

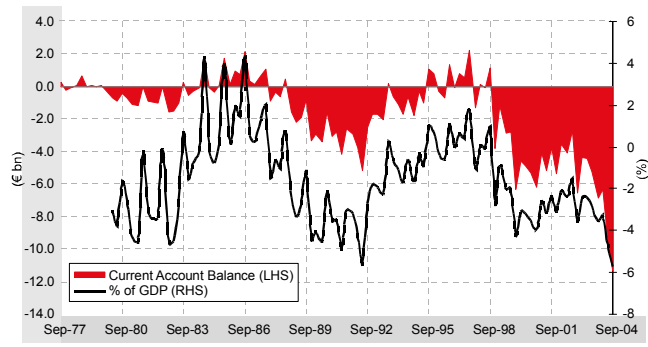
THE IBERIAN MACRO OBSERVER

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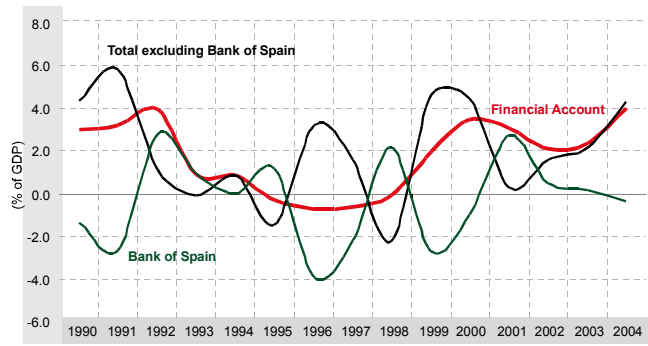
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Spain – Current Account Balance, 1977-2004



Source: MINECO, Bloomberg and SCH Bolsa.

Spain – Financial Account, 1990-2004



Source: MINECO, Bloomberg and SCH Bolsa.

Things to Watch during the Week

In the US:

- (1) Consumer confidence could be flat in January.
- (2) Existing home sales could fall in November.
- (3) Durable goods orders to perform modestly in December.
- (4) The Help-Wanted index to remain unchanged in December.
- (5) 4Q04E GDP could grow by around 3.5%.

In the Euro Zone:

- (1) The IFO index is expected to continue to recover.
- (2) Italian business confidence indicators should start going up.
- (3) We expect a flat reading in French business confidence.
- (4) Euro zone money supply growth should also be flat.
- (5) Producer prices should moderate again in Spain and France.

- There has been little new information on the Spanish economy in recent weeks. 2004E GDP growth could come in at 2.6% (vs our expectation of 2.5%). On the other hand, as a result of the increasing trade deficit, the current account position is becoming a problem. Inflation grew at a faster pace than that of the Euro zone, implying a deterioration in Spain's competitive position. The employment market continued its positive tone, with strong job creation.

- There is nothing really new in the Spanish economy that would push us to change our 2005F and 2006F forecasts. We are maintaining our view that Spanish economic growth will be limited in the years ahead, capped by the required adjustments in the construction sector and the current account balance.

- The Spanish economy has developed some imbalances during the recent period of strong GDP growth, which will probably act as a ceiling for future economic growth. In our view, one of the main problems generated in recent years has been the current account deficit, which could be difficult to resolve without feeling the pain in terms of GDP growth.

- The 3Q04 current account deficit represented a record 5.7% of GDP, with the deficit largely due to the sizeable trade deficit, which represented 7.4% of GDP (again, the highest level on record).

- In our view, narrowing the current account deficit will require: (1) a deceleration in internal demand, combined with a simultaneous increase in savings; (2) a strengthening of Spain's competitive position; and (3) a pick-up in the services account (possibly by changing the tourism model).

THE WEEK BEHIND

Macro Data Published Last Week

Day	Time*	Country	Indicator/Event	Period	Reference Data	Forecast	Actual
17-Jan Monday	10:00	Italy	CPI (NIC incl tobacco) (m/y)	Dec F	0.1/1.9	–	0.2/2.0
	–	Italy	Current Account (€ mn)	Nov	990.0	–	-2,035.0
18-Jan Tuesday	8:45	France	Current Account (€ mn)	Nov	1,204	-500	-302
	10:00	Italy	Industrial Production (m/y)	Nov	-0.3/-0.4(r)	-0.2/-0.9	-0.7/-2.8
	11:00	Euro Zone	Euro Zone Labour Cost (y)	3Q	2.2	2.1	1.9
	11:00	Euro Zone	Euro Zone Industrial Production (m/y)	Nov	-0.6/1.1(r)	-0.4/0.7	-0.3/0.5
	14:30	US	Empire Manufacturing	Jan	20.07(r)	25.00	20.08
	19:00	US	NAHB Housing Market Index	Jan	71	70	70
19-Jan Wednesday	0:30	US	ABC Consumer Confidence	16 Jan	-9	-9	-11
	8:00	Germany	Producer Prices (m/y)	Dec	-0.5/2.8	-0.2/2.6	0.1/2.9
	11:00	Germany	Factory Orders (m/y)	Nov F	1.0/3.8	–	-2.4/1.2
	13:00	US	MBA Mortgage Applications	14 Jan	-3.0	–	16.2
	14:30	US	CPI (m/y)	Dec	0.2/3.5	0.0/3.4	-0.2/2.1
	14:30	US	CPI Ex Foods & Energy (m/y)	Dec	0.2/2.2	0.2/2.3	-0.1/1.7
	14:30	US	Housing Starts	Dec	1,807k (r)	1,905k	2,004k
	14:30	US	Building Permits	Dec	2,028k (r)	1,985k	2,021k
	14:30	US	Initial Jobless Claims	15 Jan	367k	345k	319k
	14:30	US	Continuing Claims	8 Jan	2,647k (r)	2,675	2,694k
	20:00	US	Fed's Beige Book	–	–	–	–
20-Jan Thursday	9:00	Spain	Factory Orders (y)	Nov	0.2(r)	–	13.4
	10:00	Euro Zone	ECB to Release January Monthly Report	–	–	–	–
	10:00	Italy	Trade Balance (€ mn)	Nov	594.0(r)	-436.5	-244.0
	11:00	Italy	Industrial Orders (m/y)	Nov	0.4/-1.1	-0.4/2.5	0.6/9.6
	11:00	Italy	Industrial Sales (m/y)	Nov	2.2/0.4(r)	-1.1/NA	-3.2/5.5
	11:00	Euro Zone	Euro Zone CPI (m/y)	Dec	-0.1/2.2	0.4/2.3	0.4/2.4
	11:00	Euro Zone	Euro Zone Trade Balance (€ mn)	Nov	5,713(r)	3,200	2,869
	11:00	Euro Zone	Euro Zone Core CPI (y)	Dec	1.9	1.9	1.9
	16:00	US	Leading Indicators	Dec	0.3	0.3	0.2
	18:00	US	Philadelphia Fed	Jan	25.4(r)	25.0	13.2
21-Jan Friday	8:45	France	Consumer Spending (m/y) (€ mn)	Dec	1.5/6.6(r)	-0.6/5.2	0.2/6.6
	8:45	France	CPI (m/y)	Dec F	0.0/2.0	0.1/2.0	0.2/2.1
	15:45	US	Univ. of Michigan Confidence Data	Jan	97.1	98.0	95.8

(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 Central Hispano Bolsa estimates and forecasts.

