



SELL SPAIN

WITH SPECIAL
CONTRIBUTOR
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B. Rich
HEDGEYE



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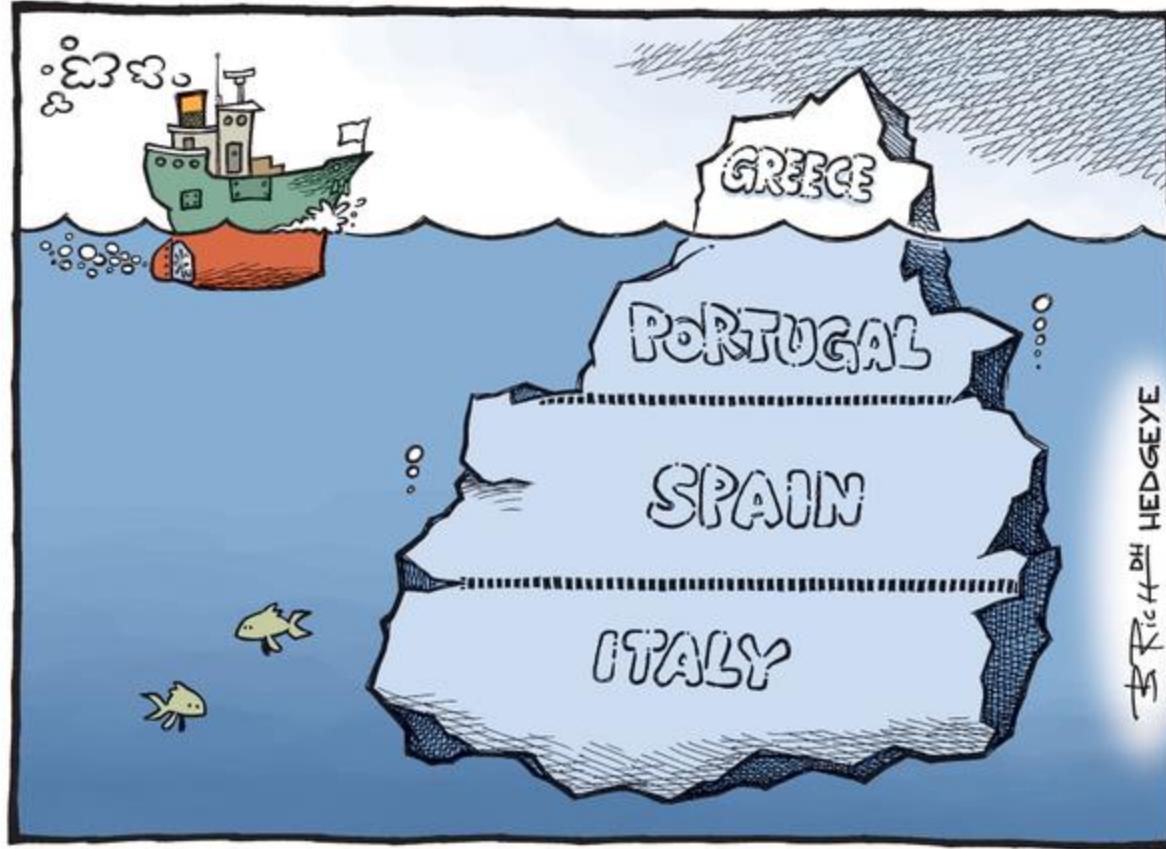
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#SELLSPAIN

