Global Weekly Flash

Greek deal hopes and China's improving growth momentum lift market mood

Risky assets advanced this week as economic indicators showed improving growth momentum in China and the US, while the economic recession did not intensify in the eurozone. Optimism about an imminent agreement on a debt-reduction package for Greece also contributed to improve market sentiment. Spain took advantage of more positive market mood and it managed to sell EUR8.8bn in government bonds and Treasury bills, helping sentiment toward risk assets. In this context, negative impact of the French credit rating downgrading was quite mute. Peripheral risk premia narrowed notably across the board this week. Notwithstanding the safe-haven yields rose, the reaction in the short-end of the German yield curve was quite limited. At the end of the week, oil prices fell due to ceasefire agreed between Israel and Hamas, reducing one of the global market headwinds. Finally, Japanese yen is being dragged by expectation of Japanese Liberal Democratic Party expectation to win elections on December 16, which backs an ease monetary policy

- EU finance ministers and the IMF failed again to agree on a debt-reduction package for Greece Creditors led by Germany refuse to put more money or offer debt relief. However, there's optimism on speculation that European finance ministers are close to finalizing a debt-reduction package for Greece, as soon as next week, at Eurogroup meeting next Monday (Nov 26). Apparently this optimism rests on the fact that policy makers remain positive on the prospects for a deal. German Finance Minister Wolfang Schaeuble said that the issue on how to close the Greek financing gap was solvable: "we have a series of options" and we've "discussed the issue very intensively, but since the questions are so complicated we didn't come to a final agreement." Meanwhile, Mr. Juncker stopped just short of predicting a deal at next Monday's meeting by saying that "further technical work on some elements of this package" is needed. Meanwhile, the next aid payment, which has been held up since June, remains frozen until at least next Monday's meeting.

- Well-received Spanish government debt auction helped risk sentiment toward risky asset. This week, Spain's Treasury sold EUR 3.9bn in 3Y bond, 4.7Y bonds and 8.4Y, topping the initial issuance range (EUR 2.5-3.5bn). Yields accepted were in line or slightly below with secondary market yields and lower than in previous auctions. Besides, the Spanish Treasury also issued EUR4.9bn in 12M and 18M Treasury Bills. Average yield at these auctions were below secondary market yields.

• Continuing with positive news, the Portugal successfully passed the sixth review of its aid programme

- However not all news were positive in Europe this week. Moody's cut the French credit rating by one notch to Aa1 from AAA, due to the economy's weakness and the risks to the government's finances "posed by the country's persistent structural economic challenges". This movement has increased the downgrade risk of the EFSF. Yet, its negative market impact was offset by optimism about a resolution on Greek woe.

• Optimism on improving growth momentum in China and significant strength in US housing indicators

- In China, this week brought additional signs of growth stabilization. Particularly, China's flash PMI jumped above the expansion threshold for the first time in 13 months. China's Markit/HSBC Flash PMI showed a notable increase to 50.4 in November, compared with a final reading of 49.5 in October, marking the first time since October 2011 that the Markit/HSBC PMI has been above the 50 threshold, which indicates that manufacturing sector activity for small-and-medium enterprises is expanding once again. Together with other recently released macro data from China, the latest Flash PMI points to China's improving growth momentum. We continue to expect China's growth to pick up in the fourth quarter and improve further in the first quarter of next year.

- In the US, existing home sales rose 2.1% to an annualised rate of 4.790 million, the strongest selling rate since the home-buyers tax credit was in effect in May 2010, indicating gains in the real estate market are being sustained by cheap borrowing costs. More notably, housing starts climbed to their highest level since July 2008. Starts rose to an annual pace of 894k (3.6% m/m) in October, up from a downwardly revised 863k in September (initial: 872k) and well above consensus expectations (840K). This significant upshift in housing starts is consistent with this week's jump in homebuilder sentiment which returned it to 2006's levels. Albeit housing permits, which fell to 866k in October from 890k in September, suggest some moderation ahead, they had risen 12% in September to a four-year high, which points to improving growth momentum in the housing sector. Other US economic data were mixed. Jobless claims fell as expected, while the University of Michigan's index of consumer sentiment fell to 82.7 in the final November report (initial: 84.9), which was below consensus expectations. Yet, markets have ignored the mixed data and rally on the positive data as they believe there's hurricane-related weakness in some data.

