



# Weekly Observatory

August 24, 2009

## Financial markets: net purchases of US Treasuries hit a historical record in June

Net inflows in US assets were again negative in June because of the net sell-off of US short-term assets. However, total net purchases of US Treasuries reached a record high due to inflows from central banks, Japanese investors, and petrodollars, among other sources. For July, we expect net purchases of US Treasuries to continue, although the figure will be lower than in June. As a result, interest rates will remain low in the coming months, whereas the US dollar could continue fluctuating in the current range (1.40-1.45 \$/€). It's necessary that US investors rely on the US recovery and pump flows into their own economy, especially in private assets, in order to see the US dollar below those levels. For further information see [Flow Watch](#).

## United States: additional signs of stabilization in the manufacturing and residential housing sectors

The Leading Economic Index further supported the view that economic contraction is easing by rising for the fourth consecutive month. In addition, housing starts presented more signs of stabilization for the residential real estate market. Even though the sector remains weak and starts dropped in July, the pace of decline slowed. Furthermore, the Philadelphia Fed Business Outlook Survey showed growth in the region's manufacturing activity, which could indicate that the sector is stabilizing. Lastly, core producer prices dropped 0.1%, but still remain 2.6% above those of last year. In the week ahead, we expect to see additional positive signs for the housing market as the decline in prices slows and new home sales increase. For further information, see [US Weekly Observatory](#).

## Euro area: August confidence data points to slightly positive economic growth in Q3

In the euro area, the trade balance improved in June again, resulting in a surplus for Q2 as a result of a larger quarterly fall in imports than exports. Despite the volatility of these series, they suggest that net exports might contribute positively to GDP growth, which was somewhat higher than our expectations, and they may also partly explain the lower than expected fall of quarterly GDP growth for Q2 (-0.1% q/q). In addition, confidence data in August improved significantly and pointed toward economic growth continuing to be slightly positive in Q3, in line with our expectations. In ECB news, a remarkably downbeat statement from Mr. Weber, who was cautious when interpreting the economic growth data released last week, said "it is still too early to withdraw support measures". For further information, see [Europe Weekly Observatory](#).

## Asia: emerging from recession as expected

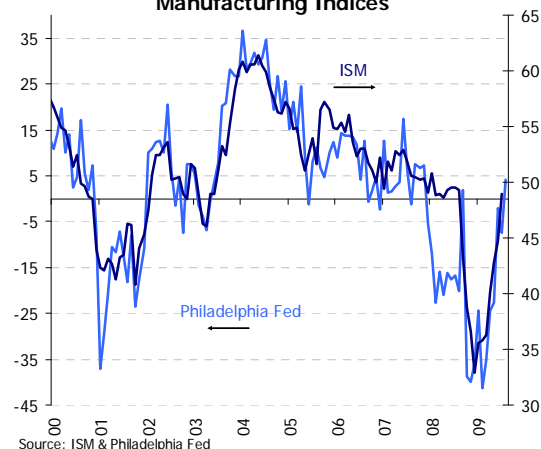
Japan and Taiwan posted their first positive growth in five consecutive quarters. Such recovery was in line with the market forecast and driven by the turnaround in external demand. Singapore and Thailand's exports continued to ease their pace of decline in July, albeit exports to China slipped

TIC data break-down (bn \$)

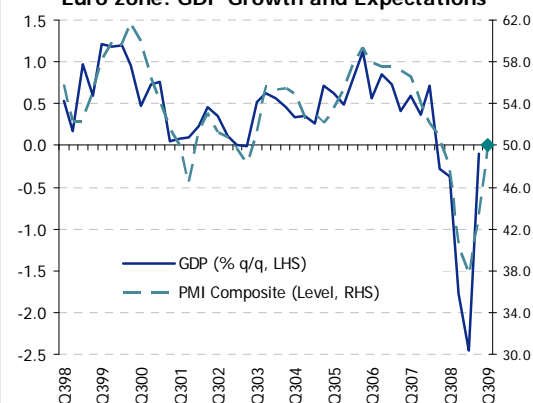
By type of asset	mar-09	abr-09	may-09	jun-09
<b>Domestic purchases</b>	59,5	34,3	7,9	123,6
Private	33,2	18,3	31,3	105,2
Official	26,4	16,0	-23,4	18,4
<b>Treasury</b>	55,3	41,9	-22,6	100,5
Private	26,3	24,8	-0,8	78,0
Official	29,0	17,1	-21,8	22,5
<b>Agencies</b>	-15,6	-2,5	12,8	5,1
<b>Corporate bonds</b>	6,7	-9,7	0,9	-1,0
<b>Equities</b>	13,2	4,6	16,7	19,1
<b>Foreign bonds</b>	-0,5	-13,8	-16,2	-19,6
<b>Foreign equities</b>	-0,5	-8,9	-11,2	-13,3
<b>Long-term total net inflows</b>	<b>58,5</b>	<b>11,5</b>	<b>-19,4</b>	<b>90,7</b>
<i>By country of origin</i>				
<b>UK</b>	2,4	20,5	6,2	37,3
<b>Japan</b>	19,4	0,6	-4,0	29,6
<b>China</b>	15,7	8,3	2,9	26,2
<b>Caribbean</b>	16,2	-7,5	2,6	9,7
<b>Rest of the world</b>	4,7	-10,4	-27,2	-12,1
<b>Total net inflows</b>	<b>27,1</b>	<b>-39,9</b>	<b>-65,7</b>	<b>-31,2</b>

Source: TIC

US: Philadelphia Fed &amp; ISM Manufacturing Indices



Euro zone: GDP Growth and Expectations



slightly. China's current account balance fell in the first half of 2009 by 32% year-on-year (preliminary), showing the first contraction since 2004, due to a smaller trade surplus and lower net direct investment. In Malaysia and Hong Kong, consumer prices fell for the second straight month, pointing to weak overall demand. Philippines' central bank kept interest rates on hold, as expected, while Australia's Reserve Bank warned of the risks of keeping rates too low given that inflation is staying above its target. Next week, the market will focus on Japan's trade and CPI data, likely in line with trends seen elsewhere in the region. For further information, see [Asia Weekly Observatory](#).

