



# Weekly Observatory

July 20, 2009

## Financial markets: strong results propel stock markets

Better-than-expected second-quarter results for US companies led an impressive rally in stock markets. As Intel signalled strong spending on computers and electronics, technology stocks benefited from these better prospects. Regarding financials, US bank shares were propelled by gains from fees from their security businesses (trading and stock underwriting). As a result, risk appetite increased, debt yields rebounded, and the US dollar lost ground with major currencies, especially with those of high interest rate countries and/or commodity exporters. For further information and a detailed analysis of May net inflows in the US, see the table at the right and this week's [Flow Watch](#) (in Spanish).

## United States: surging gasoline prices prompt rise in retail sales and consumer prices

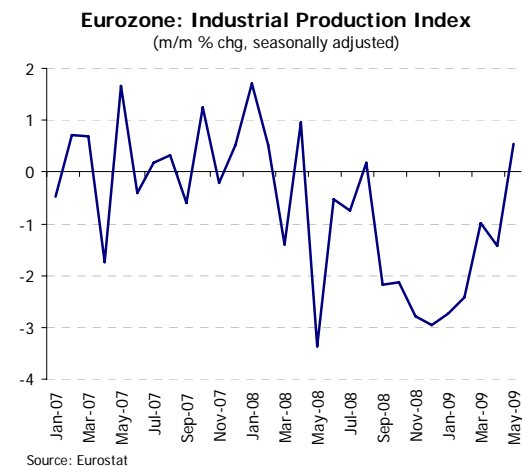
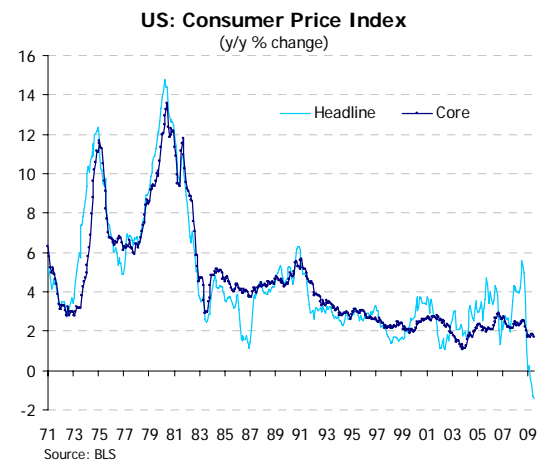
Headline producer and consumer prices surged in June, largely affected by a hefty increase in gasoline prices. According to the CPI report, consumers paid 17.3% more at the pump in June than in May. On the other hand, ongoing economic slack kept core consumer price growth low, but positive, which is in line with our baseline scenario for 2009. Gasoline prices, along with auto sales, also played a dominant role in the second consecutive monthly rise in retail sales. However, when both components were excluded, sales declined, indicating that consumer demand remains weak. In the week ahead, we expect the Leading Economic Index to rise for the third month in a row, signaling that economic contraction eased further in the second quarter. For further information, see [US Weekly Observatory](#).

## Euro area: industrial production up, inflation negative as expected

Industrial production in the euro area rebounded in May by 0.5% m/m after several months of falls. This improvement was below the very positive expectations having risen after last week's national releases for Germany, France and Italy, but this could be explained by the upward revision of the index in April. The trade balance for May came out better than expected, but with a substantial fall both in exports and imports. Negative news also came from the ZEW confidence indicator in Germany, which fell after several months of improvement, although it remains above the historical average. On inflation in the euro area, the flash for June at -0.1% y/y was confirmed, while core inflation decelerated by one more decimal point than we were expecting (from 1.5% y/y to 1.3%), adding to evidence of deflationary pressures. We expect headline inflation to reach a minimum in July (-0.5% y/y) and then recover, but to remain negative until the end of the year. On the ECB, the main comment this week came from J.C. Trichet, who said that it is not too early to prepare an exit strategy. For further information, see [Europe Weekly Observatory](#).

TIC data break-down (bn \$)				
By type of asset	feb-09	mar-09	abr-09	may-09
<b>Domestic purchases</b>	20,8	59,5	34,3	7,9
Private	25,9	33,2	18,3	31,3
Official	-5,1	26,4	16,0	-23,4
<b>Treasury</b>	21,6	55,3	41,9	-22,6
Private	23,5	26,3	24,8	-0,8
Official	-2,0	29,0	17,1	-21,8
<b>Agencies</b>	1,1	-15,6	-2,5	12,8
<b>Corporate bonds</b>	3,3	6,7	-9,7	0,9
<b>Equities</b>	-5,1	13,2	4,6	16,7
<b>Foreign bonds</b>	-0,5	-0,5	-13,8	-16,2
<b>Foreign equities</b>	1,7	-0,5	-8,9	-11,5
<b>Long-term total net inflows</b>	<b>22,0</b>	<b>58,5</b>	<b>11,5</b>	<b>-19,8</b>
By country of origin				
<b>UK</b>	13,1	2,4	20,5	6,2
<b>Japan</b>	28,8	19,4	0,6	-4,0
<b>China</b>	-1,6	15,7	8,3	2,6
<b>Caribbean</b>	-4,3	16,2	-7,5	2,6
<b>Rest of the world</b>	-14,0	4,7	-10,4	-27,2
<b>Total net inflows</b>	<b>-88,2</b>	<b>27,1</b>	<b>-38,0</b>	<b>-66,6</b>

