

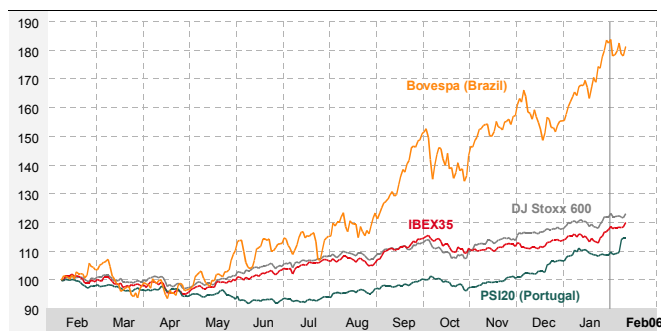
# THE IBERIAN STRATEGY OBSERVER

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## World Indices – Market Performance



Source: JCF.

## Asset Class Monitor

	Closing 10-Feb	-1W	-1M	QTD	YTD
DJ Stoxx 600	324.3	0.6	2.5	4.4	4.4
S&P 500	1,263.8	-0.6	-2.0	1.2	1.2
10Y Euro bond yield	3.48	-0.8	5.2	4.5	4.5
10Y US bond yield	4.54	0.1	2.4	3.1	3.1
3M Euro interest rates	2.58	0.9	3.7	3.9	3.9
3M US interest rates	4.51	0.9	5.3	10.7	10.7
€/US\$	1.20	-0.5	-0.8	1.0	1.0
Brent crude oil (US\$)	60.5	-3.6	-2.7	2.9	2.9
CRB (US\$)	344.2	1.5	6.8	2.1	-1.2

Source: Bloomberg.

## SI Bolsa Universe Valuation

	P/E		EVEBITDA		3Y CAGR		GDY P/BV	
	05	06	05	06	EPS	EBITDA	06	06
CAC40	18.0	14.7	7.8	7.3	11.3	14.8	2.7	2.5
DAX30	17.2	14.9	7.0	6.5	12.5	9.1	3.0	2.4
MIB30	17.1	14.9	6.7	6.4	13.1	6.4	4.1	2.4
PSI20	16.6	14.6	9.4	8.7	11.1	5.6	3.7	2.3
IBEX35	16.5	15.8	8.8	7.9	12.1	7.5	3.5	3.2
DJ Stoxx 600	16.7	14.8	8.8	7.7	12.4	12.6	3.1	3.2
DJ Stoxx 50	14.5	13.2	8.4	7.7	12.2	11.9	3.4	2.8
DJ Euro Stoxx 50	15.6	14.1	7.7	7.1	11.4	9.9	3.4	2.6
Ib Cap Goods	10.9	12.9	5.0	5.7	-24.2	-24.7	2.7	1.8
Ib Construction	20.2	18.0	10.3	9.3	14.4	11.2	1.7	3.0
Ib Cons Goods	21.7	19.1	10.0	8.9	-1.9	-3.4	2.9	4.3
Ib Cons Serv	14.5	16.1	10.9	10.9	4.2	8.3	2.2	2.4
Ib Financials	14.6	12.6	NA	NA	21.4	NA	3.6	2.2
Ib Oil & Gas	12.2	11.0	6.4	6.2	5.1	-2.6	2.5	2.1
Ib TMTs	29.3	23.3	11.1	9.9	-13.0	-22.4	1.9	6.0
Ib Utilities	19.5	16.9	9.5	8.6	-5.8	-2.3	3.3	4.1

Source: Bloomberg.

## Strategy Highlights

- We held our 12<sup>th</sup> Annual Santander Iberian Small and Mid Caps Conference in Madrid. 30 companies and 200 institutional investors attended the event.
- The companies that generated the most interest were **Sol Meliá**, **La Seda de Barcelona**, **Abengoa**, **Viscofán** and **Uralita**.
- Companies for the radar screen: **Campofrío**, **BPI**, **Impresa** and **Aguas de Barcelona**.

## Hot Spots

- Winds of changes are blowing for **FCC**; increase positions.
- Increase in tobacco taxes dents sector's profitability. To play M&A, we prefer **Logista** to **Altadis**.
- **Ferrovial**, an aggressive acquirer with a sound track record.
- The market is in the process of eliminating **Aguas de Barcelona's** holding discount.

## Relative Market Performance

	Closing 10-Feb	-1W	-1M	QTD	YTD
CAC40	4,876.5	1.3	2.2	3.4	3.4
DAX30	5,548.9	2.2	1.9	2.6	2.6
MIB30	36,440.0	1.0	2.6	3.0	3.0
PSI20	8,791.9	-0.1	2.3	2.0	2.0
IBEX35	10,890.2	0.6	1.1	1.5	1.5
DJ Stoxx 600	317.5	1.0	2.3	2.4	2.4
DJ Stoxx 50	3,400.6	0.7	1.3	1.5	1.5
DJ Euro Stoxx 50	3,641.4	1.3	0.8	1.7	1.7
Ib Cap Goods	NA	3.8	5.0	5.3	5.3
Ib Construction	NA	3.7	6.9	6.9	6.9
Ib Cons Goods	NA	-1.5	-1.4	-0.3	-0.3
Ib Cons Serv	NA	1.3	3.9	4.2	4.2
Ib Financials	NA	2.4	3.2	3.4	3.4
Ib Oil & Gas	NA	-4.3	-4.5	-3.3	-3.3
Ib TMTs	NA	-0.5	0.2	0.2	0.2
Ib Utilities	NA	0.3	2.4	2.8	2.8

Source: Bloomberg.

# SECTOR STRATEGY AT A GLANCE

## Iberia – Sector Strategy at a Glance

Sector	Index Weighting	SI Bolsa Stance		Comments	Preferred Stocks
		Tactical	Strategic		
<b>Banks</b>	27.4%	↑	↑	Recent signs of a soft landing for the real estate sector could prompt a de-rating of the smaller Spanish banks, which have benefited from rumours on takeovers in the last few years. Diversification in blue chips and valuations in line with the rest of the European sector should help the larger banks.	BBVA, BCP
<b>Capital Goods</b>	5.3%	↑	↑	The investment cycle has bottomed out and there are signs of capital investments picking up. We believe the valuations of metal-related companies (Acerinox and Arcelor) already include a potential strong recovery in prices and volumes. We would rather play pulp & paper (ENCE) and industrial companies through a restructuring story (Uralita).	ENCE, Uralita
<b>Construction</b>	4.0%	↑	↑	The buoyant construction cycle in Spain seems to be never-ending, in stark contrast to Portugal, where companies are being hit by restrictions in civil works. Diversification into the services and concessions areas should provide stability in the long run. M&A activity is likely to continue to offer some excitement in the sector.	Ferrovial, ACS
<b>Consumer Goods</b>	6.2%	↑	↑	Domestic consumption in Spain has been the main growth driver in recent years, but we see signs for concern. We prefer defensive players with turnaround stories (Ebro Puleva) to stocks with regulatory risks (Altadis).	Inditex, Ebro Puleva, Viscofán
<b>Financial Services</b>	0.9%	↓	↓	Southern European insurers' cautious management teams offer a degree of protection in a sector penalised by the equity markets' sharp falls in the past, but these companies should underperform the sector in an environment of healthier equity markets. The current low discount to SOTP valuations leaves limited upside for those holding companies without solid investment track records.	Corp. Mapfre
<b>Oil &amp; Gas</b>	9.0%	↑	↑	Stable (high) oil prices and the improving situation in Latam combine to offer a strong case for being bullish on the Iberian oil sector. Reinvestment and regulatory risks make investing in gas players more complex. We like Enagás' growth and stable regulatory climate.	Repsol YPF, Enagás
<b>Services</b>	8.0%	↓	↓	Despite being leveraged to the cycle's upturn, the leisure industry should see lower pricing power given the excess capacity. Real estate could suffer from the perception that property prices are peaking and from the hangover from M&A activity. We like Portugal's motorway sector because of its growth and defensive nature.	Sol Meliá, NH Hoteles
<b>TMTs</b>	28.8%	↑	↑	Telecoms show worrying dynamics due to fiercer competition in both mobile and fixed telephony and technological change. Moreover, comparable valuations of US players still show some downside risk. We would switch from FTA TV players to newspapers in the short run.	PT Prisa, Sogecable
<b>Utilities</b>	10.4%	↓	↓	In an environment of regulatory change, utilities tend to underperform. M&A moves have helped sustain the sector, but concentration should be limited going forward and the sector should tend to quote in line with its deteriorating fundamentals.	Endesa

Source: Santander Investment Bolsa estimates.

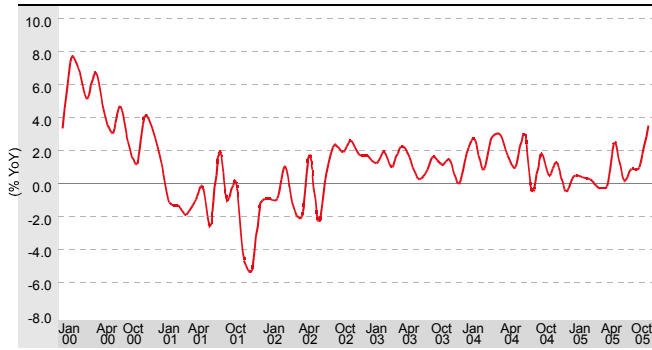
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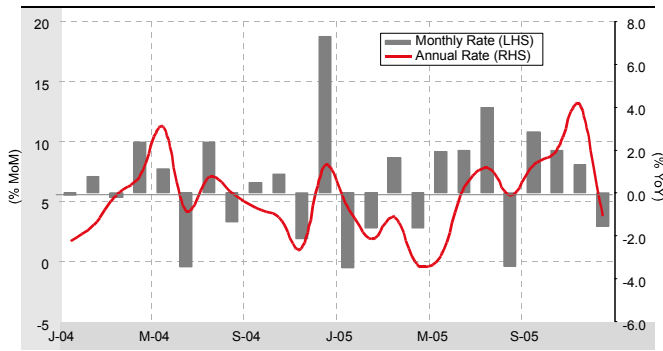
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## Spain – Industrial Production, 2000-05



Source: Datastream and Santander Investment Bolsa

## Germany – Factory Orders, 2004-05



Source: Datastream and Santander Investment Bolsa.

## Things to Watch during the Week

### In the US:

- (1) Retail sales should grow strongly in February
- (2) December business inventories could be higher than expected
- (3) Industrial production expected to rise again in January
- (4) Fed chairman Ben Bernanke to talk about the economy
- (5) Producer prices could surprise on the upside in January

### In the Euro Zone:

- (1) German 4Q05 GDP could come in weaker than expected
- (2) Spanish 4Q05 GDP should rise 0.9% QoQ
- (3) Euro zone 4Q05 GDP could be weaker than expected
- (4) The German ZEW survey likely to rise in February
- (5) Euro zone IPI could disappoint in December

- Spanish economic figures published in the last two weeks were generally negative: (1) 2005 industrial production was quite weak, despite December's increase; (2) inflation rose sharply in January; (3) consumer confidence rose, but remained in negative territory; (4) January car sales were lower; (5) January manufacturing PMI declined slightly; (6) the Bank of Spain said the economy grew 3.4% in 2005; and (7) employment data were relatively weak. We maintain our view that the economy is going to decelerate in 2006E, probably by more than consensus expects.

- German indicators were weak in December, more or less in line those published in France. In France: 4Q05 GDP grew 0.2% QoQ, down from +0.7% QoQ in 3Q05; December industrial production was negative; and the trade deficit widened, mainly driven by energy prices. We expect the Euro zone economies to accelerate in 1Q06E.

- After the release of some hard economic data in Germany last week, there were rising concerns about the strength of the current recovery process. The figures released for some important hard data for December surprised on the downside and pushed some in the market to start thinking about the end of the recovery. We do not agree with this view.

- In this week's edition of *Macro Corner*, we analyse the performance of the most important and comparable leading indicators for Spain and Germany. The reason is simple: as we have been saying for a long time, the economic scenario in the years ahead is likely to change, with the Spanish economy decelerating and the German economy accelerating. This economic performance is already reflected, in our view, in the leading indicators.

# ECONOMIC CALENDAR

## Macro Data Published Last Week

Day	Time	Country	Indicator/Event	Period	Reference Data	Forecast	Actual
MONDAY 6-Feb	12:00	Germany	Factory Orders (m/y) (sa)	Dec P	1.3r/13.2r	0.6/6.0	-1.6/3.9
TUESDAY 7-Feb	12:00	Germany	Industrial Production (m/y) (sa/nsa wda)	Dec P	-0.4/5.0r	0.7/5.0	-0.5/3.5
	21:00	US	Consumer Credit (bn)	Dec	0.57r	5.0	3.35
	23:00	US	ABC Consumer Confidence	Feb 6	-9	-9	-13
WEDNESDAY 8-Feb	8:00	Germany	Trade Balance (€) (bn)	Dec	13.3	13.0	9.2
	8:00	Germany	Current Account (€) (bn)	Dec	8.2r	8.0	6.3
	8:00	Germany	Imports (sa) (m)	Dec	-4.2r	2.1	5.8
	8:00	Germany	Exports (sa) (m)	Dec	-1.6r	1.6	0.8
	13:00	US	MBA Mortgage Applications	Feb 3	-5.1	-	-1.2
THURSDAY 9-Feb	9:45	US	The Economist German Economy Survey	-	-	-	-
	14:30	US	Initial Jobless Claims	Feb 4	273k	285k	277k
	14:30	US	Continuing Claims	Jan 28	2,509k	2,497k	2,557k
	16:00	US	Wholesale Inventories	Dec	0.4	0.4	-0.2/7.9
FRIDAY 10-Feb	8:00	Germany	Wholesale Price Index (m/y)	Jan	0.0/2.4	-	0.6/2.9
	8:00	Germany	Consumer Price Index (m/y)	Jan F	0.9/2.1	-0.5/2.1	-0.5/2.1
	8:45	France	Industrial Production (m/y)	Dec	3.1/1.3	0.3/0.6	-0.3/-0.4
	8:45	France	Manufacturing production (m/y)	Dec	2.5r/1.0r	0.3/0.7	-0.7/-1.0
	8:45	France	Trade Balance (bn)(€)	Dec	-3.1	-2.9	-3.1
	8:50	France	GDP (q)	Dec	0.7	0.4	0.2
	12:00	Euro Zone	OECD Leading Indicator	Dec	107.2	-	107.4
	14:30	US	Trade Balance (US\$ bn)	Dec	-64.7	-64.7	-65.7
	20:00	US	Monthly Budget Statement (US\$ bn)	Jan	8.6	5.0	21.0

## Macro Data Published This Week

Day	Time*	Country	Indicator/Event	Period	Reference Data	Forecast
MONDAY 13-Feb	10:00	Italy	Industrial Production (sa/nsa) (m/y)	Dec	0.1/0.4	0.6/0.9
TUESDAY 14-Feb	8:00	Germany	GDP (sa/nsa) (q/y)	4Q1	0.6/1.3	0.2/1.3
	8:45	France	Central Govt. Balance (€) (bn)	Dec	-58.6	-
	9:00	Spain	GDP (constant) (sa) (q/y)	4QP	0.8/3.5	0.9/3.5
	11:00	Germany	ZEW Survey (Economic Sentiment)	Feb	71.0	71.0
	11:00	Germany	ZEW Survey (Current Situation)	Feb	-31.6	-28.0
	11:00	Euro Zone	GDP (sa) (y)	4QE	0.6/1.6	0.3/1.7
	11:00	Euro Zone	ZEW Survey (Economic Sentiment)	Feb	66.1	66.0
	14:30	US	Advance Retail Sales	Jan	0.7	0.7
	14:30	US	Retail Sales Less Autos	Jan	0.2	0.8
	14:30	US	Business Inventories	Jan	0.5	0.5
	23:00	US	ABC Consumer Confidence	Feb 13	-13	-
WEDNESDAY 15-Feb	-	Spain	Current Account (€ mn)	Nov	-5,263.7	-
	13:00	US	MBA Mortgage Applications	Feb 10	-1.2	-
	14:30	US	Empire Manufacturing	Feb	20.1	18.0
	15:00	US	Net Foreign Security Purchases (US\$ bn)	Dec	89.1	80.0
	15:15	US	Industrial Production	Jan	0.6	0.2
	15:15	Italy	Current Account (mn)(€)	Dec	-2,149.0	-
	15:15	US	Capacity Utilisation	Jan	80.7	80.8
	16:00	US	Bernanke Report on Economy & Fed Policy	-	-	-
	19:00	US	NAHB Housing Market Index	Feb	57	57
THURSDAY 16-Feb	8:00	Euro Zone	New Car Registrations	Jan	-3.9	-5.9
	9:00	Spain	Consumer Price Index (m/y)	Jan	0.2/3.7	-0.5/4.1
	14:30	US	Import Price Index (m/y)	Jan	-0.2/	1.0
	14:30	US	Housing Starts	Jan	1,933k	2,025k
	14:30	US	Buildings Permits	Jan	2,075kr	2,068k
	14:30	US	Initial Jobless Claims	Feb 11	277k	285k
	14:30	US	Continuing Claims	Feb 4	2,557k	2,520k
	18:00	US	Philadelphia Fed.	Feb	3.3	9.0
FRIDAY 17-Feb	8:45	France	Current Account (€) (mn)	Dec	-4,106	-
	8:45	France	Non-Farm Payrolls (q)	4QP	0.0	0.1
	8:45	France	Wages (q)	4QP	1.0	0.5
	8:45	France	January Survey of Industrial Investment	-	-	-
	9:00	Spain	Factory Orders (y)	Dec	9.1	-
	10:00	Italy	Trade Balance (total) (€ mn)	Dec	-1,179.0	-1,100
	11:00	Euro Zone	Industrial Production (sa/wda) (m/y)	Dec	1.3/2.6	0.0/1.9
	14:30	US	Producer Price Index (m/y)	Jan	0.9/5.4	0.2/6.0
	14:30	US	PPI Ex Food & Energy (m/y)	Jan	0.1/1.7	0.2/1.3
	15:45	US	U.of Michigan Confidence	Feb P	91.2	91.0

(m) % MoM; (y) % YoY; (q) % QoQ; (a) annualised; (I) Index; (k) thousands; (mn) millions; (bn) billions; (r) revised; (E) estimate; (F) final; (P) preliminary; (sa) seasonally-adjusted; (nsa) non-seasonally adjusted; (wda) working day adjusted; (1) first release; (2) second release; (\*) CET.

