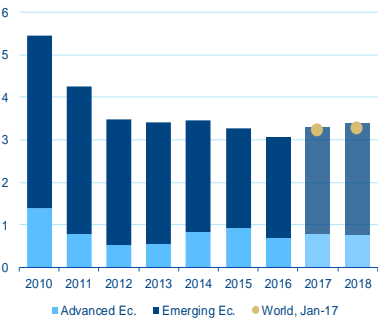




Takeaways

- Gradual global recovery is on track, without significant inflationary pressures
- Extreme outcomes seem less likely, after a more restrained (and crippled) Trump administration
- Central banks are moving towards a very gradual normalization, due to concerns about the sustainability of the recovery, especially in Europe
- Risks remain tilted to the downside, mainly due to political issues across the board (in 2017) and due to China's pending adjustment

World Growth
(%, pp)



GDP growth, current forecasts and revisions	US		EMU		Spain	Mex	LatAm-5			Turkey	China	Em. Asia
							Arg	Ven	Andean C.			
	2016	1,6	1,7		3,2	2,1	-2,3	-15,5	2,4	2,9	6,7	6,6
	2017	2,3	1,7		3,0	1,6	2,8	-7,5	2,1	3,0	6,3	6,1
	2018	2,4	1,7		2,7	2,0	3,0	-6,1	2,9	4,5	5,8	5,9

No changes:

Downward review:

Upward review:

3

GLOBAL DRIVERS

Recent trends consolidate while extreme outcomes look less likely

The main trends continue...

... but the range of outcomes narrows

The industrial and trade recovery takes hold, but it is particularly visible in confidence data	The recovery comes pulled by China, more than Trump's boost, which now seems less likely, smaller and delayed...
Quiet financial markets despite high economic policy uncertainty	... but the most negative economic risks are also less probable
Inflation keeps rising, but not so core inflation; and inflation expectations have moderated	Moves by central banks towards normalization; just that

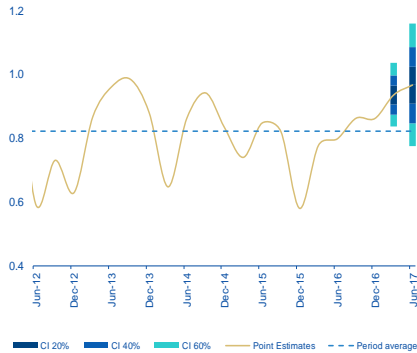
4

1) CONFIDENCE AND ACTIVITY

Global growth is still gaining momentum in early 2017

- Steady growth in 4Q16
- Confidence indicators continue to be strong and global trade gives signals of further expansion...
- ... but industrial production and especially retail sales are more moderate early in the year
- Across countries, momentum continues in the US, EZ and China, contrasting with mixed indicators in EM

World GDP growth
(Forecasts based on BBVA-GAIN %QoQ)



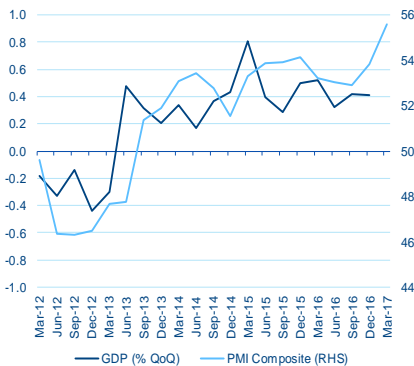
Source: Haver and BBVA Research

5

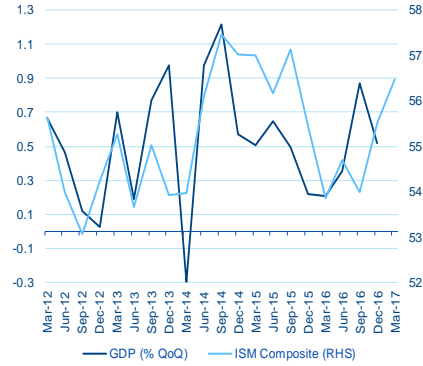
1) CONFIDENCE AND ACTIVITY

The confidence rebound in Europe and the US has yet to be confirmed by hard data

Eurozone: GDP growth and confidence
QoQ%, Level



US: GDP growth and confidence
QoQ, %, Level



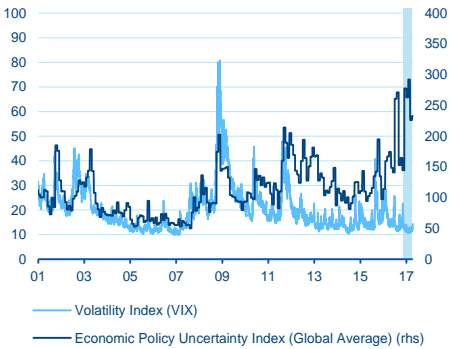
(*) Footnotes, Arial 8pt, color (102-102-102)

6

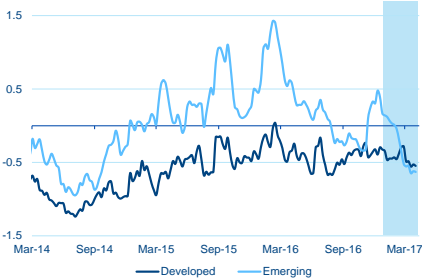
2) FINANCIAL MARKETS

Volatility and financial tensions remain at the lower range (even for EM) as economic momentum masks (overweight?) policy uncertainty

VIX Index and Economic Policy Uncertainty Index (Global)



BBVA Financial Tension Index: Developed and Emerging markets normalized index



Source: BBVA Research

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2) FINANCIAL MARKETS

The Eurozone has been the exception, as political risk is having some impact on spreads (France and the periphery)

European spreads (Italy, Spain and France vs Germany)



Source: BBVA Research

March Netherlands elections

2Q17

● 23rd April- 7th May. France presidential election

3Q17

● Pending the approval of the review of Greece

● 24th September. Germany Federal elections

1Q18

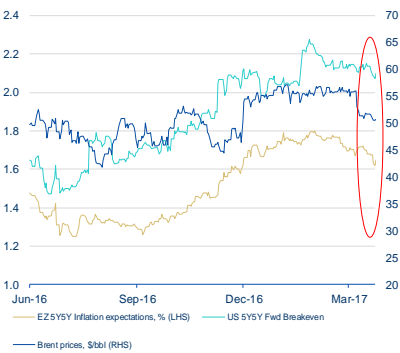
● Elections in Italy (deadline)

8

3) INFLATION OUTLOOK

Inflation is growing, but so far it is not an issue

Inflation expectations (%) and Brent (USD/b)



Source: Haver and BBVA Research

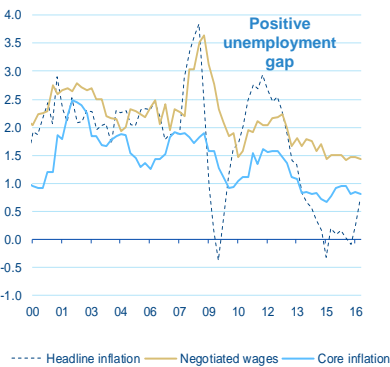
9

- Inflation expectations reverted somewhat and remain well anchored
- The oil price scenario has a downward bias
- Core inflation remains broadly stable across regions.
- Limited evidence about indirect or second round effects, as wage dynamics are soft in the US and the EZ

