BBVA | Corporate & Investment Banking

BBVA Macro Strategy

European Periphery Macro Daily

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Macro update

What's on?

- **BoJ.** The BoJ kept unaltered its monetary policy both in terms of interest rate and quantitative policy (yield-curve control programme). However, the underlying message delivered was dovish, with the inflation forecast slashed (for the fourth consecutive time in its quarterly outlook). The new forecast for the fiscal year starting in April is 0.9% YoY (down from the 1.4% YoY previously expected, with lower oil prices as the main factor behind this adjustment). Ths was only partially offset by a slight improvement in the growth forecasts which for FY19 is now set at 0.9% YoY (up from previous 0.8% YoY). The main risks to this scenario are the threats stemming from global growth factors and the recent strength of the yen.

- **Bank of China TLTRO.** Yesterday, the PBOC injected c.CNY257bn (c.USD38bn) of liquidity into the banking system through the new Targeted Medium-term Lending Facility which was announced some weeks ago, and which is earmarked to foster bank lending to SMEs. This funding was granted for a 1-year period (extendable to three years) at a cost of 3.15% (slightly below the 3.3% available through the regular 1-year lending facility. The PBOC dubbed this the first of the TMLF in the quarter without specifying whether this will be the only one in the period. We recall that due to seasonal effects (the Chinese New Year), liquidity issues are particularly important at this time of year and this measure, apart from playing the role of encouraging lending may also help reduce the risk of any tightening of liquidity conditions.

- **Spain bank lending (November).** Total outstanding loans to the non-financial private sector dropped by 2.8% YoY in November, slightly below the figure registered in October of -3% YoY. Meanwhile, the stock of non-performing loans continued to fall at -27.7% YoY in November (on average, the rate of decline has been -25% YtD). As a consequence, the NPL ratio was 6.0% (0.1pp below the previous month and well below the 7.8% registered at the beginning of 2018). **Our view**: as has been the pattern over the last few years, the drop in the balance of outstanding loans is mainly due to maturing private-sector loans not being rolled over (related to the still ongoing deleveraging in the private non-financial sector) rather than to any unwillingness to lend on the part of financial entities. In fact, new lending activity is increasing at a pace of around 5% YoY both for households (albeit moderating form rates above 10% YoY some months ago) and for SMEs (relatively more stable around this rate all through 2018).

- **Spain trade balance (November).** Spain's trade deficit worsened in September both in monthly terms (EUR2.6bn vs. a EUR3.8bn deficit in October) and also in YtD cumulative terms (EUR30.6bn vs. EUR24.2bn printed in the same period last year). This was due to a bigger increase in imports (+7% YoY in YtD terms) than exports (+3.4% YoY). In the breakdown of exports by components, energy printed the most remarkable increase (+17.7% YoY YtD), followed by raw materials (+11.2% YoY YtD) and semi-manufactures (+6.1% YoY YtD). Equipment goods (+0.3% YoY YtD), food and beverage

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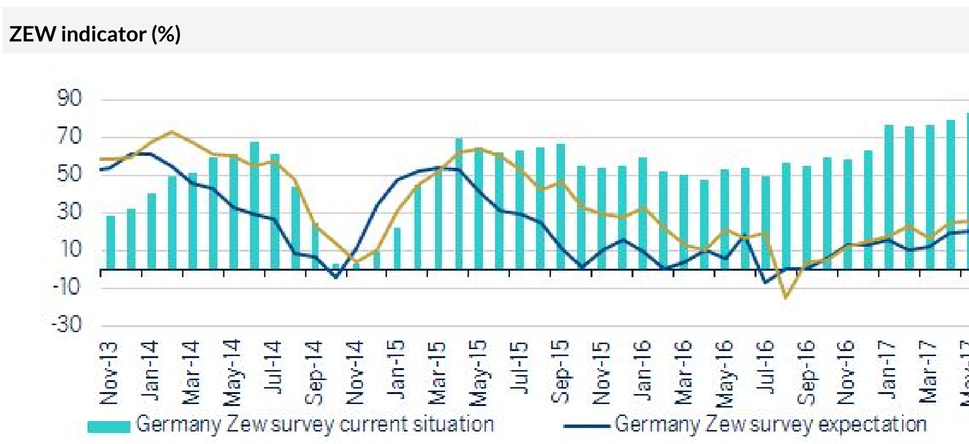
(+0.34% YtD) and the automotive sector (+0.01% YoY) were the worst performers in the year to November. As for the geographical distribution YtD, exports to the eurozone (51.4% of the total) decreased 1.7% YoY, those to China (2.1% of the total) fell 10.8% YoY and those to the US (4.3% of the total) increased 2.4% YoY. **Our view**: there are two elements of potential concern here, namely: i) the stubbornly negative performance of the trade balance in Spain which offsets the still robust performance of the service balance and hampers any significant improvement in external demand, which in terms of GDP has contributed negatively to growth in the last three consecutive quarters); and ii) the breakdown of exports by components shows that those showing some resilience are those with low value-added (energy, raw materials and semi-manufactured chemicals), whereas those higher in the technological/value-added ranking are performing rather less positively (equipment +0.2% YoY, consumer manufactures +1.1% YoY, durable goods +0.8% YoY). Part of this, particularly in terms of capital goods, may reflect the overall lacklustre environment observed recently related to trade tensions, but it is important that this recent profile does not consolidate.

- **Germany Zew expectations survey (January).** Yesterday the Zew indicator printed some improvement, to -15 from -17.5 in December, above Bloomberg consensus expectations (-18.5). The Zew survey indicator for the EMU also increased slightly, at -20.9 from -21.0 in December. Although these indicators are still well below the average observed in 2018 of -8.7 for Germany and -2.8 for the EMU, this result may be suggesting that the bottom in the recent trend for expectations may already have been reached and some improvement may lie ahead for both Germany and for the EMU as a whole. However, the process of recovery may still prove lengthy as the current situation component continues to weigh heavily (decreasing to 27.6 from 45.3 recorded in the previous month).

ZEW indicator (%)



Source: BBVA GMR based on Bloomberg

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