Source: Bank of Spain, Ministry of Economy, Datastream, Bloomberg, Reuters and Santander Investment Bolsa estimates.

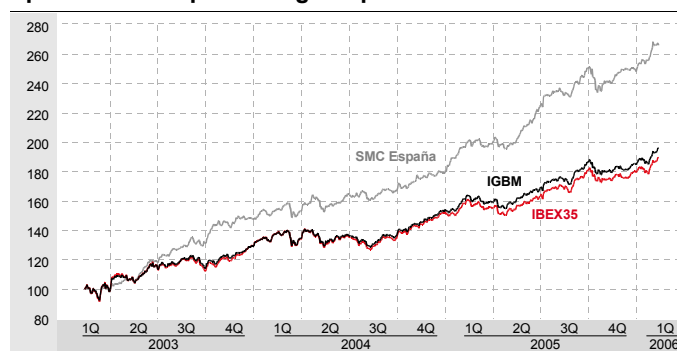


# STRATEGIST CORNER

## THE SMALL CAP STORY

On January 8-9, 2006, we held the 12<sup>th</sup> Annual Santander Iberian Small and Mid Cap Conference in Madrid. 30 companies and 200 institutional investors attended the event, and more than 300 one-on-one meetings were held between investors and top management of the companies. This conference is a good opportunity to select some of the companies that should outperform the benchmark. In fact, the companies that made presentations at our 2005 conference have enjoyed a 26% revaluation (vs 18% for the IBEX35 and 20% for the IGBM).

### Spain. Small Caps vs Large Caps - Performance



Source: Datastream and Santander Investment Bolsa.

## FEEDBACK FROM COMPANIES' PRESENTATIONS

### *Sol Meliá*

- Improvement in RevPAR seen in Germany and Spain.
- High level of activity.
- Consistent progress in pursuing divestment strategy as way to bring out value. Disposing of hotels at 12x EV/EBITDA and partially reinvesting at 10x.
- No change to dividend policy.
- Trading at 40% discount to NAV of €18.80/share.

### *Aguas de Barcelona*

- Company highlighted potential speed-up in water privatisation process.
- 2005 was a year of refocusing the business into three key areas (Water, Certification and Inspections, Healthcare).
- Company said that consensus was too low.
- Company is looking to grow externally, perhaps via acquisitions.

### *Abengoa*

- Lots of interest from investors.
- EU is negotiating to make targets compulsory and not just indicative in many countries. When (and if) this happens, it will put more pressure on oil companies to promote cleaner fuels. However, no new data was given on the potential impact or future growth targets.

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### ***Viscofán***

- Good visibility for price increases.
- In 2006, key goal will be consolidating Teepack in US.
- With fewer players in industry, we should expect more pricing discipline.

### ***Ence***

- No major news, which is good news.
- Stable pulp prices should lead to slightly better numbers this year.
- Small positive surprise may be expected on cost savings.
- No new news on Uruguay.

### ***Uralita***

- Strong recovery seen in Germany in 2006. Housing activity is currently at same level as after Second World War.
- Looking actively for more acquisitions in insulation.
- Increasing organic growth capacity in Russia.
- More acquisitions, as well as strong momentum in Germany, should be catalysts.

### ***Campofrio***

- In the midst of strategic reshuffling; lots of things are happening inside company.
- Will either make acquisition in France or exit market.
- Setting up big farms in Russia to avoid the current squeeze on margins.
- Increasing vertical integration to 25%-30% of consumption.
- Expecting slight recovery in Spanish market.

### ***Impresa***

- Company targets are conservative.
- Audience recovery is expected from March, when the new programming schedule is launched; World Cup.
- Still good momentum: 20% EBITDA growth is expected for 2006 (we estimate +17.4%). Net profit +43 (we estimate +21%).

### ***La Seda de Barcelona***

- A lot of interest from investors.
- Very positive prospects for the industry (10-12%).
- Continued growth through acquisitions: Volos (80,000 tonnes in Greece) and Advansa (250,000 tonnes in Turkey and the UK).
- Multiples (5x-6x EBITDA), very attractive compared with the multiples paid for Selenis and Aussapol (8x).
- Creating the world's PET leader.
- Further rights issue to finance acquisition in the short term (50% debt and 50% equity).

### ***Tubacex***

- Good investment case.
- Solid prospects for the industry (oil price above \$60/bbl). Strong demand (projects and distributors).
- Discrepancy in message between Vallourec and Tubacex in terms of investment R&D.
- M&A appeal (elimination of voting rights limitation as from May 2006).



### ***TPI***

- Investors' attention focused almost exclusively on re-leveraging possibilities and M&A.
- TPI is still looking for acquisitions (nothing really appealing) and internal re-leveraging faces regulatory obstacles.
- TPI declined to comment on Telefónica's future actions.
- On fundamentals, the main messages remain unchanged: DA and online business to drive TPI Spain's growth.

### ***BPI***

- Presentation of full of details on BPI operations in Angola, a market where BPI has 230,000 customers. BPI reaffirmed its intention to expand its branch network by more than 50% to 70 branches by the end of 2006.
- BPI continues to be moderately optimistic on credit quality evolution in the domestic market, even considering the slowdown in the Portuguese economy.
- The company reaffirmed that it has no major plans to reduce staff in Portugal and said that the bulk of cost cutting in domestic operations was already done in the last couple of years.

### ***Logista***

- Etinera restructuring ahead of schedule.
- Price war in tobacco market should have a negative impact on stocks at Logista. Company provided no details, but we estimate 3% of 2006F EBITDA.
- Price war should increase cross-bordering, benefiting Logista.

### ***Jazztel***

- Net adds: 97k in 4Q05 (23% market share in net adds). Total customers in 4Q05: 221k.
- The company will announce a new strategic plan with its FY2005 results on February 27.
- Capital increase to finance its strategic plan could exceed the €120mn already announced and committed with SG.
- The company stressed its long-term speculative appeal in the telecom sector's consolidation scenario.

### ***Media Capital***

- Media Capital expects flat performance of Portuguese advertising market in 2006.
- Regarding a potential loss of free-to-air TV audience market share by TVI in 2006, Media Capital said that it would continue to focus more on profitability than market share.

### ***Prosegur***

- Lack of new details at the presentation.
- Prosegur plans to focus on integrating its Brazilian operations before looking for new acquisitions.
- Still strong pressure in domestic market, but management is already taking restructuring measures to tackle that.

## HOT SPOTS

- Winds of change are blowing for **FCC** (Buy, TP €61.50). Unlocking value and leveraging its inefficient balance sheet to accelerate growth should be the share price drivers in 2006E, allowing the stock to break its persistent underperformance (-50% vs its peers in the past five years). We believe FCC's water concession, real estate and motorway assets are undervalued, as visibility on these has traditionally been poor. In our view, another €8.00-14.00/share could be added to current levels by unlocking value in these assets. Moreover, FCC has implemented a €3bn plan to accelerate growth, one-third of which has already been spent. At 4.4x 2008E EV/EBITDA (ex cement and real estate) its valuation is undemanding, considering that more than 70% of its EBITDA comes from services.
- The price war in the tobacco industry in Spain has closed another chapter with a new increase in taxes by the government. The Spanish authorities raised tobacco taxes again: ad-valorem tax was raised to 57% (+1.05% from the last increase on January 20) and excise tax by €8.20/thousand cigarettes (+32%). The increase in excise tax translates into a minimum tax on cigarettes of €55/thousand cigarettes, which implies a minimum tax of €1.65 on each packet of cigarettes. These tax hikes come on top of the one made on January 20, setting a minimum tax that will stymie the growth of cheap brands in the market. Although this is good news for **Altadis** (U/W, TP €30.70), as it reduces the growth of cheap tobacco brands and will probably lead Philip Morris to raise its prices, the sector's profitability will also feel the crunch. To play the consolidation potential surrounding Altadis, its subsidiary **Logista** (Buy, TP €47.00) seems to be a cheaper alternative.
- Ferrovial** (Buy, TP €71.20) remains our top pick in the Spanish construction sector. News about its interest in acquiring UK infrastructure manager BAA showed again that the company is willing to seek growth based on the strong cash flow of its operations and abundant global liquidity. The company has a sound track record in such acquisitions in the past.
- After a recent company visit, **Aguas de Barcelona** (U/R, TP U/R) confirmed that the gradual divestment from non-core activities and exit from troublesome markets through 2005 should help reduce the holding discount that the market has been applying to the stock over the past few years. Its current focus on certifications, water concessions and healthcare, a better-than-expected operating performance and the potential to continue growing in its three core activities, together with its discount to other Spanish and European utilities, provide a good opportunity to buy the stock.

### Main Revisions in Recommendations and Target Prices

Date	Company	Rating		Target Price		%	2006E EPS			Comments
		New	Old	New	Old	Chg	New	Old	Chg	
7-Feb	FCC	Buy	Hold	61.50	34.50	78.30	3.55	3.32	6.9	Change in SoP valuation method
7-Feb	Repsol YPF	Buy	Buy	26.20	28.50	-8.10	2.69	2.80	3.9	Write-down in reserves
1-Feb	Brisa	U/W	Hold	7.75	7.30	6.2	0.36	0.35	2.9	Poor traffic evolution
30-Jan	BBVA	Buy	Buy	18.00	16.00	12.5	1.37	1.02	34.3	Strong FY05 results, bright outlook
27-Jan	EDP	U/W	U/W	2.90	2.39	21.3	0.20	0.22	0.1	Risk of overpaying for acquisitions
24-Jan	Mota-Engil	Buy	N/R	4.30	N/R	N/R	0.00	N/R	N/R	Initiation of coverage
19-Jan	TPI	Buy	U/W	9.25	6.50	42.3	0.37	0.37	0.0	Upgraded on re-leveraging potential
16-Jan	Uralita	Buy	Buy	5.50	5.50	0.0	0.21	0.23	-8.7	Poor trend in Germany
13-Jan	Enagás	Buy	Buy	19.00	16.90	12.4	0.91	0.84	8.3	Improved long-term visibility

Note: U/W = Underweight; U/R = Under review; N/R = Not rated. Source: Santander Investment Bolsa estimates and forecasts.



# IBERIAN RECOMMENDED LIST

## Iberian Large Caps – Santander Investment Bolsa Recommended List

Companies	Date of Inclusion	Price (€)		Market Performance (%)						
		Current	30-Dec-05	Absolute	Rel to Iberian Large Caps	Relative to IBEX35	-1M	-3M	-6M	YTD
Sogecable	05-Jan-06	33.50	33.84	-1.0	-5.2	-4.7	0.1	-3.0	-2.3	14.7
BBVA	05-Jan-06	16.53	15.48	6.8	2.6	3.1	1.4	7.5	9.7	16.7
Ferrovial	05-Jan-06	65.00	60.30	7.8	3.6	4.1	1.3	5.9	6.7	5.1
Endesa	05-Jan-06	24.21	21.90	10.5	6.4	6.9	-1.4	9.3	15.6	31.1
Repsol	05-Jan-06	23.36	25.71	-9.1	-13.3	-12.8	0.4	-8.5	-5.9	-3.6
Inditex	05-Jan-06	28.61	27.51	4.0	-0.2	0.3	1.2	4.1	21.2	33.9
<b>SI Bolsa Large Caps Model Portfolio</b>	-	<b>103.16</b>	<b>100.00</b>	<b>3.2</b>	<b>-1.0</b>	<b>-0.5</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>-100.0</b>
Iberian Large Caps	-	104.18	100.00	4.2	0.0	0.5	NA	NA	NA	-100.0
IBEX35	-	11,312.60	10,913.60	3.7	-0.5	0.0	1.0	4.1	7.5	10.9
PSI 20	-	9,270.28	8,752.12	5.9	1.7	2.3	4.8	4.1	15.6	20.1
DJ Stoxx 50	-	3,434.26	3,406.98	0.8	-3.4	-2.9	0	0.3	4.1	8.4

Source: Santander Investment Bolsa.

## Iberian Small & Mid Caps – Santander Investment Bolsa Recommended List

Companies	Date of Inclusion	Price (€)		Market Performance (%)						
		Current	30-Dec-05	Absolute	Rel to Iberian SMCs	Relative to IBEX35	-1M	-3M	-6M	YTD
Ebro Puleva	05-Jan-06	14.38	14.27	0.8	-4.7	-2.9	-1.3	0.7	-2.2	0.9
Sol Meliá	05-Jan-06	12.28	11.10	10.6	5.2	7.0	7.7	13.5	11.1	8.9
Ence	05-Jan-06	28.49	27.33	4.2	-1.2	0.6	-4.7	2.9	13.7	31.5
Uralita	05-Jan-06	4.09	3.63	12.7	7.2	9.0	6.4	6.4	11.5	-8.0
Viscofán	05-Jan-06	9.59	10.20	-6.0	-11.5	-9.6	-0.1	-6.4	3.1	18.6
Prosegur	05-Jan-06	22.69	20.07	13.1	7.6	9.4	-0.8	7.8	13.9	19.4
<b>SI Bolsa Small &amp; Mid Caps Model Portfolio</b>	-	<b>105.90</b>	<b>100.00</b>	<b>5.9</b>	<b>0.4</b>	<b>2.2</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>-100.0</b>
Iberian Small & Mid Caps	-	105.48	100.00	5.5	0.0	1.8	NA	NA	NA	-100.0
IBEX35	-	11,312.60	10,913.60	3.7	-1.8	0.0	1.0	4.1	7.5	10.9
PSI 20	-	9,270.28	8,752.12	5.9	0.4	2.3	4.8	4.1	15.6	20.1
DJ Stoxx SML 200	-	177.00	168.22	5.2	-0.3	1.6	0.3	4.3	13.1	16.6

Source: Santander Investment Bolsa.

**ANALYST CERTIFICATION:** We, Jesús Gómez, Antonio Espasa and Juan José Fernández, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject companies and their securities. We also certify that we have not been promised compensation, either directly or indirectly, for expressing the recommendations in this report.

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# I. MACROECONOMIC ESTIMATES AND FORECASTS

## Europe, the US and Japan – Estimates and Forecasts, 2002-06F

GDP	2003	2004	2005E	Cons	2006E	Cons	2007E	Cons
Germany	-0.2	1.1	1.0	0.9	1.6	1.3	2.0	1.4
France	0.9	2.1	1.7	1.5	2.1	1.8	1.9	2.1
Italy	0.4	1.0	0.2	0.1	1.6	1.1	1.6	1.4
Spain	3.0	3.1	3.4	3.3	2.8	2.9	2.4	2.9
Portugal	-1.2	1.2	0.5	0.7	1.0	1.5	1.4	–
<b>Euro-12</b>	<b>1.6</b>	<b>1.8</b>	<b>1.4</b>	<b>1.3</b>	<b>1.9</b>	<b>1.7</b>	<b>2.0</b>	<b>2.2</b>
UK	2.5	3.2	–	1.8	–	2.2	–	–
Argentina	8.8	9.0	8.0	8.4	6.0	5.5	–	3.6
Brazil	0.5	4.9	3.4	2.6	3.8	3.5	–	3.7
México	1.6	4.4	3.2	3.1	3.3	3.5	–	3.3
Japan	1.4	2.6	–	2.3	–	2.0	–	–
<b>US</b>	<b>2.7</b>	<b>4.2</b>	<b>3.6</b>	<b>3.6</b>	<b>3.8</b>	<b>3.4</b>	<b>3.0</b>	<b>3.2</b>

CPI	2003	2004	2005E	Cons	2006E	Cons	2007E	Cons
Germany	1.1	1.7	2.0	2.0	2.1	1.8	1.9	1.5
France	2.2	2.3	2.0	1.9	2.1	1.7	2.1	1.7
Italy	2.8	2.3	2.2	2.2	2.3	2.1	2.0	1.9
Spain	3.0	3.0	3.4	3.4	3.1	3.1	2.6	2.8
Portugal	3.3	2.4	2.4	2.3	2.9	2.2	2.3	–
<b>Euro-12</b>	<b>2.1</b>	<b>2.1</b>	<b>2.2</b>	<b>2.2</b>	<b>2.3</b>	<b>2.0</b>	<b>2.1</b>	<b>1.8</b>
UK	1.4	1.3	–	2.1	–	2.0	–	1.9
Argentina	3.7	6.1	11.0	12.3	11.0	11.6	–	7.2
Brazil	9.3	7.6	5.1	5.6	4.5	4.7	–	4.3
México	4.0	5.2	3.6	3.4	3.8	3.6	–	3.8
Japan	-0.3	0.0	–	-0.2	–	0.3	–	–
<b>US</b>	<b>2.3</b>	<b>2.7</b>	<b>3.4</b>	<b>3.3</b>	<b>3.0</b>	<b>2.9</b>	<b>2.5</b>	<b>2.4</b>

Financial Indicators	2003	2004	2005E	Cons	2006E	Cons	2007E	Cons
<b>Intervention rates</b>								
Euro-zone	<b>2.00</b> (2.25)	<b>2.00</b> (2.00)	<b>2.25</b> (2.05)	–	<b>3.00</b> (2.75)	2.63	<b>3.25</b> (3.25)	–
US	<b>1.00</b> (1.10)	<b>2.25</b> (1.40)	<b>4.25</b> (3.25)	–	<b>4.75</b> (4.63)	4.5	<b>4.50</b> (4.69)	–
<b>3M rates</b>								
Euro-zone	<b>2.11</b> (2.26)	<b>2.13</b> (2.08)	<b>2.49</b> (2.17)	–	<b>3.20</b> (2.92)	2.63	<b>3.10</b> (3.23)	3.00
US	<b>1.09</b> (1.14)	<b>2.52</b> (1.56)	<b>4.50</b> (3.60)	–	<b>5.00</b> (4.83)	4.4	<b>4.40</b> (4.73)	–
<b>2Y bond yields</b>								
Euro-zone	<b>2.61</b> (2.46)	<b>2.48</b> (2.48)	<b>2.86</b> (2.41)	–	<b>3.60</b> (3.35)	–	<b>2.90</b> (3.20)	–
US	<b>1.82</b> (1.64)	<b>3.06</b> (2.36)	<b>4.40</b> (3.89)	–	<b>4.90</b> (4.98)	–	<b>4.00</b> (4.43)	–
<b>10Y bond yields</b>								
Euro-zone	<b>4.29</b> (4.09)	<b>3.68</b> (4.06)	<b>3.31</b> (3.36)	–	<b>4.25</b> (4.06)	3.69	<b>4.00</b> (4.28)	3.90
US	<b>4.25</b> (3.99)	<b>4.22</b> (4.25)	<b>4.39</b> (4.26)	–	<b>4.85</b> (4.96)	4.9	<b>4.30</b> (4.44)	5.2
<b>Currencies</b>								
Euro-dollar	<b>1.26</b> (1.14)	<b>1.36</b> (1.24)	<b>1.18</b> (1.24)	–	<b>1.13</b> (1.15)	1.26	<b>1.10</b> (1.10)	1.32

(\*) Annual averages in brackets.

