo is that the direction of political and economic reforms should remain intact.

Next week: The Eurogroup will meet again on November 20 to further discuss Greece financing needs. Besides, on November 22-23 the EU leaders will hold a summit on 7Y budget. Spain will issue 12M and 13M Treasury bills on Tuesday, while it will issue bonds on Thursday. Regarding economic data, in the eurozone, PMI indexes figures for November will be released and in China, the HSBC/Markit flash PMI for China (on Nov 22nd), and property prices for October (on Nov 18th) will also be released.

Calendar: Indicators

Eurozone: Flash PMI Composite (November, November 22nd)

Forecast: 45.9

Consensus: 45.9

Previous: 45.7

We expect the PMI composite to have increased slightly in November to halt the downward trend observed over previous months, but remaining clearly in contractionary territory. In particular, the headline index is set to remain below the average level recorded in Q3, suggesting that the fall in activity could be deeper in Q4 than in the previous quarter, after the upward surprise observed at that time. Across components, the PMI manufacturing is likely to have improved slightly, although prospects for the industrial sector remain gloomy due to slowing global demand, and thus do not yet point to a sustained recovery. Regarding service component, we expect it to remain broadly stable at current levels, weighed by the weak domestic demand.

Eurozone: EC consumer confidence (November, November 22nd)

Forecast: -25.6

Consensus: -26.0

Previous: -25.7

We expect consumer confidence to have remained broadly stable at current very low levels, suggesting that households' spending will remain at the doldrums by end-year. Nonetheless, despite the strong downward trend observed in Q3, both hard data and preliminary estimate of GDP growth in Q3 point that private consumption could have been more resilient than signaled by confidence data. Overall, given the weakness of consumers' fundamentals (high unemployment rate, tax hikes and ongoing deleveraging in the periphery), we expect private consumption to continue weighing on activity. Across countries, divergences between core and periphery will persist, but consumers' sentiment in the former also worsened significantly, proving that still high uncertainty about an unwavering resolution of the European crisis takes its toll on consumers' decisions in all countries.

US: Existing Home Sales (October, November 19th)

Forecast: 4.70M

Consensus: 4.75M

Previous: 4.75M

Sales of existing homes are expected to decline in October for the second consecutive month despite building momentum in the housing market. Although we saw a 1.7% drop in September, existing home sales remain at relatively high levels for the recovery and YoY growth has held strong near 10%. Looming uncertainties in the fourth quarter may be having an impact on immediate demand for homes, and the hurricane in the Northeast could have hindered some sales toward the end of the month. Median prices of existing homes declined throughout the entire third quarter but were unable to encourage homebuyers in September. Pending home sales, which are a leading indicator for existing sales, increased only slightly in September following a sharp drop in the previous month. Even still, we expect that the small decline in October will be temporary given the more optimistic outlook on the housing sector as a whole.

US: Housing Starts and Building Permits (October, November 20th)

Forecast: 850K, 870K

Consensus: 840K, 865K

Previous: 872K, 894K

Housing starts are expected to remain high but slightly off of September's 15% MoM leap, adding to the gaining recovery and confidence in the housing market. The housing market index reached a recovery high in October, with homebuilders noting an increase in the traffic of prospective buyers. Building permits also jumped significantly in September and indicate a growing demand for new home construction. However, while there is no doubt that the housing market is doing far better than it was this time last year, October will likely see a deceleration in the pace of housing starts, with Hurricane Sandy likely having an impact on construction near the end of the month. Given the usual month-to-month volatility of building permits, we do not expect to see another increase in issuance for October.

Taiwan Export Orders (October, November 20th)

Forecast: 0.2% y/y

Consensus: -0.5% y/y

Previous: 1.9% y/y

As a 2-3 month leading indicator of external demand, Taiwan's export orders will be watched for signs of whether a recent pickup in export from the region is sustainable. China's exports for September and October (+11.6% y/y) surprised to the upside, as have Korea's. After a strong September outturn, Taiwan's October exports, however, registered a disappointing -1.9% y/y. We expect new orders to be flat in October, due to continued external headwinds from Europe and, increasingly, Japan. On the other hand, orders from China are likely to hold up, as the economy appears to be gathering speed from increasingly domestic policy support.

