

# Global Weekly Flash

## Insufficient increase in European firewall

**Negative market sentiment intensifies for a second week in a row, lead by widening spreads in European peripheral sovereigns and spreading to the banking system.**

The increases in Italian and Spanish risk premia have been across all references this week. The 2 year Italian and Spanish yield spreads against German have widened by 43bp and 7bp, while the 10 year have increased by 16bp and 11bp. Financial strains are also spreading to Netherland where its CDS has widened 8bp this week. Lastly, financials have suffered great downward corrections this week in equity markets. Behind this market behavior there are the ongoing worries about the implementation of structural reforms and the fulfillment of fiscal targets in a recessionary environment and with social response to labour reforms.

- **Economic outlook in the Eurozone remains very fragile, including bank lending to private sector**

- The economic sentiment in the eurozone remained in a low levels, practically unchanged at 94.4 in March from 94.5 in February. The industry sector fell significantly from -5.7 to -7.2, while the services sector showed better shape the index actually rose from -0.9 to -0.3. The weakness saw in Germany economic data intensified concerns about European economic outlook.
- February money supply figures released on Wednesday showed that bank lending growth to the private sector slowed to 0.7% in February compared with the year-earlier period, after rising by an unrevised 1.1% in January. Particularly, bank lending growth to non-financial corporations slowed in February to 0.4% from 0.7% in January and lending growth to households barely changed at 1.2%, versus 1.3% in the previous month. Meanwhile, the annual growth rate of M3 rose from 2.5 per cent in January to 2.8 per cent in February.
- ECB figures also show that the MFI purchases of government securities expanded by EUR48bn during last month. Spanish and Italian banks were the largest buyers of sovereign debt. Italian banks increased their holdings of securities issued by euro zone governments by a record EUR23bn euros while Spanish banks increased their holdings by a hefty EUR15.7bn (the rise was smaller than January's record EUR23bn). The bond-buying pace decelerated somewhat in February with respect to January but is likely to increase further in March (and probably reaccelerate) as the liquidity obtained through the last LTRO (Feb 29th auction; March 1st settlement date) is still not reflected in this month's data. These data signal that the unprecedented liquidity injections from the ECB are not reaching companies, households yet and hence, to the real economy.
- In this context, in recent speeches from ECB members have emphasized that Governments must tackle the roots of the crisis, leaving little room for further monetary easing (conventional or non-conventional). This is not a change in the ECB's tone as in the last monetary policy meeting Mario Dragui was very clear in that the ECB had already done what was in their hands to solve the crisis. ECB meeting preview: we do not expect any changes at next week's meeting. We expect the ECB to sound less dovish and to pave the way for a protracted wait-and-see period. The ECB will not cut rates further after the two 3-y LTROs and will remain on hold on non-standard measures as "the ball is now back in Governments' court". Just this week, Mr. Draghi emphasised this comment by stating that the current stabilisation provides governments with a window of opportunity "to accelerate efforts to consolidate budgets, boost employment and enhance competitiveness". Other members have as well signalled that further easing is unlikely and that LTROs are "merely a means of buying time". It is becoming more evident that the ECB will not take further steps and now expects governments to move towards a sustainable solution which requires "that problems are tackled at source".