Source: Consensus forecasts (January 2006). Euro Zone Barometer (January 2006). Santander Investment Securities and Santander Investment Bolsa estimates.



## II. COUNTRY AND SECTOR MONITOR

### Valuation Multiples

	Mkt Cap (€ mn)	P/E (x)			EPS CAGR (%)	EV/EBITDA (x)				EBITDA CAGR (%)	P/CF (x)			CF CAGR (%)	GDY (%)		P/BV (x)	
		05E	06E	07E		05E	06E	07E	05E		06E	07E	06E		07E	06E	07E	
France (CAC 40)	762,550	17.4	15.0	13.5	12.1	7.8	7.4	6.8	15.5	10.2	9.1	8.3	10.1	2.6	2.9	2.5	2.2	
Germany (DAX 30)	584,719	17.7	15.3	13.5	12.8	7.0	6.7	6.1	9.4	9.7	8.7	7.7	6.3	2.9	3.1	2.5	2.1	
Italy (MIB 30)	537,866	17.4	15.1	13.2	14.0	6.7	6.4	6.0	6.9	7.7	7.4	6.9	6.5	4.1	4.3	2.4	2.2	
Portugal (PSI 20)	56,804	16.8	15.2	13.4	11.9	9.2	8.8	8.2	5.2	7.8	7.2	6.7	4.8	3.5	3.7	2.4	2.2	
Spain (IBEX35)	519,643	17.3	16.5	14.8	11.7	8.8	8.1	7.5	6.6	9.7	8.8	7.9	7.4	3.4	3.8	3.3	2.9	
DJ Stoxx 600	8,059,073	17.4	14.9	13.3	11.9	8.3	7.8	7.1	13.1	11.9	9.9	8.3	10.5	3.0	3.3	3.6	3.4	
DJ Stoxx 50	3,374,569	14.6	13.4	12.3	12.6	8.4	7.8	7.2	12.7	10.9	9.9	9.3	9.8	3.4	3.7	2.9	2.6	
DJ Euro Stoxx 50	1,397,547	16.1	14.4	13.1	12.1	7.7	7.3	6.7	10.3	9.8	8.9	8.2	9.1	3.4	3.6	2.7	2.4	
Iberia Capital Goods	38,222	12.4	14.7	28.8	-24.2	5.6	6.4	14.7	-24.7	8.0	8.4	17.8	-23.9	2.4	1.6	2.0	5.1	
Iberia Construction	35,212	21.3	18.7	16.6	15.4	10.8	9.8	8.9	11.8	12.7	11.5	10.5	24.6	1.6	1.8	3.2	2.9	
Iberia Consumer Goods	37,945	22.6	19.9	26.7	-1.9	10.4	9.3	12.8	-3.4	13.6	12.3	16.3	-2.7	2.8	2.6	4.4	5.1	
Iberia Consumer Services	56,598	14.9	16.7	16.0	4.3	11.2	11.1	11.0	8.3	9.6	9.0	9.6	6.8	2.2	2.3	2.4	2.4	
Iberia Financials	194,027	15.2	12.8	11.1	22.2	NA	NA	NA	NA	NA	NA	NA	NA	3.6	4.2	2.3	2.1	
Iberia Oil & Gas	54,585	12.5	11.6	17.6	3.6	6.2	6.3	7.9	-1.8	7.7	6.8	8.9	-2.1	2.4	2.0	2.2	2.6	
Iberia TMTs	134,049	30.3	24.2	63.1	-13.0	11.5	10.3	29.9	-22.4	13.8	13.4	39.0	-27.5	1.8	0.9	6.2	11.4	
Iberia Utilities	71,448	20.2	17.6	26.2	-5.8	9.7	8.8	11.6	-2.3	10.6	9.6	13.5	-12.2	3.2	2.1	4.3	4.0	
Total Iberia	622,088	17.6	15.9	18.4	6.6	12.6	12.1	17.4	-5.3	15.6	14.7	21.8	-8.5	2.7	2.5	3.0	3.2	

Note: CAGRs are calculated over 2004-07E.

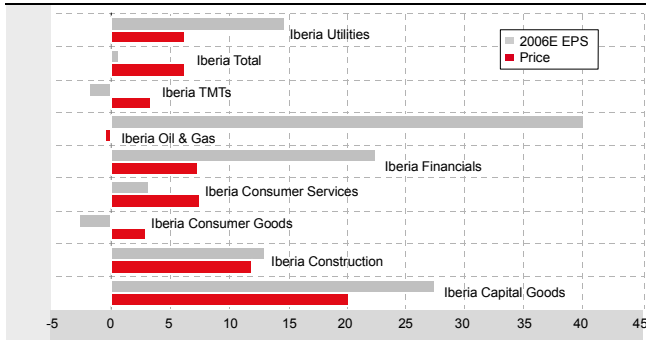
Source: Bloomberg, JCF and Santander Investment Bolsa estimates.

### Market Performance (%)

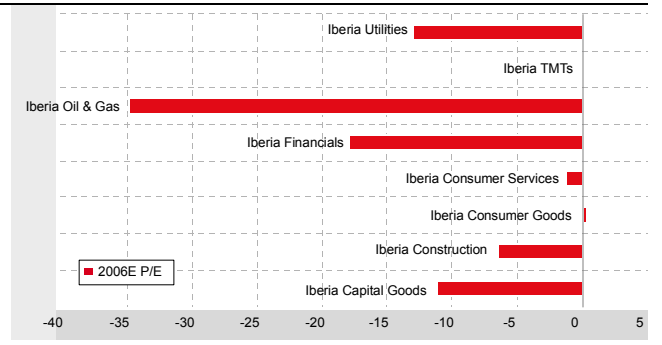
Index	Close 10-Feb	Last 12M							QTD	YTD	From	
		High	Low	-1W	-1M	-3M	-6M	-12M			12M High	12M Low
France (CAC40)	4,956	5,012	3,882	0.6	1.9	10.6	9.5	24.8	5.1	5.1	-1.1	27.6
Germany (DAX30)	5,744	5,761	4,158	1.7	4.5	14.5	15.1	32.3	6.2	6.2	-0.3	38.2
Italy (MIB30)	37,099	37,099	30,778	1.7	3.1	11.4	9.1	14.2	4.9	4.9	0.0	20.5
Portugal (PSI20)	9,242	9,292	7,378	5.2	4.3	16.0	19.8	14.8	7.2	7.2	-0.5	25.3
Spain (IBEX35)	11,345	11,345	8,939	1.9	4.4	8.7	10.9	20.0	5.7	5.7	0.0	26.9
DJ Stoxx 600	324	326	254	0.9	2.7	9.3	11.9	23.2	4.6	4.6	-0.4	27.5
DJ Stoxx 50	3,454	3,483	2,794	0.7	1.1	5.9	8.4	19.5	3.1	3.1	-0.9	23.6
DJ Euro Stoxx 50	3,727	3,745	2,911	1.4	2.2	10.9	10.6	22.4	4.1	4.1	-0.5	28.0
Iberia Capital Goods	NA	NA	NA	-2.4	16.3	26.7	25.8	36.6	20.0	20.0	-7.5	53.0
Iberia Construction	NA	NA	NA	1.7	11.2	17.9	16.0	49.7	12.6	12.6	-3.3	60.4
Iberia Consumer Goods	NA	NA	NA	1.5	2.1	10.9	17.8	21.7	3.3	3.3	-3.1	30.9
Iberia Consumer Services	NA	NA	NA	1.7	5.2	3.9	7.6	32.7	7.8	7.8	-8.1	45.5
Iberia Financials	NA	NA	NA	2.0	6.5	11.2	16.5	23.3	7.5	7.5	-1.0	32.2
Iberia Oil & Gas	NA	NA	NA	1.8	-3.1	1.4	-0.3	19.3	-0.4	-0.4	-12.9	23.9
Iberia TMTs	NA	NA	NA	4.5	0.3	3.5	0.0	-4.7	3.8	3.8	-10.2	13.1
Iberia Utilities	NA	NA	NA	0.0	7.6	14.3	24.5	32.8	6.7	6.7	-2.6	40.9
Total Iberia	NA	NA	NA	1.9	4.7	9.3	11.4	19.0	6.6	6.6	-5.7	31.0

Source: Bloomberg.

**DJ Stoxx 600 – YTD Changes in Prices and 2006E EPS Estimates by Sector (%)**

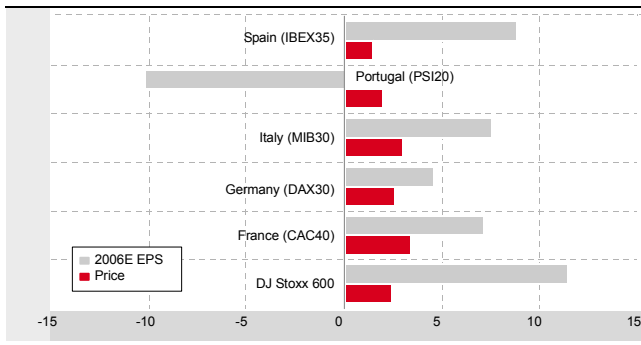


**DJ Stoxx 600 – Relative Re-Rating/De-Rating in 2006E P/E by Sector (%)**

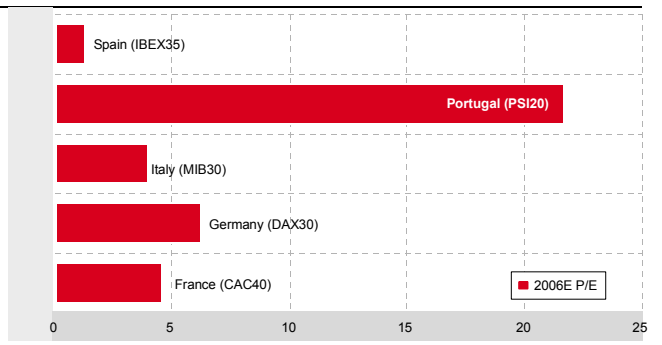


Source: Bloomberg, JCF and Santander Investment Bolsa estimates.

**DJ Stoxx 600 – YTD Changes in Prices and 2006E EPS Estimates by Country (%)**



**DJ Stoxx 600 – Relative Re-Rating/De-Rating in 2006E P/E by Country (%)**



Source: Bloomberg, JCF and Santander Investment Bolsa estimates.

# III. STOCK RATINGS AND VALUATION MULTIPLES

Company	Ctry	Cury	Price 26/01/06	Mkt Cap (€ mn)	SI Bolsa Recom	Target Price	Upside Potential (%)	Weighting (%)		Mkt Perform (%)			P/E (x)			EV/EBITDA (x)			04-07E EPS CAGR (%)			04-07E EBITDA CAGR (%)			P/C/F (x)			04-07E CFPS CAGR (%)			GDY (%)	P/BV (x)		Company
								IBEX 35	PSI 20	-1W	QTD	YTD	05E	06E	07E	05E	06E	07E	05E	06E	07E	05E	06E	07E	05E	06E	07E	06E	07E	06E		07E		
Acerinox	SP	EUR	12.9	3,340	U/W	12.2	-5.2	0.8		3.8	4.7	4.7	12.1	12.3	10.2	3.2	6.5	6.6	5.6	3.8	7.7	7.7	6.7	-0.4	2.7	2.7	1.6	1.4	Acerinox					
Arcelor	SP	EUR	22.3	14,254	U/W	15.2	-32.0	2.1		5.1	5.8	5.8	7.1	10.1	12.5	NA	NA	NA	NA	NA	4.9	5.5	NA	NA	2.7	NA	1.2	NA	Arcelor					
Cementos Portland	SP	EUR	79.5	2,212	Buy	80.0	0.7			12.4	15.0	15.0	15.0	12.3	12.5	15.2	7.0	5.9	5.7	10.1	9.5	8.3	8.2	10.9	2.9	2.9	2.1	1.9	Cementos Portland					
Cimpor	POR	EUR	4.8	3,205	U/W	3.9	-18.2		4.5	0.8	2.6	2.6	20.1	17.3	13.5	8.4	9.0	8.0	7.8	4.3	9.0	8.4	7.4	1.0	3.5	4.4	2.9	2.7	Cimpor					
Ence	SP	EUR	28.3	3,962	Buy	35.0	-23.5			1.2	8.1	8.1	11.6	10.9	14.3	5.3	7.1	5.8	7.6	11.8	6.4	6.8	7.9	2.1	2.5	2.6	1.1	1.1	Ence					
Gamesa	SP	EUR	13.0	3,165	U/W	12.5	-3.9			3.3	5.3	5.3	14.8	13.9	12.0	6.1	10.2	9.4	8.3	12.6	8.0	7.4	6.7	8.8	2.3	2.7	2.7	2.7	Gamesa					
Tubacex	SP	EUR	3.8	507	U/R	U/R	-34.4			+4.5	8.4	6.4	19.2	15.6	23.1	17.6	9.7	8.6	11.2	7.1	10.7	10.6	14.0	7.0	1.9	3.3	2.3	2.2	Tubacex					
Uralita	SP	EUR	3.9	768	Buy	U/R	41.4			-0.8	13.7	13.7	20.1	18.2	14.4	5.7	6.0	5.8	5.1	-0.2	7.1	6.9	6.1	-8.5	2.2	2.8	3.2	2.9	Uralita					
Zardoya Otis	SP	EUR	21.5	5,129	U/W	20.7	-4.0			1.1	0.7	0.7	32.7	32.4	29.6	3.4	21.4	19.2	17.6	9.5	30.0	29.8	27.8	5.3	3.3	3.6	32.6	29.7	Zardoya Otis					
<b>Capital Goods</b>				<b>33,543</b>				<b>3.7</b>	<b>4.5</b>	<b>3.8</b>	<b>5.3</b>	<b>5.3</b>	<b>10.9</b>	<b>12.9</b>	<b>25.3</b>	<b>-24.2</b>	<b>5.0</b>	<b>5.7</b>	<b>13.0</b>	<b>-24.7</b>	<b>7.0</b>	<b>7.3</b>	<b>15.8</b>	<b>-23.9</b>	<b>2.7</b>	<b>1.8</b>	<b>1.8</b>	<b>4.5</b>	<b>Capital Goods</b>					
Acciona	SP	EUR	102.7	6,523	Buy	105.0	2.3			6.0	8.7	8.7	22.8	19.1	16.7	19.0	10.5	9.6	9.1	15.6	12.1	10.5	9.3	22.0	2.6	3.0	2.2	2.1	Acciona					
ACS	SP	EUR	28.0	9,891	U/R	U/R	1.6			2.8	3.0	3.0	17.5	15.3	13.6	17.1	8.6	7.5	6.6	8.2	13.4	12.7	11.8	18.4	1.6	1.8	3.3	2.8	ACS					
FCC	SP	EUR	51.2	6,685	Hold	U/R	U/R	1.0		1.5	6.9	6.9	16.2	15.4	14.0	7.1	8.1	7.4	6.4	7.1	9.8	9.3	8.6	5.0	3.4	3.7	2.7	2.5	FCC					
Ferrovial	SP	EUR	64.7	9,075	Buy	71.2	10.0	1.8		5.3	10.6	10.6	27.4	24.4	21.1	14.1	14.3	12.7	11.6	13.6	14.6	13.3	11.8	-321.3	1.6	1.9	3.9	3.5	Ferrovial					
OHL	SP	EUR	13.9	1,246	Buy	14.2	2.0			-0.6	3.3	3.3	21.8	19.8	16.7	22.4	7.4	7.2	6.9	15.6	7.3	6.8	6.3	4.1	1.3	1.5	2.9	3.0	OHL					
<b>Construction</b>				<b>33,421</b>				<b>6.4</b>	<b>0.0</b>	<b>3.7</b>	<b>6.9</b>	<b>6.9</b>	<b>20.2</b>	<b>18.0</b>	<b>15.9</b>	<b>14.4</b>	<b>10.3</b>	<b>9.3</b>	<b>8.5</b>	<b>11.2</b>	<b>12.2</b>	<b>11.2</b>	<b>10.2</b>	<b>25.3</b>	<b>1.7</b>	<b>1.9</b>	<b>3.0</b>	<b>2.7</b>	<b>Construction</b>					
Altadis	SP	EUR	35.0	9,409	U/W	30.7	-12.2	2.3		-9.3	-8.8	-8.8	17.3	15.4	NA	NA	NA	NA	NA	NA	11.2	10.2	NA	NA	3.3	NA	6.3	NA	Altadis					
Barón de Ley	SP	EUR	42.5	329	U/W	35.7	-16.0		NA	-0.6	2.3	2.3	17.9	18.1	17.8	-5.1	9.1	8.6	8.0	4.2	11.7	11.5	11.1	-4.1	0.0	0.0	1.7	1.5	Barón de Ley					
Cortefiel	SP	EUR	18.6	1,453	U/R	-	NA	NA	NA	0.2	40.9	40.9	17.5	15.5	NA	NA	NA	NA	NA	NA	10.3	9.2	NA	NA	2.5	NA	3.0	NA	Cortefiel					
Ebro Puleva	SP	EUR	14.2	2,177	Buy	19.4	-19.4			-0.5	0.9	0.9	15.3	12.5	15.7	4.7	9.1	7.7	8.3	4.7	7.1	7.0	7.8	4.4	2.7	2.9	1.8	1.7	Ebro Puleva					
Faes	SP	EUR	18.5	1,032	U/W	14.1	-23.9			5.6	17.1	17.1	52.2	49.6	48.3	-5.5	31.2	29.5	28.7	0.4	28.9	28.7	28.0	-8.6	1.3	1.3	7.1	6.6	Faes					
Inditex	SP	EUR	27.7	17,266	Buy	31.0	11.9	2.5		2.4	0.5	0.5	24.3	20.9	18.3	13.9	12.0	10.2	8.7	15.6	16.1	13.7	11.9	13.3	3.5	4.6	5.2	4.7	Inditex					
Jerónimo Martins	POR	EUR	13.0	1,637	U/W	12.4	-4.7	1.5		-1.1	2.4	2.4	15.6	15.2	14.6	4.1	7.3	7.1	6.7	4.4	8.0	7.6	7.1	6.5	3.2	3.3	3.4	3.1	Jerónimo Martins					
Sos Cuétara	SP	EUR	11.3	1,556	U/W	7.0	-32.2			-0.5	2.9	2.9	32.9	30.5	23.7	22.1	15.7	13.6	11.6	20.5	18.0	17.7	15.0	14.2	0.9	0.9	2.3	2.6	Sos Cuétara					
Viscofán	SP	EUR	9.9	480	Buy	13.0	31.0			-0.7	6.9	6.9	55.5	45.6	33.6	10.4	9.5	9.5	8.1	15.2	18.8	18.3	15.8	8.7	1.4	1.5	1.8	1.8	Viscofán					
Zelitia	SP	EUR	5.8	1,231	U/W	5.0	-14.1			-1.5	-1.0	-1.0	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	0.0	0.0	4.1	3.4	Zelitia					
<b>Consumer Goods</b>				<b>36,570</b>				<b>-100.1</b>	<b>1.5</b>	<b>-1.5</b>	<b>-0.3</b>	<b>-0.3</b>	<b>21.7</b>	<b>19.1</b>	<b>25.7</b>	<b>-1.9</b>	<b>10.0</b>	<b>8.9</b>	<b>12.3</b>	<b>-3.4</b>	<b>13.1</b>	<b>11.9</b>	<b>15.7</b>	<b>2.0</b>	<b>2.7</b>	<b>4.3</b>	<b>5.0</b>	<b>Consumer Goods</b>						
NH Hoteles	SP	EUR	13.2	1,575	Buy	14.3	-8.1	0.4		0.9	-0.5	-0.5	36.7	20.7	16.9	30.2	13.3	10.7	9.7	8.9	13.0	10.6	9.8	15.6	2.4	3.0	2.3	2.1	NH Hoteles					
Sol Melia	SP	EUR	11.1	2,044	Buy	13.3	19.8			1.1	-1.6	-1.6	20.6	14.2	10.9	64.8	9.9	8.3	6.9	14.8	9.7	8.1	6.9	31.4	2.1	1.3	2.4	2.0	Sol Melia					
Telepizza	SP	EUR	2.2	1,409	U/W	1.6	-15.3			-1.1	-1.9	-1.9	19.9	19.3	13.6	17.1	10.8	10.5	9.8	10.8	10.8	10.5	9.8	-3.0	2.6	2.7	3.1	2.1	Telepizza					
Iberia	SP	EUR	2.8	2,094	U/W	2.0	-9.9	0.5		0.5	-3.0	-3.0	3.2	3.0	14.5	-10.4	4.3	16.0	11.4	-1.0	3.1	8.2	6.2	-5.4	2.3	2.3	1.1	1.0	Iberia					
Logista	SP	EUR	44.3	2,025	Buy	47.0	6.1			-1.1	6.7	6.7	20.9	17.9	16.6	10.9	9.5	8.4	7.6	17.0	12.2	10.9	10.2	8.8	2.8	3.0	3.7	3.3	Logista					
Abertis	SP	EUR	21.4	12,402	U/W	17.5	-18.4	2.2		0.5	0.8	0.8	NA	NA	NA	NA	12.1	11.5	11.0	6.2	NA	NA	NA	NA	2.9	3.1	NA	NA	Abertis					
Brisa	POR	EUR	7.3	4,360	U/R	7.3	0.3	7.4		0.6	1.7	1.7	20.8	20.8	20.8	4.6	13.7	14.1	13.7	2.2	16.1	16.1	15.6	1.3	4.0	4.3	2.6	2.6	Brisa					
Cintra	SP	EUR	11.0	5,407	Buy	12.7	15.5	0.8		6.8	12.7	12.7	8.3	5.0	3.9	5.5	24.2	19.2	15.3	23.1	2.8	2.3	2.1	4.3	1.5	1.5	2.9	2.7	Cintra					
Inm. Colonial	SP	EUR	50.5	3,015	Buy	54.2	-7.3			2.4	5.5	5.5	11.0	18.2	16.7	12.6	10.7	13.4	12.6	14.9	7.7	11.2	10.5	-7.6	2.3	2.5	2.1	1.8	Inm. Colonial					
Inm. Urbis	SP	EUR	17.0	2,183	U/W	7.0	-1.5			-0.2	1.9	2.3	13.4	31.6	20.4	25.0	11.9	10.9	11.2	24.3	19.2	17.9	9.7	7.8	2.5	2.8	2.5	2.2	Inm. Urbis					
Metrovacesa	SP	EUR	56.5	5,751	U/W	55.0	-2.7	1.4		-0.2	10.1	10.1	16.4	14.1	14.7	9.3	20.2	15.0	15.2	37.3	11.6	10.5	10.8	12.5	1.4	1.9	2.6	2.3	Metrovacesa					
Sacyr Vallehermoso	SP	EUR	20.1	5,520	Hold	24.5	21.8	0.8		0.6	-2.4	-2.4	18.0	22.0	18.3	1.8	15.1	13.6	12.5	14.5	8.9	9.6	8.7	60.4	1.1	1.4	2.8	2.5	Sacyr Vallehermoso					
Abeongo	SP	EUR	14.0	1,267	Buy	16.0	14.3			-1.8	12.8	12.8	20.9	14.1	13.8	-7.2	8.7	6.6	6.3	1.5	9.2	7.4	7.1	4.1	1.0	1.0	2.6	2.2	Abeongo					
Aguas Barcelona	SP	EUR	19.6	2,878	Hold	20.5	4.5			7.5	9.0	9.0	15.9	14.5	13.3	2.8	7.9	7.3	6.8	11.1	17.9	7.7	7.3	5.2	1.9	2.0	1.9	1.7	Aguas Barcelona					
Prosegur	SP	EUR	21.4	1,321	Buy	23.5	9.8	4.6		-2.4	10.8	10.8	21.6	17.0	15.4	60.7	9.5	7.7	7.1	15.2	10.5	9.1	8.5	28.4	1.3	1.6	3.9	3.3	Prosegur					
Sonae SGPS	POR	EUR	1.2	2,420	Buy	1.4	14.0			-0.8	2.5																							