3) INFLATION OUTLOOK

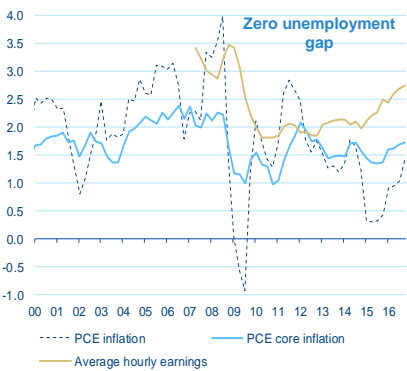
Inflation is growing, but so far is not an issue

Eurozone: inflation, wage growth and unemployment rate
(% YoY, unemployment in %)



Source: Haver and BBVA Research

US: inflation, average hourly earnings and unemployment rate
(% YoY)



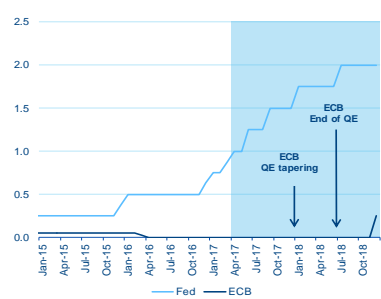
Source: Haver and BBVA Research

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4) CENTRAL BANKS MOVING TOWARDS NORMALIZATION

The Fed gears up one notch on the normalization process, while the ECB is to start discussing about the exit strategy

Fed and ECB interest rate (pb)



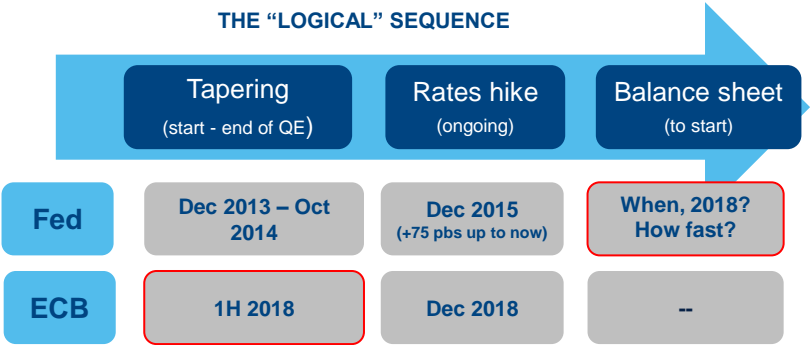
- The Fed hiked interest rates (ahead than expectations) maintaining its gradual approach unchanged
- The ECB's exit strategy is at the point of starting the discussion, but very cautiously. So far, changes in monetary policy stance seem to be premature

Source: Fed, ECB and BBVA Research

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4) CENTRAL BANKS MOVING TOWARDS NORMALIZATION

Monetary policy normalization: Where are we?



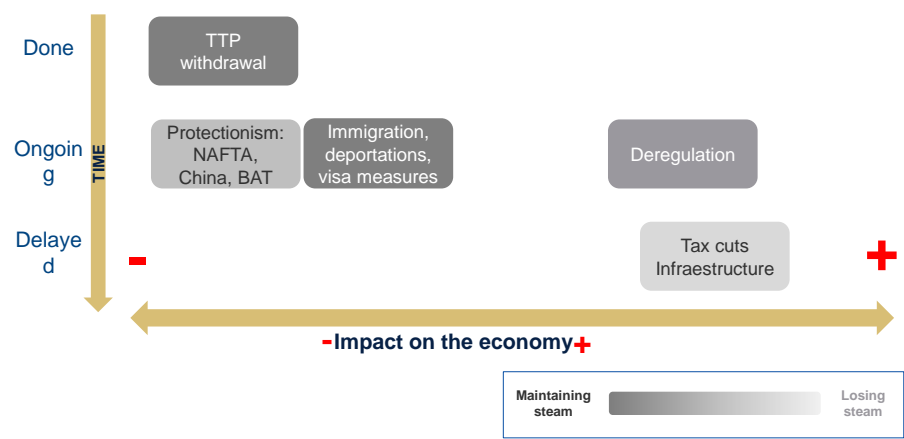
Communication strategy key to a smooth transition
(lessons from the "taper tantrum")

Source: Fed, ECB and BBVA Research

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5) REFLATION ENTHUSIASM IS TEMPERED

US: Slow motion on Trump’s measures after Obamacare and delays



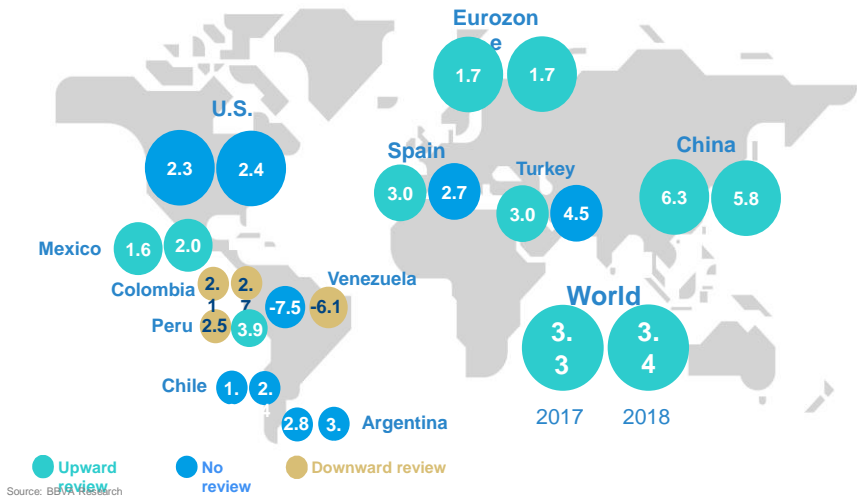
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2. Economic outlook in big three countries



GLOBAL GROWTH PROJECTIONS

Growth revised upwards in China and the EZ, unchanged in the US, and downwards in Latam

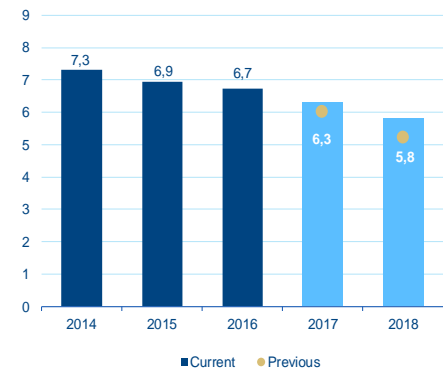


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CHINA

New recovery with old engines

China: GDP growth (YoY, %)