ASSESSING RISK



IBEX BROKEN TREND AND TAIL



TRADE = 3 weeks
or less

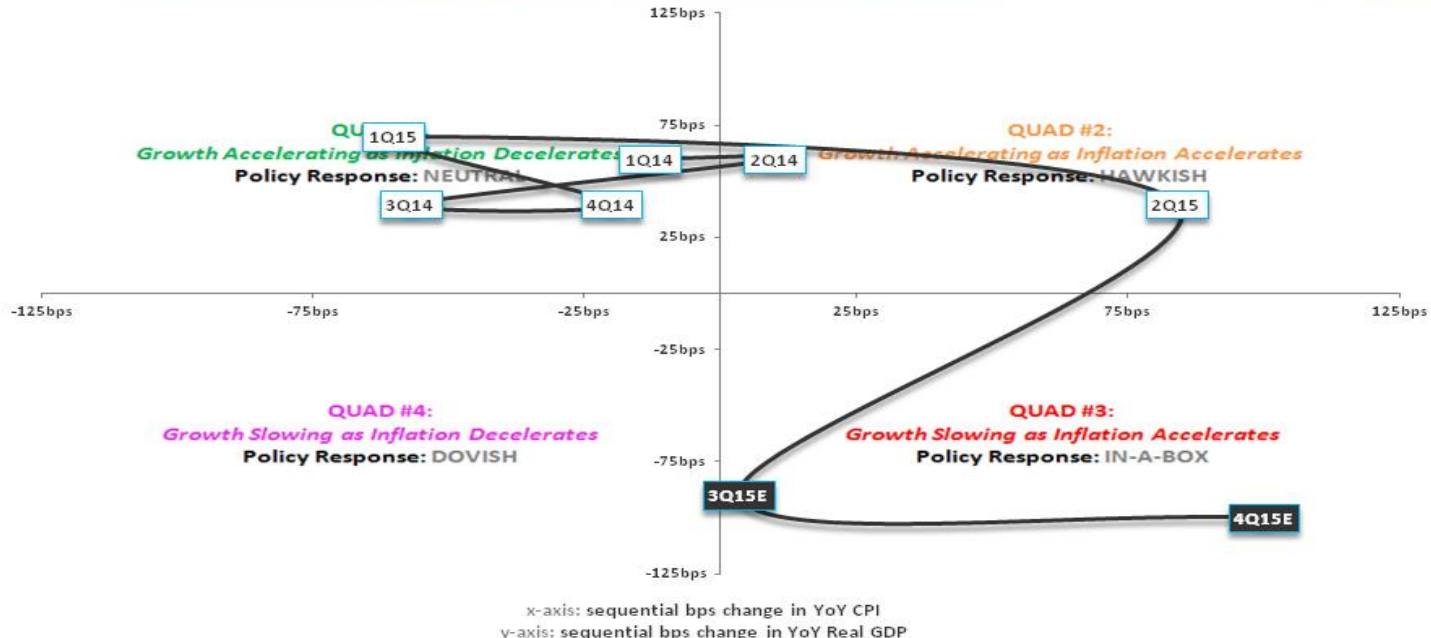
TREND = 3
months or more

TAIL = 3 years or
less

GROWTH-INFLATION-POLICY IS UGLY

SPAIN	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	Hedgeye Macro GIP Model		
Real GDP QoQ	-0.6%	-0.5%	-0.8%	-0.3%	-0.1%	0.1%	0.3%	0.3%	0.5%	0.5%	0.7%	0.9%	1.0%	GIP = Growth/Inflation/Policy		
Real GDP YoY	-2.1%	-2.1%	-2.5%	-2.2%	-1.7%	-1.0%	0.0%	0.6%	1.2%	1.6%	2.0%	2.7%	3.1%	Full-year Estimates		
2Y Average	-1.3%	-1.5%	-1.9%	-2.0%	-1.9%	-1.6%	-1.3%	-0.8%	-0.3%	0.3%	1.0%	1.7%	2.2%	Hedgeye Predictive Tracking Algorithm		
3Y Average	-0.8%	-0.8%	-1.1%	-1.3%	-1.4%	-1.3%	-1.3%	-1.1%	-0.9%	-0.5%	-0.2%	0.4%	0.9%	Bloomberg Consensus Estimate		
CAGR (3Y)	-0.8%	-0.8%	-1.1%	-1.3%	-1.4%	-1.3%	-1.3%	-1.1%	-0.9%	-0.5%	-0.2%	0.3%	0.8%	Central Bank Forecast		
CPI YoY	1.9%	2.8%	1.2%	2.8%	1.8%	1.3%	0.2%	0.1%	0.2%	-0.4%	-0.6%	-1.2%	-0.3%	Full-year Estimates		
2Y Average	2.6%	2.9%	3.0%	2.3%	1.9%	2.1%	1.7%	1.4%	1.0%	0.5%	-0.2%	-0.6%	-0.1%	Hedgeye Predictive Tracking Algorithm		
3Y Average	2.5%	2.6%	2.8%	2.6%	2.3%	2.3%	2.0%	1.6%	1.3%	1.2%	0.9%	0.6%	0.6%	Bloomberg Consensus Estimate		
CAGR (3Y)	2.5%	2.6%	2.8%	2.6%	2.3%	2.3%	2.0%	1.6%	1.3%	1.2%	0.9%	0.5%	0.6%	Central Bank Forecast		

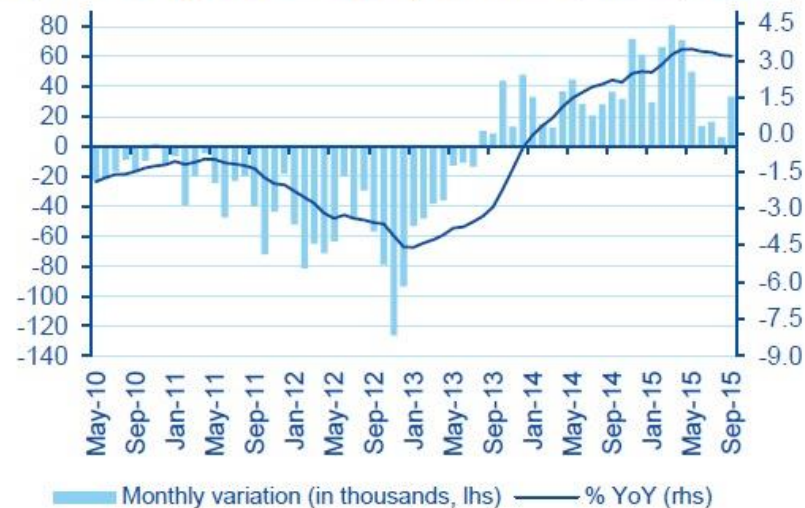
Quad 3 =
STAGFLATION



SPAIN'S RISKS ON ONE SLIDE

Figure 2

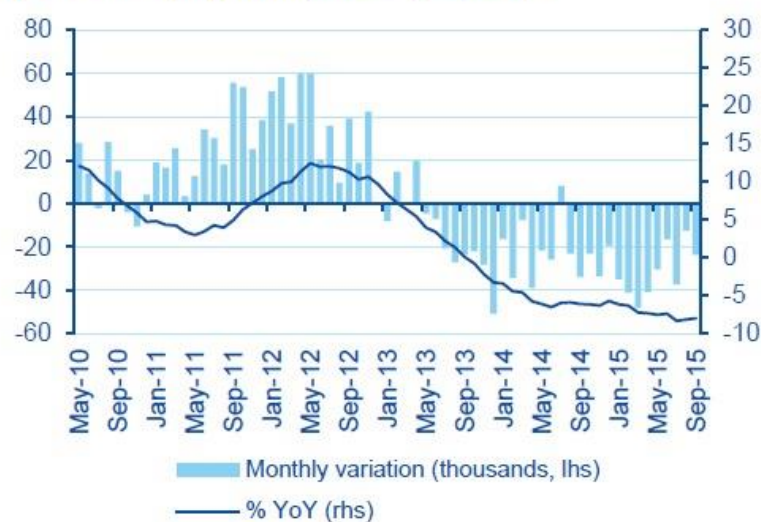
Spain: average social security affiliation (seasonally adjusted)