## IV. MOMENTUM MONITOR

1M Stock Market Performance (%)			
Ten Highest		Ten Lowest	
Arcelor	32.5	Sos Cuétara	-1.4
Abengoa	31.4	Altadis	-1.6
B. Guipuzcoano	23.7	Zeltia	-2.2
Acciona	17.8	Telecinco	-4.0
Tubacex	17.3	TelePizza	-4.3
Cem. Portland	16.1	Sogetcable	-4.3
FCC	15.0	Indra	-5.1
OHL	13.3	Viscofán	-5.4
Endesa	12.0	Jazztel	-8.9
TPI	12.0	Repsol YPF	-9.9

Performance from 12M High (%)			
Ten Highest		Ten Lowest	
FCC	-0.2	TelePizza	-10.4
ACS	-0.7	Metrovacesa	-11.3
Grupo Santander	-0.8	Telefónica	-11.6
Inditex	-0.8	Zardoya Otis	-13.4
BCP	-0.8	Uralita	-14.5
REE	-0.8	Indra	-14.5
Prosegur	-0.8	Abertis	-14.5
Iberdrola	-0.8	Zeltia	-18.5
B. Sabadell	-0.9	Repsol YPF	-19.1
Tubacex	-0.9	Jazztel	-50.9

3M Consensus Recommendation <sup>1</sup>			
Ten Highest		Ten Lowest	
B. Guipuzcoano	2.8	Tubacex	1.5
Metrovacesa	2.7	Jerónimo Martins	1.5
Faes	2.7	Ence	1.5
Jazztel	2.6	BBVA	1.5
Acciona	2.6	Inditex	1.5
NH Hoteles	2.6	Arcelor	1.5
Abertis	2.5	Prisa	1.4
B. Valencia	2.5	Ferrovial	1.4
CF Alba	2.5	B. Pastor	1.4
Inm. Colonial	2.5	Sonae SGPS	1.3

2006 Consensus EPS / SCH 2006F EPS (%)			
Ten Highest		Ten Lowest	
Iberdrola	30.6	NH Hoteles	-20.1
Sacyr Valleherm.	28.9	Prisa	-20.5
TPI	26.1	Aguas Barcelona	-23.4
PT Multimédia	24.8	Sonae SGPS	-23.6
Cimpor	22.0	Portugal Telecom	-27.5
Faes	18.4	REE	-29.1
Amadeus	17.9	Sol Meliá	-31.3
Barón de Ley	15.3	Gas Natural	-38.7
B. Valencia	14.9	Sogetcable	-71.4
Brisa	13.1	EDP	-85.7

(1) 1 = Buy; 2 = Hold; 3 = Sell.

Source: Bloomberg, JCF and Santander Investment Bolsa estimates.

3M Stock Market Performance (%)			
Ten Highest		Ten Lowest	
Arcelor	47.3	Telefónica Móviles	0.1
Antena 3	40.3	Zardoya Otis	-0.4
B. Guipuzcoano	29.7	Ebro Puleva	-2.3
Cementos Portland	26.5	Sacyr Valleherm.	-2.8
Abengoa	25.5	Metrovacesa	-3.0
Tubacex	25.3	Sogetcable	-3.0
Portugal Telecom	24.4	Abertis	-3.9
OHL	23.7	Repsol YPF	-4.9
Sonae SGPS	22.6	Indra	-8.2
ACS	22.6	Jazztel	-10.9

Performance from 12M Low (%)			
Ten Highest		Ten Lowest	
Abengoa	122.1	Cimpor	16.2
OHL	101.3	Barón de Ley	15.1
Tubacex	94.3	Gas Natural	13.3
Arcelor	93.5	Telefónica Móviles	13.2
Metrovacesa	86.5	B. Popular	12.2
Sacyr Valleherm.	78.1	Jazztel	10.8
Acciona	73.6	BES	8.6
B. Guipuzcoano	72.8	Prisa	8.2
Antena 3	71.5	Telefónica	6.2
B. Pastor	66.5	Zeltia	6.0

3M Positive to Negative Recommendations (x)			
Ten Highest		Ten Lowest	
Inditex	8.5	BES	0.2
Arcelor	7.5	Sos Cuétara	0.2
Brisa	7.0	Acciona	0.2
Ence	7.0	NH Hoteles	0.1
Endesa	6.5	Amadeus	0.0
Tubacex	5.0	Cortefiel	0.0
Grupo Santander	3.8	Aldeasa	0.0
Enagás	3.8	Faes	0.0
FCC	3.7	B. Guipuzcoano	0.0
Telefónica	3.5	Jazztel	0.0

Most Recommended Stocks (% of Buys)			
Ten Highest		Ten Lowest	
Jerónimo Martins	83.3	Acciona	11.8
Tubacex	83.3	Sos Cuétara	11.1
B. Pastor	81.8	NH Hoteles	5.9
BBVA	75.0	Unión Fenosa	0.0
Ferrovial	75.0	Amadeus	0.0
Cimpor	75.0	Cortefiel	0.0
Arcelor	71.4	Aldeasa	0.0
Brisa	70.0	Faes	0.0
Prisa	68.8	B. Guipuzcoano	0.0
Enagás	68.2	Jazztel	0.0



## V. VALUE MONITOR

2006E P/E (x)			
Ten Highest		Ten Lowest	
B. Valencia	27.5	PT Multimédia	33.3
TPI	26.6	Portugal Telecom	12.4
Ferrovial	24.5	Inm. Urbis	11.9
B. Guipuzcoano	28.0	Cem. Portland	12.3
Sacyr Valleherm.	24.1	Ence	10.9
Brisa	20.8	Arcelor	13.2
Inditex	21.7	Repsol YPF	8.7
OHL	21.4	Gas Natural	9.0
TelePizza	18.8	EDP	1.9
Enagás	18.7	Jazztel	-8.6

2006E GDY (%)			
Ten Highest		Ten Lowest	
Brisa	4.0	Abengoa	0.8
BCP	3.7	Sos Cuétara	0.9
REE	3.6	B. Valencia	0.8
Gas Natural	3.5	Indra	0.7
Inditex	3.4	Unión Fenosa	0.5
FCC	3.3	Sogecable	0.3
B. Sabadell	3.2	PT Multimédia	0.0
Cimpor	3.4	Jazztel	0.0
Cementos Portland	2.9	Zeltia	0.0
Iberdrola	3.0	Barón de Ley	0.0

2006E P/CF (x)			
Ten Highest		Ten Lowest	
Viscofán	17.7	Unión Fenosa	6.6
Sos Cuétara	17.6	Gas Natural	6.3
Antena 3	17.7	Arcelor	7.2
Brisa	16.1	Repsol YPF	4.8
Prisa	13.5	Telefónica	5.4
Inditex	14.2	Portugal Telecom	5.2
Ferrovial	13.4	Sonae SGPS	4.5
ACS	13.2	PT Multimédia	5.5
TPI	12.4	EDP	0.9
Barón de Ley	11.5	Jazztel	-12.8

2006E P/BV (x)			
Ten Highest		Ten Lowest	
Faes	7.1	Repsol YPF	1.6
Inditex	5.4	Sonae SGPS	1.7
Prisa	4.8	Corp. Mapfre	1.8
Telefónica Móviles	4.8	Barón de Ley	1.7
Zeltia	4.1	Acerinox	1.6
B. Valencia	4.1	BES	1.5
Prosegur	3.9	Arcelor	1.5
Ferrovial	3.9	Ence	1.1
Portugal Telecom	4.1	Iberia	1.1
Logista	3.8	EDP	0.3

Revisions to 2006E EPS YTD (%)			
Ten Highest		Ten Lowest	
Tubacex	62.7	Sonae SGPS	-19.8
Arcelor	57.8	PT Multimédia	-22.8
Repsol YPF	38.4	Uralita	-22.7
Inm. Colonial	48.6	Ence	-28.3
Cortefiel	34.7	BES	-22.2
Antena 3	38.6	Viscofán	-25.3
Sol Meliá	33.9	Faes	-29.3
Telecinco	31.5	Cimpor	-31.5
Metrovacesa	30.9	Iberia	-40.2
B. Pastor	28.6	Sogecable	-74.4

2006E CFPS/DPS (%)			
Ten Highest		Ten Lowest	
Sacyr Valleherm.	9.1	Altadis	3.0
Prosegur	7.9	Portugal Telecom	2.9
Aguas Barcelona	6.9	Endesa	2.8
Arcelor	6.7	Faes	2.7
Repsol YPF	6.9	Inditex	2.1
Metrovacesa	6.6	TPI	1.6
Uralita	6.6	Brisa	1.5
Sos Cuétara	6.4	Prisa	1.4
Ence	5.9	Antena 3	1.4
Gamesa	5.8	Zardoya Otis	1.0

2006E D/E (%)			
Ten Highest		Ten Lowest	
Metrovacesa	239.4	TPI	-4.6
Ferrovial	229.5	Cementos Portland	-5.2
Unión Fenosa	221.0	TelePizza	-10.6
Brisa	155.6	Inditex	-19.9
PT Multimédia	140.3	Prisa	-22.1
Enagás	147.3	Telecinco	-32.4
Inm. Urbis	134.8	Logista	-42.2
Inm. Colonial	134.4	Iberia	-63.1
EDP	133.4	Antena 3	-66.0
Gamesa	128.3	Zardoya Otis	-136.3

2006E ROE (%)			
Ten Highest		Ten Lowest	
Gamesa	24.9	Ence	10.8
Prosegur	26.7	BES	10.4
Jerónimo Martins	23.6	Barón de Ley	9.8
Telefónica	23.2	Sos Cuétara	9.5
ACS	23.1	Viscofán	8.1
PT Multimédia	8.1	Unión Fenosa	7.5
Inm. Urbis	22.5	Iberia	3.5
Abertis	22.3	CF Alba	0.0
Gas Natural	22.2	Zeltia	-3.3
Logista	22.2	Jazztel	-116.8

Source: Bloomberg, JCF and Santander Investment Bolsa estimates.

