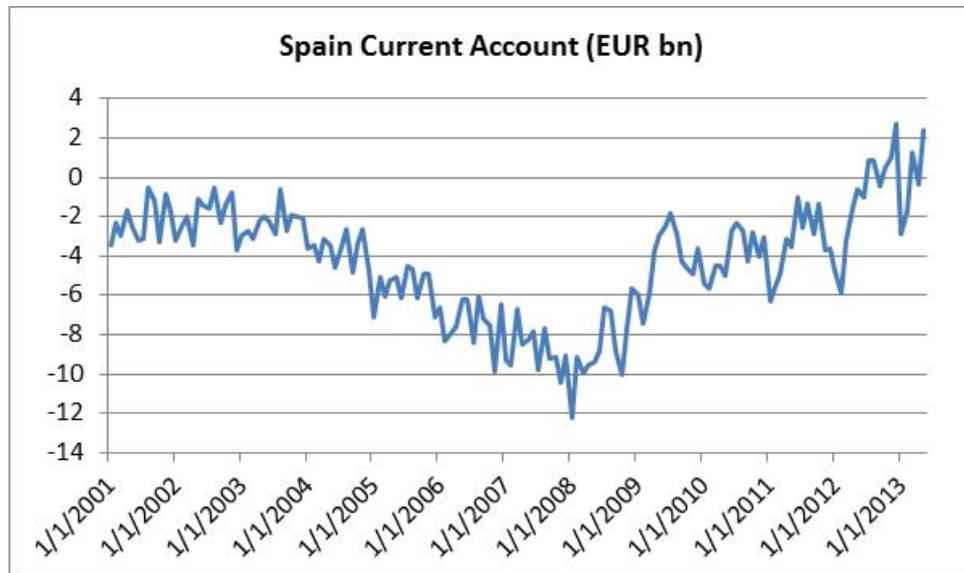


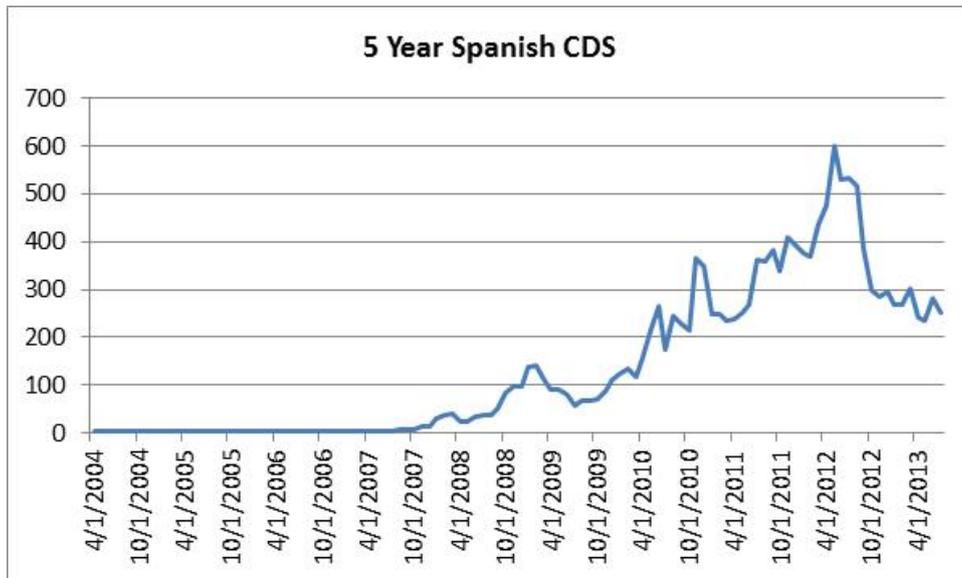
SPAIN – TIME TO BUY



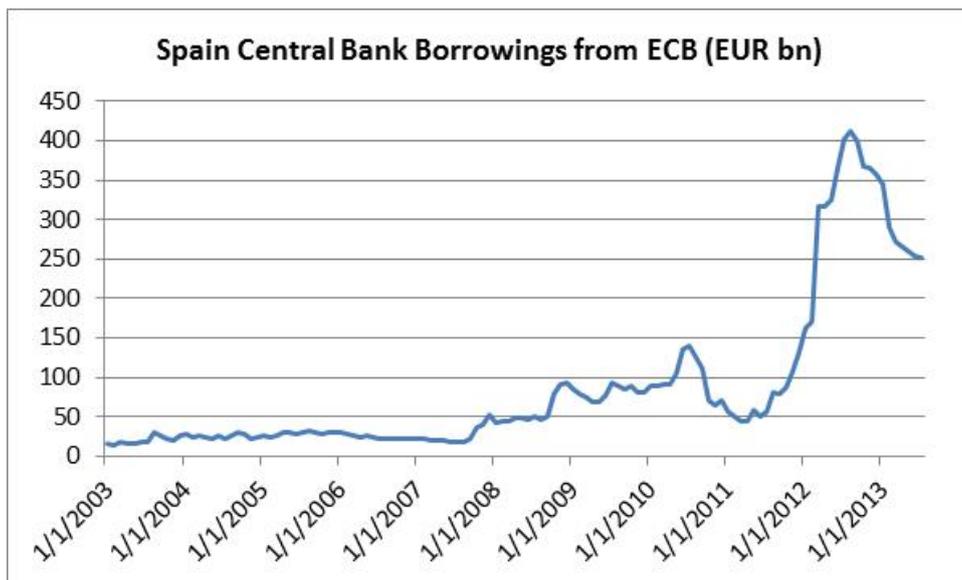
As highlighted in my October 2011 note on sovereign debt, when a country which has been running a current account deficit for a prolonged period of time and is then able to move to current account surplus, I believe investors