Source: BBVA based on Ministry of Employment and Social Security

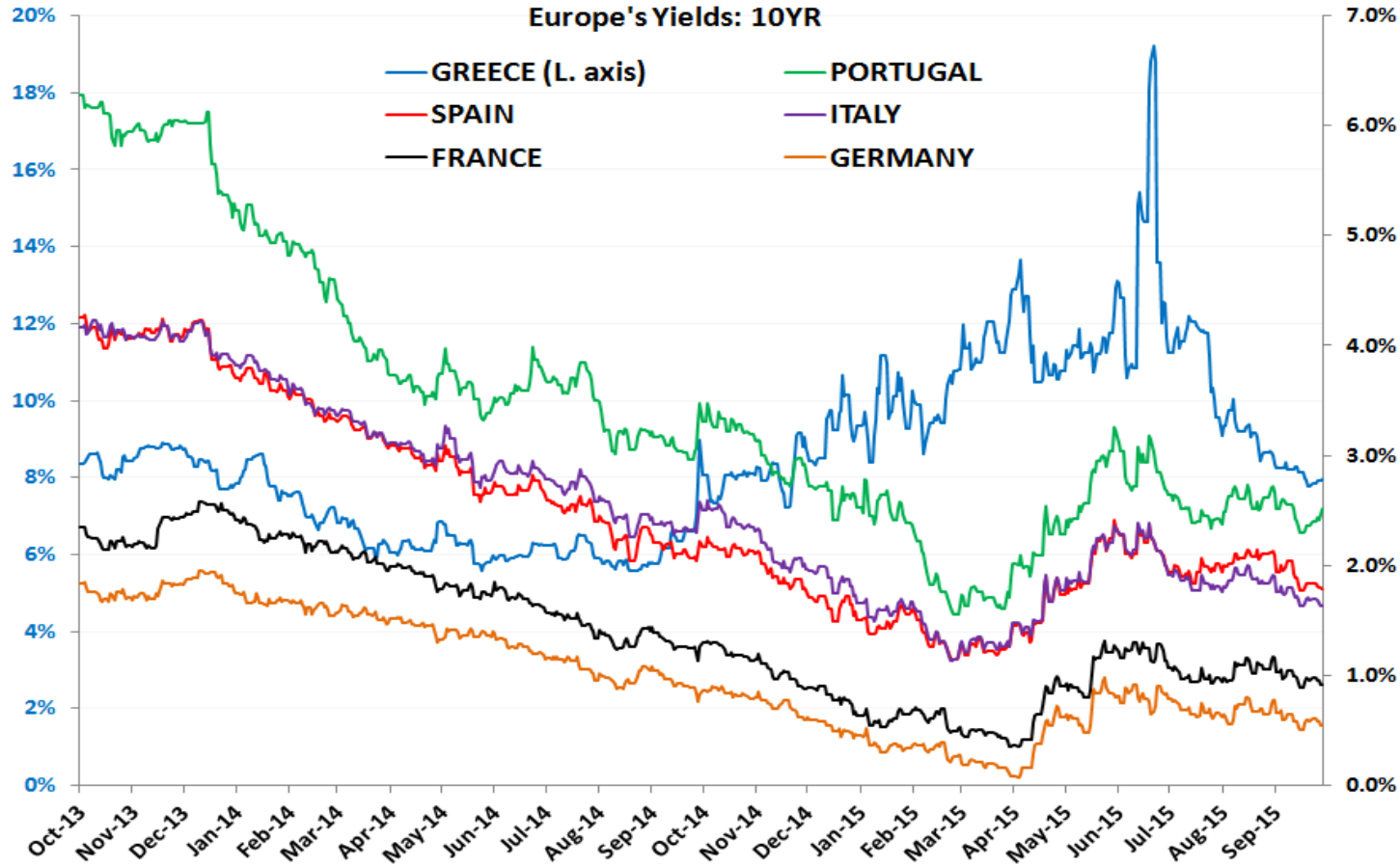
Figure 3

Spain: unemployment (seasonally adjusted)



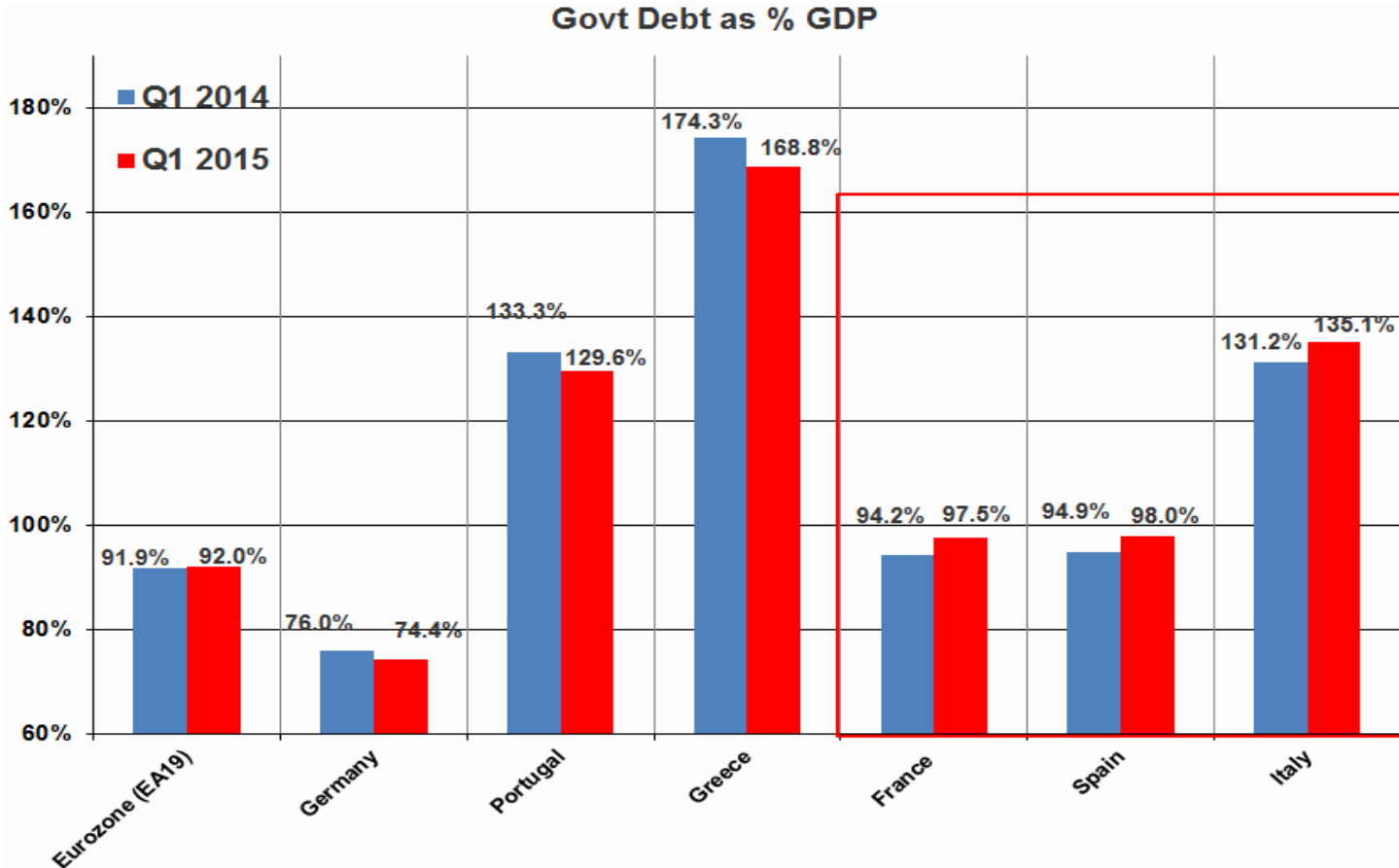
Source: BBVA based on Ministry of Employment and Social Security