## VI. GROWTH MONITOR

2004-07E EPS CAGR (%)			
Ten Highest		Ten Lowest	
BES	28.6	Sacyr Valleherm.	1.8
Sogecable	26.5	TelePizza	0.9
Prisa	25.1	Barón de Ley	-5.1
Inm. Urbis	25.0	Faes	-5.5
OHL	22.4	Abengoa	-7.2
Indra	22.4	Iberia	-10.4
Sos Cuétara	22.1	Sonae SGPS	-12.3
B. Sabadell	20.3	TPI	-21.8
B. Popular	20.2	Jazztel	-23.7
Acciona	19.0	PT Multimédia	-202.9

2004-07E DPS CAGR (%)			
Ten Highest		Ten Lowest	
Sol Meliá	26.0	Aguas Barcelona	5.0
REE	23.4	Ence	4.3
OHL	22.4	Acerinox	3.2
Telecinco	21.4	Aldeasa	3.2
BCP	20.0	Sogecable	3.0
BBVA	22.4	Sacyr Valleherm.	1.8
Logista	19.1	Sonae SGPS	0.0
Acciona	19.0	Sos Cuétara	0.0
B. Popular	18.8	Iberia	0.0
Repsol YPF	17.3	Abengoa	0.0

2004-07E EBITDA CAGR (%)			
Ten Highest		Ten Lowest	
Prisa	19.6	Cimpor	4.3
Logista	17.0	Barón de Ley	4.2
Indra	16.0	Acerinox	3.8
OHL	15.6	Sonae SGPS	3.0
Acciona	15.6	TelePizza	2.5
Inditex	15.6	Repsol YPF	3.3
Viscofán	15.2	Brisa	2.2
Prosegur	15.2	Abengoa	1.5
Enagás	15.0	Faes	0.4
Inm. Colonial	14.9	Iberia	-1.0

2004-07E Revenues CAGR (%)			
Ten Highest		Ten Lowest	
Logista	17.9	Enagás	3.5
Gamesa	17.7	Barón de Ley	3.4
Bankinter	14.3	BES	3.1
Indra	13.9	Iberia	2.8
Corp. Mapfre	11.6	Brisa	2.8
Banesto	11.6	Repsol YPF	1.1
Telecinco	11.2	TelePizza	1.0
B. Popular	11.0	EDP	-0.3
B. Sabadell	10.8	TPI	-0.4
Abertis	10.7	Uralita	-6.5

2006E Net Margin (%)			
Ten Highest		Ten Lowest	
B. Sabadell	29.7	Arcelor	4.2
Grupo Santander	28.2	Sos Cuétara	4.0
B. Pastor	28.1	Abengoa	3.9
B. Guipuzcoano	27.8	Corp. Mapfre	3.4
Bankinter	27.7	Jerónimo Martins	2.7
BPI	25.2	Sonae SGPS	2.5
Prisa	23.0	OHL	2.3
BES	22.3	Iberia	1.3
Barón de Ley	21.7	Zeltia	-11.5
Zardoya Otis	20.7	Jazztel	-24.2

2004-07E CFPS CAGR (%)			
Ten Highest		Ten Lowest	
ACS	18.4	TelePizza	-3.0
NH Hoteles	15.6	EDP	-3.6
Sos Cuétara	14.2	Barón de Ley	-4.1
Inditex	13.3	Iberia	-5.4
Telecinco	13.0	REE	-5.6
Metrovacesa	12.5	Inm. Colonial	-7.6
Cem. Portland	10.9	Uralita	-8.5
Antena 3	10.2	Faes	-8.6
Gamesa	8.8	TPI	-15.2
Logista	8.8	Indra	-24.8

2006E EBITDA Margin (%)			
Ten Highest		Ten Lowest	
Inm. Colonial	47.4	FCC	14.3
Antena 3	45.0	OHL	12.0
Barón de Ley	44.9	Arcelor	11.6
Telefónica	44.1	Abengoa	10.9
Portugal Telecom	41.5	Sos Cuétara	9.7
Telefónica Móviles	40.8	ACS	9.0
Enagás	39.0	Jerónimo Martins	7.9
Prisa	34.5	Iberia	5.0
EDP	34.5	Zeltia	5.0
Cem. Portland	34.4	Jazztel	-1.1

Potential to SCH Target Price (%)			
Ten Highest		Ten Lowest	
Sogecable	25.6	Cimpor	-21.1
Ence	23.8	Abertis	-20.3
Sacyr Valleherm.	11.2	REE	-21.3
Sol Meliá	6.6	Faes	-24.6
TPI	15.2	Arcelor	-47.9
Ebro Puleva	17.4	Unión Fenosa	-33.0
Prisa	13.8	Tubacex	-43.3
Abengoa	-10.2	B. Guipuzcoano	-41.7
Sonae SGPS	12.2	Sos Cuétara	-37.8
Telefónica	8.4	Repsol YPF	-39.9

Source: Bloomberg, JCF and Santander Investment Bolsa estimates.

**ANALYST CERTIFICATION: We, Jesús Gómez, Antonio Espasa and Juanjo Fernández hereby certify that the views expressed in this research report accurately reflect our personal views about the subject companies and their securities. We also certify that we have not been promised compensation, either directly or indirectly, for expressing the recommendations in this report.**

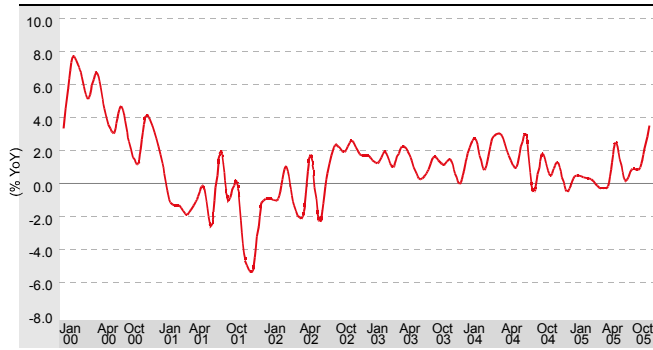
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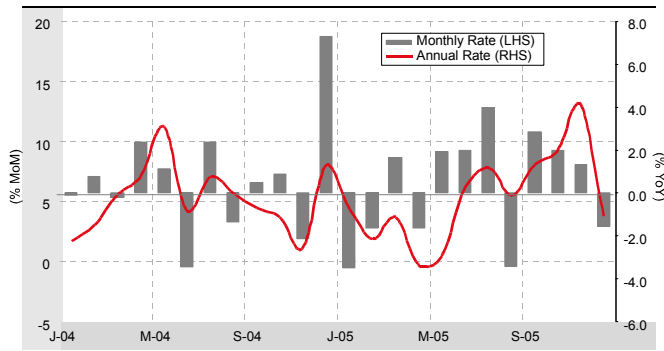
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## Spain – Industrial Production, 2000-05



Source: Datastream and Santander Investment Bolsa

## Germany – Factory Orders, 2004-05



Source: Datastream and Santander Investment Bolsa.

## Things to Watch during the Week

### In the US:

- (1) Retail sales should grow strongly in February
- (2) December business inventories could be higher than expected
- (3) Industrial production expected to rise again in January
- (4) Fed chairman Ben Bernanke to talk about the economy
- (5) Producer prices could surprise on the upside in January

### In the Euro Zone:

- (1) German 4Q05 GDP could come in weaker than expected
- (2) Spanish 4Q05 GDP should rise 0.9% QoQ
- (3) Euro zone 4Q05 GDP could be weaker than expected
- (4) The German ZEW survey likely to rise in February
- (5) Euro zone IPI could disappoint in December

- Spanish economic figures published in the last two weeks were generally negative: (1) 2005 industrial production was quite weak, despite December's increase; (2) inflation rose sharply in January; (3) consumer confidence rose, but remained in negative territory; (4) January car sales were lower; (5) January manufacturing PMI declined slightly; (6) the Bank of Spain said the economy grew 3.4% in 2005; and (7) employment data were relatively weak. We maintain our view that the economy is going to decelerate in 2006E, probably by more than consensus expects.

- German indicators were weak in December, more or less in line those published in France. In France: 4Q05 GDP grew 0.2% QoQ, down from +0.7% QoQ in 3Q05; December industrial production was negative; and the trade deficit widened, mainly driven by energy prices. We expect the Euro zone economies to accelerate in 1Q06E.

- After the release of some hard economic data in Germany last week, there were rising concerns about the strength of the current recovery process. The figures released for some important hard data for December surprised on the downside and pushed some in the market to start thinking about the end of the recovery. We do not agree with this view.

- In this week's edition of *Macro Corner*, we analyse the performance of the most important and comparable leading indicators for Spain and Germany. The reason is simple: as we have been saying for a long time, the economic scenario in the years ahead is likely to change, with the Spanish economy decelerating and the German economy accelerating. This economic performance is already reflected, in our view, in the leading indicators.

# THE WEEK BEHIND

## Macro Data Published Last Week

Day	Time	Country	Indicator/Event	Period	Reference Data	Forecast	Actual	
MONDAY	6-Feb	12:00	Germany	Factory Orders (m/y) (sa)	Dec P	1.3r/13.2r	0.6/6.0	-1.6/3.9
TUESDAY	12:00	Germany	Industrial Production (m/y) (sa/nsa wda)	Dec P	-0.4/5.0r	0.7/5.0	-0.5/3.5	
	7-Feb	21:00	US	Consumer Credit (bn)	Dec	0.57r	5.0	3.35
		23:00	US	ABC Consumer Confidence	Feb 6	-9	-9	-13
WEDNESDAY	8:00	Germany	Trade Balance (€) (bn)	Dec	13.3	13.0	9.2	
	8-Feb	8:00	Germany	Current Account (€) (bn)	Dec	8.2r	8.0	6.3
		8:00	Germany	Imports (sa) (m)	Dec	-4.2r	2.1	5.8
		8:00	Germany	Exports (sa) (m)	Dec	-1.6r	1.6	0.8
		13:00	US	MBA Mortgage Applications	Feb 3	-5.1	-	-1.2
THURSDAY	9.45	US	The Economist German Economy Survey	-	-	-	-	
	9-Feb	14:30	US	Initial Jobless Claims	Feb 4	273k	285k	277k
		14:30	US	Continuing Claims	Jan 28	2,497k	2,518k	2,557k
		16:00	US	Wholesale Inventories	Dec	0.4	0.4	-0.2/7.9
FRIDAY	8:00	Germany	Wholesale Price Index (m/y)	Jan	0.0/2.4	-	0.6/2.9	
	10-Feb	8:00	Germany	Consumer Price Index (m/y)	Jan F	0.9/2.1	-0.5/2.1	-0.5/2.1
		8:45	France	Industrial Production (m/ y)	Dec	3.1/1.3	0.3/0.6	-0.3/-0.4
		8:45	France	Manufacturing production (m/y)	Dec	2.5r/1.0r	0.3/0.7	-0.7/-1.0
		8:45	France	Trade Balance (bn)(€)	Dec	-3.1	-2.9	-3.1
		8:50	France	GDP (q)	Dec	0.7	0.4	0.2
		12:00	Euro Zone	OECD Leading Indicator	Dec	107.2	-	107.4
		14:30	US	Trade Balance (US\$ bn)	Dec	-64.7	-64.7	-65.7
		20:00	US	Monthly Budget Statement (US\$ bn)	Jan	8.6	5.0	21.0

(m) % MoM; (y) % YoY; (q) % QoQ; (a) annualised; (I) Index; (k) thousands; (mn) millions; (bn) billions; (r) revised; (E) estimate; (F) final; (P) preliminary; (sa) seasonally-adjusted; (nsa) non-seasonally adjusted; (wda) working day adjusted; (1) first release; (2) second release; (\*) CET.  
Source: Bank of Spain, Ministry of Economy, Datastream, Bloomberg, Reuters and Santander Investment Bolsa estimates.

## SPANISH DATA ON THE WEAK SIDE IN THE PAST TWO WEEKS

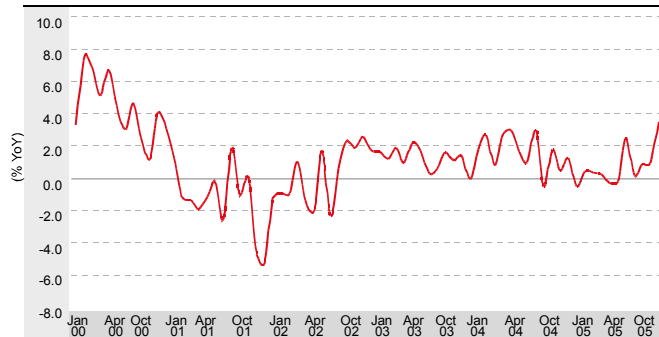
Spanish economic figures published in the past two weeks were negative in general: (1) industrial production was quite weak in 2005, despite the increase seen in December; (2) inflation rose sharply in January; (3) consumer confidence rose, but is still in negative territory; (4) car sales fell in January; (5) manufacturing PMI declined slightly in January; (6) the Bank of Spain (BoS) said the economy grew 3.4% in 2005; and (7) employment indicators were relatively weak. We maintain our view that the economy should decelerate in 2006E, probably by more than consensus expects.

### Industrial production rose 4.1% YoY in December 2005

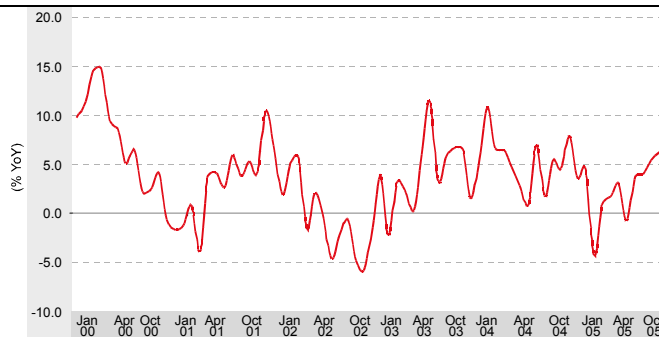
Spanish industrial production accelerated in December 2005, growing by 4.1% YoY (seasonally adjusted) versus 4.0% YoY in the previous month. The unadjusted number was +0.9% YoY. Consumer goods production fell 1.7% YoY, while that of capital goods rose 0.9% YoY, intermediate goods increased 1.0% YoY and energy posted a strong jump of 5.3% YoY. Once again, energy was industry's main source of growth in December. Overall, industrial production advanced 0.6% in 2005 versus 2004. We believe activity could accelerate in the short run, although we still think that weakness is the most probable scenario for 2006E.



**Spain – Industrial Production, 2000-05**



**Industrial Production, Energy, 2000-05**



Source: Datastream and Santander

**Inflation rises sharply in January**

The preliminary January inflation estimate showed a sharp rise in the annual rate to 4.2% YoY from 3.7% in December. However, this is just the preliminary estimate, so we cannot talk about a breakdown of the index. The official figures will be published on February 16. We believe that the sharp increase seen in inflation is due to some one-off effects recorded in January, like the increase in regulated prices (energy, transportation, etc). We also think that that prices will remain at high levels in the coming months, although we should see a deceleration in the annual growth rate.

**Consumer confidence up but private consumption should decelerate**

The ICO Consumer Confidence index rose to 85.6 in January from 83.4 in December (figures below 100 indicate a negative perception or pessimism, while numbers above 100 indicate the opposite). Despite the rise in consumer confidence, these numbers still indicate a deceleration in private consumption going forward, in line with our 2006E numbers for consumption and the message given by the Bank of Spain.

**Car sales fell 0.3% YoY in January**

Car sales fell 0.3% YoY in January. The number of units sold fell to 104,441 in January from 129,768 in December. In 2005, car sales rose 0.8% YoY, while four-wheel-drive sales rose 22.0%. In January, four-wheel-drive car sales declined 3.8%. Car sales were relatively strong in 2005, supported by strong private consumption growth. In 2006E, we expect private consumption to decelerate slightly and, therefore, car sales should be weaker than in 2005. Any increase in the ECB repo rate should stand against positive growth figures in car sales this year.

**Spanish January manufacturing PMI falls to 52.6 from 53.0 in December**

Spanish manufacturing PMI declined slightly in January to 52.6 from 53.0 in the previous month. This decline implies a moderation of growth rates in the manufacturing sector. Practically all major components of the index declined slightly in the month, although there were others (eg, production) that are still accelerating: (1) production rose to 54.4 from 53.6; (2) new orders declined to 53.3 from 54.6; (3) employment fell to 50.9 from 51.6 in December; and (4) backlog orders declined to 49.8 from 50.3, entering into contraction territory. The prices paid component rose to 64.9 from 60.5 in December, pointing to a contraction in company margins given that output prices grew at a slower pace.

The PMI is pointing to a moderation in manufacturing activity in Spain in the short run. In our view, this moderation should continue over the year. The slowdown in employment creation could continue given the decline in new orders and the contraction of backlog orders. The practically flat reading in export orders points to more weakness in the external sector.

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**Bank of Spain  
says the economy  
grew 3.4% in 2005**

On February 1, the Bank of Spain said the economy grew 3.4% in 2005, driven by strong internal demand and a highly negative contribution from the external sector (of around -2.0pp to GDP growth). Employment creation grew above 3.0%, with productivity growing practically nothing. The BoS said that private consumption decelerated somewhat, although it grew at a higher rate than disposable income. Regarding investments, the bank said that there was a deceleration in investment in capital goods and in construction in 2H05. We maintain our view that Spanish economic growth will tend to decelerate in 2006E, driven by lower private consumption growth rates in an environment of rising interest rates.

**Unemployment  
falls 239,800 in  
2005 . . .**

The national statistics institute (INE) published the 4Q05 employment figures. Spanish unemployment for the full year declined by 239,800 people in 2005, bringing the total number of unemployed to 1,841,300 (1.1% less than in 2004). Employment creation rose nearly 4.9% (894,100) in 2005. The total number of employed people rose to 19,314,300. In 4Q05, unemployment rose by 76,200, pushing the unemployment rate up to 8.7% from 8.42% in the previous quarter. Most of the jobs were created in the services sector (6.17%, up 724,400), the highest growth rate in job creation came once again from the construction sector (6.78%, up 158,000), while employment creation in the agricultural sector was modest (2.47%, up 24,200). The figures also revealed that there was job destruction in the industrial sector (-0.37%, down 12,100).

Despite the increase in unemployment in 4Q05, the 2005 numbers were positive. With the economy growing at 3.4%, job creation remains strong. However, we expect a deceleration in employment creation in both 2006E and 2007E, due to our forecasts of lower GDP growth rates. The unemployment rate could increase slightly and, in that sense, the monthly unemployment numbers were negative again in January.

**. . . but rose again  
in January**

Unemployment figures were negative in January, showing an increase in unemployment of 68,566. Total unemployment rose to 2,171,503. The increase in unemployment in January was more or less in line with the increases seen in the same month in previous years. Unemployment rose in all sectors: (1) in agriculture by 1,174 (1.80%); (2) in services by 62,752 (4.96%); (3) in construction by 3,939 (-1.61%); and (4) in those without previous employment by 4,691 (2.09%).

These unemployment figures are in line with those seen in other Januaries, although it is interesting that unemployment has gone up in the past three months, even when considering seasonally adjusted data. Going forward, we believe that the evolution of employment could be worse than in 2005, due to our expectations of a deceleration in economic growth. Even so, we do not expect a crash in employment at this stage.

**THE WEEK IN THE EURO ZONE: DO NOT WORRY ABOUT GERMANY – IT IS OK**

German indicators were weak in December, more or less in line those published in France. In France: 4Q05 GDP grew 0.2% QoQ, down from +0.7% QoQ in 3Q05; December industrial production was negative; and the trade deficit widened, mainly driven by energy prices. We expect the Euro zone economies to accelerate in 1Q06E.

**Weak GDP growth  
in Germany in the  
4Q05**

After the release of some hard economic data in Germany last week, there were rising concerns about the strength of the current recovery process. The figures released for some important hard data for December surprised on the downside and pushed some in the market to start thinking about the end of the recovery. We do not agree with this view.