- **Reinforcing the European firewall: Eurozone increases effective lending capacity to €500bn**
  - Eurozone finance ministers have agreed on the new available lending capacity to €500bn. The Eurogroup will allow the full ESM capacity to go along with the €200 bn already committed by the EFSF. This new lending capacity will be effectively and permanently available on 1 July 2012. The Eurogroup has chosen the least ambitious option considered by the European Commission (see 26 March Flash). However, for a transitional period until mid-2013, the EFSF may engage in new programmes in order to ensure a full and permanent fresh lending capacity of €500bn. In addition, the payment of the ESM capital is going to be accelerated that will be fully disbursed by mid 2014. The agreed is compatible with the ESM Treaty and thus a change will not be required. The long waited decision of the Eurogroup on reinforcing the firewall has been disappointing considering the possible options and the remaining concerns on the European debt crisis. The full ESM effective lending capacity (€500bn) might not be enough to reassure markets given the uncertainties surrounding countries under programmes and other (larger) peripherals. Moreover, G20 partners might view it as maintaining the status quo, and thus, today's statement might fall short of providing the necessary credibility to unlock an increase in IMF resources.
  - The Spanish Central Government's Budget for 2012 was presented today, and includes measures amounting to 2,5% of GDP, which makes it very likely that even with the expected deterioration in economic activity, the Central Government will meet its 2012 target (3,5% of GDP vs. 5,1% of GDP in 2011). Around half of the adjustment comes from revenue increasing measures. The policy mix includes the already in place increase in the income tax, and the newly announced measures to reduce tax deductions for corporations. Expected revenues from both measures seem in line with the economic scenario announced by the government. Achievement of the year-end target for the whole of the Government will depend crucially then on the adjustment of regional deficits, which on the aggregate have to implement a relatively similar reduction in their deficit as the one presented today by the Central Government. The absence of announcements regarding measures that could help the regions, imply that they themselves will have to bear the cost of the adjustment through discretionary measures. The new Budget Stability Law and the instruments the Central Government has will be key to make them comply with their target.
- **Macroeconomic data have come in the spotlight: This week economic data surprised on the downside in both the US and China**
  - In a way to signal that the US QE3 is not off the table, the FED president stressed caution about the sustainability of the recent improvement in the US labor market as well as in recent economic indicators. Bernanke stated that the economy needs more rapid growth to more significantly improve labor market conditions, which will be "supported by continued" accommodation. Of course, these comments supported risky assets but they have also brought the economic data back in the spotlight. Furthermore, US economic data during this week have been softer than in previous weeks, confirming Bernanke's cautious assessment. The consumer confidence dropped in March (70.2 from upwardly revised 71.6 in February), the Richmond FED manufacturing indicator slumped to 7 points (from 20 and way-below the 18 consensus) and new orders for core capital goods were down 6.3% saar in January-February over Q4.
  - Meanwhile, economic news from China has continued to introduce uncertainties about the pace of slowdown. In this regard, after last week weaker-than-expected Chinese flash PMI, this week we have known that China's industrial profits declined in the first two months of 2012. Profits of medium and large industrial firms fell by -5.2% for January-February 2012, after increasing 25.4% in 2011. The decline was mainly due to state-owned enterprises and foreign firms, with the income of private enterprises (accounting for around 1/3 of total profits) increasing by 24.4%. This outturn reinforces our expectations of monetary policy easing in the months ahead.
  - The increase in oil prices also raises concerns about global outlook. Several verbal actions have been taken place since mid-March. In this regard, Saudi Arabia's oil minister declared that high oil prices were "unjustified" and vowing that the kingdom would boost output by as much as 25 per cent if necessary. More recently, this week have been rumors suggesting a coordinated action by US, UK, France and Japan to release oil reserves. These events have dragged crude prices down, WTI -3.2% to USD103.5 Brent -1.6% to USD123.1, this week. In our view, the most likely scenario for oil prices is to remain slightly above 120 \$/b for the first half of the year due to the persistence of geopolitical risk premia, risks are bias to the upside. The impact on economic activity and inflation is not expected to be significant, unless risk scenarios are triggered by a major military action in Iran.
  - Next week investor, the ECB will hold its council meeting on April 4 and Spain will sell bond on that date. Additionally investors will keep attention on the Chinese manufacturing PMI and on the US payroll figures for March.

# Calendar: Indicators

## Eurozone: Unemployment rate (February, April 2nd)

Forecast: 10.8%	Consensus: 10.8%	Previous: 10.7%
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We expect the unemployment rate to have stepped up in February to 10.8%, from 10.7% in January, and thus continuing the upward trend observed since mid-2011 and cumulating a 0.7pp increase since then, after last month upward revisions. Despite recent data suggest that economic activity could have stalled earlier this year, unemployment tend to lag changes in activity while the unresolved eurozone crisis continues to weigh on future demand expectations and thus on firms' hiring intentions, which are worsening further according to confidence surveys, although at more moderate pace. All these figures show further evidence of deterioration in the labour market in the short-term.

