

Global Weekly Flash

Madrid, 24 May 2013
Economic Analysis

Financial Scenarios

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Markets anxious about Central Banks' next steps

- Federal Reserve Chairman Ben Bernanke's testimony before the U.S. Congress and FOMC Minutes of April 30th - May 1st meeting increased investors' concerns about the Fed's QE exit strategy**
 - Mr. Bernanke started with a dovish tone, stating that "a premature tightening of monetary policy could lead interest rates to rise temporarily, however will also impose risk to economic growth, cause further decline of inflation rate, pose risks to financial stability outcomes, and lead to extended periods of lower, not higher, interest rates." But later in his speech, Mr. Bernanke speculated that if structural unemployment is reached earlier than expected and inflation rises then the Federal Reserve would have to increase rates earlier. He also supported the notion of altering FOMC's current exit strategy allowing securities to mature. FOMC minutes have also raised uncertainties about the path of the Fed's bond purchases, as they show that some members have called for lowering asset purchases as early as June. On the other hand, FOMC members expect inflation rate to run at or below 2% -due to slack in resource utilization-, while they also see subdued economic growth and still-weak labor market conditions. The testimony and the minutes have not shifted our view on the current stance of monetary policy. Although market anxiety continues to build up, the Fed is not ready to shift gears just yet. We are definitely seeing some underlying pressures within the FOMC to slow asset purchases in the near term, but the consensus remains divided on whether current economic conditions warrant such immediate action. With Bernanke reigning, it appears that the Fed will hold off as long as possible before making any major market-moving changes. Thus, we maintain our baseline projections for tapering of QE3 starting in 3Q13, with the program ultimately ending by 1Q14. We expect that the upcoming meetings will reveal further discussion on an appropriate exit strategy.
- Meanwhile, the Bank of Japan maintained its monetary policy unchanged but hinted a potential change of its debt purchase strategy in case the long-term yield increases further**
 - The BoJ governor, Haruhiko Kuroda, testified that "the central bank will conduct its debt purchases in a flexible manner". Additionally, Japanese Economy Minister Akira Amari said that further yen weakness "may hurt people's lives", suggesting that the fall of the Japanese currency has gone too far.
- In the eurozone, two members of the ECB showed their willingness to expand the range of ECB's instruments (if needed)**
 - Charles Noyer and Peter Praet have stated that the ECB was currently considering the introduction of a toolkit of monetary policy instruments that could reduce fragmentation. Lastly, the BoE Monetary Policy Committee has remained split over increasing its QE program -three of its six members have voted to increase the program by £25bn to £400bn, according to the minutes from the latest policy meeting-.

- **Market volatility has increased, in line with growing concern on the Fed's next steps and on the economic deceleration in China**
 - Huge falls were registered across all asset classes, pointing out the high assets' correlation existing between markets nowadays. This highlights that any QE exit should be implemented in a flexible manner. The Japanese Nikkei slumped by 7% the day after Bernanke's testimony and the China's gloomy PMI. On the other hand, despite the huge intraday fall, the US equity market managed to end the week falling less than 1% in the week as positive economic data in the US partially offset the negative impact of FED's exiting the QE. Unsurprisingly, the US10Y Treasury yield surged by 9bp on risk of an early QE exit, but ended the week increasing by 3bps, driving German yield up. Regarding the peripheral yields, all of them jumped more than 24bps in the week. In fact, European peripheral bond and equity markets underperform Emerging bond and equity markets. Emerging currencies weakened strongly against the US dollar. On the other hand, the US dollar depreciated deeply against the Japanese Yen as the Japanese economic ministers' alerting BoJ implement monetary policy in a flexible manner. The Euro also appreciated against the dollar.
 - Against this background, Spain's Treasury managed to issue EUR4.7bn in long and medium-term bonds last Thursday, topping its initial issuance target but at higher borrowing cost. Since the start of 2013 the Spanish Treasury to have already funded more than 55% of its gross long-term debt needs for 2013, amounting to EUR 121bn
- **Chinese factory activity shrinks signaling the country's growth is losing steam while Eurozone activity surprises to the upside signaling that the downturn tempered slightly in May**
 - The preliminary HSBC manufacturing PMI has dropped into the contraction zone, decreasing in May to 49.6, signaling that Chinese factory activity shrinks for the first time in seven months.
 - **Eurozone PMIs improved in May for the second month in a row, partly offsetting the setback in March and April.** In particular, the euro area PMI composite has risen above expectations driven by a better performance in both manufacturing services. However, May figures remained below well 50, suggesting that the recovery is not yet assured. Forward components of both manufacturing and services, in particular new manufacturing orders and incoming new business in services, suggest that foreign demand will continue to support exports and remain as the main driver of growth in coming quarters, while subdued domestic demand is likely to continue to weigh on economic growth. All this is line with our scenario, though our projections envisage a slight GDP growth in the current quarter which is not ensured yet, to gain some traction in the second half of the year. In Germany, manufacturing PMI has surprised to the upside, but remains weak (49), and also French manufacturing PMI has unexpectedly risen in the preliminary reading. In addition, euro area consumer confidence inched up in line with expectations, while German IFO - Business Climate increased in May for the first time in three months and above expectations.
 - **In the US, Chicago Fed activity index continued to decline.** Meanwhile, labour market continued showing good signs as jobless claims declined more than expected last week. Additionally, housing data also came from the positive side as new home sales soared in April to its second highest level in five years, and April existing home sales surged in line with expectations.