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.34	-1	-6	-6
		2-yr yield	0.27	1	2	-1
		10-yr yield	1.71	-3	1	-47
	EMU	3-month Euribor rate	0.21	-1	-5	-136
		2-yr yield	0.05	-1	0	-58
		10-yr yield	1.51	-1	-3	-60
Exchange rates (changes in %)	Europe	Dollar-Euro	1.294	-0.8	0.7	-6.1
		Pound-Euro	0.81	-0.1	0.9	-7.7
		Swiss Franc-Euro	1.21	-0.1	0.2	-2.2
	America	Argentina (peso-dollar)	4.71	0.1	1.1	11.8
		Brazil (real-dollar)	2.04	0.3	1.0	16.3
		Colombia (peso-dollar)	1797	0.1	0.0	-5.5
		Chile (peso-dollar)	473	-0.2	-0.4	-6.4
		Mexico (peso-dollar)	12.87	0.6	-0.9	-4.2
		Peru (Nuevo sol-dollar)	2.59	-0.2	-0.8	-5.1
	Asia	Japan (Yen-Dollar)	78.52	-0.2	1.0	2.1
		Korea (KRW-Dollar)	1114.35	0.3	-1.2	-3.6
		Australia (AUD-Dollar)	1.028	0.9	-1.5	0.9
Comm. (chg %)	Brent oil (\$/b)	116.0	3.5	0.5	4.4	
	Gold (\$/ounce)	1772.7	-0.4	2.3	6.3	
	Base metals	519.2	-1.6	-0.5	-3.7	
Stock markets (changes in %)	Euro	Ibex 35	7741	-2.7	-2.4	-13.4
		EuroStoxx 50	2491	-1.6	-2.6	6.8
		USA (S&P 500)	1441	-1.3	0.5	19.8
	America	Argentina (Merval)	2411	-3.0	0.2	-7.1
		Brazil (Bovespa)	59288	1.2	-0.2	8.6
		Colombia (IGBC)	14265	-0.6	0.6	7.2
		Chile (IGPA)	20814	-0.3	2.2	8.1
		Mexico (CPI)	41649	-0.7	4.1	20.4
		Peru (General Lima)	21433	-1.5	3.5	15.1
	Asia	Venezuela (IBC)	351001	-13.0	18.0	251.0
		Nikkei225	8547	-3.6	-3.0	-3.1
		HSI	20999	-0.1	5.7	11.9
Credit (changes in bps)	Sovereign risk	Ind. Itraxx Main	133	7	6	-45
		Itraxx Xover	556	25	52	-209
		CDS Germany	51	1	-2	-43
		CDS Portugal	477	22	-49	-658
		CDS Spain	360	9	-20	-14
		CDS USA	41	-1	5	---
		CDS Emerging	228	13	16	-82
		CDS Argentina	1010	96	-28	53
		CDS Brazil	115	3	-2	-42
		CDS Colombia	106	4	5	-50
		CDS Chile	84	1	2	-45
		CDS Mexico	105	5	8	-49
		CDS Peru	110	4	1	-50

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
EMU	11/15/2012	▶ Europe Flash: "Slower inflation in October thanks to energy prices, while core inflation remains stable" The growth in energy prices declined to 8% y/y in October from 9.1% y/y in the previous months, reducing its contribution to annual inflation rate by somewhat more than 0.1pp to 0.9pp.
	11/15/2012	▶ Flash: "Eurozone GDP Q3-12." Eurozone GDP declined again in Q3, but less than expected.
	11/14/2012	▶ Europe Flash: "Portugal GDP contracted by -0.8% q/q in Q3" The flash estimate for Portuguese GDP in the third quarter showed a contraction of -0.8% q/q, slightly deeper than our estimation (BBVA Research: -0.6%; Consensus: -0.6%, EC: -0.9%)
	11/12/2012	▶ Portugal Economic Watch: "Os ajustamentos em curso irão prolongar a recessão económica até 2013" O PIB contraiu 1.2% t/t, como esperado, arrastado pela forte queda da procura interna
Spain	11/15/2012	▶ Flash España: "Contabilidad Nacional Trimestral del 3T12" Tal y como se adelantaba en el último número de la revista Situación España, la economía española permaneció en recesión durante el 3T12
	11/14/2012	▶ Las economías andinas: dinamismo y retos Los países andinos presentan un gran potencial, a veces opacado por los gigantes de la región que se manifestará más cuanto más se avance en el proceso de integración intrarregional
	11/14/2012	Series enlazadas de empleo y VAB para España, 1955-2010 Elaboración de series homogéneas de distintos agregados de empleo y de VAB a precios corrientes y constantes para el conjunto de España durante el período 1955-2010
	11/13/2012	▶ Flash España: "Compraventa de viviendas en septiembre de 2012" En septiembre las compraventas de viviendas ascendieron a 25.985 operaciones, un 2,3% más que el mes anterior tras corregir la serie de variaciones estacionales y efectos de calendario
	11/13/2012	▶ Flash España: "IPC en octubre" El dato del IPC de octubre confirma la aceleración esperada tanto de la inflación general como de la subyacente como consecuencia del aumento de las tasas universitarias
	11/12/2012	▶ Presentación Situación LatAm - 11.30am, viernes 6 de noviembre, Salón Bolivaren, Casa de América Presentación de la Revista Situación LatAm cuarto trimestre a cargo de Juan Ruiz - Economista Jefe Coordinación LatAm - En Casa de América (Madrid) el viernes 16 de noviembre de 2012 a las 11.30am
	11/10/2012	▶ El esfuerzo fiscal en 2012 En los últimos días se han dado a conocer previsiones que apuntan a que las AA.PP. no cumplirán en 2012 con el objetivo de déficit (6,3% del PIB)
Global	11/14/2012	Macroeconomic Adjustment under Loose Financing Conditions in the Construction Working Paper 12/26: We provide a model with sector-specific debt-collateral constraints to analyse how asymmetric financing conditions across sectors affect the aggregate investment, credit and output composition
US	11/14/2012	▶ U.S. Fed Flash. Fedwatch: FOMC Meeting Minutes, October 23-24 Fiscal cliff and uncertainties in 4Q12 the highlight of discussions. Additional asset purchases likely after Operation Twist expires at the end of 2012
	11/12/2012	▶ U.S. Weekly Flash. Services Sector still Growing as Employment Rises The ISM Non-Manufacturing Index and its components for October point to a slight decrease in the pace of growth as the overall index fell to 54.2 from a six-month high of 55.1 in September (Spanish version)
Latam	11/14/2012	▶ Latin America Economic Outlook. Fourth Quarter 2012 Latin America will grow by 3% in 2012 and 3.7% in 2013, boosted by domestic demand and commodity prices. The region is prepared to support a new global crisis (Spanish version)