NO MAJOR NEWS IN THE SPANISH ECONOMY

There have been no major developments in the Spanish economy in recent weeks. On the growth front, 2004E GDP growth could come in at 2.6% (we expect 2.5%). Once again, it seems that the main driver of GDP growth was private consumption, which was up around 3.5% in 2004E. Construction investment is expected to post strong readings in 2004E, pushed up by more than 650k housing starts in the year, and business investment could surprise on the upside, lifted by a strong recovery in 2H04E. This is particularly significant if we take into account that business investment in capital goods has been largely non-existent in recent years. On the negative side, imports grew much faster than exports, implying that the external sector's contribution to GDP growth was very negative.

In our view, the rising trade deficit is lifting the current account deficit to levels that could become problematic in the years ahead (see *Macro Corner*). Inflation has continued to grow at a faster pace than in the Euro zone as a whole, implying that Spain's competitive position is continuing to deteriorate. The labour market has maintained its positive tone, with strong rates of job creation.



In summary, we have seen nothing new in recent weeks that would push us to change our 2005F-06F forecasts. We maintain our view that Spanish economic growth will be limited in the years ahead, capped by the required adjustments in the construction sector and the current account balance.

IN THE US

The main data released last week were the leading indicator numbers, which showed that the US economy is decelerating and, in our view, there is little sign of a turnaround (December's leading indicators were up 0.2% MoM versus our expectation of a rise of 0.3). The Empire Manufacturing index fell more than expected in January and, although it remains historically high, the trend is clearly downwards. The Philadelphia Fed index also declined in January from December levels, pointing to a deceleration in manufacturing activity. The January University of Michigan's Consumer Confidence index was also down QoQ. However, it seems that consumer confidence is at least stable. The Fed's Beige book offered an optimistic view on the economy.

Hard data published last week offered some positive news: inflation remains under control, with headline CPI falling 0.1% MoM and the core index rising just 0.2% MoM in December. Energy prices fell sharply, while other prices posted modest increases. Housing data was also strong, with housing starts up 10.9% in December after November's poor performance. Weekly employment data was positive, experiencing a sharp decline in the last week.

Members of the Federal Reserve Board were busy making comments. In general terms, the central bankers said that inflation remains under control, growth should continue and that they do not foresee any major risks to the economy. Their comments underline our view that the Fed will raise the Fed funds rate by another 25bp at its board meeting at the beginning of February.

IN THE EURO ZONE

In the Euro zone, all official comments concurred with the view that interest rates are likely to hold at current levels for the foreseeable future. Inflation does not appear to be a problem at the moment and growth is still not taking off. Although some leading indicators could point to some acceleration in 2H05F growth, hard data is still broadly weak.

Price data was again positive in the Euro zone: 3Q04 unit labour costs grew just 1.9% YoY and December CPI was 0.4% higher MoM and 2.4% YoY, with the core index up just 1.9% YoY. Italian CPI was up just 2.0% in December, while French numbers posted an increase of 2.1% in the same month.

November industrial activity was still weak with Euro zone industrial production falling in the month. Italian industrial production, orders and sales were also weak, and Germany posted a sharp decline in November factory orders. The euro's strength is already hitting trade, as seen in the Italian and Euro zone trade numbers last week. Consumer spending was relatively positive in France in December, pointing to a pick-up in private consumption in 4Q04E.

THE WEEK AHEAD

Macro Data to Be Published This Week

Day	Time*	Country	Indicator/Event	Period	Reference Data	Forecast
During the Week	–	Germany	Import Price index (m/y)	Dec	-1.3/2.7	-0.5/2.6
	–	Germany	Construction Orders (m/y)	Nov	1.4/-8.3	–
24-Jan Monday	9:00	Spain	Hotel Occupancy (%)	Dec	43.6	–
	9:00	Spain	Hotel Price Index (y)	Dec	1.4	–
	10:00	Italy	Retail Sales (m/y)	Nov	-0.2/-2.7	-0.1/-0.1
	11:00	Euro Zone	Industrial New Orders (m/y)	Nov	0.6/0.2	5.2/-0.5
25-Jan Tuesday	9:00	Spain	Producer Prices Index (m/y)	Dec	-0.1/5.2	-0.1/5.1
	9:30	Italy	Consumer Confidence Index (sa/nsa)	Jan	103.5/101.6	104.0/NA
	16:00	US	Consumer Confidence	Jan	102.3	101.5
	16:00	US	Existing Home Sales	Dec	6.94mn	6.80mn
26-Jan Wednesday	0:30	US	ABC Consumer Confidence	Jan	-11	–
	10:00	Euro Zone	Euro Zone Current Account (m/q) (€ bn)	Nov	0.9/8.7	–
	10:00	Germany	IFO Index Survey (Business Climate)	Jan	96.2	96.2
	10:00	Germany	IFO Current Assessment	Jan	96.0	96.1
	10:00	Germany	IFO Expectations	Jan	96.4	96.8
	13:00	US	MBA Mortgage Applications (%)	21-Jan	16.2	–
27-Jan Thursday	9:30	Italy	Business Confidence	Jan	88.9	89.0
	10:00	Italy	Trade Balance Non Europe (€ mn)	Dec	129.0	–
	14:30	US	Durable Goods Orders	Dec	1.4	0.6
	14:30	US	DG Orders Less Transportation	Dec	-1.4	1.4
	14:30	US	Initial Jobless Claims	22-Jan	319k	330k
	14:30	US	Continuing Claims	15-Jan	2,694k	–
	16:00	US	Help Wanted Index	Dec	36	36
28-Jan Friday	8:45	France	Producer Prices (m/y)	Dec	-0.2/3.1	-0.2/3.2
	8:45	France	Unemployment Rate	Dec	9.9	9.9
	8:45	France	Business Confidence	Jan	104.0	104.0
	8:45	France	Production Outlook Indicator	Jan	-1.0	-3.0
	10:00	Euro Zone	Euro Zone M3 (3Mth Average) (%)	Nov	5.9	5.9
	10:00	Euro Zone	Euro Zone M3 (y)	Dec	6.0	6.1
	14:30	US	GDP Annualized	4Q	4.0	3.6
	14:30	US	Personal Consumption	4Q	5.1	4.1
	14:30	US	GDP Price Deflator	4Q	1.4	2.2
	14:30	US	Employment Cost Index	4Q	0.9	0.9

(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 Central Hispano Bolsa estimates and forecasts.