Source: CEIC and BBVA Research

- **GDP:** Strong data outturns and the authorities' pro-growth stance make us raise our projection to 6.3% (2017) from 6.0% and to 5.8% (2018) from 5.2%
- **Prudent and neutral monetary policy** with slight tightening bias in H1, while **expansionary fiscal policy** will place more emphasis on corporate tax cuts
- **However, tail risks are still high:** i) The rebalancing is stalled and domestic financial vulnerabilities worsen. ii) Policy missteps could lead to a disorderly deleveraging

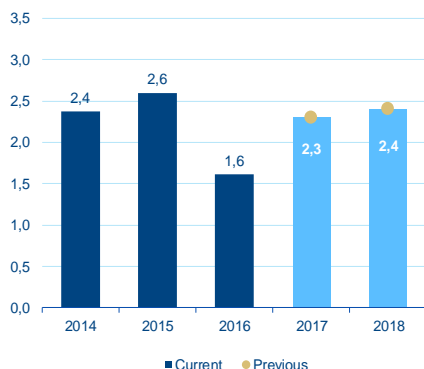
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US

Prospects of a pro-growth Trump administration continue to decline as policy implementation finds setbacks and delays

US: GDP growth

(YoY, %)



Source: BEA and BBVA Research

GDP growth in 2017:

- Private consumption expected to slow down
- Investment picking up on improved expectations, stable oil prices and steady increase in housing supply

Fed policy: probability of expedited tightening cycle has grown. The Fed scenario is:

- Two additional hikes in 2017 (3 total)
- Upward bias for 2018

Risks: policy uncertainty and market expectations, FOMC, inflation, USD, global and geopolitical instability, democratic institutions and rule of law

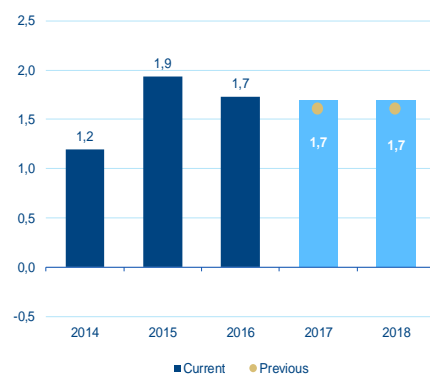
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EUROZONE

More upbeat outlook, but still surrounded by risks

Eurozone: GDP growth

(YoY, %)



Source: Eurostat and BBVA Research

Slight upward revision in 2017 and 2018 (+0.1pp) due to external demand that helps to underpin investment and offsets moderation in private consumption

Higher headline inflation forecast for 2017 due to non-core components, but will come down in 2H17. Subdued core inflation

A more optimistic ECB opens the door to normalization, but still being very accommodative

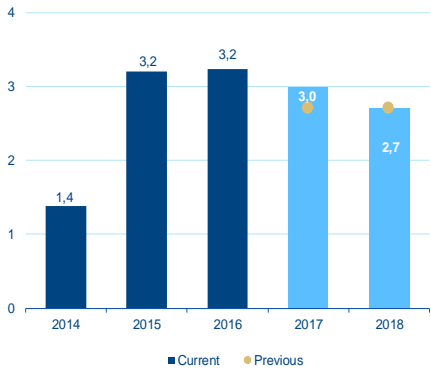
Political Risks: Populist concerns, hard Brexit, Italy, Greece, eventual return of immigration crisis and geopolitical risks

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SPAIN

Cyclical factors support a milder than expected deceleration

Spain: GDP growth
(YoY, %)



Source: INE and BBVA Research

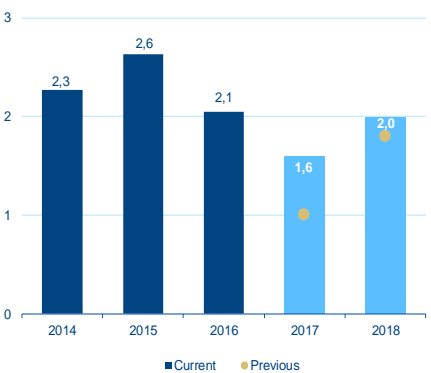
- Current data lead to an upward revision of the short-term forecast:
 - Exports recover (in spite of Brexit)
 - Slowdown in consumption and investment (M&E)
- While tailwinds support the continuation of the recovery:
 - Oil still cheap, but prices are increasing
 - A still depreciated euro
 - A relatively low risk premium
 - Historically low risk free rates
 - Higher tourism flows towards Spain
- Political risks: Policy uncertainty is still high (also due to Catalonia)

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MEXICO

External sector and the upward revision to 2016 growth figures leads to a higher GDP forecast in 2017

Mexico: GDP growth
(YoY, %)



Source: BBVA Research

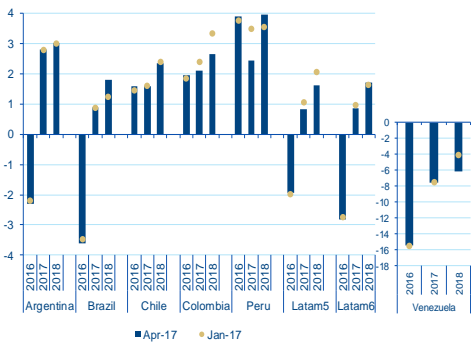
- GDP growth: domestic sector starts to show signals of moderation but the external sector recovery is gathering pace while the US protectionism rhetoric wanes
- Inflation: we expect inflation to peak at 5.6% before falling down sharply in 2018
- Monetary policy rate: Lower risks of a major NAFTA overhaul and a somewhat improved inflation outlook support new baseline for just two more hikes
- Risk: The outlook has improved but we are not still out of the woods

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SOUTH AMERICA

Growth slightly revised down in 2017 on incoming data and domestic outlook. Upward revision in 2018 due to Brazil

Latam: GDP growth (YoY, %)



Source: BBVA Research

- GDP for BBVA's footprint in South America expected to rebound to 0.9% in 2017 and 1.7% in 2018
- Rebound in 2017 expected (but still low relative to potential and to developed economies) to be led by:
 - External sector
 - Private investment in Argentina and infrastructure investment in COL and PER
- Monetary policy with a more dovish bias (except ARG) as inflation pressures diminish and activity remains weak
- Significant political risks and risk of infrastructure delays

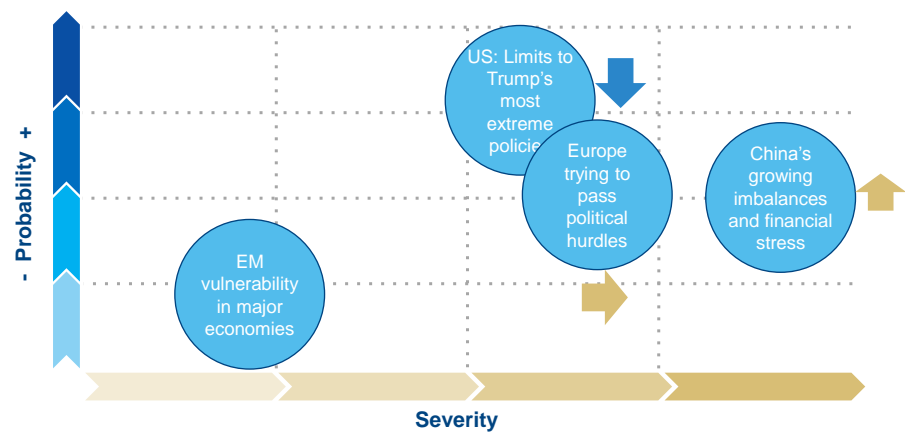
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3. Global and local risks