- **In Mexico, GDP growth in 1Q13 came out above our expectations, but still registered a 2.2% YoY growth rate, the lowest since 2009.** Meanwhile, retail sales recovered slightly in March. Moreover, annual inflation remained close to 4.7% y/y as supply shocks in livestock and energy markets, and further increases in tariffs set by local governments, prevented non-core inflation from falling. In Colombia, March manufacturing and retail numbers produced a mixed picture, although we expect a decisive recovery in April. Regarding Chile, GDP growth came out at 4.1% for 1Q13, below expectations, but domestic demand is still growing very strongly. In Brazil, inflation eased slightly in mid-May, although slightly less than we expected, and the current account widened to 3% of GDP. In spite of the moderation in inflation, the hardening tone of the BCB leads us to expect the Selic rate to rise by a total of 125bp by end-August.

Next week: On the 29 the EC will make the annual economic policy recommendation, it is expected the European Commission to confirm the easing of fiscal target. Regarding economic indicators, in the US real 2Q13 indicators will be published such as personal income and spending for April. May's Chicago PMI and the final Q1 GDP will be also released. In the Eurozone, May's estimate for CPI and April's monetary aggregates (M3) and unemployment will be released.

Weekly Indicators

Week May, 20 - May, 24

CC	Indicator	Period	Cons. E	Prior		Obs. *
United States	Durable goods orders	Apr	1.80%	-5.70%	↑	3.3%
	Jobless claims(th)	17-May	346	360	↓	340
	New home sales (th)	Apr	425.00	417.00	↑	454.00
	Existing home sales (Million)	Apr	4.99	4.92	↓	4.97
	Chicago activity index	Apr	--	-0.23	--	-0.53
Euro zone	Current Account SA (eur bn)	Mar	--	16.30	↑	25.90
	PMI Manufacturing	May A	47.0	46.7	↑	47.8
	PMI Composite	May A	47.2	46.9	↑	47.7
	Consumer Confidence	May A	-21.80	-22.30	↓	-21.9
Germany	GDP s.a. (QOQ)	1Q F	0.5%	0.1%	→	0.5%
	GfK Consumer Confidence Survey	Jun	5.60	6.20	↑	6.50
	IFO - Business Climate	May	104.40	104.40	↑	105.70
	IFO - Current Assessment	May	107.2	107.2	↑	110.0
	Producer Prices (MoM)	Apr	-0.1%	-0.2%	↓	-0.2%
	PMI Manufacturing	May A	48.50	48.10	↑	49.0
UK	GDP (QoQ)	1Q P	0.3%	0.3%	→	0.3%
China	HSBC Flash manufacturing PMI	May	50.40	50.40	↓	49.60
Japan	Activity index (MoM)	Mar	-0.4%	0.6%	↑	-0.3%
	Trade Balance total (Bn yen)	Apr	-602.90	-362.40	↓	-879.90
Mexico	GDP Current \$ YoY	1Q13	4.20%	3.90%	↓	3.0%
	Unemployment Rate	Apr	4.67%	4.51%	↑	5.04%
	Current Account (million US\$)	1Q13	-4500	-6,490.00	↓	-5532
Colombia	Trade Balance	Mar	-100.5	\$386.4	↑	\$285.7
Brazil	Current Account - Monthly	Apr	-7,269	-6,873	↓	-8,318
	Unemployment Rate	Apr	5,55%	5,7%	↑	5,8%
	FGV Consumer Confidence	May	--	113.9	--	113.4
Chile	GDP (YoY)	1Q13	4,5%	5,70%	↓	4,1%
	Current Account (million US\$)	1Q13	-1800	-2880,0	↑	-1,690.0
Peru	GDP YoY	1Q13	4.80%	5.90%	→	4.8%