- **With respect to fiscal-cliff negotiations this week there was renewed optimism. It seems that the Republicans are willing to accept increased government taxes coupled with spending cuts**
  - In Europe, there are still no signs of a turnaround but Eurozone PMI's downfall stabilized in November. The eurozone flash Composite PMI stood at 45.8, slightly up from October (45.7) and somewhat below expectations (BBVA and Consensus: 45.9). Manufacturing was up by 0.8 points but services went down by 0.3 points, both remaining clearly in contractionary territory. After the deep fall observed since March (with an accumulated downturn of 5 points between March and July), Manufacturing PMIs have recovered over 2 points in the last four months, while services continue falling slowly. Although available soft data for Q4 are similar to those for Q3, our model MICA-BBVA forecasts that recession would be larger in Q4 than in Q3 (-0.4% fall for the last quarter, from -0.1%).

Next week: The Eurogroup will meet again on November 26 to further discuss Greece financing needs. On the economic front, in the US several economic indicators will be released such as Personal income and Spending figures for October, the Consumer confidence and the Chicago PIM indexes for November, and the Fed's Beige book. In Europe, the M3 and CPI for November will be also released.

Calendar: Indicators

Eurozone: Flash HICP inflation (November, November 30th)

Forecast: 2.3% y/y	Consensus: 2.4 y/y	Previous: 2.5 y/y

Headline inflation is expected to decline in November by 0.2pp to 2.3% y/y, due again to lower increases in energy prices, while core inflation is set to remain stable at 1.6% y/y. Looking forward, we expect inflation to hover around 2.3% by year end, slowing more rapidly at the beginning of 2013 as a result of a significant base effect in energy prices after increasing sharply a year ago. In particular, headline inflation is likely to be slightly below the ECB's target by the second quarter. Thereafter, the slowdown of both core and headline inflation will be more sluggish.

Eurozone: Unemployment rate (October, November 30th)

Forecast: 11.6%	Consensus: 11.6%	Previous: 11.6%

We expect the unemployment rate to have remained stable at 11.6% in October, interrupting temporarily the upward trend observed since mid-2011, and cumulating a 1.7pp increase since then. Nonetheless, we do not think that the deterioration of the labour market has halted, as the recession by end-year will end up weighing on employment in coming quarters. Confidence surveys also point in the same direction, with firms' hiring intentions declining further. In addition, the incipient recovery projected next year will not be enough to create jobs. For 2013 as a whole, we expect a mild fall of employment and an increase in the unemployment rate.

US: GDP, Preliminary (3Q12, November 28th)

Forecast: 2.4%	Consensus: 2.8%	Previous: 2.0%

The preliminary estimate for 3Q12 GDP growth is expected to be revised up from the advance figure as the final economic indicators for September have been released and show stronger-than-expected growth in many areas. In particular, the international trade balance improved significantly, closing out the third quarter with the smallest deficit in almost two years. Export growth rebounded in September after two months of declines, while imports increased for the first time in six months to reflect stronger confidence and demand from businesses. September's data also showed stronger consumer data, including a modest upward revision to retail sales and an improvement in job growth. Revisions to construction spending noted a softer decline in August followed by a gain in September, mostly led by the private side. On the other hand, we expect that these gains were partially offset by a downward revision to industrial production in September, from 0.4% to 0.2%, reflecting a slower-than-expected increase in manufacturing output. In general, though, we expect the revised second estimate to be fueled by the narrowing trade balance and growth in consumer spending along with better employment data and the pace of the housing recovery.

US: Personal Income and Outlays (October, November 29th)

Forecast: 0.1%, 0.0% m/m	Consensus: 0.2%, 0.1% m/m	Previous: 0.4%, 0.8% m/m

Personal income and spending are expected to be relatively muted for October due to mixed reports on key indicators. Average hourly earnings declined slightly in October after an increase in September, which could drag on personal income for the month, but we do not expect that nominal figures will revert to negative growth. The soft increase in inflation for October should help keep real income from a decelerating significantly. On the spending side, we expect that personal outlays will reflect a slowdown in consumer activity that has already been seen in October's data, including the slight decline in retail sales in part due to the effects of Hurricane Sandy along the East Coast. Coupled with a dim demand for autos and a drop in actual sales for light vehicles, spending does not seem to show signs of growth in October.