THINGS TO LOOK OUT FOR

In the US: (1) Consumer confidence could be flat in January after December's positive performance. (2) November existing home sales are expected to fall to 6.80mn from 6.94mn. (3) Durable goods orders may show a modest performance in December, but orders excluding vehicle components should post a strong rise. (4) The December Help Wanted index is likely to remain unchanged. (5) 4Q04E GDP is expected to grow by around 3.5%, with private consumption posting a strong increase, business investments rising and a significant negative contribution from the external sector.

In the Euro zone: (1) The IFO index should continue to recover, as the US dollar recoups some losses versus the euro. (2) Italian business confidence indicators should start going up in the coming months starting in January. (3) We expect a flat reading in January French business confidence. (4) Euro zone money supply growth should also be flat. (5) Spanish and French producer prices should remain moderate, with QoQ rates falling in December.



RATES AND CURRENCIES

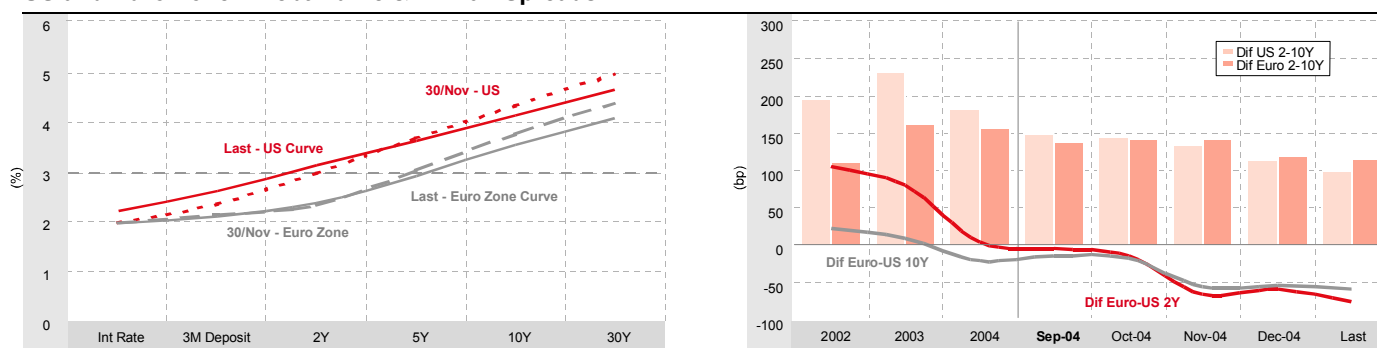
- We maintain our view that the ECB will hold interest rates at current levels until end-2005F. We then expect it to raise rates by 25bp. In contrast, we expect the Federal Reserve to continue to tighten monetary conditions in the coming months. We expect another 25bp hike in February.
- Along the bond curve, we are sticking to our recommendations of playing relative value strategies. In Europe, play: (1) flattening strategies in the 2-10 year section; and (2) steepening strategies in the 3M-2Y section of the curve. In the US, play: (1) flattening strategies in the 3M-10Y and 2-10 year sections; and (2) flattening strategies in the 3M-(or Fed Funds) 2 year section. Lastly, we would play a strategy of increasing differentials in 2-year bonds between the US and Europe.
- Regarding currencies, we maintain our positive stance on the dollar against the euro.

US and Euro Zone – Interest Rates and Currencies

		Annual ¹			Quarterly ¹				Monthly ¹				Weekly			
		2002	2003	2004	Mar-04	Jun-04	Sep-04	Dec-04	Sep-04	Oct-04	Nov-04	Dec-04	07-Jan	14-Jan	21-Jan	Last ²
ST Interest Rates																
	ECB repo rate	3.2	2.3	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.00	2.00	2.00	2.00
	Fed funds	1.7	1.1	1.4	1.0	1.1	1.5	2.0	1.8	1.8	2.0	2.3	2.25	2.25	2.25	2.25
	Euribor 3M	3.3	2.3	2.1	2.0	2.1	2.1	2.1	2.1	2.1	2.2	2.1	2.13	2.13	2.13	2.12
	US dep 3M	1.7	1.2	1.6	1.1	1.3	1.8	2.3	2.0	2.1	2.4	2.5	2.58	2.62	2.66	2.65
LT Interest Rates																
Euro	2Y	3.6	2.5	2.5	2.3	2.6	2.5	2.4	2.6	2.4	2.4	2.5	2.44	2.39	2.40	2.38
	5Y	4.2	3.3	3.3	3.2	3.5	3.4	3.1	3.3	3.2	3.0	3.0	2.96	2.92	2.94	2.90
	10Y	4.8	4.1	4.1	4.1	4.3	4.1	3.8	4.0	3.9	3.8	3.7	3.60	3.56	3.58	3.54
	30Y	5.2	4.8	4.7	4.8	4.9	4.7	4.4	4.6	4.6	4.4	4.3	4.18	4.12	4.11	4.08
US	2Y	2.5	1.6	2.4	1.7	2.5	2.6	2.9	2.6	2.5	3.0	3.1	3.19	3.22	3.15	3.16
	5Y	3.7	2.9	3.4	3.0	3.7	3.5	3.5	3.4	3.3	3.7	3.6	3.71	3.71	3.66	3.64
	10Y	4.5	4.0	4.2	4.0	4.6	4.2	4.2	4.1	4.0	4.3	4.2	4.27	4.21	4.16	4.14
	30Y	5.3	4.9	5.0	4.9	5.3	5.0	4.9	4.9	4.8	5.0	4.8	4.84	4.73	4.67	4.64
Spreads																
Dif-Euro	3M-30Y	194	255	265	284	287	261	228	253	243	225	215	205	200	198	196
	2Y-10Y	115	164	160	178	171	154	136	142	145	144	120	117	117	118	116
Dif US	3M-30Y	352	374	338	380	399	321	254	291	269	263	230	226	211	202	199
	2Y-10Y	198	235	184	230	207	168	133	151	148	135	115	108	98	101	98
Dif-Euro-US	Int	154	115	60	100	92	50	0	25	25	0	-25	-25	-25	-25	-25
	2Y	107	82	5	61	6	-2	-45	-3	-13	-64	-59	-75	-83	-75	-78
	10Y	24	11	-20	9	-30	-16	-42	-13	-16	-55	-54	-67	-65	-59	-60
Currencies																
	€/US\$	0.95	1.14	1.25	1.24	1.21	1.22	1.32	1.243	1.276	1.328	1.356	1.303	1.310	1.302	1.308
	€/¥	118	132	134	132	133	135	137	137	135	137	139	137	134	134	134
	US\$/¥	125	116	107	106	110	110	104	110	106	103	103	105	102	103	103

(1) Figures represent the average for the period; (2) January 24, 2004.
Source: Santander Central Hispano Bolsa estimates and forecasts.