SPAIN'S YIELD RISK PREMIUM IS LOW



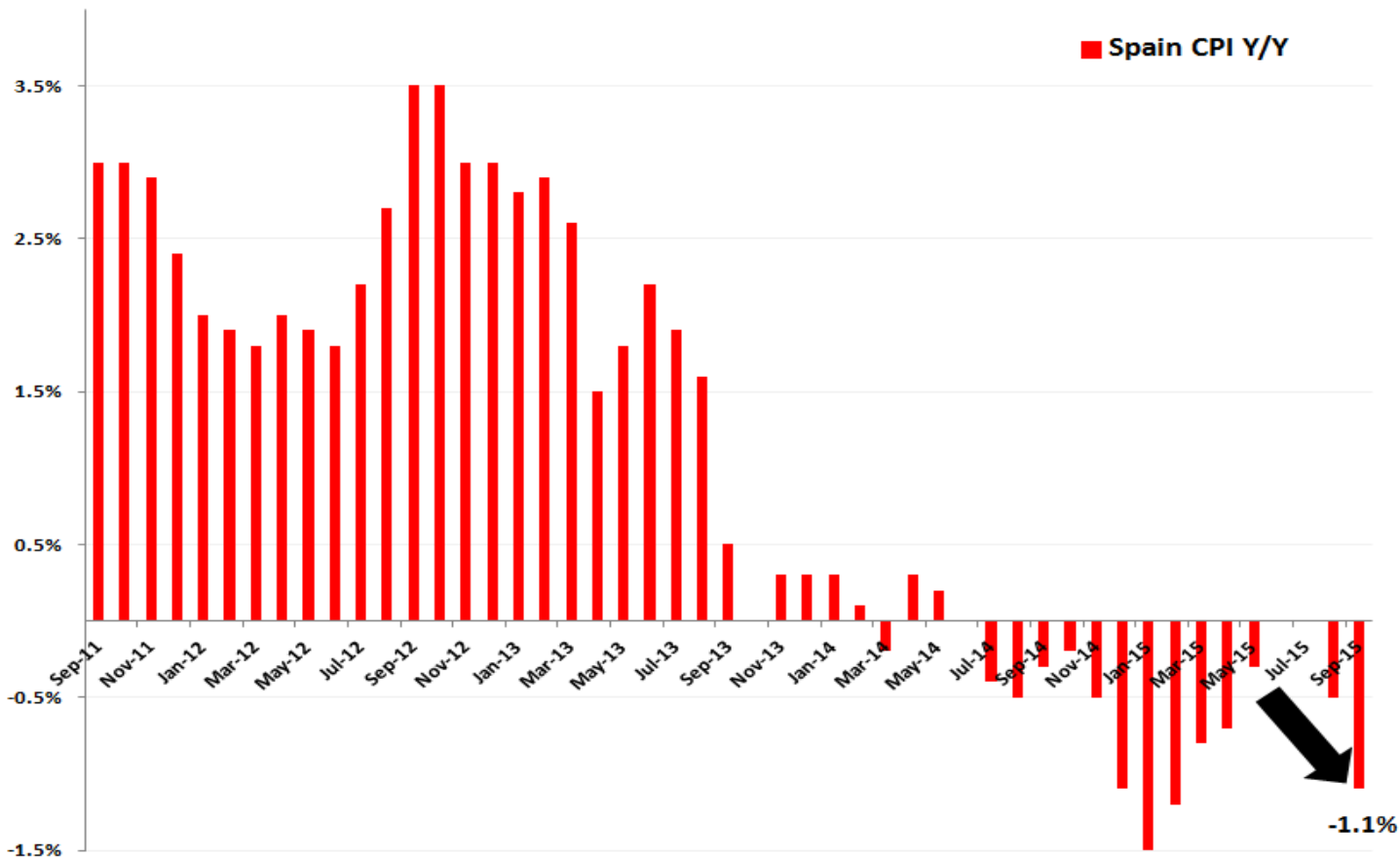
A political and financial 'crisis' that never seems to go away!

DEBT DOMINOES PERSIST



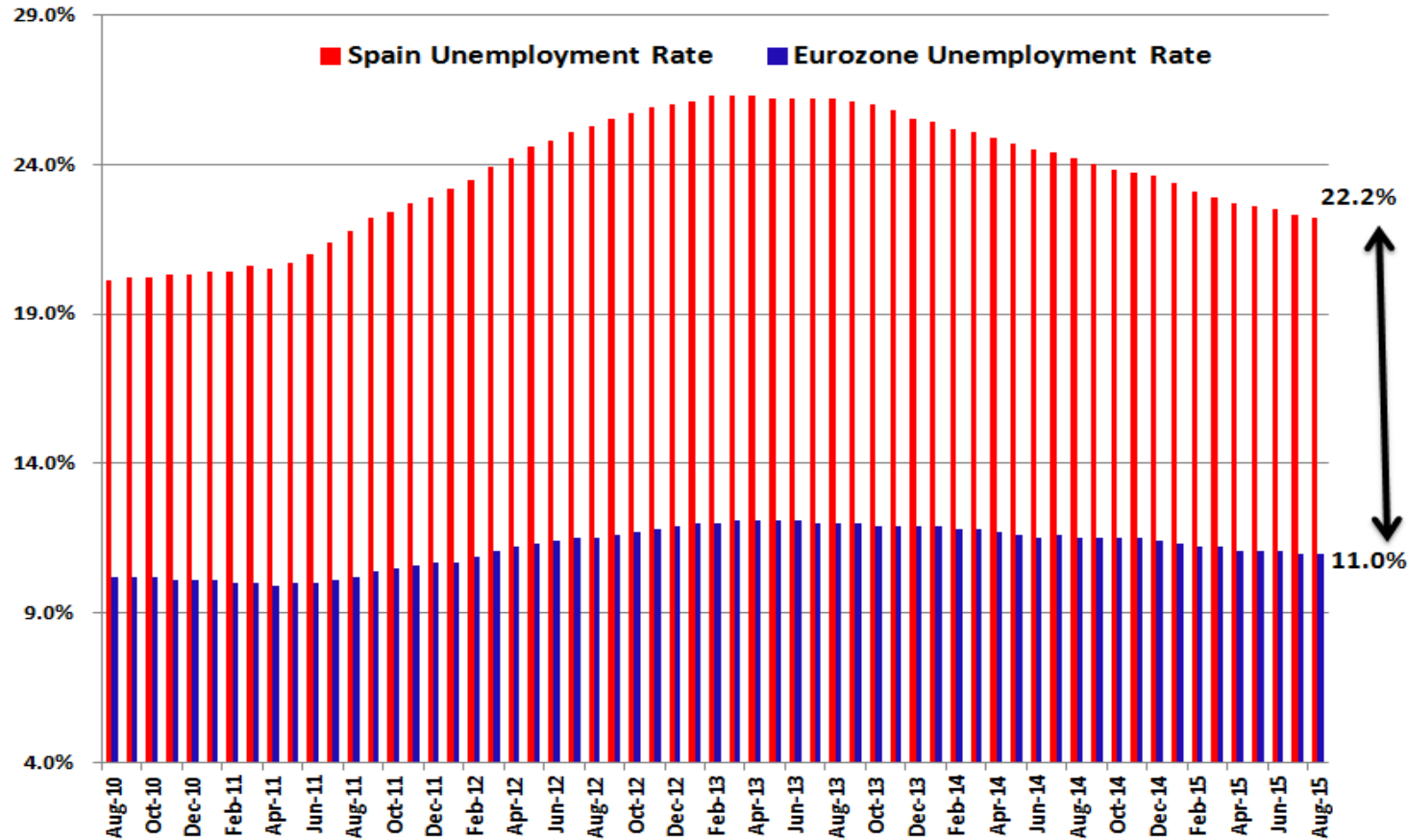
The backlash of austerity...

