Economic Research Department

Global

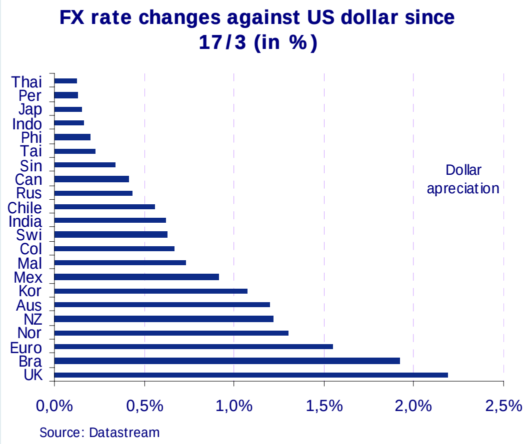
BBVA

Weekly Observatory

March 22, 2010

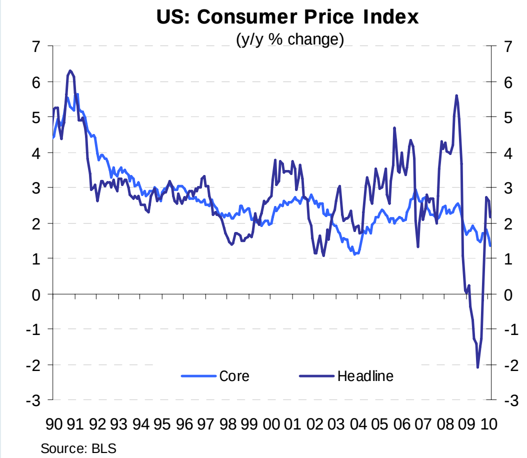
Financial markets: doubts on EMU plan to help Greece weighted on markets once week more

Sovereign spreads and CDS of some EMU economies with weak fiscal situation increased for another week on concerns about Greek support plan. The lack of consensus about the details of the supporting plan, and the possibility that the IMF could intervene instead of EMU countries, altered markets tense calm. As a result, European stock markets closed the week with moderate losses, driven down by banking sector, while the euro broke the $1.35 barrier today after reaching $1.38 last week, a 6-week high. Regarding Central banks, both the Fed and Banxico kept official rates unchanged, while the BoJ augmented its liquidity program to banking sector, aiming to fight deflationary forces. By contrast, India surprisingly raised official rates to moderate inflationary pressures. Some fears that this movement will be followed by other Asian Central Banks and also by other Emerging countries, affecting growth prospects, gave further support to the US dollar, which appreciated against most currencies since last Wednesday. For further information, see Flow Watch.



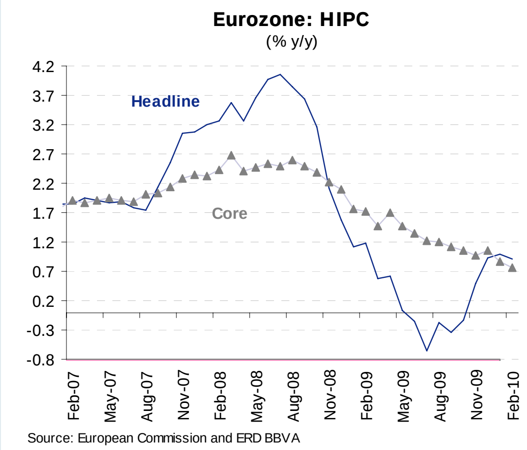
US: Core Price pressures remain weak according to the CPI

Headline consumer prices remained the same in February as consumers benefited from a reprieve in rising energy prices, while core prices rose by 0.1%. Price movements were small and mixed in February's inflation report, illustrating that no component is exerting price pressures in either direction. Furthermore, supply side price pressures eased as producer prices dropped by 0.6% on a monthly basis following a 1.4% rise in January. These trends are supportive of our forecast of low, but positive core inflation in 2010. In a separate report, industrial production's pace of expansion slowed in February, but underlying trends still point to widespread growth across industries. These results are in line with our expectation of GDP growth in 1Q10. For further information, see [US Weekly Observatory].