- Chile**
- 11/13/2012 > **Banco Central mantiene tasa de referencia en 5%**
BC incorpora en su comunicado la evaluación de un escenario externo algo más preocupante en las últimas semanas. Mientras la economía local sigue mostrando un panorama más dinámico que lo previsto.
 - 11/13/2012 > **Desaclopados pero no inmunes**
Una de las sorpresas positivas de este año ha sido la robustez del crecimiento del PIB. Pero una revisión de las cuentas externas enciende una luz de alerta sobre la sostenibilidad de este desacople.
 - 11/12/2012 > **Chile Economic Outlook. Fourth Quarter 2012**
In Chile, more moderate domestic demand will limit growth to 4.5% in 2013, slightly below the country's growth potential, but still among the highest in the region. ([Spanish version](#))
- Peru**
- 11/15/2012 > **Artículo de Prensa: Perú: perspectivas favorables de crecimiento**
 - 11/15/2012 > **Crecimiento del PIB se moderó en setiembre**
La actividad económica se expandió 5,9% en setiembre, por debajo de lo esperado.

- Mexico**
- 11/14/2012 > **Presentación Situación Regional Sectorial México. Noviembre 2012**
Las continuas ganancias en competitividad han permitido una desaceleración más gradual de la producción manufacturera de México
 - 11/14/2012 > **Situación Regional Sectorial México. Noviembre 2012**
Potenciando el impulso externo a través del valor agregado nacional
 - 11/12/2012 > **Mexico Real Estate Flash. Slowdown in construction continues in September**
In September, construction grew 2.7% year-on-year and 1.1% monthly. Investment and bank financing to the sector above 3.0% ([Spanish version](#))

Other Countries

- Panama**
- 11/15/2012 > **Presentación Situación Panamá Cuarto Trimestre 2012**
Panamá: crecimiento robusto en un entorno global incierto
 - 11/15/2012 > **Situación Panamá Cuarto Trimestre 2012**
Panamá crecerá 10,0% y 6,6% en 2012 y 2013, en su orden. La ejecución de la inversión pública será decisiva, unida al desarrollo de los proyectos del sector privado

- Asia**
- 11/15/2012 > **Asia Daily Flash | 15 November 2012: China's new leadership team settled; Singapore's retail sales contract**
Upon the conclusion yesterday of China's 18th National Party Congress, the full leadership lineup was announced today, marking a significant step in the once-in-a-decade transition.
 - 11/14/2012 > **Asia Daily Flash | 14 November 2012: China's leadership transition advances at end of NPC; India's inflation eases; Japan's PM paves the way for election; Korea's unemployment falls**
The Asian news flow today was dominated by speculation on the composition of China's new leadership team, following the conclusion of the week-long 18th National Party Congress.
 - 11/13/2012 > **Asia Daily Flash | 13 November 2012: The Philippines' exports surge; Thailand willing to join the US-led TPP; BBVA's China Outlook sees gradual pickup in growth momentum**
Risk aversion is taking a toll once again on Asia's equities, with ongoing concerns about the timing of the next round of financial support for Greece and prospects of a fiscal cliff in the US.
 - 11/13/2012 > **China Economic Outlook. Fourth quarter 2012**
China's growth momentum continued to slow by more than expected in the third quarter due to external headwinds and lags in the effect of policy stimulus.
 - 11/12/2012 > **Asia Daily Flash | 12 November 2012: Broader credit aggregate and exports pick up in China; India's IP contracts**
China's new bank loans declined in October. Meanwhile, total social financing increased as many firms and local governments appear to have shifted to non-banking institutions to seek funding.

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
Agustín García
agustin.garcia@bbva.com
+34 537 79 36

US
Alejandro Vargas
alejandro.vargas@bbvacompass.com
+1 713 831 7348

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



| Pº Castellana 81, Floor 7, 28046 Madrid | Tel.: +34 91 374 60 00 | www.bbva.com

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