GLOBAL RISKS

The nature of risks remains, but the most extreme versions seem further away



Source: BBVA Research

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EUROPEAN RISKS

Focus on France, Italy's mess increases

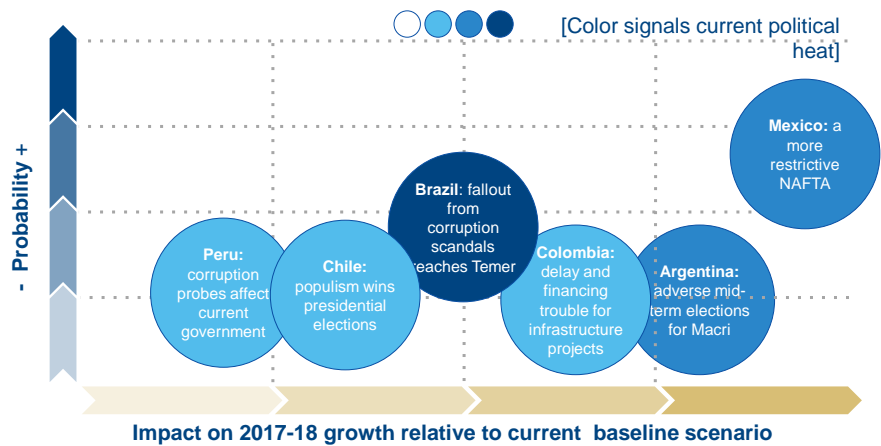
		Probability (*)	Impact
Netherlands (15 th March)	<ul style="list-style-type: none">• PVV won the election, with lower-than-expected support for populists.• Very fragmented parliament, at least 2 months of negotiations.• Positive physiological impact on Europe		
France (23 April / 7May, Parliament 11/18 June)	<ul style="list-style-type: none">• Baseline scenario: Macron 62% - Le Pen 38% in 2nd round• Risks factors: Le Pen winning due to: terrorist attack, high abstention• Risks scenarios:<ul style="list-style-type: none">- Very high risk: Le Pen wins also parliament elections (euro breakup)- High risk: Le Pen wins but loses parliament (high uncertainty)	<div></div> <div></div>	<div></div> <div></div>
Italy (any time between June 2017 and May 2018)	<ul style="list-style-type: none">• Chaotic environment: electoral reform to be decided, PD to elect leader after split, M5S leading polls at least two large parties defending euro exit (M5S and Northern League).• Risk: Anti-euro government next year and euro exit referendum	<div></div>	<div></div>
Germany (24 th Sept)	<ul style="list-style-type: none">• Schulz-Merkel tied• The only mildly risky scenario is Red+Green+SPD coalition, but still pro-European• Populists AfD low in polls	<div></div>	<div></div>

(*) Probability/Impact of populists touching government

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INVESTMENT RISKS IN LATAM

Contained risks on investment in Latam, coming from politics and fallout from corruption scandals



Source: BBVA Research

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GDP growth forecasts

Gross domestic product (YoY average, %)

	Apr-17					Jan-17					Difference	
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018	2017	2018
World	3.5	3.3	3.1	3.3	3.4	3.5	3.3	3.0	3.2	3.3	0.1	0.1
Advanced	1.9	2.2	1.6	1.9	1.9	1.9	2.2	1.6	1.8	1.9	0.1	0.0
United States	2.4	2.6	1.6	2.3	2.4	2.4	2.6	1.6	2.3	2.4	0.0	0.0
Eurozone	1.2	1.9	1.7	1.7	1.7	1.2	1.9	1.7	1.6	1.6	0.1	0.1
Spain	1.4	3.2	3.2	3.0	2.7	1.4	3.2	3.2	2.7	2.7	0.3	0.0
Emerging	4.6	4.1	4.1	4.3	4.4	4.6	4.1	4.0	4.2	4.2	0.1	0.2
LatAm-7	0.8	-0.3	-1.5	1.1	1.8	0.8	-0.3	-1.4	1.0	1.7	0.1	0.1
Mexico	2.3	2.6	2.1	1.6	2.0	2.3	2.6	2.0	1.0	1.8	0.6	0.2
Latam-6	0.3	-1.4	-2.8	0.9	1.7	0.3	-1.4	-2.8	1.0	1.6	-0.1	0.1
Brazil	0.5	-3.8	-3.6	0.9	1.8	0.5	-3.8	-3.5	0.9	1.2	0.0	0.6
LatAm-5	0.1	1.3	-1.9	0.8	1.6	0.1	1.3	-2.0	1.1	2.0	-0.2	-0.4
Argentina	-2.5	2.6	-2.3	2.8	3.0	-2.5	2.6	-2.2	2.8	3.0	0.0	0.0
Chile	1.9	2.3	1.6	1.6	2.4	1.9	2.3	1.5	1.6	2.4	0.0	0.0
Colombia	4.4	3.1	2.0	2.1	2.7	4.4	3.1	1.9	2.4	3.3	-0.3	-0.7
Peru	2.4	3.3	3.9	2.5	3.9	2.4	3.3	3.8	3.5	3.6	-1.0	0.4
Venezuela	-3.9	-5.8	-15.5	-7.5	-6.1	-3.9	-5.8	-15.5	-7.5	-4.1	-0.1	-2.1
Eagles	5.4	4.7	4.8	4.9	5.0	5.4	4.7	4.8	4.7	4.7	0.2	0.3
Turkey	5.2	6.1	2.9	3.0	4.5	5.2	6.1	2.3	2.5	4.5	0.5	0.0
Asia Pacific	5.6	5.6	5.5	5.2	5.1	5.7	5.6	5.4	5.1	4.8	0.1	0.3
Emerging Asia	6.7	6.7	6.6	6.1	5.9	6.7	6.6	6.5	5.9	5.6	0.2	0.3
China	7.3	6.9	6.7	6.3	5.8	7.3	6.9	6.7	5.8	5.2	0.5	0.6
Emerging Asia (ex. China)	5.9	6.3	6.3	5.8	6.1	6.0	6.2	6.1	5.8	6.1	0.0	0.0