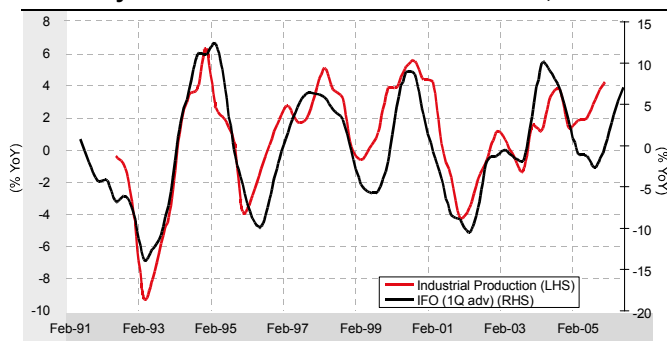
**But do not worry about the future...**

In that sense, the numbers published during the week only change our estimates for 4Q05E GDP growth, which we do admit that could disappoint those that only look at some 'past' indicators rather than sustainable trends. Although some December numbers have come in well below expectations, the performance of these indicators over the quarter was positive, as we will see now. Moreover, leading indicators are anticipating that economic growth is likely to accelerate in 1Q06E rather than decelerate.

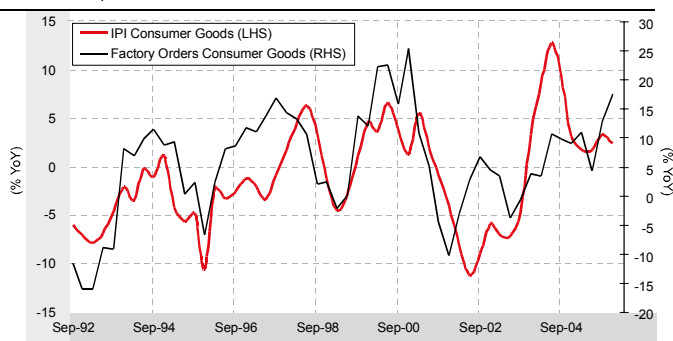
**Industrial production figures disappoint in December**

German industrial production fell 0.5% MoM in December after a decline of 0.4% MoM in November, leaving the annual rate at 3.4%, above the 2.8% growth in industrial production reached in 2005. The decline in industrial production in December was mainly due to the negative number registered in capital goods (-2.4% MoM), since the remaining industries performed relatively well: intermediate goods (0.4% MoM); energy (1.4% MoM); consumer goods (-0.2% MoM) and construction (3.4% MoM). The 4Q05 industrial production growth rates were strong (4.3% QoQ annualised, from 6.4% QoQ annualised in 3Q05) Industrial production grew 4.2% YoY in 4Q05. Looking at factory orders and leading business confidence indicators, we believe that industrial production annual growth rates (4.2% in 4Q05) are likely to be maintained or even improved on, in 1Q06E. We expect a deceleration towards the end of the year, but in the short run the numbers should remain positive.

**Germany – Industrial Production vs IFO index, 1991-2006**



**Industrial Production vs Factory Orders for Consumer Goods, 1992-2005**

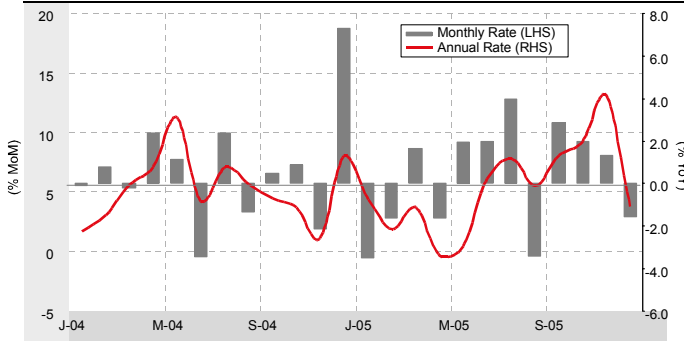


Source: Datastream and Santander Investment Bolsa.

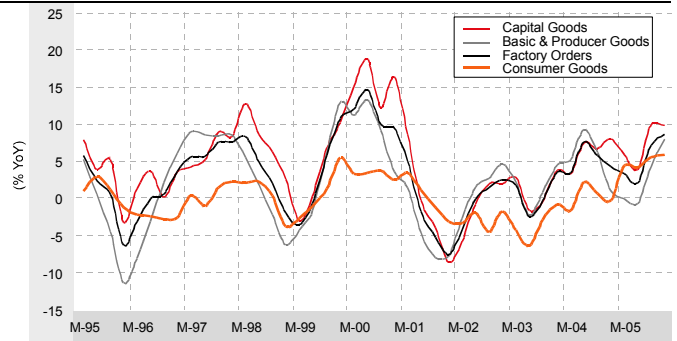
**Factory orders also surprised on the downside**

Factory orders fell 1.6% MoM in December after three months in a row of positive figures. The annual rate fell to 3.8% from 13.1% in November. The deceleration in the annual rate is due to capital goods orders (14.4% MoM in December 2004 versus -2.8% MoM in December 2005). The reason for the deceleration is simple: December 2004 was a fantastic month in terms of orders, with the monthly rate going up by 7.3%. This was the best monthly performance since July 1984 (+9.8% MoM) and clearly a one-off. Obviously, in January 2005 there was a pay back (-3.5% MoM). Consequently, although the MoM orders increase in January 2006 is likely to be modest (something that seems reasonable to us given the various new orders indicators) the YoY rate is expected to jump again November 2005 levels. In that sense, looking at the 3M moving average, the annual rate was up 8.7% in December 2005.

### Germany – Factory Orders, 2004-05



### Factory Orders Breakdown by Goods, 1995-2005



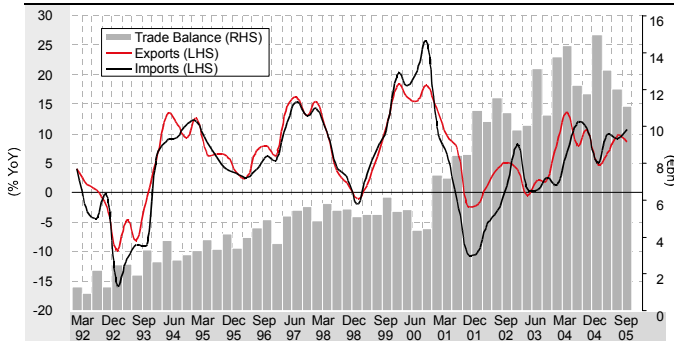
Source: Datastream and Santander Investment Bolsa.

The 4Q05 performance remained strong: factory orders grew 12.9% QoQ annualised from 19.8% QoQ annualised in the 3Q05. Actually, the annual rate accelerated to 8.6% from 7.2% in the 3Q05, reaching the highest level since December 2000 (9.4%) All components – capital goods (9.8%), consumer goods (5.8%) and basic & producer goods (7.9%) –accelerated. As above, we expect the improvement trend should continue in the short run, supporting high activity levels in the economy.

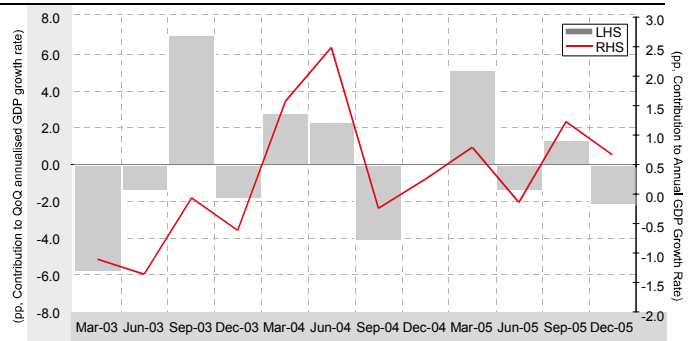
### The external sector performed negatively in December

The German external sector performed negatively in December, with exports growing modestly (an adjusted 0.8% MoM) and imports jumping 5.8% MoM. The trade surplus was, therefore, reduced in December to €9.2bn from €13.3bn in the previous month. In cumulative terms, the trade surplus rose 2.7% (€4.2bn) in 2005 to €160.3bn versus €156.1bn in 2004.

### Germany – Trade Balance, 1992-2005



### Net Exports Contribution to GDP, 2003-4Q05E



Source: Datastream and Santander Investment Bolsa estimates.

In the 4Q05, exports grew 0.8% QoQ, with imports growing 2.8% QoQ. In real terms, imports rose 1.6% QoQ, while exports went up just 0.1% QoQ. Based on these numbers, we estimate that real GDP net exports are likely to have fallen to €23.94bn in 4Q05 from €26.88bn in 3Q05. According to our estimates for 4Q05 GDP growth, this would imply a negative contribution of the external sector of 0.5pp. We expect the external sector to improve in 1H06E, with real exports growing 8.5% YoY on average in the period.

### 4Q05 GDP will probably be weak, but does not change our view about the economy

Looking at different economic variables in 4Q05, we estimate that GDP growth is going to be weak in the quarter. We are forecasting 4Q05 GDP growth at just 0.1% QoQ, down from 0.6% QoQ in 3Q05. As we have said, that should just be a transitory blip, since we expect higher growth rates in 1Q06E. The reasons for our expectations of a modest increase in GDP are: (1) negative private consumption; (2) modest public consumption; (3) strong business and construction investments; (4) negative contribution from the external sector, and; (5) a significantly positive contribution from inventories.



# THE WEEK AHEAD

## Macro Data to Be Published This Week

Day	Time*	Country	Indicator/Event	Period	Reference Data	Forecast
MONDAY 13-Feb	10:00	Italy	Industrial Production (sa/nsa) (m/y)	Dec	0.1/0.4	0.6/0.9
TUESDAY 14-Feb	8:00	Germany	GDP (sa/nsa) (q/y)	4Q1	0.6/1.3	0.2/1.3
	8:45	France	Central Govt. Balance (€) (bn)	Dec	-58.6	-
	9:00	Spain	GDP (constant) (sa) (q/y)	4QP	0.8/3.5	0.9/3.5
	11:00	Germany	ZEW Survey (Economic Sentiment)	Feb	71.0	71.0
	11:00	Germany	ZEW Survey (Current Situation)	Feb	-31.6	-28.0
	11:00	Euro Zone	GDP (sa) (y)	4QE	0.6/1.6	0.3/1.7
	11:00	Euro Zone	ZEW Survey (Economic Sentiment)	Feb	66.1	66.0
	14:30	US	Advance Retail Sales	Jan	0.7	0.7
	14:30	US	Retail Sales Less Autos	Jan	0.2	0.8
	14:30	US	Business Inventories	Jan	0.5	0.5
	23:00	US	ABC Consumer Confidence	Feb 13	-13	-
WEDNESDAY 15-Feb	-	Spain	Current Account (€ mn)	Nov	-5,263.7	-
	13:00	US	MBA Mortgage Applications	Feb 10	-1.2	-
	14:30	US	Empire Manufacturing	Feb	20.1	18.0
	15:00	US	Net Foreign Security Purchases (US\$ bn)	Dec	89.1	80.0
	15:15	US	Industrial Production	Jan	0.6	0.2
	15:15	Italy	Current Account (mn)(€)	Dec	-2,149.0	-
	15:15	US	Capacity Utilisation	Jan	80.7	80.8
	16:00	US	Bernanke Report on Economy & Fed Policy	-	-	-
	19:00	US	NAHB Housing Market Index	Feb	57	57
THURSDAY 16-Feb	8:00	Euro Zone	New Car Registrations	Jan	-3.9	-5.9
	9:00	Spain	Consumer Price Index (m/y)	Jan	0.2/3.7	-0.5/4.1
	14:30	US	Import Price Index (m/y)	Jan	-0.2/	1.0
	14:30	US	Housing Starts	Jan	1,933k	2,025k
	14:30	US	Buildings Permits	Jan	2,075kr	2,068k
	14:30	US	Initial Jobless Claims	Feb 11	277k	285k
	14:30	US	Continuing Claims	Feb 4	2,557k	2,520k
	18:00	US	Philadelphia Fed.	Feb	3.3	9.0
FRIDAY 17-Feb	8:45	France	Current Account (€) (mn)	Dec	-4,106	-
	8:45	France	Non-Farm Payrolls (q)	4QP	0.0	0.1
	8:45	France	Wages (q)	4QP	1.0	0.5
	8:45	France	January Survey of Industrial Investment	-	-	-
	9:00	Spain	Factory Orders (y)	Dec	9.1	-
	10:00	Italy	Trade Balance (total) (€ mn)	Dec	-1,179.0	-1,100
	11:00	Euro Zone	Industrial Production (sa/wda) (m/y)	Dec	1.3/2.6	0.0/1.9
	14:30	US	Producer Price Index (m/y)	Jan	0.9/5.4	0.2/6.0
	14:30	US	PPI Ex Food & Energy (m/y)	Jan	0.1/1.7	0.2/1.3
	15:45	US	U.of Michigan Confidence	Feb P	91.2	91.0

(m) % MoM; (y) % YoY; (q) % QoQ; (a) annualised; (I) Index; (k) thousands; (mn) millions; (bn) billions; (r) revised; (E) estimate; (F) final; (P) preliminary; (sa) seasonally-adjusted; (nsa) non-seasonally adjusted; (wda) working day adjusted; (1) first release; (2) second release; (\*) CET.

Source: Bank of Spain, Ministry of Economy, Datastream, Bloomberg, Reuters and Santander Investment Bolsa estimates.

### Things to Look Out For:

**In the US:** (1) retail sales should grow strongly in February, both in the headline and the core index measures; (2) business inventories could come in higher than expected in December; (3) industrial production is expected to go up again in January; (4) Chairman of the Federal Reserve Ben Bernanke is due to talks about the economy and Fed policy in Congress; and (5) producer prices could surprise on the upside in January due to energy prices.

**In the Euro zone:** (1) German GDP could be weaker than expected. We are going for a +0.1% QoQ versus the consensus outlook of +0.3% QoQ; (2) Spanish GDP should rise 0.9% QoQ; (3) Euro zone GDP could be weaker than expected; (4) the German ZEW survey is likely to rise again in February; and (5) Euro zone industrial production could disappoint in December.

# RATES AND CURRENCIES

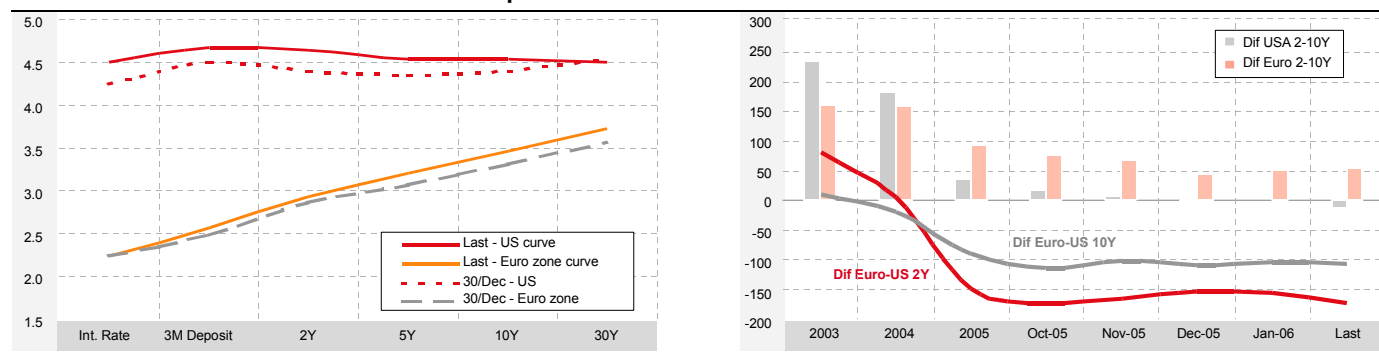
- According to the latest comments by members of the ECB governing body and its last monthly Bulletin published last week, it seems that the ECB will raise interest rates again in March by 25bp. We maintain our view that rates should stand at 3.0% at the end of the year. The Federal Reserve should also continue its current tightening trend. Chicago Fed chief, Michael Moskow said last week that rates could go up above neutral levels. We expect a final 25bp increase to reach 4.75%. However, the probabilities of seeing 5.0% in the Fed Funds rate have certainly increased after the release of recent economic data.
- The dollar is strengthening against the euro. We expect the greenback to break the US\$1.19/euro level in the days ahead and move to US\$1.15/euro. We maintain our positive view on the dollar against the euro zone currency.