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



Source: Bloomberg.

MACRO CORNER: THE SPANISH CA DEFICIT

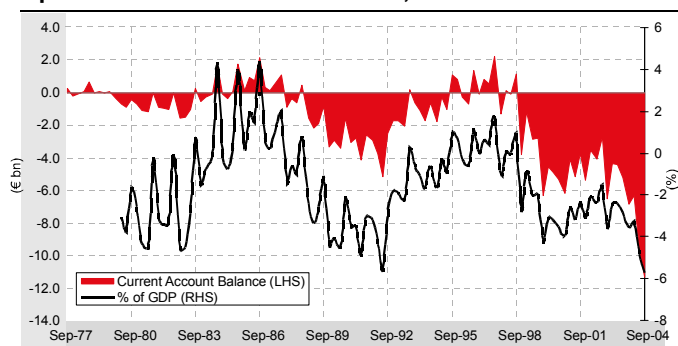
A Growing Problem

The Spanish economy has performed very strongly in recent years, clearly outperforming its main European peers by one percentage point or more of GDP. The economic boom has not been for free though, and the economy has developed imbalances that, in the end, will probably represent a ceiling for future economic growth. In our view, one of the main problems generated in recent years has been the growing current account imbalance: it is becoming worrisome and could be difficult to resolve without penalising GDP growth.

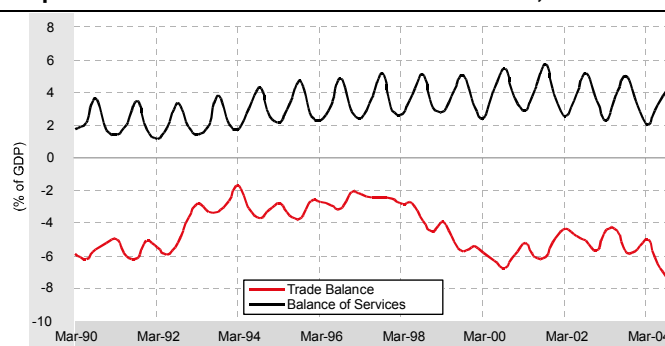
Reaching the US Current Account Deficit Levels?

The sharp increases registered in the Spanish current account deficit are pushing it towards US levels as a percentage of GDP. In 3Q04, the Spanish current account deficit represented 5.7% of GDP (the highest on record since the 1980s), with all components, except the balance of services, contributing negatively. The main reason for the sharp increase has been the trade deficit, which stood at 7.4% of GDP in 3Q04 (the highest on record). The balance of services' surplus was equivalent to 4.3% of 3Q04 GDP. Both the Income (deficit of 2.2% of GDP) and the Transfers (deficit of 0.4% of GDP) accounts were in the red in 3Q04.

Spain – Current Account Balance, 1977-2004



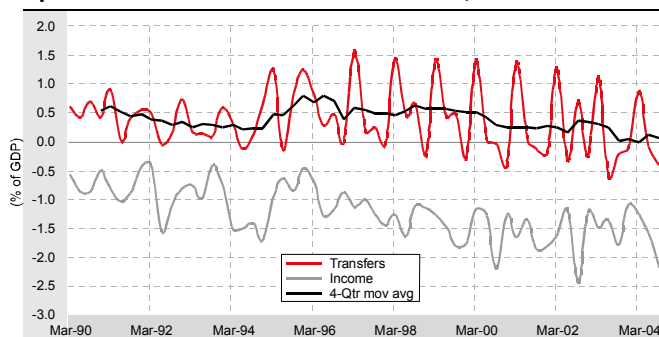
Spain – Trade Balance vs Balance of Services, 1990-2004



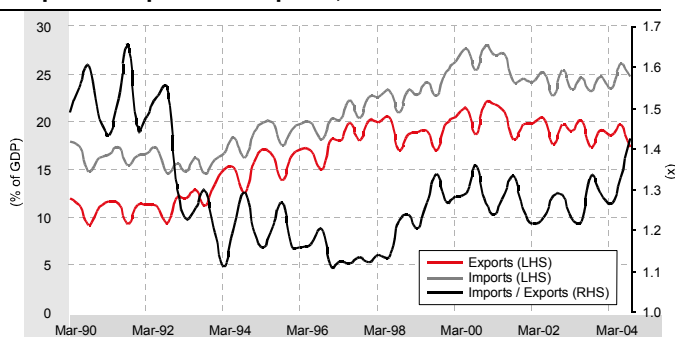
Source: MINECO, Bloomberg and Santander Central Hispano Bolsa.

The biggest problem continues to be the trade deficit. Right now, imports are 1.43 times exports, with the former growing at 11.2% YoY and exports rising just 4.6%. While the strength of Spanish internal demand has underpinned the strong imports growth rate, exports have been relatively weak due to the slack internal demand in the economies of Spain's main trading partners, together with the loss of the competitive advantage of Spanish products.