## Eurozone: Retail sales (February, April 4th)

Forecast: 0.0% m/m	Consensus: 0.1% m/m	Previous: 0.3% m/m
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Retail sales are expected to have remained flat in February, after increasing slightly in the previous month. This forecast implies that retailing up to February could have contracted by around -0.1% q/q over Q4, when they fall sharply by -0.8% q/q. In addition, consumer confidence improved timidly in Q1, but remained clearly below its long-term average. These figures suggest that private consumption should not have dropped so strong as in Q4 (-0.4% q/q), but also reveal the weakness on households' spending at the beginning of the year, due to the worsening of its underlying drivers, with unemployment rate increasing and the inflation rate stabilizing around 2.6% y/y. Although, the retail sales series is very volatile, these more positive signs on households' expenditure could explain largely the expected stagnation of GDP in Q1, as private consumption should not have detracted to quarterly growth (-0.2pp in Q4 2011).

## US: ISM Manufacturing Index (March, March 2nd )

Forecast: 52.5	Consensus: 53.5	Previous: 52.4
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The ISM Manufacturing Index is expected to increase very slightly in March after declining in February for the first time in four months. Still, the index remains above the 50-mark to indicate continued expansion in the sector, just at a slightly slower pace. Most components declined in February, including new orders and production, yet an increase in new export orders suggests that any impacts stemming from the troubles in Europe appear to be subsiding. Regional Federal Reserve manufacturing surveys for March have been mixed, noting further slowing in new orders for the month.

## US: Nonfarm Payrolls and Unemployment Rate (March, 6th )

Forecast: 200K, 8.3%	Consensus: 215K, 8.3%	Previous: 227K, 8.3%
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Employment data has surprised to the upside in recent months, yet we do not expect significant improvements to continue in March. Initial jobless claims have declined steadily throughout the month, but at a slower pace compared to February. Furthermore, recent consumer confidence reports suggest a mixed employment outlook, with deteriorating attitudes toward job availability and a more pessimistic view regarding future income. While some manufacturing surveys have noted gains in the number of employees, others reported a drop in the average workweek. Ultimately, we do not expect nonfarm payrolls to increase enough to influence a decline in the unemployment rate.

# Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.47	-1	-2	17
		2-yr yield	0.34	-2	4	-46
		10-yr yield	2.15	-8	18	-129
	EMU	3-month Euribor rate	0.78	-3	-20	-47
		2-yr yield	0.22	-2	3	-160
		10-yr yield	1.80	-6	-2	-157
Exchange rates (changes in %)	Europe	Dollar-Euro	1.334	0.5	-0.2	-6.3
		Pound-Euro	0.83	-0.2	-0.4	-5.5
		Swiss Franc-Euro	1.20	0.0	-0.1	-8.4
	America	Argentina (peso-dollar)	4.38	0.2	0.4	7.9
		Brazil (real-dollar)	1.82	0.6	6.1	13.3
		Colombia (peso-dollar)	1792	1.8	1.4	-3.1
		Chile (peso-dollar)	490	0.2	2.2	2.9
		Mexico (peso-dollar)	12.78	0.2	-0.1	7.9
		Peru (Nuevo sol-dollar)	2.67	0.0	-0.3	-4.9
	Asia	Japan (Yen-Dollar)	82.11	-0.3	1.4	-2.3
		Korea (KRW-Dollar)	1133.10	-0.2	1.3	3.8
		Australia (AUD-Dollar)	1.040	-0.7	-3.5	0.1
Comm. (chg %)		Brent oil (\$/b)	122.9	-1.8	0.2	3.5
		Gold (\$/ounce)	1662.2	-0.1	-3.5	16.5
		Base metals	542.7	0.1	-1.2	-13.2
Stock markets (changes in %)	Euro	Ibex 35	7928	-4.3	-6.4	-26.1
		EuroStoxx 50	2465	-2.4	-1.9	-16.8
	America	USA (S&P 500)	1403	0.4	2.8	5.3
		Argentina (Merval)	2659	-2.0	0.4	-23.4
		Brazil (Bovespa)	64872	-1.4	-1.4	-6.3
		Colombia (IGBC)	15155	1.3	1.5	5.5
		Chile (IGPA)	22123	0.8	2.7	-0.5
		Mexico (CPI)	39125	2.1	3.5	3.6
		Peru (General Lima)	23335	1.7	2.7	8.2
	Venezuela (IBC)	199719	6.4	34.2	184.0	
	Asia	Nikkei225	10084	0.7	3.7	3.9
		HSI	20556	-0.5	-5.2	-13.6
Credit (changes in bps)	Ind.	Itraxx Main	126	8	-3	28
		Itraxx Xover	619	19	50	245
	Sovereign risk	CDS Germany	76	2	-3	32
		CDS Portugal	1095	-104	-80	525
		CDS Spain	436	5	68	218
		CDS USA	30	0	-6	---
		CDS Emerging	246	7	-5	46
		CDS Argentina	842	88	8	267
		CDS Brazil	122	1	-19	11
		CDS Colombia	109	0	-21	1
		CDS Chile	91	1	-6	29
		CDS Mexico	118	2	-19	15
		CDS Peru	123	2	-24	-16