Markets Data

				Close	Weekly change	Monthly change	Annual change
Interest rates	(changes in bps)	US	3-month Libor rate	0.31	0	0	-21
			2-yr yield	0.27	3	-2	0
			10-yr yield	1.68	10	-10	-28
		EMU	3-month Euribor rate	0.19	0	-1	-129
			2-yr yield	0.00	4	-8	-46
			10-yr yield	1.44	11	-12	-82
Exchange rates	(changes in %)	Europe	Dollar-Euro	1.294	1.5	-0.3	-2.3
			Pound-Euro	0.81	0.9	0.1	-5.6
			Swiss Franc-Euro	1.20	0.0	-0.4	-2.2
		America	Argentina (peso-dollar)	4.82	0.5	1.6	13.1
			Brazil (real-dollar)	2.09	0.2	3.1	10.5
			Colombia (peso-dollar)	1818	-0.3	0.1	-7.1
			Chile (peso-dollar)	478	-1.4	-0.7	-9.3
			Mexico (peso-dollar)	12.99	-1.1	0.0	-8.7
			Peru (Nuevo sol-dollar)	2.59	-0.8	0.2	-4.6
		Asia	Japan (Yen-Dollar)	82.43	1.4	3.3	6.0
			Korea (KRW-Dollar)	1086.11	-0.6	-1.6	-6.7
			Australia (AUD-Dollar)	1.042	0.8	0.6	7.3
Comm.	(chg %)		Brent oil ($/b)	110.9	1.8	2.8	4.2
			Gold ($/ounce)	1733.2	1.1	1.8	3.0
			Base metals	507.6	0.0	0.4	-2.6
Stock markets	(changes in %)	Euro	Ibex 35	7883	3.9	1.2	1.5
			EuroStoxx 50	2546	4.9	2.2	20.6
		America	USA (S&P 500)	1397	2.7	-0.8	20.6
			Argentina (Merval)	2267	-0.7	-4.7	-6.6
			Brazil (Bovespa)	57041	3.0	-0.2	3.9
			Colombia (IGBC)	14203	0.8	-4.5	16.8
			Chile (IGPA)	20334	-1.0	-2.3	5.6
			Mexico (CPI)	41858	2.5	-0.6	21.1
			Peru (General Lima)	20028	-0.1	-4.9	5.6
			Venezuela (IBC)	386233	0.7	5.4	234.7
		Asia	Nikkei225	9367	3.8	4.6	14.8
			HSI	21914	3.6	0.7	23.9
Credit	(changes in bps)	Ind.	Itraxx Main	124	-14	-4	-83
			Itraxx Xover	505	-61	-19	-337
		Sovereign risk	CDS Germany	31	-1	2	-87
			CDS Portugal	517	-124	78	-607
			CDS Spain	319	-33	-1	-166
			CDS USA	36	-1	5	---
			CDS Emerging	247	-5	34	-100
			CDS Argentina	2766	-353	1804	1669
			CDS Brazil	105	-4	-5	-88
			CDS Colombia	101	-4	-1	-93
			CDS Chile	77	-4	-5	-72
			CDS Mexico	101	-4	0	-89
			CDS Peru	101	-4	-3	-92

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
EMU	11/22/2012	**Europe Flash: "Stable eurozone PMIs in negative territory"** The eurozone flash Composite PMI stood at 45.8, very slightly up from October (45.7), somewhat below expectations (BBVA and Consensus: 45.9).
Spain	11/22/2012	**Presentación "Perspectivas de la Economía Mundial y de España"** Presentación ofrecida por Rafael Domenech en la Universidad Pablo Olavide en el marco de la Cátedra BBVA sobre las perspectivas de las económias mundial y española.
	11/21/2012	**Flash España: Balanza comercial de septiembre 2012** El déficit de la balanza comercial en el acumulado a 12 meses de septiembre se reduce con respecto al acumulado a 12 meses del mes anterior, situándose en los 37,4 miles de millones de euros.
	11/20/2012	**Algunas propuestas para la reforma del sistema de financiación de las comunidades autónomas de régimen común** En el presente trabajo se avanzan una serie de recomendaciones para la reforma del sistema de financiación de las comunidades autónomas de régimen común.
	11/20/2012	**Observatorio Económico "Sobre la necesidad de prolongar la vida laboral en España"** La participación laboral de los trabajadores de edad avanzada en España es reducida en comparación con la del promedio de las economías desarrolladas debido a su menor tasa de empleo.
	11/19/2012	**Presentación Situación Madrid** Presentación de la revista Situación Madrid a cargo de Rafael Domenech, Economista Jefe de Economías Desarrolladas
	11/19/2012	**Situación Madrid. Segundo semestre 2012** Aunque se incrementa la probabilidad de entrar en recesión, Madrid mantiene un diferencial positivo con España.
	11/19/2012	**Presentation "Situation and Outlook for the Global Economy and for Spain"** Presentation of Spain Economic Outlook
	11/19/2012	**Spain Economic Outlook** Spain continues in recession, but showed a lower than expected GDP contraction in 3Q12. Europe needs a credible political agreement
Global	11/23/2012	**Working Paper "Human Capital and Income Inequality: Some Facts and Some Puzzles"** Using an updated data set on human capital inequality for 146 countries from 1950 to 2010 this paper documents some facts and puzzles regarding the evolution of income and human capital inequality.
US	11/19/2012	**U.S. Weekly Flash. Retail Sales Contract as Sandy´s Impact is Realized** Retail Sales for October showed a slowdown from the month prior as stores showed the strain imposed by Hurricane Sandy on consumers (Spanish version)
Latam	11/18/2012	**Gestionando el éxito en Latam** América Latina se presenta actualmente como una gran oportunidad de inversión
Brazil	11/20/2012	**"Brasil Economic Outlook"** The Brazilian economy is rebounding in the second half of the year, after one year stagnated. The country will grow 1.6% in 2012 and 4.2% in 2013.
Chile	11/19/2012	**Fuerte dinamismo de la demanda interna al 3T12 incrementa deterioro de las cuentas externas** Un aumento 5,7% a/a registró el PIB en 3T12. La demanda interna incrementó su velocidad de crecimiento y el déficit en cuenta corriente del 3T12 alcanzó a 7,4% del PIB.
	11/19/2012	**Las preocupaciones de la política monetaria para 2013** El BCCh ha mantenido la tasa en 5% desde enero de este año, y de cumplirse las expectativas de mediano plazo, registraría su periodo más prolongado de pausa del último tiempo.
Colombia	11/21/2012	**Observatorio Económico Colombia. Revolución del transporte en Colombia** Ambiciosos proyectos mejorarán la calidad del transporte interno.
	11/20/2012	**Situación Colombia Cuarto Trimestre 2012** La economía colombiana crecerá 4,3% y 4,4% en 2012 y 2013. La desaceleración de la demanda privada será compensada por la mayor ejecución de las obras civiles