Source: TIC



**Asia: China growth tops forecasts**

China and Singapore growth in Q2 surprise on the upside, adding to signs that the worst may be over in both economies. Hong Kong's export volume and Malaysia's manufacturing sales also slowed down their pace of contraction. However, Australia's leading indicator fell in May as building approvals declined. Consumer confidence in Japan is on the rise although the service sector activity remains depressed. Central banks in Japan and Thailand kept rates unchanged as widely expected. Markets will focus on Japan's trade data which is expected to be up year-on-year. For further information, see [Asia Weekly Observatory](#).

**Latin America: further stabilizing signs suggest that part of the region might be bottoming out**

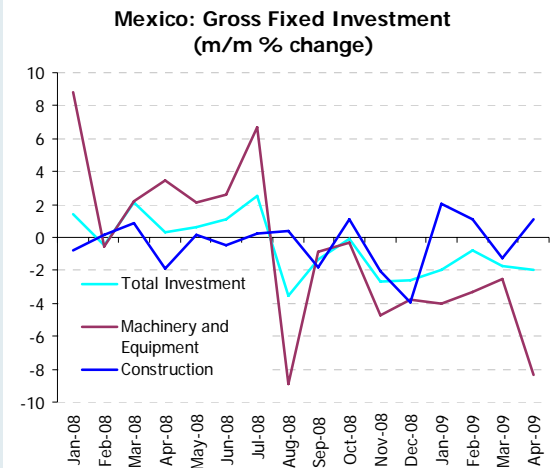
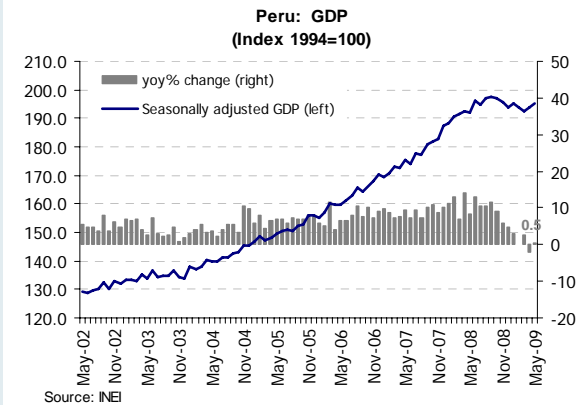
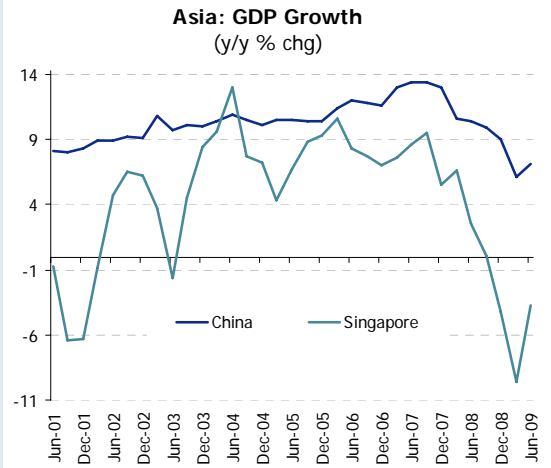
Monthly GDP data for May in Peru matches our forecast (0.5% y/y) and suggests an incipient stabilization of activity. The same conclusion can be extracted from the latest information on industrial production in Colombia. Retail sales in Brazil for the month of May (0.8% y/y) ended up slightly above expectations. Regarding international trade, we highlight the price effect that lies behind the sharp decrease in copper exports for Chile; and the Colombian trade surplus, essentially derived from a strong contraction in imports. Next week, industrial activity in Argentina, confidence and unemployment in Brazil, and construction licenses in Colombia, would provide additional evidence on the strength of these stabilization symptoms. For further information, see [Latin America Weekly Observatory](#).

**Mexico: investment data shows worrying trend**

In April Gross Fixed Investment suffered its greatest fall since the 1995 crisis (-17.8% y/y). Machinery & Equipment had the acuter contraction (-30.2% y/y) due to a lower investment in transport and metal-forming equipment. In seasonally adjusted data, total investment has fallen constantly since August 2008 (-2.0% m/m in April). However, construction investment grew 1.1% m/m in April, probably boosted by the higher infrastructure expenditure. Next week first-half July inflation data will be published in which its downward trajectory could be confirmed. Also, the June trade balance will be released; we expect a surplus for the fourth month in a row due to lower domestic demand. For further information see [Mexico Weekly Observatory](#) (in Spanish).

**Commodities: prices up on macro optimism**

Oil and metal prices increased this week following the recent optimism in equities markets as well as the dollar depreciation. Most agricultural commodities benefited from the upward movement displayed by other commodities prices, but soybean and corn prices dropped significantly as China announced its intention to sell part of its strategic reserves. For further information, see [Commodities Observatory](#).



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