* 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 (May, May 31st)

Forecast: 1.4% y/y	Consensus: 1.4% y/y	Previous: 1.2% y/y
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After the steep drop registered in April (-0.5 p.p. down from March, due to both the effect of Easter holidays and energy prices), we expect inflation to stand slightly back and grow up to around 1.4% y/y. Core inflation would rise +0.1 p.p. to 1.2% y/y, as prices in the services sector could increase, while in other sectors would remain stable. Looking forward, headline inflation is likely to increase slightly again in coming months to be at around 1.5%-1.6% y/y in June and July, but slowing moderately again afterwards to hover around 1.4% y/y in 2H13. Core inflation is also likely to rise slightly in coming months, but remaining relatively stable at around 1.3% y/y in the second half of the year.

Eurozone: Unemployment rate (April, May 31st)

Forecast: 12.1%	Consensus: 12.2%	Previous: 12.1%
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The unemployment rate should have remained stable in April at 12.1% for the second month in a row, stopping temporarily the almost continuous growth registered for almost two years. However, there are downward risks to our forecast, as economy is still showing signs of vulnerability across the Eurozone and a somewhat disappointing performance is being observed in several countries. This combined with worsening employment expectations in coming months (EC survey) suggest that a further rise in unemployment could not be ruled out in the short-term, but it should stabilize or even decline marginally over 2H13, in line with our projections of a mild economic recovery.

US: GDP (1Q13 Preliminary, May 30th)

Forecast: 2.4%	Consensus: 2.5%	Previous: 2.5%
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Since the advanced report for 1Q13 real GDP growth, there have been few indicators that warrant much optimism in terms of revisions to the initial figure. A large positive shift came from the international trade reading which showed an improvement to -\$38.8bn in March. Exports did decline for the month, but imports were even weaker. While this may influence a slight upward revision to the GDP figure, we did see some weaker data that we expect to offset the better than expected trade balance. Data for the end of the quarter was revised down slightly for manufacturing and consumer spending. Industrial production showed weak growth in March, with manufacturing output down a revised 0.3%, while the composite ISM index decelerated rather rapidly. As for the consumer, despite strong confidence readings, retail sales declined more than expected in March which does not bode well for the consumption contributor to GDP growth. Finally, business inventories were revised down for February to a flat ready and remained unchanged again in March, further offsetting any positive revision that may come from the improved trade balance.

US: Personal Income and Spending (April, May 31st)

Forecast: 0.2%, 0.1%	Consensus: 0.1%, 0.1%	Previous: 0.2%, 0.2%
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Personal income is expected to grow at a similar level in April after rising a modest 0.2% in March, while consumer spending will likely decelerate slightly. With the employment situation improving gradually, we could start to see some upward pressures on wage growth, though still very minimal for the time being. We expect that income growth on a monthly basis will return back to a more stable trend after some volatility surrounding the fiscal deal in January. Despite some gains in income, consumer spending is likely to remain subdued as weak retail sales point toward a continuing hesitation in activity. According to the report, even excluding autos and gasoline, the figure did not impart much optimism on behalf of the consumer. Coupled with the lack of activity at the store front, auto sales reported by Autodata and the BEA declined significantly in April which does not bode well for spending given its positive impact on consumer spending over 1Q13. The PCE price index will also be particularly important given its relevance for the Fed's policy, though we expect it to remain relatively flat as home prices continue to rise while commodities continue their downward trend.