are advised to buy. Spain has recently moved to current account surplus, for the first time in at least a decade.



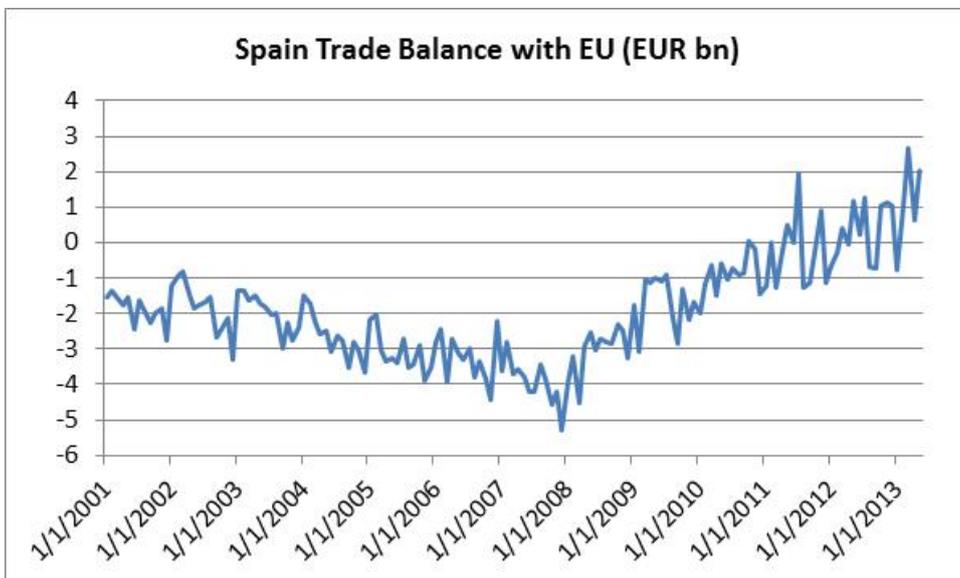
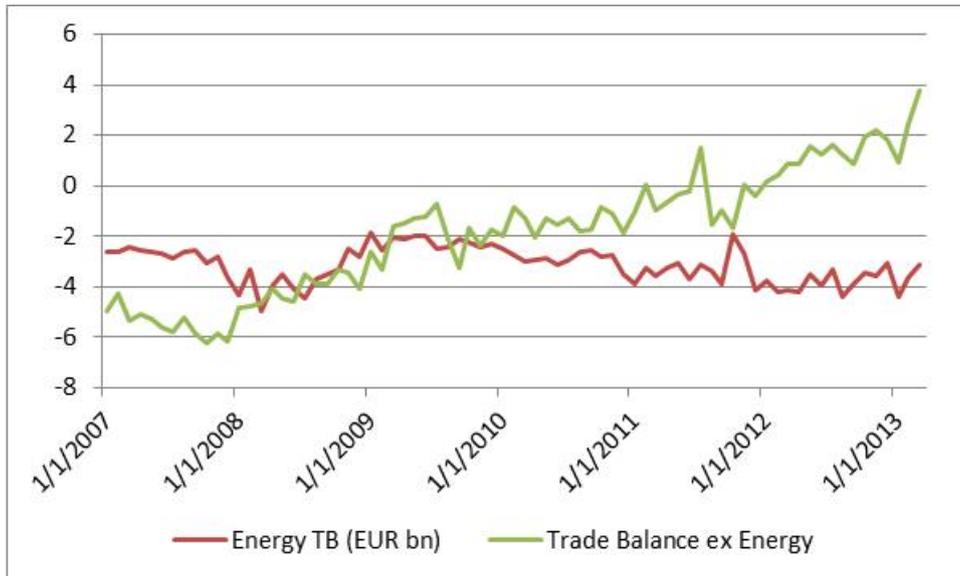
As Spain’s current account deficit continued to grow, markets began to worry about the credit worthiness of Spanish debt from 2007 onwards, as reflected in Spanish CDSs.