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Inflation forecasts

Inflation (YoY average, %)												
	Apr-17					Jan-17					Difference	
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018	2017	2018
World	3.9	3.7	4.8	6.7	7.6	3.9	3.7	4.8	7.3	7.7	-0.6	-0.1
Advanced	1.4	0.3	0.8	2.0	1.7	1.4	0.3	0.8	1.8	1.8	0.1	0.0
United States	1.6	0.1	1.3	2.6	1.9	1.6	0.1	1.3	2.3	2.0	0.3	-0.1
Eurozone	0.4	0.0	0.2	1.8	1.6	0.4	0.0	0.2	1.6	1.6	0.2	0.0
Spain	-0.2	-0.5	-0.2	2.1	1.9	-0.2	-0.5	-0.2	2.1	1.9	0.0	0.0
Emerging	5.8	6.3	7.7	10.0	11.6	5.8	6.3	7.7	11.1	11.7	-1.1	-0.1
LatAm-7	12.1	17.4	32.1	51.8	66.9	12.1	17.4	32.1	60.1	67.5	-8.3	-0.6
Mexico	4.0	2.7	2.8	5.6	3.9	4.0	2.7	2.8	5.7	4.3	-0.1	-0.4
Latam-6	15.0	22.8	43.4	69.7	91.6	15.0	22.8	43.4	81.2	92.2	-11.5	-0.7
Brazil	6.3	9.0	8.8	4.1	4.7	6.3	9.0	8.8	4.6	4.4	-0.5	0.3
LatAm-5	25.1	38.1	81.0	140.2	184.6	25.1	38.1	81.0	163.5	186.2	-23.3	-1.7
Argentina	38.0	26.7	41.2	26.0	15.7	38.0	26.7	41.2	25.1	16.5	0.8	-0.8
Chile	4.4	4.4	3.8	2.9	3.2	4.4	4.4	3.8	2.8	3.0	0.1	0.2
Colombia	2.9	5.0	7.5	4.2	3.3	2.9	5.0	7.5	4.1	3.5	0.2	-0.2
Peru	3.2	3.5	3.6	3.6	2.2	3.2	3.5	3.6	3.0	2.5	0.6	-0.3
Venezuela	61.8	154.8	403.4	853.1	1225.7	61.8	154.8	403.4	1008.8	1235.1	-155.7	-9.4
Eagles	5.1	4.9	4.3	4.5	4.5	5.1	4.9	4.3	4.6	4.5	-0.2	0.0
Turkey	8.9	7.7	7.8	10.3	7.6	8.9	7.7	7.8	9.1	7.8	1.2	-0.2
Asia Pacific	3.3	2.2	2.3	2.7	3.2	3.3	2.2	2.3	2.9	3.2	-0.2	0.0
Emerging Asia	3.6	2.6	2.8	3.1	3.6	3.6	2.6	2.8	3.3	3.6	-0.2	0.0
China	2.0	1.4	2.0	2.3	3.0	2.0	1.4	2.0	2.7	3.0	-0.4	0.0
Emerging Asia (ex. China)	5.8	4.2	3.9	4.2	4.4	5.8	4.2	3.9	4.2	4.4	0.0	0.0

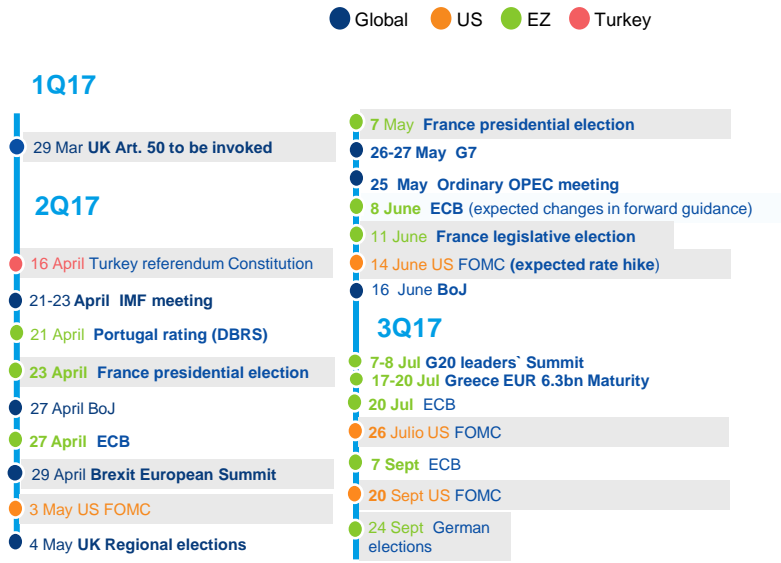
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Financial variables forecasts

Interest rates							central bank rates (%)						
	2016		2017		2018			2016		2017		2018	
	eop	average	eop	average	eop	average		eop	average	eop	average	eop	average
US	0.75	0.52	1.50	1.19	2.00	1.88							
EMU	0.00	0.01	0.00	0.00	0.25	0.02							
Mexico	5.75	4.29	7.00	6.77	6.00	6.79							
Chile	3.50	3.50	2.50	2.73	3.00	2.69							
Colombia	7.50	7.23	5.50	6.25	5.00	5.15							
Peru	4.25	4.23	4.00	4.21	3.75	3.77							
Turkey	8.25	8.35	9.00	9.72	8.50	8.68							
Long-term							10 yr rates (%)						
	2016		2017		2018			2016		2017		2018	
	eop	average	eop	average	eop	average		eop	average	eop	average	eop	average
US	2.44	1.82	2.70	2.60	2.96	2.84							
EMU	0.21	0.13	0.85	0.58	1.50	1.21							
Mexico	7.51	6.25	7.44	7.56	6.76	7.05							
Exchange rates													
	2016		2017		2018			2016		2017		2018	
	eop	average	eop	average	eop	average		eop	average	eop	average	eop	average
EURUSD	1.05	1.10	1.09	1.07	1.17	1.13							
USDMXN	20.73	18.71	20.50	20.32	19.18	19.49							
USDARS	15.88	14.99	17.80	16.53	19.00	18.35							
USDCLP	670	673	690	681	665	679							
USDCOP	3002	3037	3015	2986	2958	2995							
USDPEN	3.36	3.38	3.36	3.31	3.46	3.42							
USDTRY	3.52	3.03	3.80	3.73	4.05	3.93							
USDCNY	6.95	6.66	7.20	7.01	7.80	7.50							
Commodities													
	2016		2017		2018			2016		2017		2018	
	eop	average	eop	average	eop	average		eop	average	eop	average	eop	average
Brent	56.8	43.0	-	57.0	-	58.7							

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Event calendar



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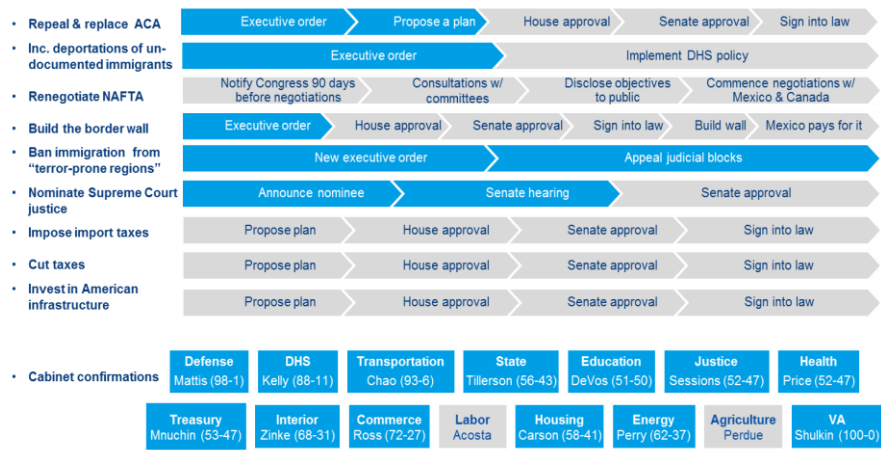
Brexit calendar: hard negotiations are expected