INFLATION GOING THE WRONG WAY



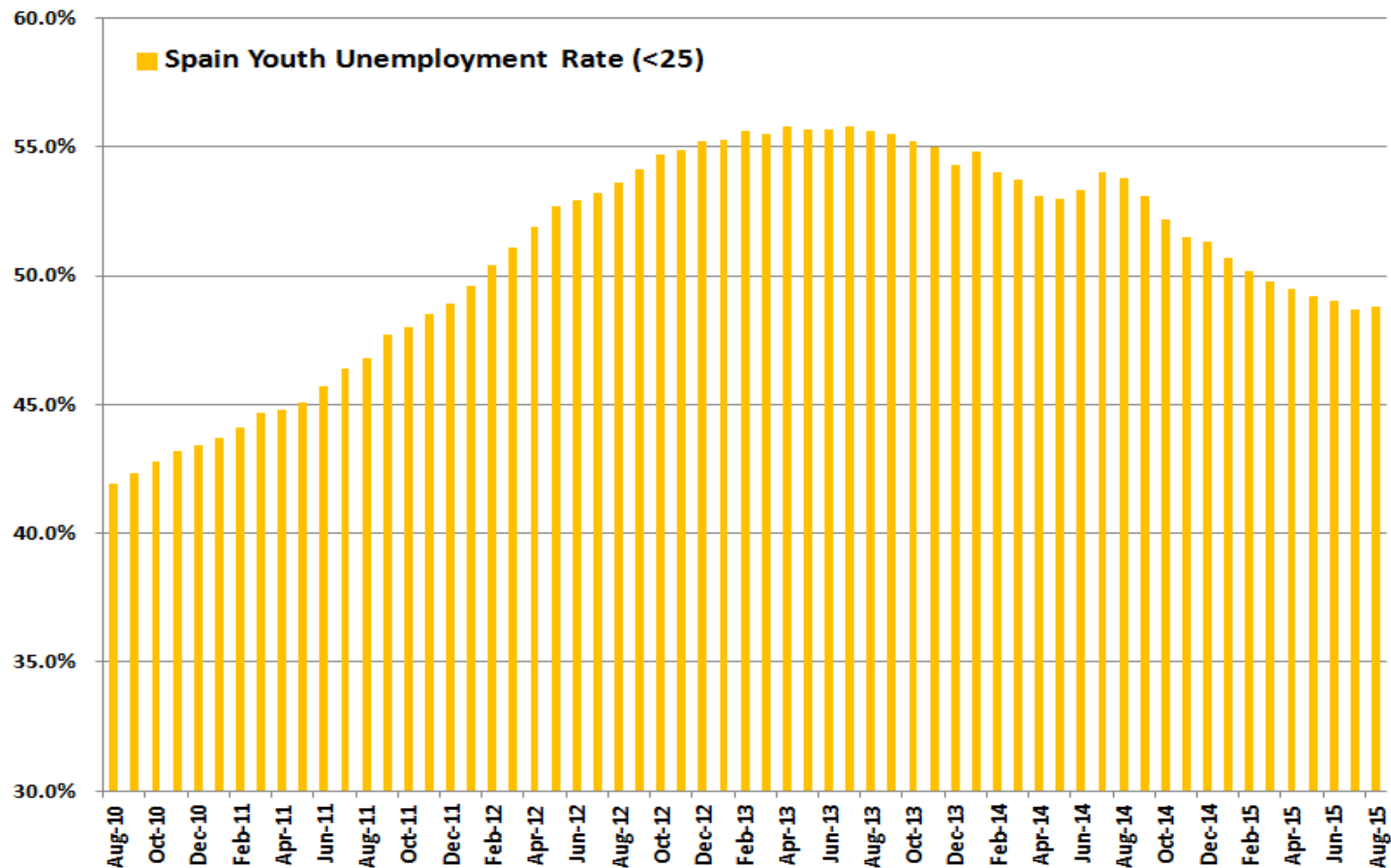
... and the ECB is targeting 2.0% inflation for the Eurozone...

UGLY UNEMPLOYMENT SPREAD



The pain in Spain is on the streets.

WITH A LONG-TERM TAIL...



Spain is tied with Greece for the highest youth unemployment rate in the Eurozone at 49%.