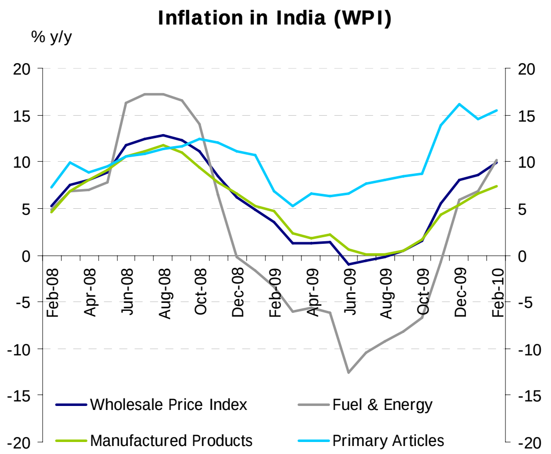
Eurozone: Indicators overview

Exports out of he eurozone fell slightly in January which, together with a small rise in imports, point to a weak contribution of the external sector at the beginning of the year. Other data released during the week were relatively downbeat, with construction output continuing its falling trend and employment unexpectedly falling over the fourth quarter of 2009, at odds with more positive unemployment data. On confidence, the German Zew indicator softened again in March, although only marginally, and seems to have stabilized around a territory of positive growth. On inflation, harmonized headline inflation was confirmed at 1% for the eurozone in February, with core inflation weakening to 0.8%, marginally below expectations. For further information, see [Europe Weekly Observatory].



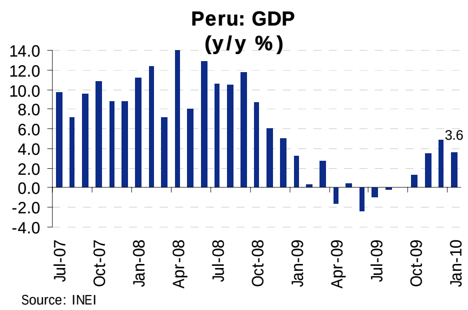
Asia: Indicators are still improving, amid fears of monetary policy tightening

The week ended on a surprise interest rate hike in India, with markets otherwise focused on improving regional economic data, possible further monetary tightening measures in China, and on a war of words between the US and China. China concluded its annual National People's Conference with renewed commitments to maintaining growth with supportive monetary and fiscal policies, while emphasizing the need to contain risks of inflation and asset price bubbles. Chinese Premier Wen Jiabao defended China's currency policy, and the US hit back in an increasingly heated war of words over RMB appreciation. Across the region, data continue to confirm strong growth momentum, with Singapore's February exports rising faster than expected, and strong retail sales and declining unemployment in Korea. However, with inflation in India almost reaching double-digit levels in February (WPI) led by surging food prices, the RBI announced a 25bp hike in interest rates late on Friday. For further information, see Asia Weekly Observatory.



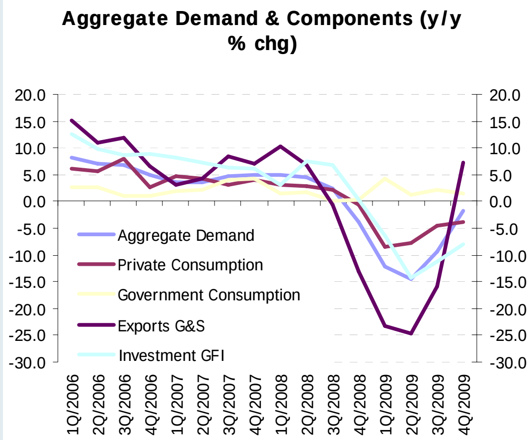
Latin America: The recovery continues, so far without changes in monetary policy

Argentina's country risk fell sharply at the imminent approval by the SEC of the debt swap offer. As expected, the central banks of Brazil and Chile maintained their policy rates unchanged. Except for Brazil, no hikes are expected in the coming months. Activity indicators continue showing signs of recovery in the region (job creation in Brazil, GDP in Peru and construction in Colombia). In Venezuela, credit growth shows signs of stagnation, while the energy crisis continues. For further information, see Latin America Weekly Observatory.



Mexico: Banxico left the policy rate unchanged

In the statement Banxico sticks to the line of anchoring the medium and long term inflationary expectations, describing a context where it is justified to maintain a monetary pause and, pointing out that there is not hurry to anticipate supply shocks. We consider that the wording is consistent with a wait-and-see policy stance and therefore we anticipate that the rate will remain unchanged in the following months. On its part aggregate demand grew 2.1% q/q (-1.7% y/y) during 4Q09. Within it, gross investment fell by 8.1% y/y, however public investment grew by 4.7% y/y. private consumption reduced by 2.3% y/y while exports and government consumption rose by 7.3% and 1.4% y/y respectively. These results show that the main boost of the economy during this recovery comes from foreign demand. For further information, see Mexico Weekly Observatory (in Spanish).



Commodities: Oil price remains stable around the $80 mark

The oil price was relatively stable around $80 per barrel during the last days. It started last week strong and then receded slightly during the last days, following the evolution of global markets. The appreciation of the US dollar helped to maintain the oil price under control. Non-commercial positions on oil future markets rose for the fifth week in a row, showing increasing support to prices. For further information, see Commodity Observatory.

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