March 29	T. May triggered Art 50, officially informing the EU of intention to exit
April	EU to draw up guidelines for negotiations: priorities, principles Possible disagreements among EU countries on the strategy to follow UK starts preparing Great Repeal Bill, to provide EU law into domestic law wherever practical
April 29	EU summit to endorse the guidelines.
May-June	EU to nominate Commission as negotiator and provide it with confidential directives; approved by EU-27 ministers
Sept 24	German elections
Oct-Dec	Divorce talks and beginning of trade negotiations: Barnier wants to negotiate first the exit bill and the rights for EU migrants; the UK wants both in parallel
March 2018	Cliff edge for agreeing transition
Oct 2018	Barnier's deadline to agree on a deal
April 2019	Exit

30

Trump’s agenda

Several proposals face obstacles in Congress



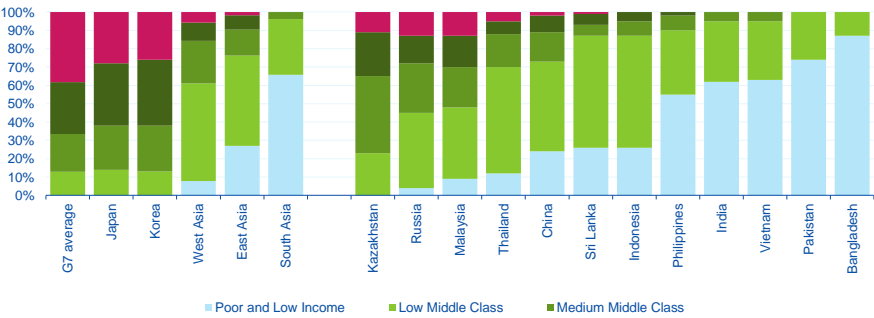
31

4. Asia’s long-term outlook: vibrant and resilient



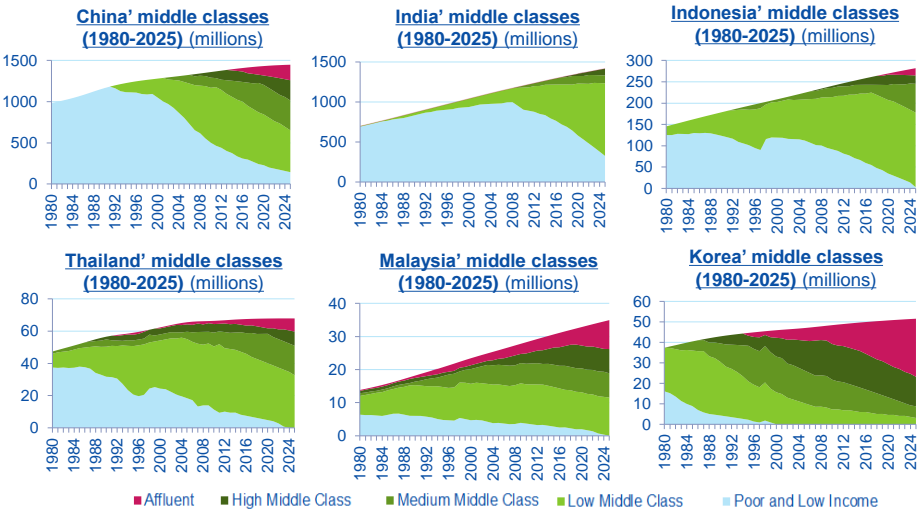
...with certain variations among countries...

Middle classes distributions by GDP per capita 2015
(millions of people by country and group)



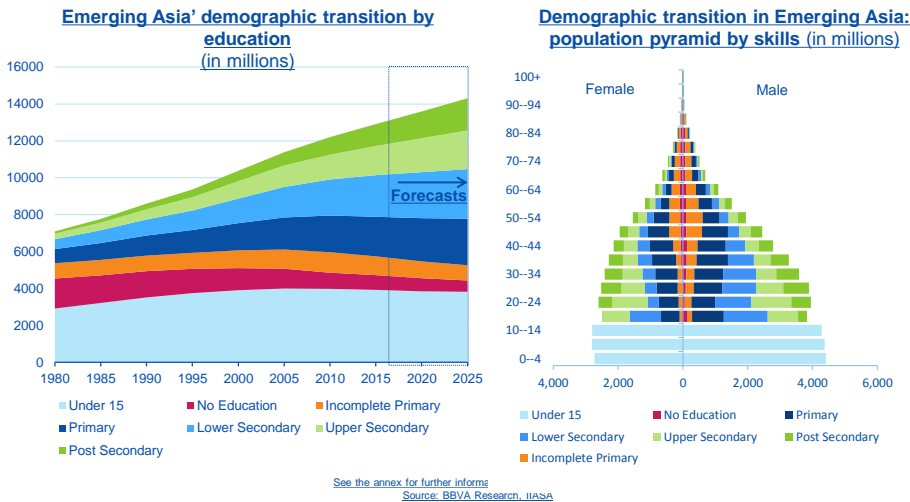
Kazakhstan, Russia, Malaysia and Thailand among the countries having the highest proportion of medium-high middle classes versus Bangladesh, Pakistan and Vietnam.