Italy 41%

Portugal 32%

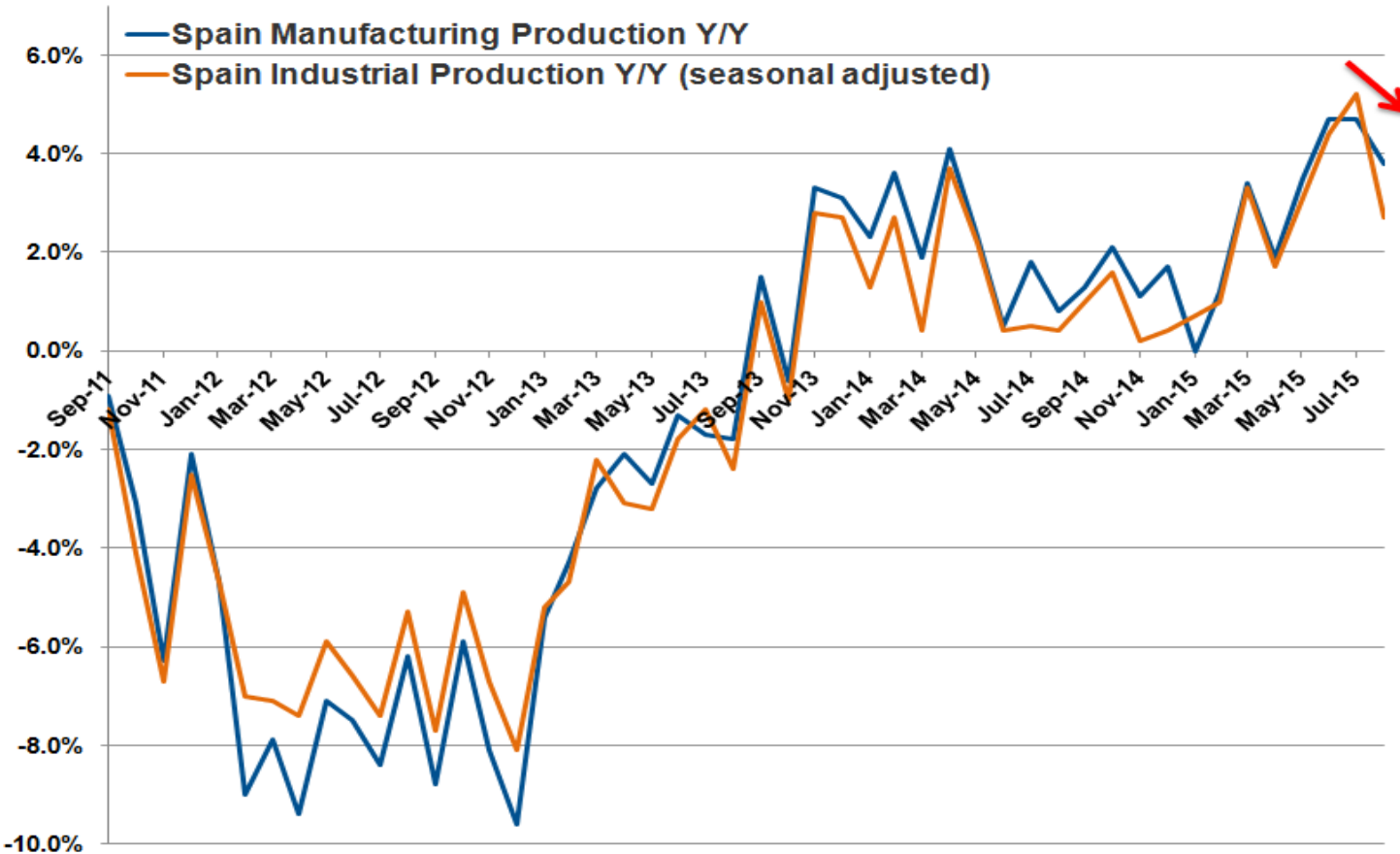
France 25%

Ireland 23%

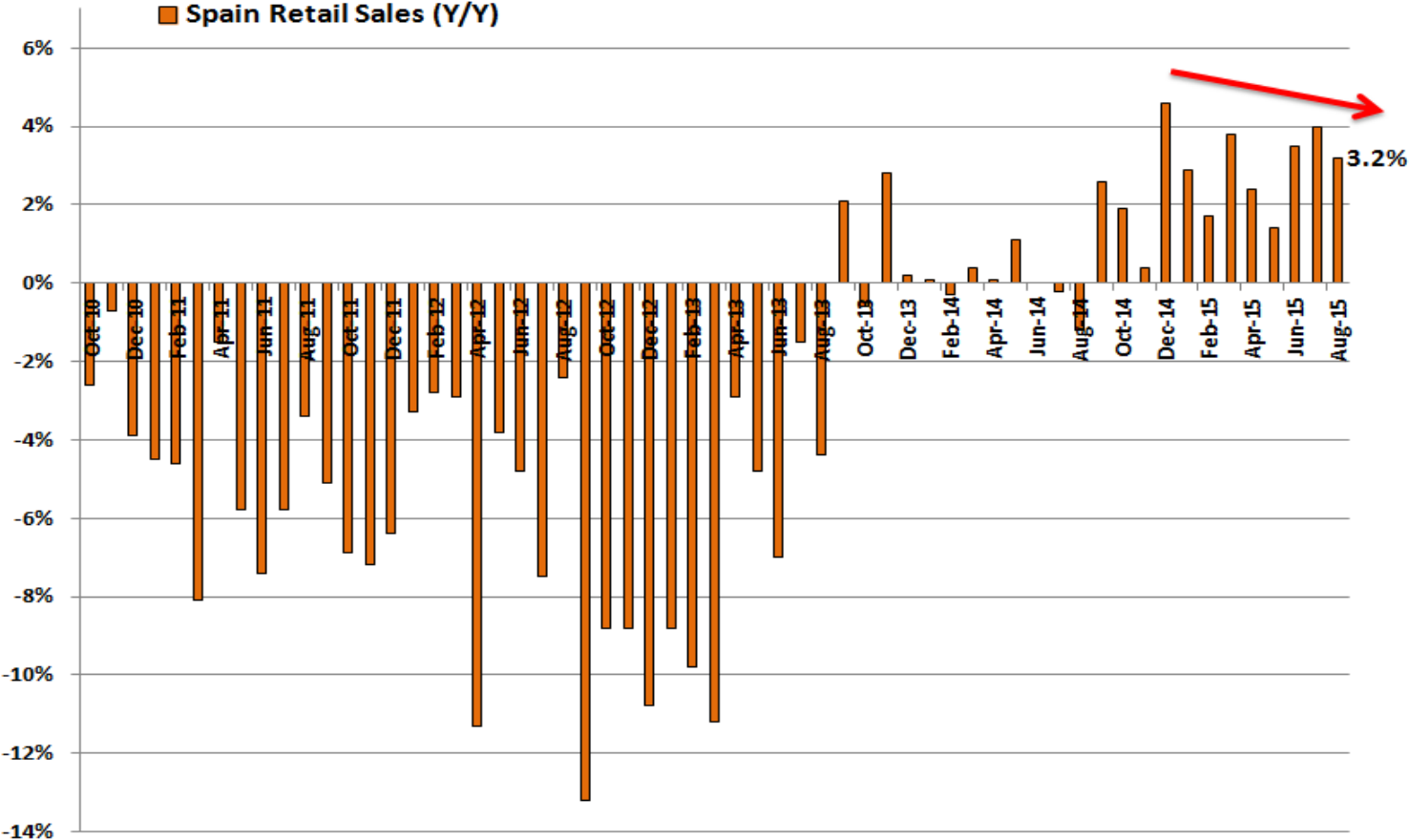
