

# Mid-Day Economic Color

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Capital Markets



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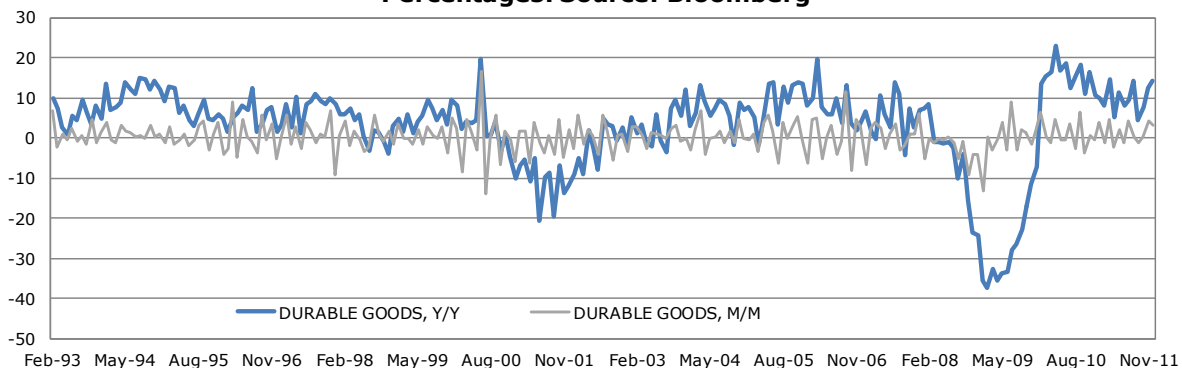
## In Today's Piece:

- **Market Comment:** The playing field before the release of US non-farm payroll data looked somewhat negative for risk on the back of headlines from China and Europe. China's non-manufacturing PMI fell to 52.9 in January from 56.0 in December, forcing some concern about the growth rate of the mainland to resurface, though the soft-landing psychology remained in command. Europe followed with a disappointing retail sales report for December. At the headline, sales slipped by 0.4% m/m. But the highlight proved to be the sales report from Germany, where the m/m tally declined by 1.4%, while France saw a 0.3% decline and Spain a 0.8% m/m contraction. The rumor mill kicked into high gear afterward, as talk circulated about a possible resignation of Greek PM Papademos subject to a pending meeting with other Greek leaders in an attempt to come to terms on additional austerity measures to be taken in this economy. Also, as argued in a market update published earlier on the day, we decided to upgrade out 2012 year-end S&P 500 index forecast to 1,600, up from our prior long-held target of 1,400. Our revised view implies that this world equity benchmark will deliver the investor a +26% return this year.
- **Mexico:** Mexican consumers seemed to emulate their US counterparts with strict correlation in January, as the consumer confidence index in Mexico surged to 95.4, a huge gain from the prior 90.8 of November. We find that the upswing in US macro data was visible in December is the likely pillar for such gains in Mexican confidence. Manufacturing is particularly relevant in this regard. The 12-month outlook on home economic conditions was a standout in this data collection, as the gauge jumped to 102.3 from the prior 98.8.

## Market Comment

The playing field before the release of US non-farm payroll data looked somewhat negative for risk on the back of headlines from China and Europe. China's non-manufacturing PMI fell to 52.9 in January from 56.0 in December, forcing some concern about the growth rate of the mainland to resurface, though the soft-landing psychology remained in command. Europe followed with a disappointing retail sales report for December. At the headline, sales slipped by 0.4% m/m. But the highlight proved to be the sales report from Germany, where the m/m tally declined by 1.4%, while France saw a 0.3% decline and Spain a 0.8% m/m contraction. The rumor mill kicked into high gear afterward, as talk circulated about a possible resignation of Greek PM Papademos subject to a pending meeting with other Greek leaders in an attempt to come to terms on additional austerity measures to be taken in this economy.

**US--Durable Goods, Year-Over-Year And Month-Over-Month (SA). In Percentages. Source: Bloomberg**

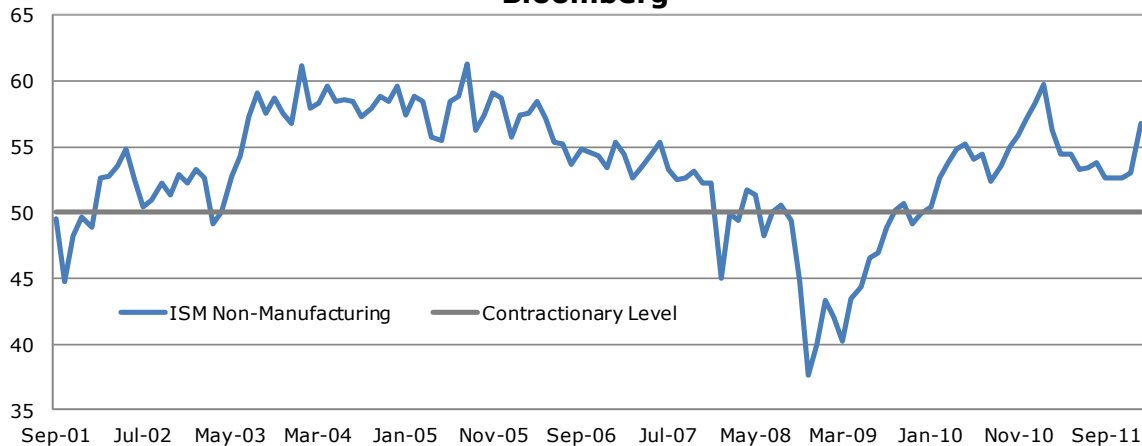


Yet the mood in the market completely changed after the publication of January's NFP reading. Gains on the US side found easy reflection in LATAM, as the BOVESPA popped by 1.4% and the IGRA by 1.1%. Notwithstanding a small rebound for the Dollar to 1.3132, commodities also rallied in trusting the US