Source: Bloomberg and Datastream

# Weekly Publications

Country	Date	Description
Global	03/27/2012	<p>➤ <b>Observatorio Económico Sistemas Financieros y Regulación: "Morosidad y evolución de las economías: Regularidades empíricas"</b> El incremento de la morosidad en las carteras de crédito ha sido generalizado en la mayor parte de los sistemas financieros internacionales durante la crisis actual</p>
USA	03/29/2012	<p>➤ <b>U.S. Flash: Real GDP Growth Unchanged at 3.0% for 4Q11</b> The final estimate for real GDP growth in 4Q11 was unchanged from the advance figure, remaining at 3.0% QoQ annualized on a seasonally-adjusted basis</p>
	03/26/2012	<p>➤ <b>Fed Flash: Bernanke Stresses Caution</b> Bernanke notes upbeat labor market conditions, but underscores that the data does not yet suggest a strong and lasting trend</p>
	03/26/2012	<p>➤ <b>Banking Watch: Bank Credit and Deposits: Monthly Situation Report</b> CRE lending increased for the first time since February 2009, while mortgage growth hit positive YoY territory after more than a year (<i>Spanish version</i>)</p>
	03/26/2012	<p>➤ <b>U.S. Weekly Flash. Housing Market Still Struggling, Declines in Jobless Claims Slowing</b> Data on the housing sector continue to improve gradually, yet gains do not appear strong enough to spur the market back towards pre-recession activity <i>Chinese version</i> (<i>Spanish version</i>)</p>
EMU	03/26/2012	<p>➤ <b>Portugal Economic Watch: "Portuguese economy continues in recession"</b> The majority of economic indicators keep pointing to a strong recession in the short term.</p>
Spain	03/29/2012	<p>➤ <b>Flash España: "Confianza industrial y del consumidor en marzo"</b> En marzo tanto la confianza industrial como la de los consumidores evolucionaron negativamente reforzando nuestro escenario central de que la economía española habría vuelto a contraerse en el 1T11</p>
	03/29/2012	<p>➤ <b>Flash España: "Visados de construcción de vivienda de obra nueva enero 2012"</b> La actividad residencial comenzó el año con el mismo tono de debilidad que predominó durante el pasado año.</p>
	03/29/2012	<p>➤ <b>Flash España: "España: viviendas iniciadas y terminadas 4T11"</b> El número de viviendas iniciadas en 4T11 retrocedió, una vez corregida la serie de variaciones estacionales y efectos de calendario (cvec), un 19,9% t/t, 2,7pp más que en el trimestre anterior.</p>
	03/29/2012	<p>➤ <b>Flash España: "Avance del IPC de marzo"</b> El indicador adelantado del IPC señala una moderada desaceleración de la inflación general en marzo. Nuestras estimaciones apuntan que la inflación subyacente se habría estabilizado ese mes.</p>
	03/28/2012	<p>➤ <b>Observatorio Económico España: "Transmisión Política Monetaria a los tipos de Saldos Vivos"</b> El precio de los créditos incorpora en su totalidad los cambios en la política monetaria europea</p>
	03/28/2012	<p>➤ <b>Flash España: "Ejecución presupuestaria del Estado a febrero 2012"</b> El déficit acumulado por el Estado hasta febrero de 2012 se elevó al 1,9% del PIB, 0,7pp más que hace un año</p>
	03/26/2012	<p>➤ <b>Flash España: "Hipotecas sobre vivienda enero 2012"</b> Enero de 2012 concluyó con la firma de 29.167 hipotecas sobre viviendas, lo que equivale a una contracción del 6,9% respecto al mes de diciembre.</p>
	03/26/2012	<p>➤ <b>"Situación Comunitat Valenciana. Primer semestre 2012"</b> Con un importante proceso de consolidación fiscal por delante, la Comunitat Valenciana verá reducido su crecimiento más que la media nacional.</p> <ul style="list-style-type: none"><li>• España: de expectativas de crecimiento moderado a la recesión.</li><li>• Con un importante proceso de consolidación fiscal por delante, la Comunitat Valenciana verá reducido su crecimiento más que la media nacional.</li><li>• La reforma del mercado laboral, una oportunidad para reducir la mayor sensibilidad del mercado laboral valenciano al ciclo económico.</li><li>• Una mayor internacionalización de la economía, clave para que la Comunitat Valenciana aproveche las oportunidades de crecimiento.</li></ul>