Germany 7%

Eurozone Avg. = 22%

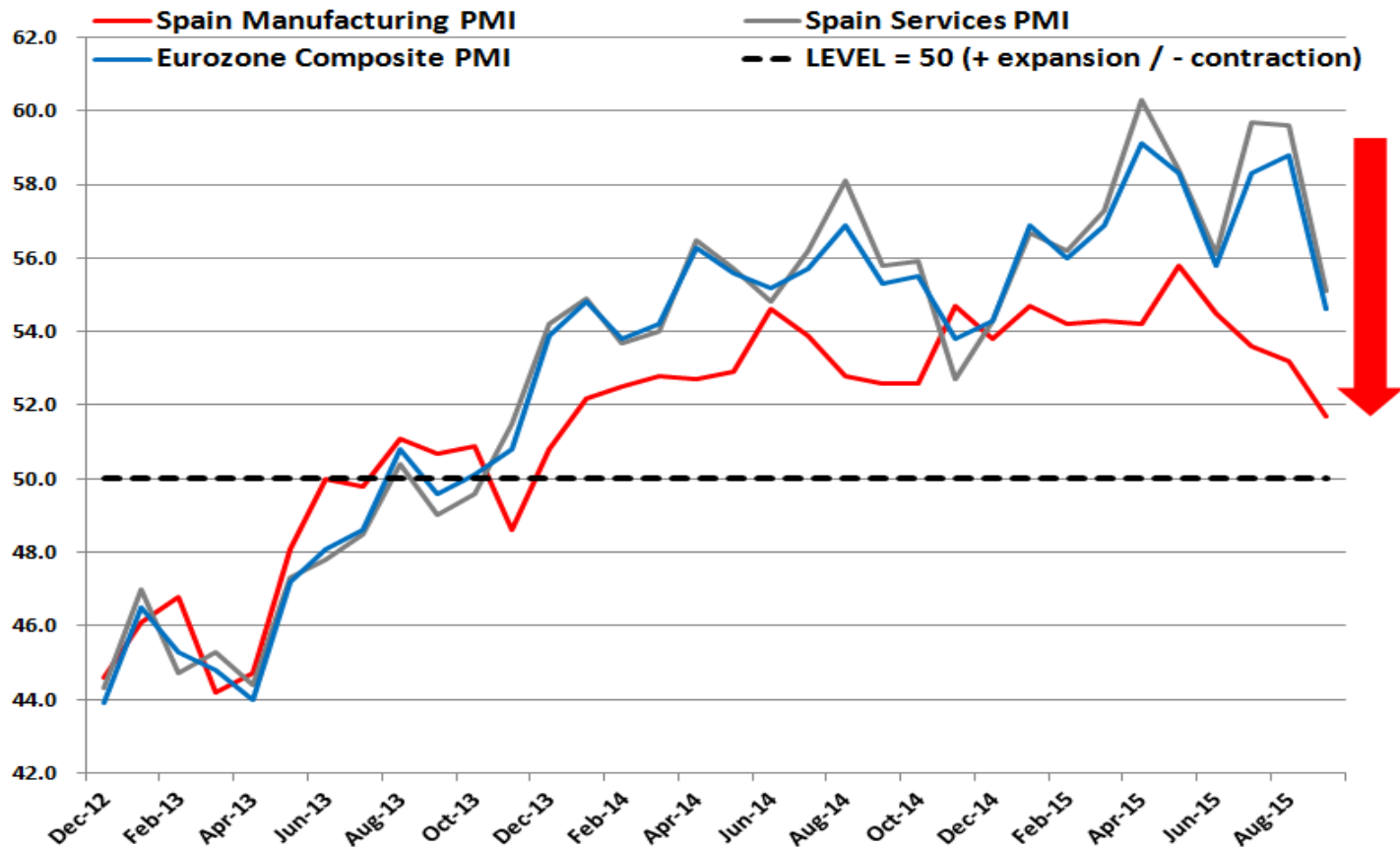
PRODUCTION TAKING A TURN?