recovery theme. Copper surged back to just below US\$3.90 p/lb, higher by 3.1% on the day, while soybeans gained 1%. For LATAM, the challenge ahead would seem to be the overbought status of regional currencies, and the possible policy reactions to the same.

As we argued in our market update published earlier today, expectations were easily exceeded within the US non-farm payrolls creation universe in the month of January, as the headline figure surged by 243K on expectations of +140K jobs, and Bulltick's own forecast of job creation numbering 175k. The unemployment rate also tumbled, settling at 8.3% versus the 8.5% of the prior month, so the focus on US recovery received plentiful support. There were two avenues of observation within the payroll report. With regard to job creation, construction and manufacturing, two of the most impacted categories by the credit crisis, reported a combined job creation level of 71K, which is a standout amid tepid prior monthly growth. Professional and business services provided an additional 36K pick-up to the monthly employment figures, as temporary health services renewed its rate of expansion. The critical aspect related to the job report came by virtue of the labor participation rate, which sunk to 63.7%, a new record low in the last 30 years.

**US ECONOMY--ISM Non-Manufacturing PMI. Source: Bloomberg**



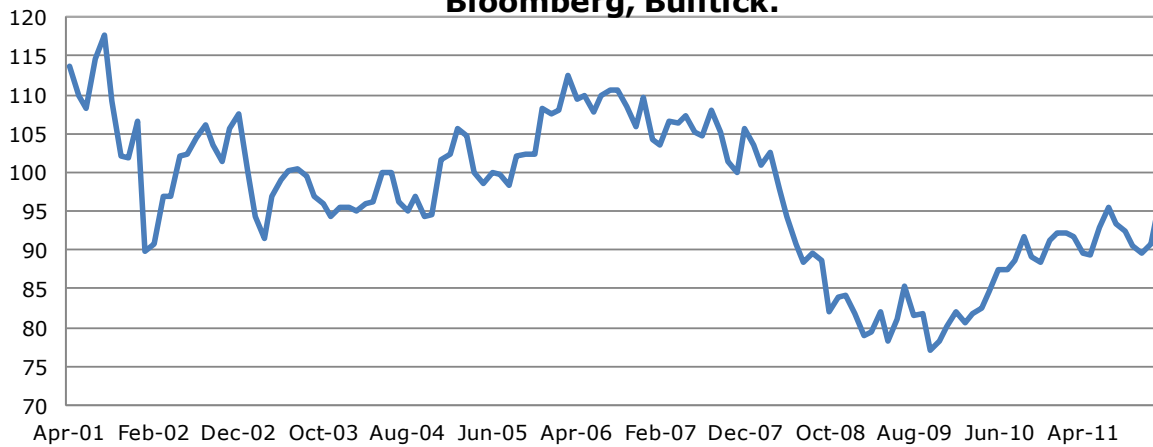
The non-manufacturing ISM also caused a stir in printing at 56.8 in January, significantly above the 53.0 print of December and estimates residing at 53.2. With this report there was an enormous upside push by the employment index, which shot higher to 57.4 from the prior 49.8 (December reading). To round-off the landscape of rapidly recovering US industry, factory orders rose by 1.1% in December, on the back of a 2.2% rise in November. Though lower than the estimate for December that stood at +1.5%, this put the finishing touches on a morning of very bullish indicators for US manufacturing, which was rapidly translated into a rally in US equity markets.

**As we argued earlier this morning, we have decided to upgrade our 2012 year-end S&P 500 index forecast to 1,600, up from our prior long-held target of 1,400. Our revised view implies that this world equity benchmark will deliver the investor a +26% return this year.**

**Mexico**

Mexican consumers seemed to emulate their US counterparts with strict correlation in January, as the consumer confidence index in Mexico surged to 95.4, a huge gain from the prior 90.8 of November. We find that the upswing in US macro data was visible in December is the likely pillar for such gains in Mexican confidence. Manufacturing is particularly relevant in this regard. The 12-month outlook on home economic conditions was a standout in this data collection, as the gauge jumped to 102.3 from the prior 98.8.

**MEXICO--Consumer Confidence (Index Level). Source:  
Bloomberg, Bulltick.**



The same was true with regard to the country outlook on a 12-month basis, as optimism reigned amid a 97.3 reading from the prior 94.0. At the headline level, Mexico had not encountered such elevated confidence levels since July of 2011. The data bodes well for the consumer sector at the start of the year for this economy. We continue to forecast that the Mexican economy will expand by 3.8% y/y in 2012. We remain more bullish than the market consensus.

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