Spain – Income vs Transfers Accounts, 1990-2004



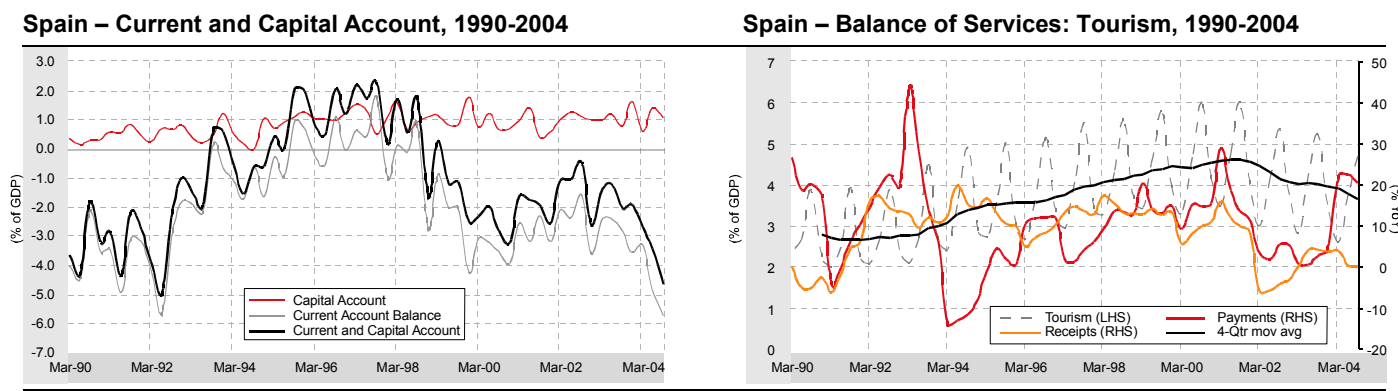
Spain – Imports vs Exports, 1990-2004



Source: MINECO, Bloomberg and Santander Central Hispano Bolsa.



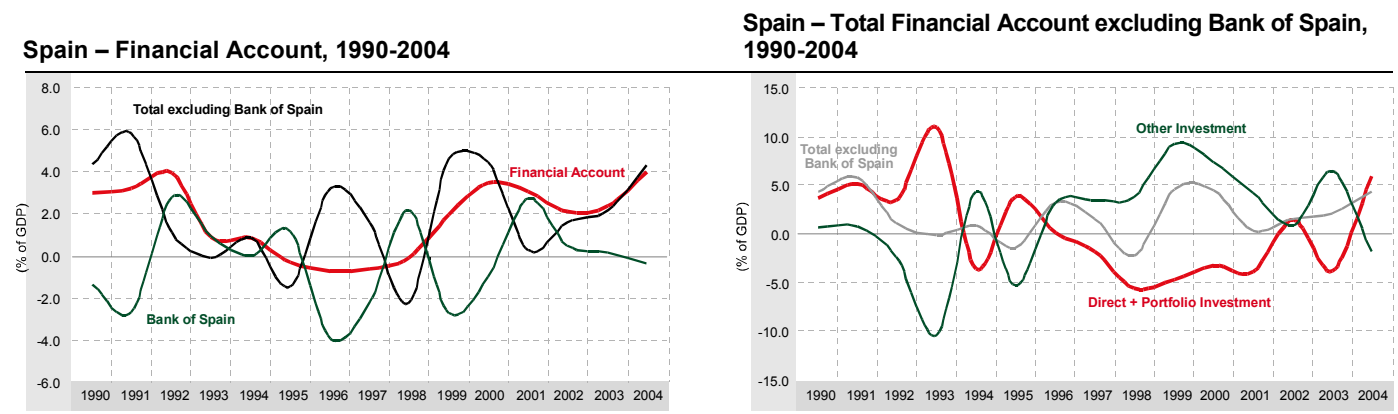
As stated above, the main source of net receipts of the current account balance is the balance of services. Moreover, the factor that usually offsets the trade deficit is tourism. Spain's tourism account has been clearly positive historically, with the surplus generally in a narrow range of 2.0%-6.0% of GDP. Recently, the tourism surplus has been decelerating, moving towards the middle-to-lower end of that range. The 3Q04 surplus stood at 4.3% of GDP, but the average of the last four quarters was 3.6% of GDP. In our view, this is due to the weak 2004 summer season, which suffered from excess capacity in the sector. The capital account remains in positive territory, with a surplus of 1.1% of GDP. However, after adding the current account deficit, the overall 3Q04 current + capital deficit stood at 4.6% of GDP.



Source: MINECO, Bloomberg and Santander Central Hispano Bolsa.

How Does Spain Finance Its Current Account Deficit?

In recent years, the financial account, excluding the Bank of Spain, has been unable to finance the current + capital account deficit alone. In our view, the most important trends seen in the financial account in recent years are: (1) the net financial account's very positive performance in 1996-1998, thanks to higher net other investment, enabling the BoS to improve reserves; (2) the blip in reserves in 1998, followed by the upturn in net other investments (offsetting the weakness in net direct and portfolio investments) in Spain, which also strengthened BoS reserves; and (3) the weak net direct and portfolio investments since 2001, which have led to a sharp decline in reserves.



Source: MINECO, Bloomberg and Santander Central Hispano Bolsa.

As we can see in the graphs above, the absence of sufficient funds from the direct, portfolio and other investments accounts has forced the Bank of Spain to fill the gap in recent quarters. Moreover, we have seen no significant improvements in recent quarters in the direct and portfolio account, while the other investment account has stabilised, mainly through higher foreign investment in the real estate account in Spain.

How Can the Spanish Current Account Deficit Be Resolved?

In our view, narrowing the current account deficit will require: (1) a deceleration in internal demand combined with an increase in savings; (2) an improvement in Spain's competitive position; and (3) a pick-up in the services account (possibly by changing the tourism model). These solutions are different from those adopted at the beginning of the 1990s, when the current account deficit was resolved thanks to a devaluation of the Spanish currency (the peseta). Nowadays, this mechanism of adjustment is not available.

In any case, we do not expect to see all these solutions in place in the short run. An improvement in Spain's competitive position is not something you can achieve from one day to the next, nor is the adjustment in the tourism sector. However, at least a slowdown in internal demand should be sufficient to contain the current account deficit at the present levels.



MACROECONOMIC ESTIMATES AND FORECASTS

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

GDP	2002	2003	2004	Cons	2005F	Cons	2006F	Cons
Germany	0.1	-0.1	1.2	1.5	1.3	1.2	2.1	1.6
France	1.1	0.5	2.1	2.1	1.6	1.8	2.4	2.1
Italy	0.4	0.4	1.2	1.3	1.4	1.4	2.0	1.7
Spain	2.4	2.5	2.5	2.6	2.4	2.5	2.5	2.5
Portugal	0.4	-1.2	1.5	1.2	2.3	2.2	2.6	-
Euro-12	0.6	0.5	1.8	1.8	1.5	1.7	2.2	2.0
UK	1.8	2.2	-	3.3	-	2.6	-	-
Argentina	-10.9	8.8	8.4	7.1	4.7	4.3	4.5	-
Brazil	1.9	0.5	4.9	4.5	3.6	3.5	3.5	-
Mexico	0.7	1.3	4.0	4.0	4.0	3.6	4.0	-
Japan	-0.3	2.5	-	4.3	-	1.8	-	1.8
US	1.9	3.0	4.3	4.4	2.9	3.5	3.1	3.4