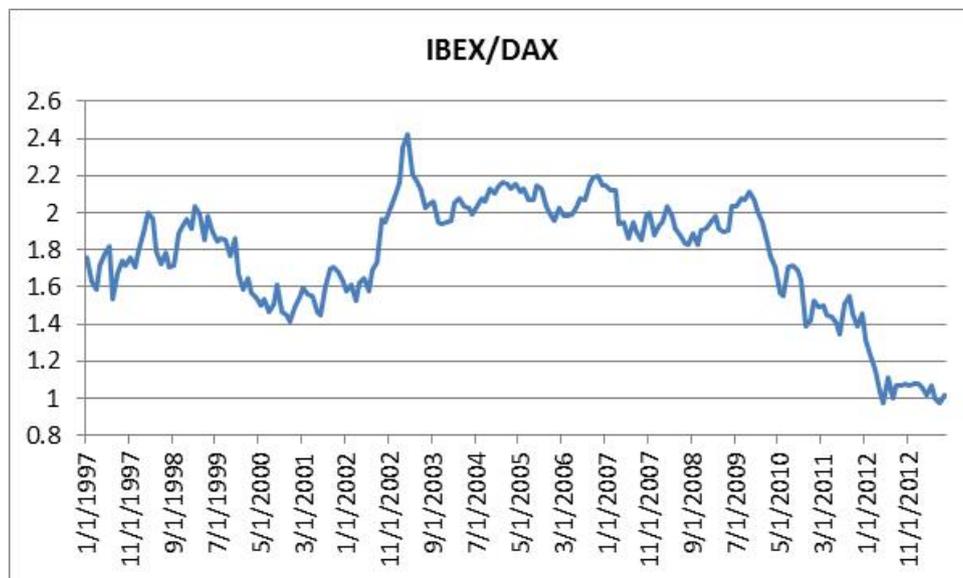
As the private lending market began to get nervous about Spain, the Spanish Central Bank had to become the lender of last resort to domestic borrowers. Increasingly Spain’s Central Bank had to rely on the ECB for funding.



Spain’s borrowing from the ECB is now declining as the country has moved to a current account surplus, which means it can finance itself from domestic sources. Furthermore the current account surplus has two very supportive features. Spain now runs a trade surplus with the rest of Europe and Spain also runs a trade surplus in manufactured goods.



A strong current account with signs that the Spanish equity market has found a relative bottom against the German equity market all suggest Spanish assets are a buy.



Spain currently suffers from high unemployment and very slow growth, but Spain has also undergone some significant reforms, and labour and land are cheap. With signs that domestic activity looks to be bottoming, the risk reward of Spanish assets looks good to me.

INFORMATION

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