Global Daily

German IP weakened late in 2011

Rabobank

Financial Markets Research

8 February 2012 **www.rabotransact.com**

Adrian Foster
+852 – 2103 2612

Market comments

- **Equities ticked modestly higher on both sides of the Atlantic Tuesday with the Estoxx 50 gaining 0.2% to close at 2,514. The Financials sub-index rose 1.0% on the day, underpinning a slightly positive net feel to the session even though the rise in the overall index was small. In the US, the S&P 500 also gained 0.2%, closing at 1,347. Here, the Financials sub-index fell -0.1%, leaving the net tone of the session as neutral.**
- **The euro gained 1% vs the dollar as market nerves surrounding Greece ebbed a bit amidst the ongoing debt discussions.**
- **Industrial production fell quite sharply in Germany in December**; a weak end to the year! IP fell by -2.9% MoM, noticeably weaker than a flat reading expected. The reading for November was revised higher from -0.6% to flat and this partly reduces the negative surprise in December if one thinks in level terms. But the reading clearly shows a weak end to the year. Looking at the fourth quarter as a whole, industrial output fell by -1.9% QoQ. This is the first quarterly fall in 11 quarters.
- **There is now a very strong consensus that the eurozone economy as a whole contracted in the fourth quarter of 2011**. But there is some debate about whether Germany's economy might eke out modest growth. These data support the view that Germany's economy also likely contracted in the quarter. To offer perspective on the severity of this probable decline, German IP fell for four straight quarters amidst the 2008-2009 recession with the deepest decline being a fall of -11.9% QoQ in the first quarter of 2009. The current weakness is much less severe than this.
- **In the US, a surprisingly strong reading on consumer credit in December** with outstanding credit rising by $19.3B in the month. This is well in excess of $7.0B expected and repeats a strong reading, of $20.4B, in November. The rise in credit outstanding averaged $5.0B from October 2010 (when it turned positive after the recession) to October 2011.
- **It has now risen sharply for two months in a row in a signal that consumers are more willing and able to access credit.** This recent rise in credit looks (to us) to overstate the improvement in consumer spending power and some pay-back is likely in coming months. But, at the least, these data do add to reasons to think consumption growth will continue in the US as financial headwinds have receded.

Day ahead

- **Germany remains in focus today with the December foreign trade accounts set to be revealed.** Germany's export performance is a bellwether for global demand conditions and exports are expected to fall -1.0% MoM. Exports fell -2.9% MoM in October, finding resonance with then concerns surrounding a relapse to global recession. But exports then rebounded 2.5% MoM in November, lessening these concerns.
- **A fall in line with expectations in December (-1.0% MoM) will round-out a weak (and volatile) quarter** and see exports fall -0.1% on a QoQ basis. If realized, this will be the first quarterly fall in 10 quarters (little different than the IP profile discussed above). Again, to offer perspective, the deepest quarterly fall in exports through the recession of a few years ago was -14.0% QoQ.
- The trade surplus is expected to remain robust at €13.8B in the month, leading to an annual surplus of €160.2B, the second highest such surplus (just behind €160.6B for the year-ending May 2011) since early 2009. **Thus, the net picture is that Germany maintains a strong external position.**

G5 macro data releases and key events

Time (CET)	Ctry	Indicator	Period	Cons	Actual	Prior
Overnight						
0:50	JN	Official Reserve Assets	JAN	- -	$1306.7B	$1295.8B
1:01	UK	BRC Sales Like-For-Like (YoY)	JAN	-0.8%	-0.3%	2.2%
6:00	JN	Coincident Index CI	DEC P	93.1	93.2	90.3
6:00	JN	Leading Index CI	DEC P	93.8	94.3	93.2
12:00	GE	Industrial Production (MoM) sa	DEC	0.0%	-2.9%	-0.6%
12:00	GE	Industrial Prod. (YoY) nsa wda	DEC	4.3%	0.9%	4.4%
16:00	US	IBD/TIPP Economic Optimism	FEB	48.6	49.4	47.5
16:00	US	JOLTs Job Openings	DEC	3,250	3,376	3,118
21:00	US	Consumer Credit	DEC	$7.000B	$19.308B	$20.375B
Today						
0:50	JN	Bank Lending incl Trusts (YoY)	JAN	0.6%	0.6%	0.4%
0:50	JN	Current Account sa	DEC	¥625.3B	¥752.3B	¥480.4B
0:50	JN	Trade Balance - BOP Basis	DEC	-¥135.0B	-¥145.8B	-¥585.1B
1:01	UK	BRC Shop Price Index YoY	JAN	- -	1.4%	1.7%
5:30	JN	Bankruptcies (YoY)	JAN	- -	- -	-6.3%
6:00	JN	Eco Watchers Survey: Current	JAN	47.4	- -	47.0
6:00	JN	Eco Watchers Survey: Outlook	JAN	45.5	- -	44.4
8:00	GE	Current Account (EURO)	DEC	15.2B	- -	14.3B
8:00	GE	Trade Balance	DEC	13.8B	- -	16.2B
8:00	GE	Exports (MoM) sa	DEC	-1.0%	- -	2.5%
8:00	GE	Imports (MoM) sa	DEC	0.8%	- -	-0.4%
13:00	US	MBA Mortgage Applications	3-Feb	- -	- -	-2.9%