CPI	2002	2003	2004	Cons	2005F	Cons	2006F	Cons
Germany	1.4	1.1	1.6	1.7	1.2	1.3	1.3	1.3
France	1.9	2.2	2.3	2.2	1.8	1.7	1.8	1.6
Italy	2.6	2.8	2.3	2.3	2.0	2.1	2.0	1.9
Spain	3.6	3.1	2.9	3.1	2.8	2.8	2.3	2.5
Portugal	3.6	3.3	2.5	2.4	2.2	2.2	2.2	-
Euro-12	2.3	2.1	2.1	2.1	1.7	1.8	1.7	1.7
UK	1.3	1.3	-	1.4	-	1.8	-	-
Argentina	41.0	3.7	5.7	6.6	9.0	7.5	6.0	-
Brazil	12.5	9.3	7.6	7.3	6.2	5.9	5.0	-
Mexico	5.7	4.0	5.2	4.7	4.0	4.0	4.0	-
Japan	-1.0	-0.3	-	-0.1	-	0.0	-	0.4
US	1.6	2.3	2.6	2.6	2.2	2.3	2.3	2.3

Financial Indicators	2002	2003	2004	Cons	2005F	Cons	2006F	Cons
Intervention rates								
Euro zone	2.75 (3.21)	2.00 (2.25)	2.00 (2.00)	-	2.25 (2.06)	2.75	3.25 (2.88)	3.50
US	1.25 (1.67)	1.00 (1.10)	2.25 (1.40)	-	3.25 (2.63)	3.50	4.25 (4.13)	-
3M rates								
Euro zone	2.86 (3.26)	2.11 (2.26)	2.13 (2.08)	-	2.50 (2.23)	2.41	3.65 (3.18)	2.92
US	1.29 (1.72)	1.09 (1.14)	2.52 (1.56)	-	3.74 (2.93)	3.50	4.05 (4.15)	-
2Y bond yields								
Euro zone	2.72 (3.62)	2.61 (2.46)	2.48 (2.48)	-	3.25 (2.83)	-	4.35 (3.93)	-
US	1.60 (2.55)	1.82 (1.64)	3.06 (2.36)	-	4.50 (3.59)	-	3.75 (3.99)	-
10Y bond yields								
Euro zone	4.20 (4.77)	4.29 (4.09)	3.68 (4.06)	-	4.20 (4.05)	4.19	4.90 (4.60)	4.46
US	3.82 (4.53)	4.25 (3.99)	4.22 (4.25)	-	5.15 (4.60)	5.10	5.00 (4.18)	5.50
Exchange rates								
Euro-dollar	1.05 (0.95)	1.26 (1.14)	1.36 (1.24)	-	1.23 (1.22)	1.339	1.15 (1.18)	1.336

(*) Annual averages in brackets.

Source: Consensus forecasts (January 2005). Euro Zone Barometer (January 2005). Santander Central Hispano Investment and Santander Central Hispano Bolsa estimates and forecasts.