## Latin America

- Brasil** 03/29/2012 ➤ **Brazil Flash: "CB sees, once again, more favorable balance of risks for inflation"**  
In its Inflation Report released today, the CB reinforced both its negative view about the global economy and its focus on the recent domestic moderation (instead of on the acceleration ahead).
- 03/27/2012 ➤ **Brazil Flash: "More measures to support the (suffering) industrial sector"**  
The government extended tax breaks on home appliances and announced tax cuts to some other goods (such as furniture) to provide help to domestic manufactures during the next three months
- 03/27/2012 ➤ **Brazil flash: "Credit expanded 17.3%/y in February, the lowest in practically two years"**  
After staying practically constant within the 18.0% - 22.0% range since May of 2010, the total credit stock grew "only" 17.3%/y in February.
- Peru** 03/28/2012 ➤ **Banco Central prevé un panorama macroeconómico más positivo en 2012**  
En el Reporte de Inflación de marzo último, el Banco Central modificó al alza su proyección de crecimiento económico para 2012, de 5,5% a 5,7%.

## Mexico

- 03/29/2012 ➤ **Flash Mexico: Las ventas de vivienda crecen dos dígitos en el primer bimestre**  
Al mes de febrero, el número de créditos hipotecarios aumentó 19.8% anual en términos acumulados, mientras que el monto de financiamiento creció 62.2% real
- 03/28/2012 ➤ **Flash Mexico: El Consejo de Estabilidad del Sistema Financiero elaboró Informe que se presentará en los próximos días al Ejecutivo Federal**  
Mediante Boletín de Prensa del Consejo de Estabilidad del Sistema Financiero se dieron a conocer algunos puntos que se abordan en el nuevo Informe que ese Consejo elaboró
- 03/28/2012 ➤ **Observatorio Bancario: El número de tarjetas de crédito se aproxima a su máximo histórico, con cambios en el comportamiento de los cuentahabientes**  
Al cierre de 2011 el número de TDC bancarias emitidas alcanzó 24.7 millones, con un incremento anual del 10.1%. Se observa un crecimiento consistente desde el segundo trimestre del 2010

## Asia

- 03/29/2012 ➤ **China Economic Outlook: Averting a hard landing**  
China's economy continues to slow under the influence of weaker external demand; The shift to a looser policy stance is being facilitated by a decline in inflation; Risks remain tilted to the downside.  
Rapporteur: Stephen Schwartz  
Event: Hong Kong General Chamber of Commerce Roundtable lunch, 29 March 2012
- 03/29/2012 ➤ **Daily Flash | Asia | 29 March 2012: Hong Kong's New Chief Executive discusses property prices, currency peg; Vietnam's first quarter GDP slows down noticeably**  
On a day of further downward equity pressures in the region, the Fourth BRICS Summit meeting wrapped up today in New Delhi. The Declaration expressed concern over the global economy.
- 03/28/2012 ➤ **Daily Flash | Asia | 28 March 2012: Australia's Financial Stability Report gives favorable review; Indonesia gears up for April 1 fuel price increase**  
Markets were generally down, as they gave back some of their gains from the preceding day, with China extending recent losses on continuing concerns of a slowdown and weakening earnings outlook.
- 03/27/2012 ➤ **Daily Flash | Asia | 27 March 2012: China's authorities continue to respond to signs of capital outflows; China's industrial profits decline in the first two months of 2012**  
Asian markets rallied strongly today on the back of Fed Chairman Bernanke's comments yesterday that US monetary policy will remain accommodative.
- 03/26/2012 ➤ **Daily Flash | Asia | 26 March 2012: Hong Kong selects new Chief Executive**  
Hong Kong completed the selection process on Sunday for its new Chief Executive. An election committee of 1,200 representatives chose candidate C.Y. Leung over Mr. Henry Tang.

## Emerging Markets

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