Peru

11/22/2012 **Peru Economic Outlook Fourth Quarter 2012**
We revised upward GDP growth. Domestic demand will continue to support output in 2013 and from then on entry into operation of mining investment projects will provide an additional temporary boost.

11/22/2012 **Presentación: Perú: proyecciones macro en un entorno de abundante liquidez global**

Mexico

11/22/2012 **Mexico Inflation Flash. November´s biweekly inflation: Inflation Continues Falling as Supply Shocks Keep Fading**
General: Actual: 0.79% f/f vs. BBVA: 0.75% f/f Consensus: 0.75% f/f. Core: Actual: 0.18% f/f, vs. BBVA:0.20% f/f, Consensus:0.20% f/f (Spanish version).

11/21/2012 **Presentación Situación Banca México. Noviembre 2012**
Crédito total de la banca: de abril de 2010 a septiembre de 2012 ha acumulado 30 meses consecutivos de crecimiento.

11/21/2012 **Situación Banca México Noviembre 2012**
En México ha aumentado de manera importante en años recientes el número de clientes de la banca, en particular, y el número de personas que utilizan servicios financieros, en general.

Other Countries

Paraguay

11/23/2012 **Presentación "Paraguay: retomando el crecimiento"**
Presentación de la Revista "Situación Paraguay: cuarto trimestre 2012" por Juan Ruiz, Economista Jefe para América del Sur, y Miguel Poblete, Economista para Paraguay.

11/23/2012 **Revista "Situación Paraguay: cuarto trimestre 2012"**
Paraguay se contraerá un 1.8% este año, pero crecerá un 9.8% en 2013 a medida que se supere la crisis agropecuaria y disminuyan las tensiones financieras a nivel internacional.

Uruguay

11/20/2012 **Revista "Situación Uruguay, segundo semestre 2012"**
El crecimiento de la economía desacelera cerrando 2012 en 3,8% y el año próximo 3,9%. Inflación y apreciación cambiaria agudizan el dilema de la política monetaria.

Asia

11/22/2012 **Asia Daily Flash | November 2012: China's Flash PMI rises; Rumors of currency intervention in Korea; Fitch affirms Indonesia's rating; Inflation in Hong Kong remains flat**
China’s Markit/HSBC Flash PMI showed a notable increase to 50.4 in November, jumping above the expansion threshold for the first time since October 2011.

11/21/2012 **Asia Daily Flash | 21 November 2012: Large trade deficit in October adds to recession fears for Japan**
Asian stock markets were mixed today, with a rebound in the Shanghai Composite grabbing investors' attention. Meanwhile, Japan¿s slowdown remains in focus after it posted a large trade deficit

11/20/2012 **Asia Daily Flash | 20 November 2012: BoJ refrains from easing; China: FDI inflows data improves; RBA hints at future cut; Taiwan export orders improve**
The Bank of Japan held its monthly monetary policy meeting today, where as expected it kept its policy rate and the size of its asset purchase program unchanged.

11/19/2012 **Asia Daily Flash | 19 November 2012: China's property prices rise; Thailand's 3Q GDP slows; US President on tour of Southeast Asia**
According to data released on Sunday, China's housing prices increased by 0.11% m/m in October, after a 0.05% increase in September, marking the fifth consecutive month prices have risen.

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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
Kim Fraser
kim.fraser@bbvacompass.com
+1 713 831 7345

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