APPENDIX 1

Summary of Euro Zone Figures, 2001-4Q04

GDP Components	Annual Growth			YoY Rates				QoQ Annualised Rates					
	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04
Private consumption	1.9	0.6	1.0	1.0	1.1	0.9	-	1.2	0.1	2.7	0.4	0.4	-
Public consumption	2.4	3.1	1.6	1.7	1.7	1.5	-	2.7	1.9	0.5	1.6	2.0	-
Business investment	-0.4	-2.7	-0.5	1.0	1.5	1.8	-	1.4	4.2	-1.0	1.2	3.0	-
Inventory (contribution)	0.0	-0.4	-0.1	0.0	0.3	1.3	-	-1.3	2.6	-0.4	0.4	2.7	-
Internal demand (contribution)	0.9	0.3	1.2	1.2	1.6	2.6	-	0.2	4.1	1.0	1.2	4.1	-
Exports	3.3	1.9	0.2	3.8	7.4	6.2	-	10.9	1.0	6.5	11.7	6.0	-
Imports	1.6	0.5	2.0	3.3	6.6	8.7	-	5.9	7.7	2.3	10.6	14.6	-
Net exports (contribution)	0.7	0.6	-0.7	0.2	0.4	-0.8	-	1.9	-2.5	1.6	0.6	-3.0	-
GDP	1.6	0.9	0.5	1.4	2.1	1.8	-	2.1	1.6	2.7	1.9	1.1	-
Nominal GDP (€ bn)	6847.3	7082.3	7265.3										
Activity indicators	Annual Growth			YoY Rates				MoM Rates					
	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	Jul04	Aug04	Sep04	Oct04	Nov0	Dec04
Industrial production	0.6	-0.3	0.3	1.4	3.3	2.9	-	2.7	3.3	2.8	1.2	0.0	-
- Ex construction	0.4	-0.5	0.3	1.0	3.1	2.8	-	2.7	2.0	3.5	1.1	0.5	-
Manufacturing production	0.3	-0.8	0.0	1.0	3.2	2.8	-	2.6	2.5	3.5	1.1	0.2	-
Retail sales	1.6	0.0	0.3	0.5	0.1	0.1	-	0.7	-0.1	-0.4	-0.6	0.4	-
New car registrations	0.0	-2.4	-1.2	1.5	3.3	-1.1	-	-0.6	-1.6	-1.0	2.3	2.0	-
Capacity utilisation	83.5	81.4	81.1	80.7	80.7	81.6	81.7						
Confidence indicators	Annual Average			Quarterly Average				Index					
	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	Jul04	Aug04	Sep04	Oct04	Nov0	Dec04
Economic confidence	100.8	94.4	93.5	98.9	100.0	100.7	100.9	100.0	101.0	101.1	101.4	100.9	100.3
Business climate	-0.21	-0.54	-0.42	0.03	0.36	0.52	0.44	0.56	0.51	0.49	0.50	0.38	0.43
Industrial confidence	-9	-11	-10	-7	-5	-4	-3	-4	-4	-3	-3	-3	-4
Construction confidence	-11	-19	-20	-19	-16	-16	-14	-16	-15	-16	-14	-14	-14
Retail trade survey	-7	-16	-11	-8	-8	-8	-8	-9	-7	-9	-7	-10	-7
Services confidence	15	1	2	11	12	12	11	12	13	12	13	11	10
Consumer confidence	-5	-11	-18	-14	-15	-14	-13	-14	-14	-13	-14	-13	-13
PMI	48	50	49	52.8	54.4	53.9	51.4	54.7	53.9	53.1	52.4	50.4	51.4
- Output	49	52	51	53.9	56.0	55.9	52.3	57.1	55.7	54.8	54.0	50.5	52.4
- New orders	47	51	50	55.0	56.1	55.2	51.3	56.1	55.5	54.1	52.6	49.8	51.6
- Employment	49	47	47	48.4	48.9	49.5	48.4	49.7	49.4	49.5	49.0	48.0	48.3
- Stock purchases	47	46	46	46.9	48.4	49.2	49.5	49.3	49.4	48.8	48.9	49.4	50.1
- Delivery times	53	50	50	45.0	40.4	43.1	44.6	42.1	43.4	43.9	44.0	44.4	45.4
- Prices	48	52	52	59.8	70.7	69.4	72.8	70.2	66.6	71.3	76.4	72.1	69.9
Prices	Annual Growth			YoY Rates				MoM Rates					
	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	Jul04	Aug04	Sep04	Oct04	Nov0	Dec04
CPI	2.4	2.3	2.1	1.7	2.3	2.3	2.3	-0.2	0.2	0.1	0.4	-0.1	0.3
Core CPI	1.8	2.4	1.8	1.8	1.9	1.8	1.8	-0.3	0.3	0.2	0.3	0.0	0.5
PPI (ex construction)	2.0	-0.1	1.4	0.2	2.0	3.1	-	0.5	0.4	0.2	0.8	-0.2	-
GDP deflator	2.4	2.5	2.1	1.9	2.1	1.8	-						
Domestic demand deflator	2.2	2.1	1.8	1.5	2.1	1.9	-						
Costs and salaries	Annual Growth			YoY Rates				MoM Rates					
	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	Jul04	Aug04	Sep04	Oct04	Nov0	Dec04
Unit labour costs	2.6	2.2	2.0	1.0	0.4	0.1	-						
Salaries	2.8	2.6	2.4	2.2	2.2	1.5	-						
Productivity	0.2	0.4	0.4	1.2	1.8	1.4	-						
Employment market	Annual Growth			YoY Rates				MoM Rates					
	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	Jul04	Aug04	Sep04	Oct04	Nov0	Dec04
Unemployment rate	8.0	8.5	8.9	9.0	8.9	8.9	-	8.9	8.9	8.9	8.9	8.9	-
Money supply	Annual Growth			YoY Rates				MoM Rates					
	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	Jul04	Aug04	Sep04	Oct04	Nov0	Dec04
M3	10.9	6.6	6.4	5.7	5.2	6.0	-	0.9	0.4	0.7	0.6	0.3	-
M3 mov. average 3m (YoY)	7.9	7.1	7.0	5.9	5.2	5.8	-	5.4	5.7	5.8	5.9	-	-
Loans to the private sector	7.0	4.0	4.7	4.6	5.4	5.8	-	0.5	-0.1	0.8	0.6	0.8	-
Currency (YoY rates)	Annual Growth			YoY Rates				MoM Rates					
	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	Jul04	Aug04	Sep04	Oct04	Nov04	Dec04
€ effective exchange rate	1.5	3.0	11.4	8.5	1.2	2.7	3.7	1.8	2.8	3.5	3.2	4.7	3.3
Real effective exch rate € (CPI)	0.6	4.1	12.6	8.9	1.6	2.8	3.3	1.9	3.1	3.4	2.9	4.3	2.8
Real effective exch rate € (PPI)	1.7	3.9	11.2	7.3	0.5	2.2	2.5	1.2	2.4	3.0	2.3	3.3	2.0
Real effective exch rate € (ULC)	-1.1	2.6	13.0	10.7	2.4	-	-						
External sector	Annual Growth			YoY Rates				MoM Rates					
	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	Jul04	Aug04	Sep04	Oct04	Nov04	Dec04
CA Balance (% GDP)	-0.2	0.8	0.3	0.8	0.5	0.3	-	0.0	0.0	0.0	0.0	-	-
- € bn (1)	-11	58	22	24	41	50	39	50	50	45	39	-	-
Public accounts (% GDP)	Annual Growth			YoY Rates				MoM Rates					
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Government receipts (% GDP)	47.1	47.7	47.3	46.9	47.6	47.9	47.3	47.8	47.5	46.8	46.3	46.3	-
Government expenditures	52	53.5	52.5	52.0	52.0	50.6	49.6	49.1	48.5	48.6	48.7	49.1	-
Deficit/Surplus	-5.0	-5.9	-5.2	-5.2	-4.3	-2.7	-2.3	-1.3	-1.0	-1.7	-2.4	-2.7	-

Sources: Bloomberg; Datastream; Reuters and Santander Central Hispano Bolsa.