Markets Data

			Close	Weekly change	Monthly change	Annual change	
Interest rates (changes in bps)	US	3-month Libor rate	0.27	0	0	-19	
		2-yr yield	0.24	0	2	-4	
		10-yr yield	2.00	5	30	27	
	EMU	3-month Euribor rate	0.20	0	-1	-48	
		2-yr yield	0.01	4	0	-4	
		10-yr yield	1.43	10	19	6	
Exchange rates (changes in %)	Europe	Dollar-Euro	1.292	0.6	-0.8	3.2	
		Pound-Euro	0.85	0.9	0.2	6.9	
		Swiss Franc-Euro	1.24	-0.4	0.9	3.5	
		Argentina (peso-dollar)	5.27	0.6	1.8	17.8	
	America	Brazil (real-dollar)	2.05	0.8	2.0	3.2	
		Colombia (peso-dollar)	1869	1.5	1.8	2.0	
		Chile (peso-dollar)	488	1.5	3.0	-4.2	
		Mexico (peso-dollar)	12.50	1.2	2.7	-10.9	
		Peru (Nuevo sol-dollar)	2.67	1.1	1.8	-0.9	
		Japan (Yen-Dollar)	101.11	-2.0	1.6	26.9	
	Asia	Korea (KRW-Dollar)	1127.05	0.9	0.8	-4.9	
		Australia (AUD-Dollar)	0.968	-0.5	-5.8	-0.8	
	Comm. (chg %)		Brent oil (\$/b)	101.9	-2.6	0.2	-4.6
			Gold (\$/ounce)	1388.0	2.1	-3.1	-11.8
		Base metals	523.0	-0.2	-0.4	1.5	
Stock markets (changes in %)	Euro	Ibex 35	8267	-3.7	-1.5	26.4	
		EuroStoxx 50	2764	-1.9	2.3	27.9	
	America	USA (S&P 500)	1642	-1.6	4.0	24.6	
		Argentina (Merval)	3522	-4.7	-2.3	50.5	
		Brazil (Bovespa)	56072	1.6	2.0	3.0	
		Colombia (IGBC)	13430	0.6	-0.2	-7.2	
		Chile (IGPA)	20801	-0.5	-1.7	1.0	
		Mexico (CPI)	40236	-3.8	-4.9	7.3	
		Peru (General Lima)	16677	0.8	-5.6	-19.6	
	Venezuela (IBC)	785367	2.9	21.4	227.0		
	Asia	Nikkei225	14612	-3.5	5.6	70.3	
HSI		22619	-2.0	2.0	20.9		
Credit (changes in bps)	Ind.	Itraxx Main	93	1	-14	-82	
		Itraxx Xover	389	7	-42	-326	
	Sovereign risk	CDS Germany	30	-3	-4	-70	
		CDS Portugal	293	-24	-87	-899	
		CDS Spain	211	-15	-39	-339	
		CDS USA	30	0	-3	---	
		CDS Emerging	257	11	21	-63	
		CDS Argentina	3084	14	830	1768	
		CDS Brazil	132	4	13	-30	
		CDS Colombia	92	8	3	-60	
		CDS Chile	73	3	4	-47	
		CDS Mexico	89	5	2	-60	
		CDS Peru	99	4	10	-64	

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
Global	05/19/2013	➤ Artículo de Opinión: El crecimiento va por barrios Hay crecimiento y motivos de preocupación, también
	05/23/2013	➤ Flash: Eurozone PMIs increased in May for the second month in a row The eurozone PMIs improved in May by 0.8 points to 47.7, above expectations (BBVA Research: 47.3; Consensus: 47.2)
Spain	05/22/2013	➤ Presentación "Situación Balears. Primer semestre 2013" Balears mantiene un punto de diferencial de crecimiento con España, apoyada en el sector exterior
	05/22/2013	➤ Situación Balears. Primer semestre 2013 Balears mantiene un punto de diferencial de crecimiento con España, apoyada en el sector exterior
	05/20/2013	Artículo de prensa "¿Cuáles son los puntos fuertes de España?" A la pregunta ¿qué tal? a veces se contesta "bien ¿o te cuento?". Pero por desgracia casi nunca hay tiempo para que nos cuenten, si se responde "bien"
	05/20/2013	➤ Presentación "Situación Andalucía. Primer semestre 2013" La economía andaluza tocará fondo en 2013. El crecimiento en 2014 estará apoyado por la mejora del entorno exterior, la reducción de los desequilibrios internos y las reformas estructurales
	05/20/2013	➤ Situación Andalucía. Primer semestre 2013 La economía andaluza tocará fondo en 2013. El crecimiento en 2014 estará apoyado por la mejora del entorno exterior, la reducción de los desequilibrios internos y las reformas estructurales
US	05/22/2013	➤ Fed Watch. Actas del FOMC: 30 de abril ¿ 1 de mayo El FOMC se mantiene firme en su actual flexibilización de la política
	05/22/2013	➤ Fed Watch. FOMC Minutes: April 30th ¿ May 1st FOMC Holding Strong with Current Policy Accommodation
	05/22/2013	➤ U.S. Housing Flash. Existing Home Sales Climb in April as Supply Rises Existing home sales for April reached 4.97M, the highest level since November 2009. The supply of existing homes reached 5.2 months to help boost overall sales
	05/20/2013	➤ U.S. Weekly Flash. Retail Sales Show Signs of Improvement Despite the Decline in Gas Prices The retail sales report for April showed a slight rise in consumer spending despite the call for a consensus decline (Spanish version)
Latam	05/23/2013	➤ Latam Daily Flash: Inflation moderates slightly at the beginning of May in Brazil; retail sales recover in Mexico
	05/22/2013	➤ Latam Daily Flash: BanRep might extend dollar purchases beyond May; job creation in Brazil slightly below expectations
	05/22/2013	➤ Latam Daily Flash: BanRep might extend dollar purchases beyond May; job creation in Brazil slightly below expectations
	05/21/2013	➤ Latam Daily Flash: GDP growth in Chile came out below expectations; trade balance deteriorated in Colombia
	05/20/2013	➤ Latam Daily Flash: GDP growth in 1Q13 tops expectations in Mexico; mixed numbers in manufacturing and retail sales in Colombia
Brasil	05/23/2013	➤ Brazil Economic Outlook. Second Quarter 2013 Growth should accelerate to 3.4% in 2013 and 3.8% in 2014 from only 0.9% last year. In spite of this cyclical recovery, there is a structural deterioration of the domestic macroeconomic environment.