Middle classes evolution by countries

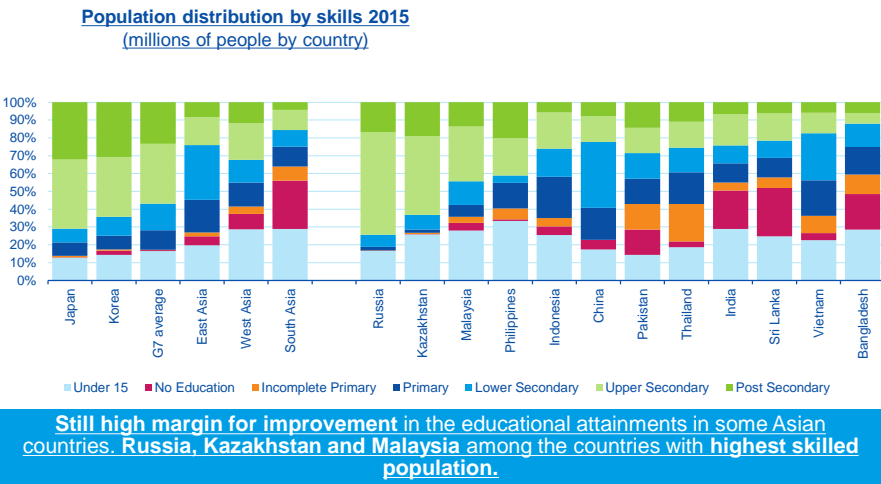


Source: BBVA Research, UN, WB, IMF

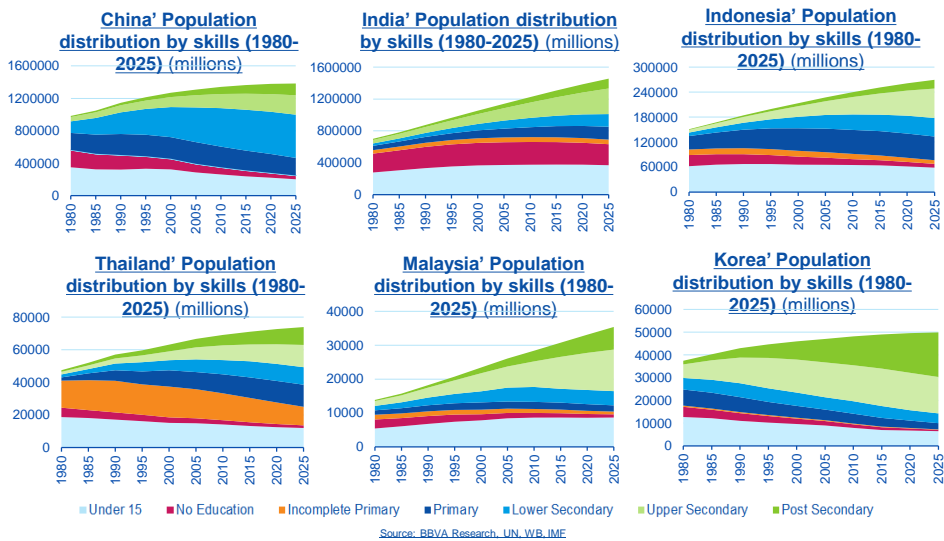
The Middle Classes evolution will be accompanied by younger and higher skilled population...



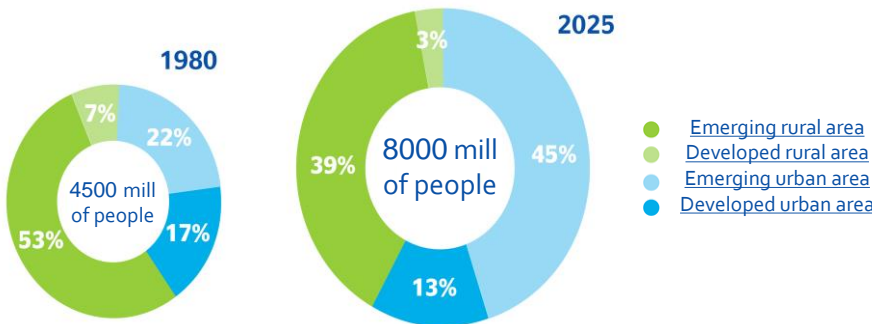
... with countries' disparities



Population projections by education by countries

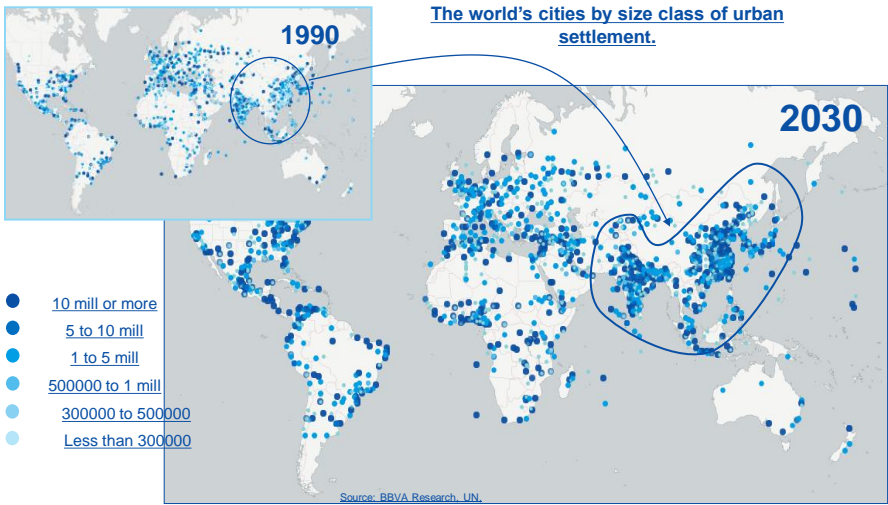


Close to 50% of population will live in urban areas by 2025...

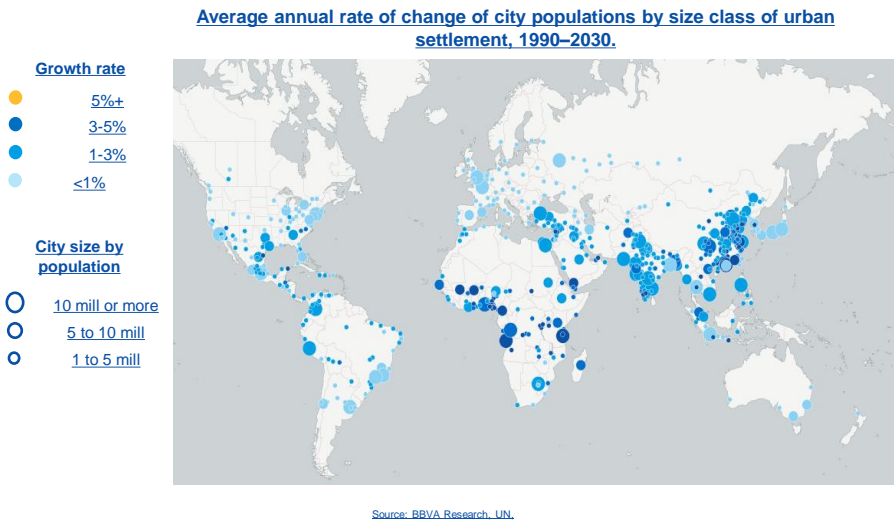


Source: BBVA Research, UN

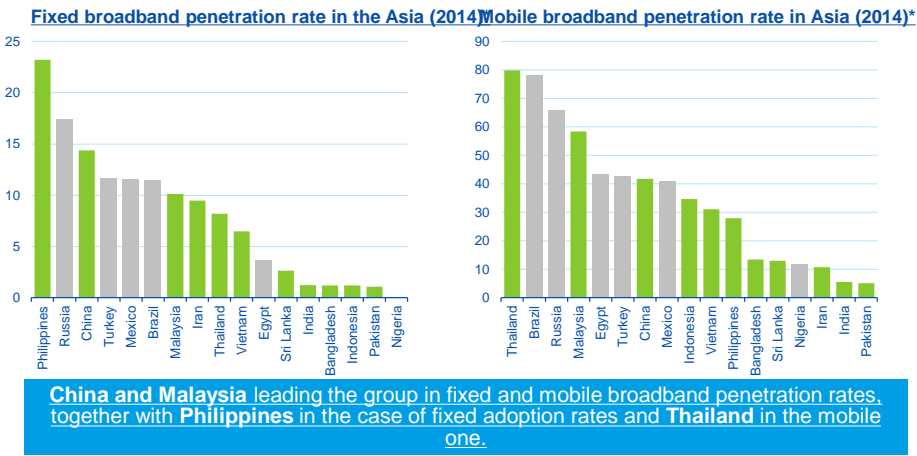
...and agglomeration in Asia will become increasingly relevant (21/37 world megacities)...