Source: Bloomberg

Overnight Markets

	Last	Previous	Change
Equity markets			
DJ Industrials	12878.2	12845.1	0.3%
S&P 500	1347.1	1344.3	0.2%
Eurostoxx 50	2514.1	2507.9	0.2%
DAX-30	6754.2	6764.8	-0.2%
FTSE 100	5890.3	5892.2	0.0%
Nikkei 225	8917.5	8929.2	-0.1%
HK Hang Seng	20827.9	20699.2	0.6%
Money markets			
3M EUR	1.09	1.09	-1bp
3M USD	0.52	0.52	0bp
3M GBP	1.08	1.08	0bp
3M JPY	0.20	0.20	0bp

	Last	Previous	Change
Sovereigns			
10Y Treasuries	1.96	1.91	6bp
10Y Bunds	1.96	1.89	8bp
10Y JGBs	0.98	0.97	1bp
10Y Gilts	2.22	2.16	6bp
Currencies			
EUR/USD	1.3249	1.3130	0.9%
GBP/USD	1.5891	1.5821	0.4%
USD/JPY	76.90	76.55	0.5%
Commodities			
Oil Brent 1st fut.	116.0	116.2	-0.2%
CRB future	315.0	314.2	0.3%
Gold spot $/oz	1748.8	1745.5	0.2%

Source: Bloomberg

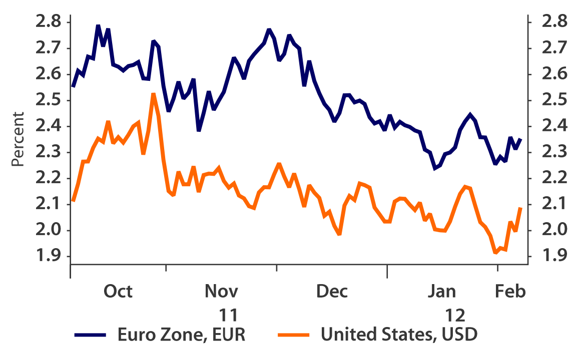
Rabobank Forecasts

EUR	08-02-12	1M	3M	12M
ECB refi rate	1.00	1.00	1.00	1.00
3m Euribor	1.09	1.05	1.01	0.86
2y swap	1.15	1.13	1.10	1.50
5y swap	1.60	1.65	1.75	2.30
10y swap	2.35	2.40	2.50	3.00
30y swap	2.60	2.55	2.45	4.20
USD	**08-02-12**	**1M**	**3M**	**12M**
Fed funds target	0.25	0.25	0.25	0.25
3m Libor	0.52	0.52	0.52	0.52
2y swap	0.54	0.54	0.54	0.78
5y swap	1.09	1.09	1.09	1.59
10y swap	2.08	2.08	2.08	2.63
30y swap	2.83	2.83	2.83	3.35

GBP	08-02-12	1M	3M	12M
Base rate	0.50	0.50	0.50	0.50
3m Libor	1.08	1.04	0.80	0.73
2y swap	1.27	1.28	1.28	1.40
5y swap	1.65	1.60	1.61	2.54
10y swap	2.49	2.41	2.52	2.64
30y swap	3.15	3.11	3.05	4.60
FX	**08-02-12**	**1M**	**3M**	**12M**
EUR/USD	1.32	1.28	1.25	1.40
EUR/JPY	101.9	99.0	98.0	116.0
EUR/GBP	0.83	0.83	0.82	0.86
EUR/CHF	1.21	1.22	1.24	1.35
USD/JPY	76.9	77.0	78.0	83.0
GBP/USD	1.59	1.55	1.52	1.63

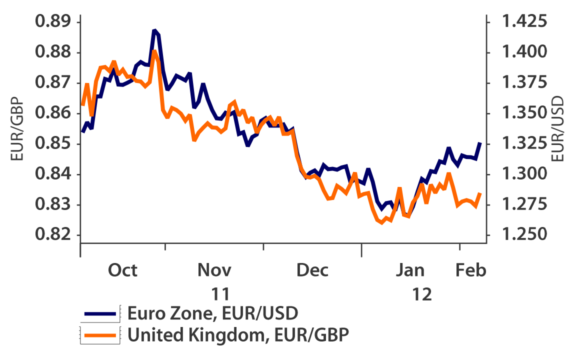
Source: Rabobank Financial Markets Research