Mexico

- 05/23/2013 > **Mexico Inflation Flash. May's biweekly inflation: annual inflation remains close to 4.7% as non-core shocks prove more resilient than expected**
General: Actual: -0.35% f/f vs. BBVA: -0.51% f/f Consensus: -0.43% f/f. Core: Actual: 0.14% f/f, vs. BBVA:0.14% f/f Consensus:0.10% f/f
(Spanish version)
- 05/22/2013 > **Mexico Banking Watch. Bank cards: the number and the purchases using interest-free cards continue to grow**
The information of both series is supplementary and gives a more accurate picture of the performance of consumer credit granted through credit cards.
(Spanish version)
- 05/22/2013 > **Presentación Situación México Segundo Trimestre 2013**
La perspectiva de crecimiento de México se mantiene en 3.1%. Las recientes propuestas de reforma mejorarían considerablemente la posición relativa de México
- 05/22/2013 > **Situación México Segundo Trimestre 2013**
Gracias a su estabilidad y la perspectiva de reformas, México se beneficia de la liquidez global, lo que a su vez apoya el crecimiento
- 05/21/2013 > **Flash Inmobiliario México. Fuerte repunte del crédito hipotecario de la banca en abril**
Perspectivas de estabilidad financiera y agresiva competencia entre bancos contribuyen a la expansión del crédito
- 05/21/2013 > **Mexico Banking Flash. Strategies and lines of action to democratize access to finance for projects offering potential to increase Mexico's economic growth under the 2013-2018 National Development ...**
Among the 11 major objectives for building a Prosperous Mexico, the PND proposes democratizing the access to finance for projects offering growth potential
(Spanish version)
- 05/20/2013 > **Mexico Banking Flash. Bank deposits: growth slowed down in March**
In March 2013 the annual nominal growth rate of traditional bank deposits (demand + time) was 6.5%
(Spanish version)

Other Countries

Paraguay

- 05/23/2013 > **Paraguay Economic Outlook. First Half 2013**
Paraguay will grow 10.4% in 2013, driven by the recovery of the agriculture sector. Both domestic and external demand will resume growth

Panama

- 05/22/2013 > **Presentación Situación Panamá. Panamá mantendrá elevadas tasas de crecimiento**
Un escenario global con mayor relevancia de los países emergentes. Panamá: fuerte crecimiento económico basado en el aumento de la inversión.
- 05/22/2013 > **Situación Panamá Primer Semestre 2013**
El PIB de Panamá crecerá 8,1% y 7,6% en 2013 y 2014, respectivamente. La inversión será el principal dinamizador de la economía.

Asia

- 05/24/2013 > **China/Asia Economic Outlook: Second Quarter 2013 (Chinese version)**
(Spanish version)

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