## US and Euro Zone – Interest Rates and Currencies

		Annual <sup>1</sup>			Quarterly <sup>1</sup>				Monthly			Weekly			Last (2)	
		2003	2004	2005	Mar-05	Jun-05	Sep-05	Dec-05	Oct-05	Nov-05	Dec-05	Jan-06	27-Jan	3-Feb		10-Feb
<b>ST Interest Rates</b>																
	ECB repo rate	2.3	2.0	2.0	2.0	2.0	2.0	2.1	2.0	2.0	2.3	2.3	2.25	2.25	2.25	<b>2.25</b>
	Fed funds	1.1	1.4	3.3	2.5	3.0	3.5	4.0	3.8	4.0	4.3	4.5	4.25	4.50	4.50	<b>4.50</b>
	Euribor 3M	2.3	2.1	2.2	2.1	2.1	2.1	2.4	2.2	2.5	2.5	2.5	2.52	2.53	2.56	<b>2.56</b>
	US dep 3M	1.1	1.6	3.6	2.9	3.3	3.8	4.4	4.2	4.4	4.5	4.7	4.65	4.68	4.68	<b>4.70</b>
<b>LT Interest Rates</b>																
Euro	2Y	2.5	2.5	2.4	2.5	2.1	2.3	2.8	2.6	2.8	2.9	3.0	2.94	2.96	2.92	<b>2.96</b>
	5Y	3.3	3.3	2.8	3.0	2.6	2.6	3.1	3.0	3.1	3.1	3.2	3.22	3.23	3.21	<b>3.25</b>
	10Y	4.1	4.1	3.4	3.6	3.3	3.2	3.4	3.4	3.5	3.3	3.5	3.48	3.49	3.47	<b>3.50</b>
	30Y	4.8	4.7	3.8	4.1	3.8	3.6	3.7	3.8	3.8	3.6	3.7	3.76	3.74	3.72	<b>3.75</b>
US	2Y	1.6	2.4	3.9	3.5	3.6	4.0	4.4	4.4	4.4	4.4	4.5	4.49	4.57	4.64	<b>4.60</b>
	5Y	2.9	3.4	4.0	4.0	3.8	4.1	4.4	4.4	4.4	4.4	4.5	4.44	4.48	4.54	<b>4.52</b>
	10Y	4.0	4.2	4.3	4.3	4.0	4.2	4.5	4.6	4.5	4.4	4.5	4.51	4.52	4.54	<b>4.57</b>
	30Y	4.9	5.0	4.5	4.7	4.3	4.4	4.7	4.8	4.7	4.5	4.7	4.69	4.62	4.50	<b>4.68</b>
<b>Spreads</b>																
Dif-Euro	3M-30Y	257	265	164	199	170	152	135	164	133	109	123	124	120	116	<b>119</b>
	2Y-10Y	164	160	95	117	113	88	64	77	69	45	51	54	53	54	<b>54</b>
Dif US	3M-30Y	376	338	93	180	103	62	29	53	30	4	0	5	-6	-18	<b>-2</b>
	2Y-10Y	235	184	37	78	41	21	8	18	8	-1	0	2	-4	-11	<b>-3</b>
Dif-Euro-US	Int	115	60	-123	-50	-100	-150	-192	-175	-200	-200	-225	-200	-225	-225	<b>-225</b>
	2Y	82	5	-148	-109	-148	-172	-164	-174	-165	-154	-156	-155	-161	-172	<b>-164</b>
	10Y	11	-20	-90	-71	-77	-104	-109	-115	-103	-108	-105	-103	-104	-107	<b>-107</b>
<b>Currencies</b>																
	€/US\$	1.14	1.25	1.24	1.31	1.24	1.22	1.19	1.199	1.179	1.185	1.216	1.213	1.209	1.200	<b>1.199</b>
	€/¥	132	134	137	137	134	136	140	140	141	139	142	140	142	143	<b>143</b>
	US\$/¥	116	107	111	105	108	112	118	116	120	118	117	115	117	119	<b>119</b>

(1) Figures represent the average for the period; (2) February 10.  
Source: Santander Investment Bolsa estimates.

## US and Euro Zone – Debt Curve & 2Y-10Y Spreads



Source: Bloomberg.



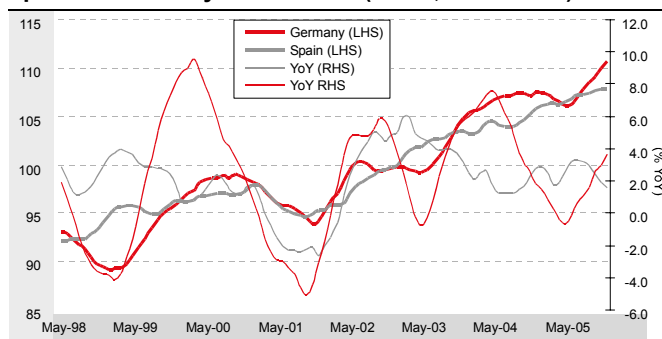
## MACRO CORNER: BUY GERMANY, SELL SPAIN?

In this edition of *Macro Corner*, we analyse the performance of the most important and comparable leading indicators for Spain and Germany. The reason is simple: as we have been saying for a long time, the economic scenario in the years ahead is likely to change, with the Spanish economy decelerating and the German economy accelerating. This economic performance is already being reflected, in our view, in the leading indicators and if that translates into real economic data, we should see the GDP growth rate spread between Spain and Germany narrowing. That scenario would reinforce our recommendation to overweight German equities versus Spanish ones.

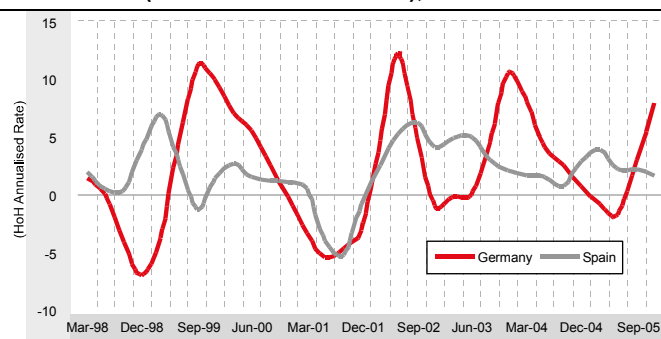
### *OECD Leading Indicators Point to Better Times for Germany than for Spain . . .*

Looking at the OECD leading economic indicators, we find that according to the December 2005 data published last week, the German index (110.72 in December) has advanced in recent months and is clearly above that of Spain (107.77 in December). The annual growth rate is also pointing to higher growth in the case of Germany, with the annual growth rate at 3.60% YoY in December from -0.67% YoY in May 2005, while in the case of Spain, the December annual growth rate should be 1.56% YoY from 3.22% YoY in June 2005. Also, acceleration in growth rates is also benefiting Germany, with the HoH annualised rate at 7.97% versus 1.68% in the case of Spain. We expect this trend to be maintained in the short run, anticipating higher GDP growth rates in Germany in 1H06E and lower GDP growth rates in Spain for the same period.

Spain vs Germany – OECD LEI (Index, YoY Rates) 1998-2005



OECD LEI (HoH Annualised Rates), 1998-2005

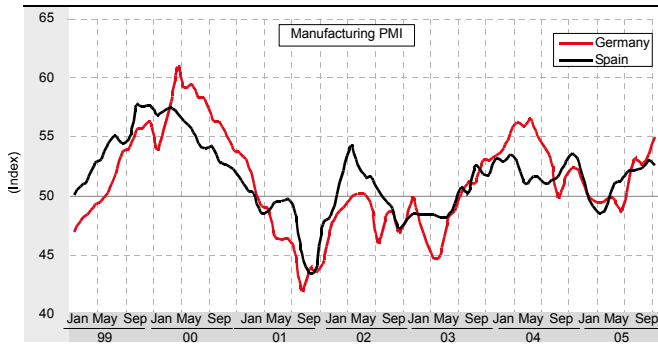


Source: OECD and Santander Investment Bolsa.

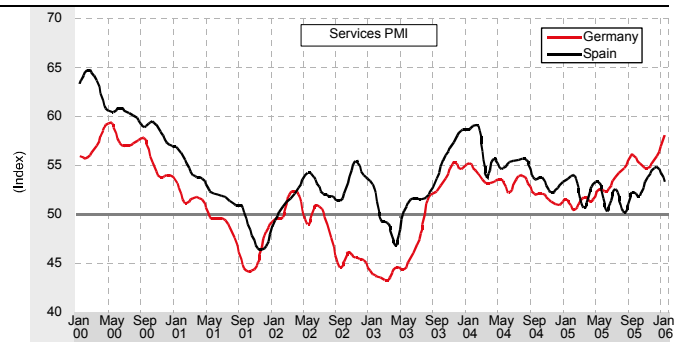
### *. . . the Message in the PMI Data Is the Same . . .*

The message included in the PMI indicators is similar to that in the OECD data: Germany is showing higher growth rates in both the manufacturing (55.0 in Germany versus 52.6 in Spain for January 2006) and the services sector (58.1 in Germany versus 53.4 in Spain for January 2006).

**Spain vs Germany – Manufacturing PMI, 1999-2006-02-13**



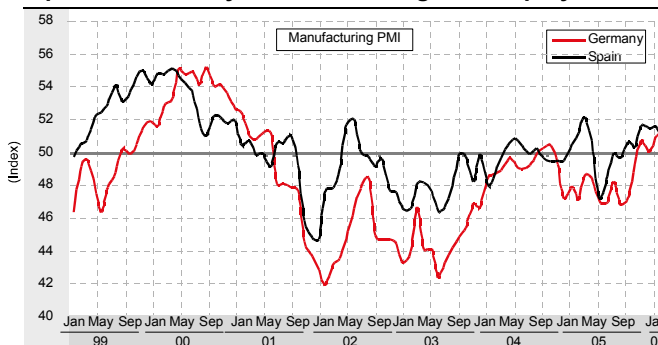
**Services PMI, 1999-2006**



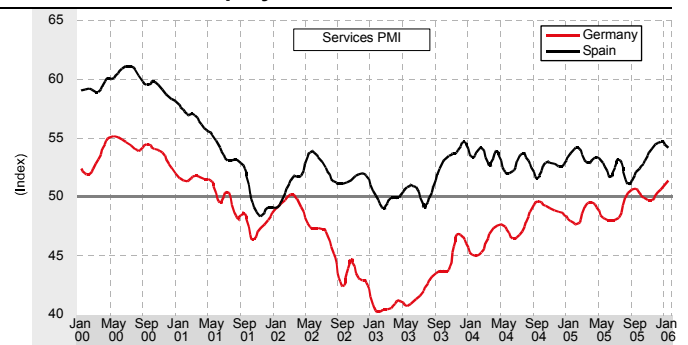
Source: Reuters.

This change in the performance of both countries in terms of PMI is even more interesting in the case of the services sector, in which Spain has always shown higher growth rate levels than Germany. However, in May 2005 the German service sector PMI index jumped above that of Spain and the difference between the two could increase in the months ahead. Even in terms of employment, the differences seen in the past are disappearing: in January, the German manufacturing employment index rose to 51.1 while the Spanish one was at 50.9. In the case of the services employment indices, the spread between the countries is narrowing: in January, the German index managed to rise to positive territory (51.4) clearly, after having been moving around the 50-point level in recent months. In services, Spain is still showing much higher employment growth rates (54.2 in January).

**Spain vs Germany – Manufacturing PMI Employment Index**



**Services PMI Employment Indices. 1999-2006**



Source: Reuters.

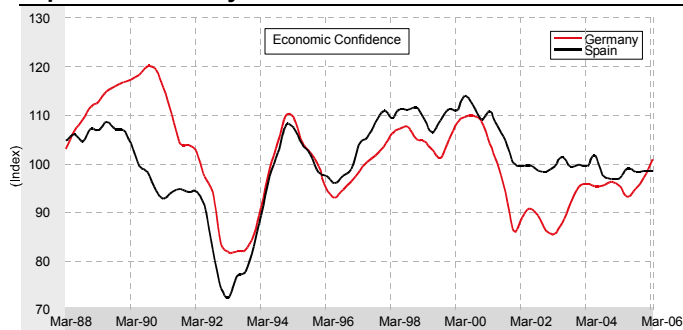
As in the case of the OECD indices, we believe that the German PMI indices will keep performing better than those of Spain. In that sense, the strength seen in the German export, new orders and other PMI indices reinforces our beliefs.

**... the European Commission Indices Confirm This View**

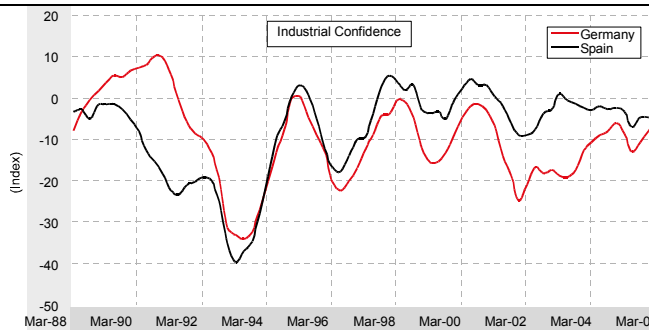
Looking at the European Commission indices, we find that the recovery of Germany versus Spain has been spectacular in recent quarters. German economic confidence (100.9) was above Spain's (98.5) in January 2006, for the first time since 1995. In industrial production, both countries are currently showing the same levels in January 2006, which is something that has not occurred since the beginning of the 1990s.



### Spain vs Germany – EC Economic Confidence Index



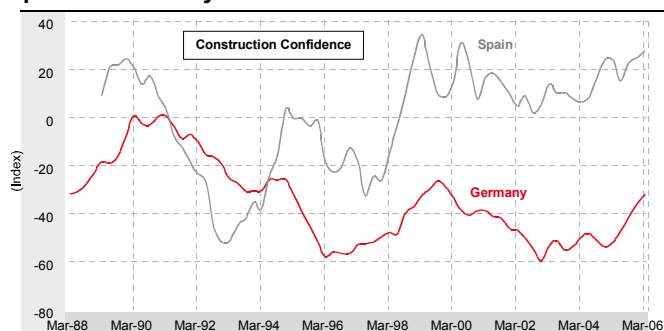
### EC Industrial Confidence Index



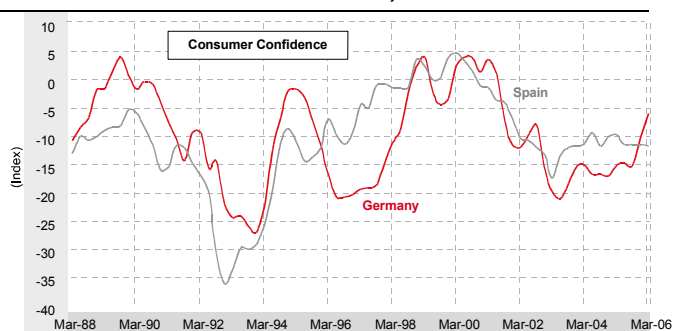
Source: European Commission.

The differences between both countries are still huge in construction, although we believe that the positive message here is that the recovery of the German index, which has been depressed in recent years. Also, German consumers' morale has improved and is already above that of Spaniards. Now, we only need to see the 'same' levels of private consumption in Germany as in Spain.

### Spain vs Germany – EC Construction Confidence Index



### EC Consumer Confidence Index, 1988-2006



Source: European Commission.

Like the other indicators noted above, we believe that these trends are likely to be maintained in the months ahead, reinforcing our view that it is time to overweight Germany versus Spain.

# MACROECONOMIC ESTIMATES AND FORECASTS

## Europe, the US and Japan – Estimates and Forecasts, 2002-06E

GDP	2003	2004	2005E	Cons	2006E	Cons	2007E	Cons
Germany	-0.2	1.1	1.0	0.9	1.6	1.3	2.0	1.4
France	0.9	2.1	1.7	1.5	2.1	1.8	1.9	2.1
Italy	0.4	1.0	0.2	0.1	1.6	1.1	1.6	1.4
Spain	3.0	3.1	3.4	3.3	2.8	2.9	2.4	2.9
Portugal	-1.2	1.2	0.5	0.7	1.0	1.5	1.4	–
<b>Euro-12</b>	<b>1.6</b>	<b>1.8</b>	<b>1.4</b>	<b>1.3</b>	<b>1.9</b>	<b>1.7</b>	<b>2.0</b>	<b>2.2</b>
UK	2.5	3.2	–	1.8	–	2.2	–	–
Argentina	8.8	9.0	8.0	8.4	6.0	5.5	–	3.6
Brazil	0.5	4.9	3.4	2.6	3.8	3.5	–	3.7
Mexico	1.6	4.4	3.2	3.1	3.3	3.5	–	3.3
Japan	1.4	2.6	–	2.3	–	2.0	–	–
<b>US</b>	<b>2.7</b>	<b>4.2</b>	<b>3.6</b>	<b>3.6</b>	<b>3.8</b>	<b>3.4</b>	<b>3.0</b>	<b>3.2</b>

CPI	2003	2004	2005E	Cons	2006E	Cons	2007E	Cons
Germany	1.1	1.7	2.0	2.0	2.1	1.8	1.9	1.5
France	2.2	2.3	2.0	1.9	2.1	1.7	2.1	1.7
Italy	2.8	2.3	2.2	2.2	2.3	2.1	2.0	1.9
Spain	3.0	3.0	3.4	3.4	3.1	3.1	2.6	2.8
Portugal	3.3	2.4	2.4	2.3	2.9	2.2	2.3	–
<b>Euro-12</b>	<b>2.1</b>	<b>2.1</b>	<b>2.2</b>	<b>2.2</b>	<b>2.3</b>	<b>2.0</b>	<b>2.1</b>	<b>1.8</b>
UK	1.4	1.3	–	2.1	–	2.0	–	1.9
Argentina	3.7	6.1	11.0	12.3	11.0	11.6	–	7.2
Brazil	9.3	7.6	5.1	5.6	4.5	4.7	–	4.3
Mexico	4.0	5.2	3.6	3.4	3.8	3.6	–	3.8
Japan	-0.3	0.0	–	-0.2	–	0.3	–	–
<b>US</b>	<b>2.3</b>	<b>2.7</b>	<b>3.4</b>	<b>3.3</b>	<b>3.0</b>	<b>2.9</b>	<b>2.5</b>	<b>2.4</b>

Financial Indicators	2003	2004	2005E	Cons	2006E	Cons	2007E	Cons
<b>Intervention rates</b>								
Euro-zone	<b>2.00</b> (2.25)	<b>2.00</b> (2.00)	<b>2.25</b> (2.05)	–	<b>3.00</b> (2.75)	2.63	<b>3.25</b> (3.25)	–
US	<b>1.00</b> (1.10)	<b>2.25</b> (1.40)	<b>4.25</b> (3.25)	–	<b>4.75</b> (4.63)	4.5	<b>4.50</b> (4.69)	–
<b>3M rates</b>								
Euro-zone	<b>2.11</b> (2.26)	<b>2.13</b> (2.08)	<b>2.49</b> (2.17)	–	<b>3.20</b> (2.92)	2.63	<b>3.10</b> (3.23)	3.00
US	<b>1.09</b> (1.14)	<b>2.52</b> (1.56)	<b>4.50</b> (3.60)	–	<b>5.00</b> (4.83)	4.4	<b>4.40</b> (4.73)	–
<b>2Y bond yields</b>								
Euro-zone	<b>2.61</b> (2.46)	<b>2.48</b> (2.48)	<b>2.86</b> (2.41)	–	<b>3.60</b> (3.35)	–	<b>2.90</b> (3.20)	–
US	<b>1.82</b> (1.64)	<b>3.06</b> (2.36)	<b>4.40</b> (3.89)	–	<b>4.90</b> (4.98)	–	<b>4.00</b> (4.43)	–
<b>10Y bond yields</b>								
Euro-zone	<b>4.29</b> (4.09)	<b>3.68</b> (4.06)	<b>3.31</b> (3.36)	–	<b>4.25</b> (4.06)	3.69	<b>4.00</b> (4.28)	3.90
US	<b>4.25</b> (3.99)	<b>4.22</b> (4.25)	<b>4.39</b> (4.26)	–	<b>4.85</b> (4.96)	4.9	<b>4.30</b> (4.44)	5.2
<b>Currencies</b>								
Euro-dollar	<b>1.26</b> (1.14)	<b>1.36</b> (1.24)	<b>1.18</b> (1.24)	–	<b>1.13</b> (1.15)	1.26	<b>1.10</b> (1.10)	1.32

(\*) Annual averages in brackets.