10-Year swap rates



Source: Reuters EcoWin

EUR/USD and EUR/GBP



Source: Reuters EcoWin

Financial Markets Research

Head

Jan Lambregts		+44 20 7664 9669	Jan.Lambregts@Rabobank.com

Macro

Elwin de Groot	EMU	+31 30 216 9012	Elwin.de.Groot@Rabobank.com
Emile Cardon	EMU	+31 30 216 9013	Emile.Cardon@Rabobank.com
Philip Marey	US	+31 30 216 9721	Philip.Marey@Rabobank.com
Adrian Foster	Asia	+852 2103 2612	Adrian.Foster@Rabobank.com
Jane Foley	UK	+44 20 7809 4776	Jane.Foley@Rabobank.com
Robério Costa	Brazil	+55 11 5503 7315	Roberio.Costa@Rabobank.com

Foreign exchange

Jane Foley		+44 20 7809 4776	Jane.Foley@Rabobank.com

Fixed income

Richard McGuire		+44 20 7664 9730	Richard.McGuire@Rabobank.com
Lyn Graham-Taylor		+44 20 7664 9732	Lyn.Graham-Taylor@Rabobank.com

Credit markets

Elisabeth Selk	Head, ABS, Strategy, Corps	+44 20 7664 9841	Elisabeth.Selk@Rabobank.com
Eddie Clarke	Strategy, Corporates	+44 20 7664 9842	Eddie.Clarke@Rabobank.com
Oliver Burrows	Financials	+44 20 7664 9874	Oliver.Burrows@Rabobank.com
Nanakarina Kwofie	Financials	+44 20 7664 9591	Nanakarina.Kwofie@Rabobank.com
Sophie Boutar	ABS, Corporates	+44 20 7664 9782	Sophie.Boutar@Rabobank.com
Stephen Queah	ABS, Corporates	+44 20 7664 9895	Stephen.Queah@Rabobank.com

Agri Commodity markets – Food & Agribusiness Research and Advisory (FAR)

Luke Chandler	Head	+44 20 7664 9514	Luke.Chandler@Rabobank.com
Keith Flury		+44 20 7664 9676	Keith.Flury@Rabobank.com
Erin FitzPatrick		+44 20 7664 9540	Erin.Fitzpatrick@Rabobank.com
Nicholas Higgins		+44 20 7664 9543	Nicholas.Higgins@Rabobank.com

Sales contacts

Corporate Sales

Brandon Ma	Asia	+852 2103 2688	Brandon.Ma@Rabobank.com
Andrew Millett	Australia	+61 2 8115 3101	Andrew.Millett@Rabobank.com
Martijn Sorber	Europe	+31 30 216 9447	Martijn.Sorber@Rabobank.com
Sarah Lee	USA	+1 212 916 7875	Sarah.Lee@Rabobank.com
Jeff Gibson	Canada	+1 212 808 6877	Jeff.Gibson@Rabobank.com
Gaston Iroume	Chile, Peru	+56 2449 8536	Gaston.Iroume@Rabobank.com
Sergio Nakashima	Brazil	+55 11 55037150	Sergio.Nakashima@Rabobank.com2

Financial Institutions Sales

Eddie Villiers	Europe	+44 20 7664 9834	Eddie.Villiers@Rabobank.com
Arjan Brons	Benelux	+31 30 21 69070	Arjan.Brons@Rabobank.com
Bill Cole	UK, Eire, Scandinavia, M. East	+44 20 7664 9885	Bill.Cole@Rabobank.com
Emmanuel Rodriguez	Iberia	+44 20 7664 9734	Emmanuel.Rodriguez@Rabobank.com
Philippe Macart	France, Italy	+44 20 7664 9893	Philippe.Macart@Rabobank.com
Krishna Nayak	Germany, Austria	+44 20 7664 9883	Krishna.Nayak@Rabobank.com
Mark Melvin	Switzerland	+44 20 7809 9828	Mark.Melvin@Rabobank.com
Edwin Bernard	Asia	+852 2103 2639	Edwin.Bernard@Rabobank.com
Masanori Matsuda	Japan	+81 3 5200 8031	Masanori.Matsuda@Rabobank.com
Sarah Lee	USA	+1 212 916 7875	Sarah.Lee@Rabobank.com

Debt Capital Markets

Rob Eilering		+31 30 2169777	Rob. Eilering@Rabobank.com
Othmar ter Waarbeek		+31 30 2169022	Othmar.ter.Waarbeek@Rabobank.com
Mark van Binsbergen		+31 30 2169771	Mark.van.Binsbergen@Rabobank.com

Disclaimer