...growing faster than the rest of the world...

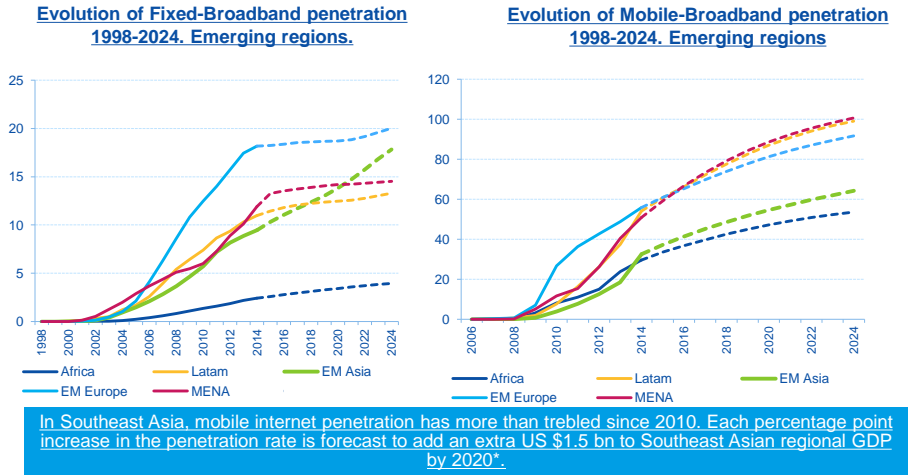


Current levels of fixed-broadband adoption rates across the Asian countries



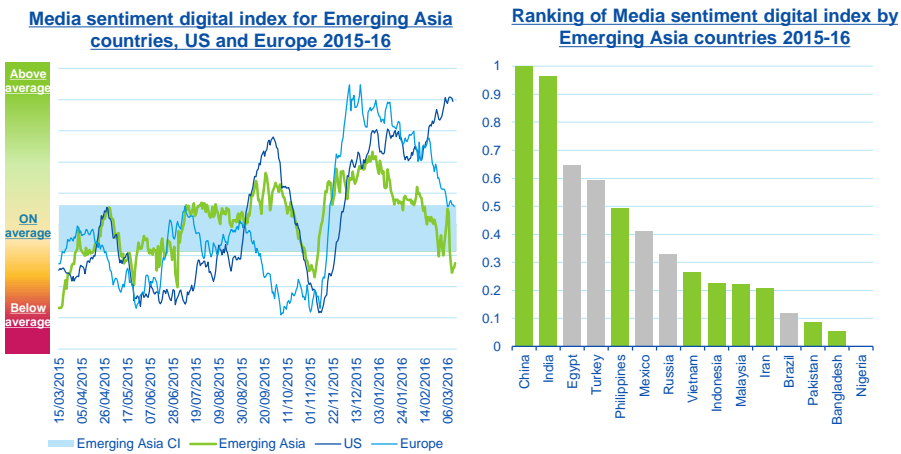
Source: BBVA Research, ITU, World Bank
See "Fixed and Mobile broadband adoption rates across the world: Present and Future", BBVA Research for further information.

Fixed and mobile broadband adoption rates across regions: Past and future evolution

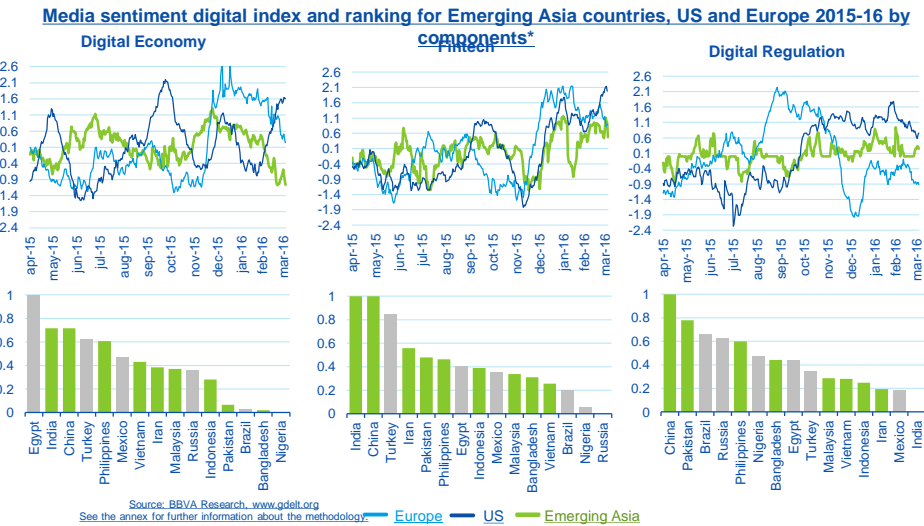


Source: BBVA Research
See "Fixed and Mobile broadband adoption rates across the world: Present and Future", BBVA Research for further information.
*According to "The impact of mobile internet on the economy of Southeast Asia", June 2016, Oxford Analytica

Emerging Asia Media Sentiment Digital Index:
Still room for improvement...

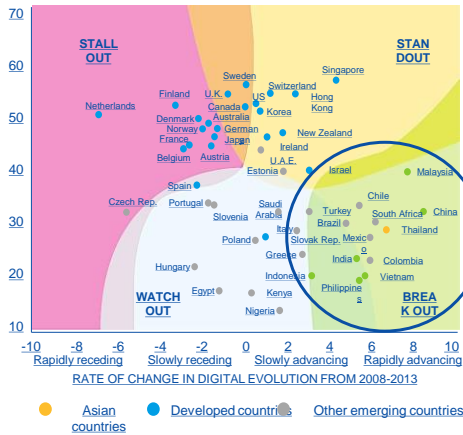


...but close to developed countries' sentiment evolution...



... and with a huge potential

Digital evolution index trajectory (out of 100)



- The digital evolution index points the Asian countries with a strong potential to foster its digital development process in the coming years
- China, India, Indonesia, Philippines and Vietnam evolved rapidly in digital terms during last years with the potential to emerge as strong digital economies if their evolution rates continue

Source: BBVA Research and Digital Evolution Index (the Fletcher school at TUFTS University)
See the annex for further information about the Digital Evolution Index.

BBVA Research

Global Macro Trend and Asia's tomorrow

IFoA Asia Conference

May 2017