APPENDIX 2

Summary of US Figures, 2001-4Q04

GDP	2002	2003	YoY Rates				QoQ Annualised Rates			
			1Q04	2Q04	3Q04	4Q04	1Q04	2Q04	3Q04	4Q04
Private consumption	3.1	3.3	4.2	3.6	3.6	-	4.1	1.6	5.1	-
Government consumption	4.4	2.8	2.8	1.6	1.8	-	2.5	2.2	0.7	-
Business investment	-2.4	4.4	12.8	16.8	11.7	-	12.3	19.0	2.4	-
- Equipment & software	-5.5	6.4	13.1	13.9	12.9	-	8.1	14.2	17.5	-
- Construction	-4.4	3.7	8.7	9.3	5.9	-	1.0	13.5	0.8	-
Internal demand	2.5	3.4	5.2	5.1	4.5	-	5.1	4.2	3.9	-
Exports	-2.4	1.9	8.4	10.8	9.4	-	7.3	7.3	6.0	-
Imports	3.4	4.4	8.1	10.7	11.1	-	10.6	12.6	4.6	-
GDP	1.9	3.0	5.0	4.8	4.0	-	4.5	3.3	4.0	-
Nominal GDP (US\$ bn)	10487	11004								
	YoY Rates				YoY Rates					
General Activity	1Q04	2Q04	3Q04	4Q04	Jul04	Aug04	Sep04	Oct04	Nov04	Dec04
Leading indicator	4.0	4.2	2.3	1.0	2.9	2.2	1.9	1.1	1.1	1.0
Coincident indicator	2.0	2.7	2.6	2.5	2.5	2.8	2.5	2.6	2.4	2.5
Stocks to sales ratio	1.26	1.23	1.23	1.24	1.23	1.23	1.24	1.24	1.24	-
Industrial production	2.8	4.9	4.6	4.2	4.8	5.0	3.9	4.5	3.7	4.4
Capacity utilisation (1)	76.9	77.7	78.3	78.5	78.3	78.3	78.0	78.5	78.6	79.2
ISM index	25.8	27.1	10.6	-4.7	17.9	7.3	7.0	-0.5	-5.7	-7.6
ISM index (1)	63.6	62.4	62.0	56.8	62.0	59.0	58.5	56.8	57.8	58.6
	YoY Rates				YoY Rates					
Private consumption	1Q04	2Q04	3Q04	4Q04	Jul04	Aug04	Sep04	Oct04	Nov04	Dec04
Real hourly earnings	0.3	-0.6	-0.4	-0.9	-1.0	-0.2	0.0	-0.7	-1.2	-0.8
Retail sales	7.8	7.8	6.5	8.2	6.9	4.7	7.7	8.8	7.2	8.7
- Less autos	8.2	9.4	7.8	8.7	8.2	7.1	8.1	8.9	8.5	8.6
Personal spending	4.2	3.6	3.6	-	3.8	3.0	4.0	4.2	3.4	-
Consumer confidence (1)	97.7	93.0	105.7	92.9	105.7	98.7	96.7	92.9	92.6	102.3
- Expectations (1)	105.3	94.8	105.3	92.2	105.3	97.3	97.7	92.2	90.2	99.9
Savings rate (1)	1.1	1.5	0.5	0.1	0.5	0.7	0.3	0.1	0.3	-
Consumer credit	5.0	4.0	4.2	-	4.3	3.9	4.2	4.3	3.9	-
	YoY Rates				YoY Rates					
Business investment	1Q04	2Q04	3Q04	4Q04	Jul04	Aug04	Sep04	Oct04	Nov04	Dec04
New orders	8.5	13.1	11.7	-	12.2	12.2	10.7	9.1	11.4	-
- Less autos	9.0	14.2	12.4	-	11.9	13.3	12.2	11.5	12.6	-
Non-defense cap orders less aircraft	11.3	12.3	12.1	-	11.1	14.6	10.7	12.5	11.2	-
ISM: production index	29.5	25.5	6.5	-12.3	19.5	-2.8	3.9	-5.5	-13.1	-17.8
ISM: new orders	28.9	24.0	2.9	-10.5	12.3	1.3	-4.6	-9.8	-13.9	-7.8
After-tax profits	3Q02	4Q02	1Q03	2Q03	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04
	23.5	31.8	14.3	6.7	9.8	14.7	17.2	19.5	5.8	-
	YoY Rates				YoY Rates					
Construction	1Q04	2Q04	3Q04	4Q04	Jul04	Aug04	Sep04	Oct04	Nov04	Dec04
Housing starts	11.2	10.0	4.6	-3.7	4.9	10.0	-0.9	4.1	-12.0	-3.1
New home sales	22.2	9.2	0.2	-	-5.3	-2.6	8.9	12.0	3.6	-
Construction spending	7.2	10.2	9.6	-	10.5	9.3	8.9	7.9	6.9	-
Building permits	6.7	9.7	4.0	2.6	9.2	0.3	2.8	0.2	5.6	2.1
Employment, wages and salaries	1Q04	2Q04	3Q04	4Q04	Jul04	Aug04	Sep04	Oct04	Nov04	Dec04
Pool of available workers	0.5	0.3	0.8	0.8	0.9	0.8	0.7	0.8	0.8	1.0
Total employment	0.7	0.9	1.5	1.3	1.6	1.5	1.4	1.3	1.3	1.3
Unemployment rate (1)	5.7	5.5	5.5	5.5	5.5	5.4	5.4	5.5	5.4	5.4
Unemp avg duration (weeks) (1)	19.8	19.7	18.5	19.7	18.5	19.2	19.6	19.7	19.8	19.3
Avg working hours per week (1)	33.8	33.7	33.8	33.8	33.8	33.7	33.8	33.8	33.7	33.8
Avg hourly earnings	1.8	2.1	2.2	2.6	2.0	2.3	2.4	2.5	2.5	2.7
Employment cost index	3Q02	4Q02	1Q03	2Q03	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04
	3.7	3.6	3.9	3.8	4.0	3.9	3.8	3.9	3.8	-
	YoY Rates				YoY Rates					
Prices	1Q04	2Q04	3Q04	4Q04	Jul04	Aug04	Sep04	Oct04	Nov04	Dec04
CPI	1.8	2.9	2.7	3.3	3.0	2.7	2.5	3.2	3.5	3.3
Core CPI	1.3	1.8	1.8	2.1	1.8	1.7	2.0	2.0	2.2	2.2
PPI	2.3	4.2	3.5	4.5	3.9	3.3	3.3	4.4	5.0	4.1
Core PPI	0.9	1.5	1.6	2.0	1.4	1.5	1.9	1.8	1.9	2.2
Import prices	1.4	5.7	7.0	8.6	5.6	7.1	8.2	9.9	9.1	6.9
Export prices	2.9	4.2	4.2	4.2	4.5	4.0	4.0	4.4	4.2	4.1
External sector	1Q04	2Q04	3Q04	4Q04	Jul04	Aug04	Sep04	Oct04	Nov04	Dec04
Balance of goods & services (3)	-501.0	-516.0	-547.0	-585.0	-547	-561	-571	-585	-605	-
Balance of goods & serv (3) (% GDP)	-4.4	-4.4	-4.6	-	-	-	-	-	-	-
Trade balance (3)	-582.8	-600.4	-634.3	-673.0	-634	-648	-658	-673	-694	-
Trade balance (3) as a % of GDP	-5.1	-5.2	-5.4	-	-	-	-	-	-	-
Nominal effective exchange rate	-12.3	-5.9	-7.1	-6.3	-7.1	-7.8	-6.4	-4.5	-7.9	-6.7
Monetary policy and public accts	1Q04	2Q04	3Q04	4Q04	Jul04	Aug04	Sep04	Oct04	Nov04	Dec04
Money supply (M2)	4.4	4.8	3.6	5.1	3.7	3.2	4.1	4.6	5.2	5.5
Federal funds rate (1)	1.00	1.01	1.27	1.75	1.27	1.43	1.62	1.75	1.92	2.16
Federal receipts (2)	410	550	479	487	134	138	207	137	135	216
Federal expenditures (2)	580	576	565	606	204	179	183	194	192	219
Federal public deficit (2)	-171	-26	-86	-119	-69	-41	25	-57	-58	-3

(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

Buy	Upside of more than 15%.
Hold	Upside of 10%-15%.
Underweight	Upside of less than 10%.

Note: New investment code criteria were implemented on January 1, 2005. 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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