Source: Consensus forecasts (January 2006). Euro Zone Barometer (January 2006). Santander Investment Securities and Santander Investment Bolsa estimates.



# APPENDIX 1

## Summary of Euro Zone Figures, 2002-3Q05

GDP Components	Annual Growth			YoY Rates				QoQ Annualised Rates					
	2002	2003	2004	1Q05	2Q05	3Q05	4Q05	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05
Private consumption	1.0	1.1	1.4	1.3	1.5	1.5	-	0.9	3.4	0.6	0.9	1.2	-
Public consumption	2.6	1.6	1.1	0.9	1.1	1.4	-	1.3	-0.4	1.1	2.2	2.6	-
Business investment	-2.0	0.8	1.7	1.3	1.9	3.2	-	1.5	2.4	0.5	3.2	6.6	-
Inventory (contribution)	0.0	-0.4	-0.1	0.3	0.3	-0.3	-	1.2	0.0	-0.3	0.4	-1.3	-
Internal demand (contribution)	0.4	1.4	1.8	1.6	1.8	1.6	-	2.3	2.4	0.3	2.1	1.3	-
Exports	1.8	1.3	5.9	3.2	2.9	5.2	-	4.9	1.3	-3.3	9.1	14.5	-
Imports	0.4	3.1	6.1	4.2	4.5	5.3	-	8.4	5.5	-5.9	10.7	11.7	-
Net exports (contribution)	0.5	-0.6	0.0	-0.3	-0.6	0.1	-	-1.2	-1.6	1.0	-0.4	1.3	-
<b>GDP</b>	<b>1.0</b>	<b>0.7</b>	<b>1.8</b>	<b>1.3</b>	<b>1.2</b>	<b>1.6</b>	<b>-</b>	<b>1.1</b>	<b>0.8</b>	<b>1.3</b>	<b>1.7</b>	<b>2.6</b>	<b>-</b>
Nominal GDP (€ bn)	7240.2	7439.2	7714.1										
Activity Indicators	Annual Growth			YoY Rates				MoM Rates					
	2002	2003	2004	1Q05	2Q05	3Q05	4Q05	Aug05	Sep05	Oct05	Nov05	Dec05	Jan06
Industrial production	-0.2	0.2	2.1	-0.4	1.1	1.2	-	1.9	1.2	0.3	1.9	-	-
- Ex construction	-0.6	0.3	2.0	0.6	0.7	1.5	-	2.7	1.3	0.3	2.6	-	-
Manufacturing production	-0.8	0.0	1.9	0.6	0.8	1.5	-	2.8	1.5	0.9	3.1	-	-
Retail sales	0.3	0.4	0.9	1.3	0.6	1.0	0.6	2.2	1.0	0.3	0.6	0.8	-
New car registrations	-2.4	-1.3	1.7	-0.9	1.0	4.0	-	6.8	2.1	-0.6	-	-	-
Capacity utilisation	81.1	81.0	81.5	81.9	81.1	80.9	81.1						
Confidence Indicators	Annual Average			Quarterly Average				Index					
	2002	2003	2004	1Q05	2Q05	3Q05	4Q05	Aug05	Sep05	Oct05	Nov05	Dec05	Jan06
Economic confidence	94.3	93.5	99.5	98.7	96.1	97.8	100.2	97.6	98.4	100.2	99.9	100.6	101.8
Business climate	-0.57	-0.45	0.32	0.16	-0.33	-0.04	0.22	-0.09	0.06	0.17	0.13	0.37	0.34
Industrial confidence	-11	-11	-5	-6	-10	-8	-6	-8	-7	-6	-7	-5	-4
Construction confidence	-18	-20	-15	-12	-12	-10	-5	-9	-8	-8	-3	-6	-4
Retail trade survey	-17	-12	-8	-8	-9	-9	-5	-9	-8	-4	-6	-4	-4
Services confidence	2	4	11	11	9	11	14	10	11	14	14	13	15
Consumer confidence	-11	-18	-14	-13	-14	-15	-12	-15	-14	-13	-13	-11	-11
<b>PMI</b>	<b>48</b>	<b>50</b>	<b>49</b>	<b>54.4</b>	<b>53.9</b>	<b>51.4</b>	<b>51.4</b>	<b>50.4</b>	<b>51.7</b>	<b>52.7</b>	<b>52.8</b>	<b>53.6</b>	<b>53.5</b>
- Output	49	52	51	56.0	55.9	52.3	52.8	51.8	53.8	54.3	54.8	55.8	54.8
- New orders	47	51	50	56.1	55.2	51.3	52.1	51.7	53.2	54.3	54.4	56.0	55.5
- Employment	49	47	47	48.9	49.5	48.4	48.7	48.3	48.9	49.9	49.9	50.3	49.6
- Stock purchases	47	46	46	48.4	49.2	49.5	49.1	46.7	47.0	47.3	46.1	46.4	47.9
- Delivery times	53	50	50	40.4	43.1	44.6	47.3	48.9	47.6	45.9	45.6	45.8	45.5
- Prices	48	52	52	70.7	69.4	72.8	64.6	56.3	59.1	62.8	62.6	62.2	63.0
Prices	Annual Growth			YoY Rates				MoM Rates					
	2002	2003	2004	1Q05	2Q05	3Q05	4Q05	Aug05	Sep05	Oct05	Nov05	Dec05	Jan06
CPI	2.3	2.1	2.1	2.0	2.0	2.3	2.3	0.3	0.5	0.3	-0.2	0.3	-
Core CPI	2.4	1.8	1.8	1.5	1.4	1.3	1.4	0.2	0.3	0.3	0.0	0.4	-
PPI (ex construction)	-0.1	1.4	2.3	4.1	3.9	4.2	4.3	0.4	0.5	0.6	-0.2	0.2	-
GDP deflator	2.5	2.0	1.9	1.9	1.6	1.5	-						
Domestic demand deflator	2.0	1.8	1.9	2.1	1.8	2.1	-						
Costs and salaries	Annual Growth			YoY Rates				MoM Rates					
	2002	2003	2004	1Q05	2Q05	3Q05	4Q05	Aug05	Sep05	Oct05	Nov05	Dec05	Jan06
Unit labour costs	2.2	2.1	0.9	1.2	1.0	-	-						
Salaries	2.6	2.4	2.1	1.8	1.6	-	-						
Productivity	0.4	0.4	1.2	0.6	0.6	-	-						
Employment Market	Annual Growth			YoY Rates				MoM Rates					
	2002	2003	2004	1Q05	2Q05	3Q05	4Q05	Aug05	Sep05	Oct05	Nov05	Dec05	Jan06
Unemployment rate	8.3	8.7	8.9	8.8	8.6	8.4	8.3	8.4	8.4	8.3	8.3	8.4	-
Money Supply	Annual Growth			YoY Rates				MoM Rates					
	2002	2003	2004	1Q05	2Q05	3Q05	4Q05	Aug05	Sep05	Oct05	Nov05	Dec05	Jan06
M3	6.6	6.4	6.3	6.5	7.8	8.5	8.2	0.7	0.9	0.2	0.4	0.5	-
M3 mov. average 3m (YoY)	7.1	7.0	6.5	6.6	7.6	8.2	-	8.2	8.2	8.0	7.6	-	-
Loans to the private sector	4.0	4.7	6.4	6.9	8.2	9.0	9.7	0.0	1.1	0.8	1.0	0.9	-
Currency (YoY rates)	Annual Growth			YoY Rates				MoM Rates					
	2002	2003	2004	1Q05	2Q05	3Q05	4Q05	Aug05	Sep05	Oct05	Nov05	Dec05	Jan06
€ effective exchange rate	3.0	11.4	4.0	0.8	1.2	-0.9	-4.4	-0.4	-1.2	-2.7	-4.6	-6.0	-
Real effective exch rate € (CPI)	4.0	12.6	4.1	1.0	1.5	-0.7	-4.2	-0.2	-1.0	-2.5	-4.3	-5.6	-
Real effective exch rate € (PPI)	3.9	11.2	3.0	0.6	0.6	-1.9	-5.3	-1.3	-2.3	-3.6	-5.4	-7.0	-
Real effective exch rate € (ULC)	3.1	13.0	5.6	-0.6	-1.0	-1.7	-						
External sector	Annual Growth			YoY Rates				MoM Rates					
	2002	2003	2004	1Q05	2Q05	3Q05	4Q05	Aug05	Sep05	Oct05	Nov05	Dec05	Jan06
CA Balance (% GDP)	0.8	0.5	0.6	0.2	-0.7	-0.2	-	0.0	0.0	0.0	0.0	-	-
- EUR bn	58	34	46	39	21	5	-22	5	2	-9	-22	-	-
Public accounts (% GDP)	Annual Growth			YoY Rates				MoM Rates					
	2002	2003	2004	1Q05	2Q05	3Q05	4Q05	Aug05	Sep05	Oct05	Nov05	Dec05	Jan06
Government receipts (% GDP)	47.1	46.7	46.2	47.0	47.2	46.7	47.2	46.9	46.1	45.5	45.5	45.0	0.0
Government expenditures	53	51.8	51.3	51.3	49.9	49.0	48.6	47.9	48.0	48.1	48.5	47.7	0.0
Deficit/Surplus	-5.8	-5.1	-5.1	-4.3	-2.7	-2.3	-1.3	-1.0	-1.9	-2.6	-3.0	-2.7	0.0

Sources: Bloomberg, Datastream, Reuters and Santander Investment Bolsa.

# APPENDIX 2

## Summary of US Figures, 2003-3Q05

GDP	2004	2005	YoY Rates				QoQ Annualised Rates			
			1Q05	2Q05	3Q05	4Q05	1Q05	2Q05	3Q05	4Q05
Private consumption	3.9	3.6	3.5	3.9	3.8	3.0	3.5	3.4	4.1	1.1
Government consumption	2.2	1.7	1.7	1.8	2.0	1.2	1.9	2.5	2.9	-2.4
Business investment	11.9	5.8	10.1	4.0	4.2	5.4	8.6	-3.7	5.3	12.2
- Equipment & software	11.9	10.8	12.8	11.8	10.6	8.3	8.3	11.0	10.6	3.5
- Construction	7.7	5.6	6.3	4.7	5.6	5.6	5.9	8.3	5.8	2.6
Internal demand	4.8	3.6	4.2	3.5	3.5	3.1	4.0	2.0	4.0	2.2
Exports	8.4	6.8	6.7	7.7	6.9	5.7	7.5	10.7	2.5	2.4
Imports	10.7	6.2	9.4	5.7	5.1	4.6	7.4	-0.2	2.4	9.1
<b>GDP</b>	4.2	3.5	3.6	3.6	3.6	3.1	3.8	3.3	4.1	1.1
Nominal GDP (US\$ bn)	11734	12479								
General Activity	YoY Rates				YoY Rates					
	1Q05	2Q05	3Q05	4Q05	Aug05	Sep05	Oct05	Nov05	Dec05	Jan06
Leading indicator	3.6	2.2	1.7	2.1	1.9	1.1	2.1	2.4	1.8	-
Coincident indicator	2.7	2.4	2.0	1.6	1.4	2.0	1.8	2.0	1.0	-
Stocks to sales ratio	1.21	1.20	1.17	1.17	1.17	1.18	1.18	1.17	1.15	-
<b>Industrial production</b>	4.0	3.1	2.7	2.7	3.1	2.0	2.3	2.9	2.8	-
Capacity utilisation (1)	80.0	79.7	80.3	80.3	80.3	79.1	79.8	80.3	80.7	-
ISM index	-10.8	-14.8	-6.3	-0.8	-10.2	0.0	2.3	0.7	-5.1	-2.7
ISM index (1)	55.6	53.8	53.5	57.3	53.5	58.0	58.1	57.3	55.6	54.8
Private Consumption	YoY Rates				YoY Rates					
	1Q05	2Q05	3Q05	4Q05	Aug05	Sep05	Oct05	Nov05	Dec05	Jan06
Real hourly earnings	-0.5	-0.4	-1.2	-0.7	-1.1	-2.3	-1.3	-0.5	-0.4	-
Retail sales	7.3	8.4	8.4	6.3	8.2	6.7	5.9	6.8	6.4	-
- Less autos	7.9	8.4	9.4	8.8	9.6	10.1	9.8	8.5	8.0	-
Personal spending	3.5	3.9	3.8	3.0	3.8	2.9	2.5	3.2	3.4	-
Consumer confidence (1)	104.4	97.5	105.5	98.3	105.5	87.5	85.2	98.3	103.8	106.3
- Expectations (1)	96.1	86.7	93.3	88.4	93.3	72.3	70.1	88.4	92.6	91.5
Savings rate (1)	0.5	-0.2	-3.4	-0.2	-3.4	-0.5	-0.1	-0.2	-0.7	-
Consumer credit	4.0	4.4	4.2	3.0	4.6	4.2	3.0	3.1	3.0	-
Business Investment	YoY Rates				YoY Rates					
	1Q05	2Q05	3Q05	4Q05	Aug05	Sep05	Oct05	Nov05	Dec05	Jan06
New orders	8.5	8.6	7.0	9.4	7.9	7.4	8.4	9.4	10.5	-
- Less autos	11.3	8.2	7.6	6.7	7.9	7.9	6.7	6.5	6.9	-
Non-defense cap orders less aircraft	14.7	10.7	7.6	8.5	8.6	7.1	7.6	10.2	7.8	-
ISM: production index	-14.2	-14.1	-4.2	3.8	-7.6	2.2	3.9	6.4	1.2	-1.4
ISM: new orders	-15.9	-15.0	-3.2	-3.3	-9.6	5.8	3.6	-1.7	-10.9	1.2
After-tax profits	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05
	21.1	21.0	17.2	17.7	6.4	7.1	31.5	31.6	36.0	-
Construction	YoY Rates				YoY Rates					
	1Q05	2Q05	3Q05	4Q05	Aug05	Sep05	Oct05	Nov05	Dec05	Jan06
Housing starts	8.0	6.3	6.4	3.1	2.8	13.0	-0.5	17.4	-5.7	-
New home sales	5.1	6.9	11.5	3.5	9.4	2.1	4.0	4.9	1.8	-
Construction spending	12.4	8.4	7.5	8.4	7.4	8.3	9.1	8.1	8.1	-
Building permits	4.0	2.1	5.1	1.2	3.9	8.8	0.5	3.3	-0.3	-
Employment, wages and salaries	YoY Rates				YoY Rates					
	1Q05	2Q05	3Q05	4Q05	Aug05	Sep05	Oct05	Nov05	Dec05	Jan06
Pool of available workers	0.9	1.4	1.5	1.4	1.5	1.8	1.5	1.3	1.3	1.4
Total employment	1.4	1.9	2.0	1.9	2.1	2.1	2.0	1.7	1.9	2.0
Unemployment rate (1)	5.4	5.1	4.9	5.0	4.9	5.1	4.9	5.0	4.9	4.7
Unemp avg duration (weeks) (1)	19.1	19.6	18.9	17.6	18.9	18.2	18.0	17.6	17.3	16.8
Avg working hours per week (1)	33.7	33.8	33.7	33.8	33.7	33.8	33.8	33.8	33.8	33.8
Avg hourly earnings	2.6	2.7	2.8	3.1	2.7	2.7	3.1	3.0	3.2	3.3
Employment cost index	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05
	4.0	4.0	3.9	4.0	3.9	3.9	3.4	3.1	3.0	3.1
Prices	YoY Rates				YoY Rates					
	1Q05	2Q05	3Q05	4Q05	Aug05	Sep05	Oct05	Nov05	Dec05	Jan06
CPI	3.0	3.0	3.8	3.7	3.6	4.7	4.4	3.5	3.4	-
Core CPI	2.3	2.2	2.1	2.1	2.1	2.0	2.1	2.1	2.2	-
PPI	4.6	4.1	5.6	5.3	5.3	6.9	5.9	4.4	5.4	-
Core PPI	2.6	2.6	2.7	1.8	2.6	2.6	1.9	1.8	1.7	-
Import prices	6.5	7.2	8.8	7.6	8.2	9.9	8.2	6.5	7.9	-
Export prices	3.6	2.9	3.2	3.0	3.1	3.6	3.7	2.7	2.7	-
External sector	YoY Rates				YoY Rates					
	1Q05	2Q05	3Q05	4Q05	Aug05	Sep05	Oct05	Nov05	Dec05	Jan06
Balance of goods & services (3)	-644.0	-668.0	-683.0	-715.0	-683	-697	-709	-715	-726	-
Balance of goods & serv (3) (% GDP)	-5.3	-5.4	-5.4	-5.6						
Trade balance (3)	-736.4	-762.0	-781.8	-817.6	-782	-798	-811	-818	-828	-
Trade balance (3) as a % of GDP	-6.0	-6.2	-6.2	-6.4						
Nominal effective exchange rate	-4.4	-4.6	-1.5	6.0	-2.2	-2.2	1.8	7.9	8.3	5.3
Monetary policy and public accts	YoY Rates				YoY Rates					
	1Q05	2Q05	3Q05	4Q05	Aug05	Sep05	Oct05	Nov05	Dec05	Jan06
Money supply (M2)	5.3	3.8	3.9	4.0	4.0	4.0	4.1	3.9	4.0	-
Federal funds rate (1)	2.50	2.79	3.50	4.00	3.50	3.62	3.78	4.00	4.16	4.29
Federal receipts (2)	452	665	549	530	155	252	149	139	242	230
Federal expenditures (2)	628	620	618	650	207	216	197	222	231	209
Federal public deficit (2)	-177	45	-69	-119	-51	36	-47	-83	11	21

(1) Levels. (2) Cumulative change in fiscal year, billion dollars. (3) Annual cumulative, billion dollars.

Source: Datastream.

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### Key to Investment Codes<sup>1</sup>

<b>Buy</b>	Upside of more than 15%.
<b>Hold</b>	Upside of 10%-15%.
<b>Underweight</b>	Upside of less than 10%.

Target prices set from January to June are for December 31 of the current year. Target prices set from July to December are for December 31 of the following year.

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