**Latin America: activity still far from pre-crisis levels**

The GDP figures for the second quarter were released in Chile, Peru and Venezuela this week. They all showed that activity levels are significantly below the levels of the second quarter of 2008. The drop in GDP was -4.5% in Chile, -2.4% in Venezuela and -1.2% in Peru. The industrial production in Colombia also showed an important deterioration in comparison to pre-crisis levels, however, the data for June and May suggested that a moderation is taking place. In Brazil, labor market conditions continued to surprise positively. For further information, see [Latin America Weekly Observatory](#).

**Spain: the trade deficit narrowed again**

The most important news in Spain this week was the release of the trade balance. Spain's foreign trade deficit narrowed again on June (annually accumulated) to €67 billion, following the trend observed in previous months and in line with our estimates. It is worth noting that, as seen in the accompanying graph, most of the reduction has come from the non-energy deficit, as the rebound in oil prices has slowed the correction in energy related imports. Next week's data will include the Quarterly National Accounts for the second quarter of 2009 (BBVA ERD: -0.8% q/q; -3.9% y/y) and the retail sales for the month of July.

**Mexico: GDP falls 10.3% annually but surprises quarterly**

Mexico's GDP contracted 10.3% annually during 2Q09, despite the severe annual adjustment, it surprised quarterly (-1.1% observed vs. -2.3% predicted by BBVA) because the effects of the influenza pandemic were slighter than expected. Among the sectors with the biggest contractions is industry, which fell 11.5%, and in turn drove a 16.4% fall in the manufacturing sector. The services sector contracted 10.4%, with commerce reducing by 20.9% due to lower sales. Despite the severity of the adjustment our perspective is of improvement for the next quarters of 2009 and a slow recovery during 2010. Next week the June Trade Balance will be published, we expect it to reflect higher activity by registering a slight deficit. Also, the balance of payments for 2Q09 will be made known, which we expect to be near equilibrium. For further information see [Mexico Weekly Observatory](#) (in Spanish).

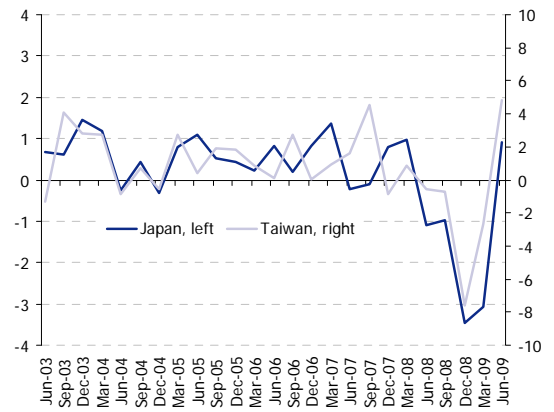
**Commodities: oil up on inventories data**

Oil prices were driven up this week by the largest drop in US inventories since May of 2008. Most other commodity prices fell as both the macroeconomic environment and the market fundamentals refrained from providing support this week. For further information, see [Commodities Observatory](#).

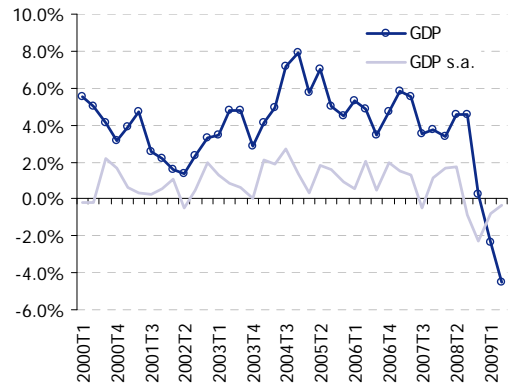
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Japan vs. Taiwan: real GDP growth, q/q

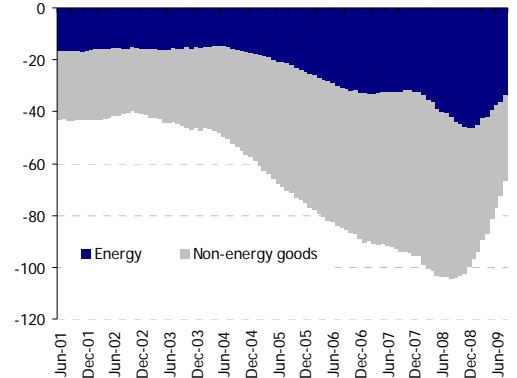


Chile: GDP Growth (y/y and q/q s.a. % chg)



Source: CBCh

Spain: Trade balance (Annual accumulated, billion euros)



Source: Customs and BBVA ERD

Mexico: GDP (y/y and q/q)