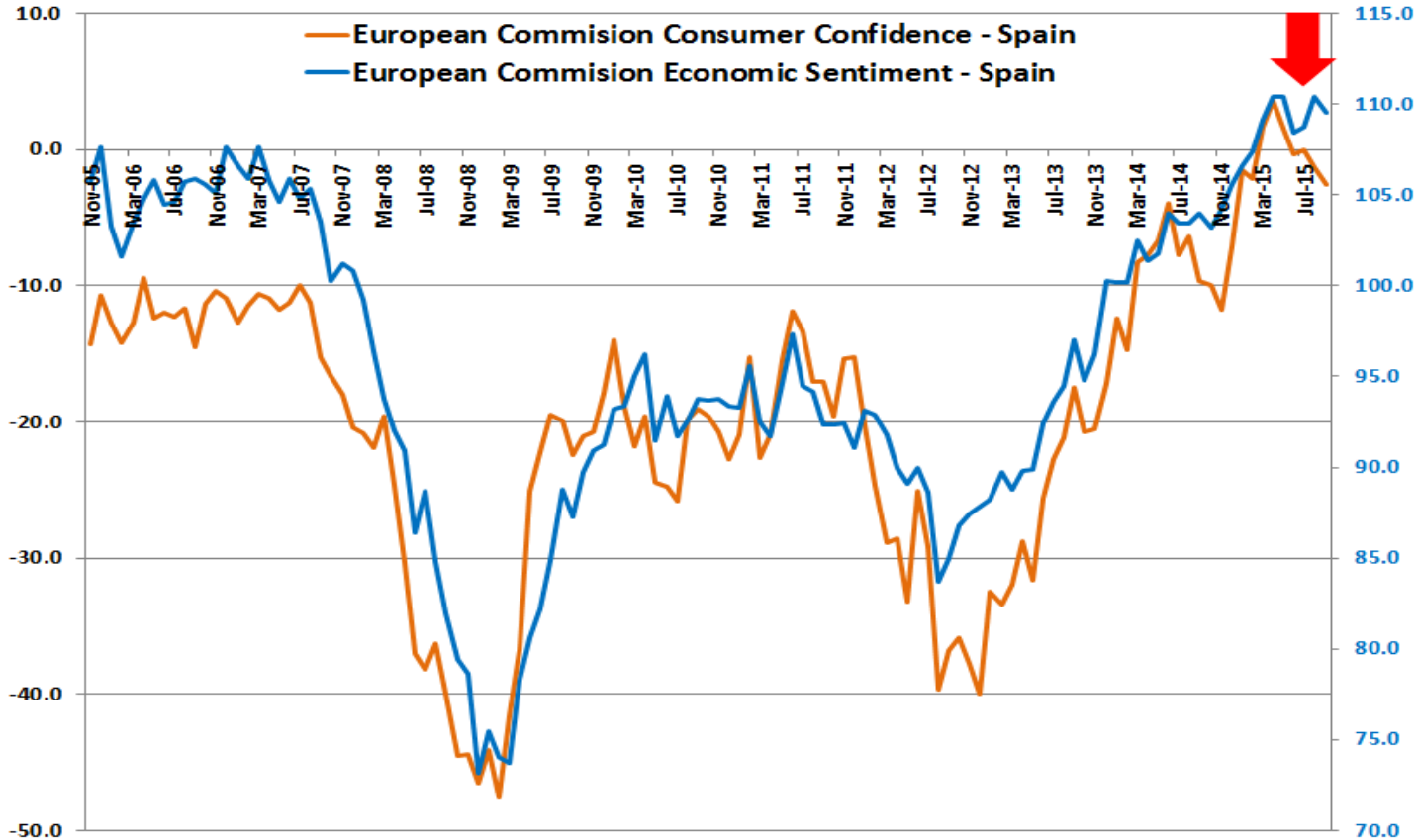
RETAIL SALES DIPPING



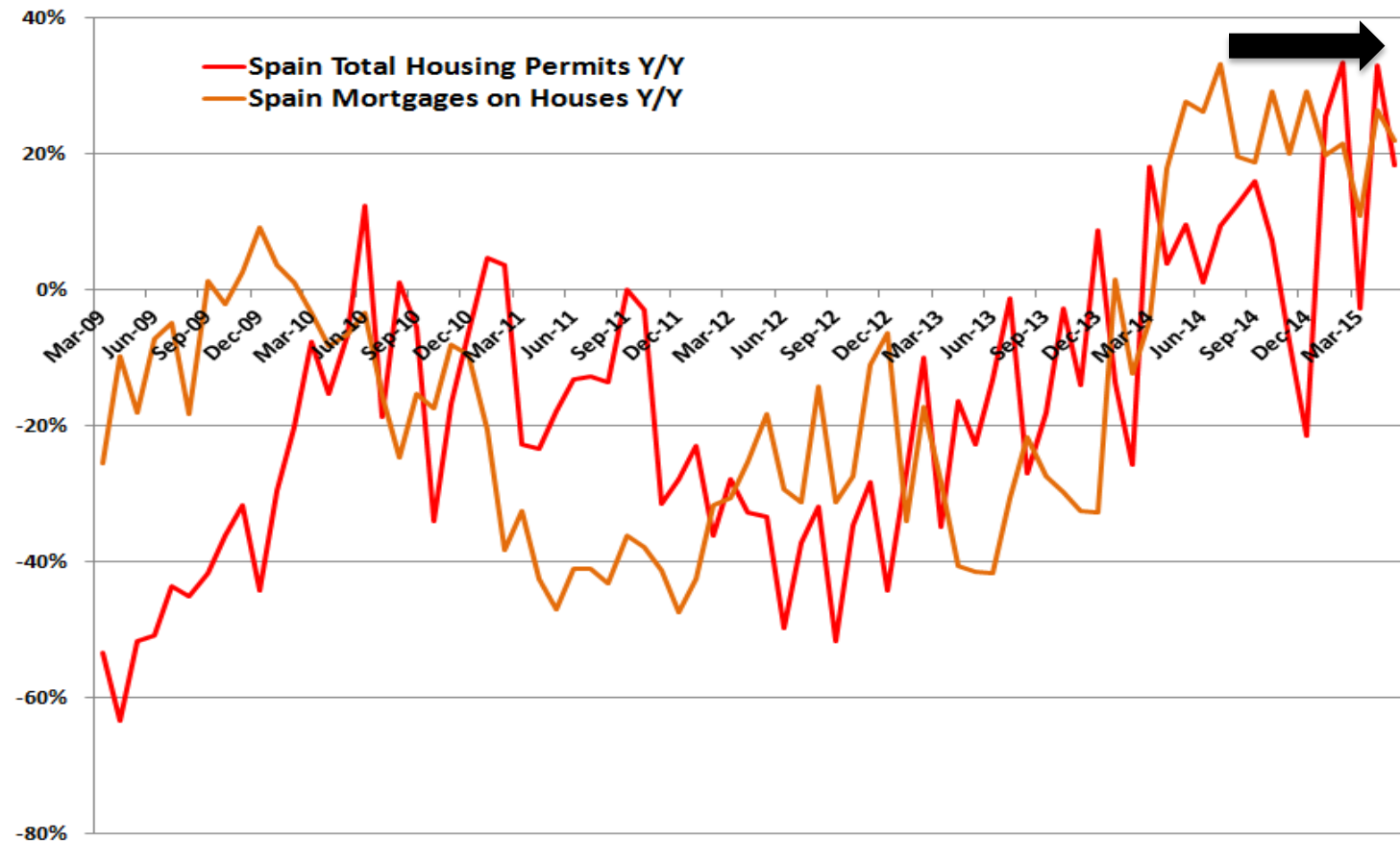
PMIS TRACKING DOWN, DOWN



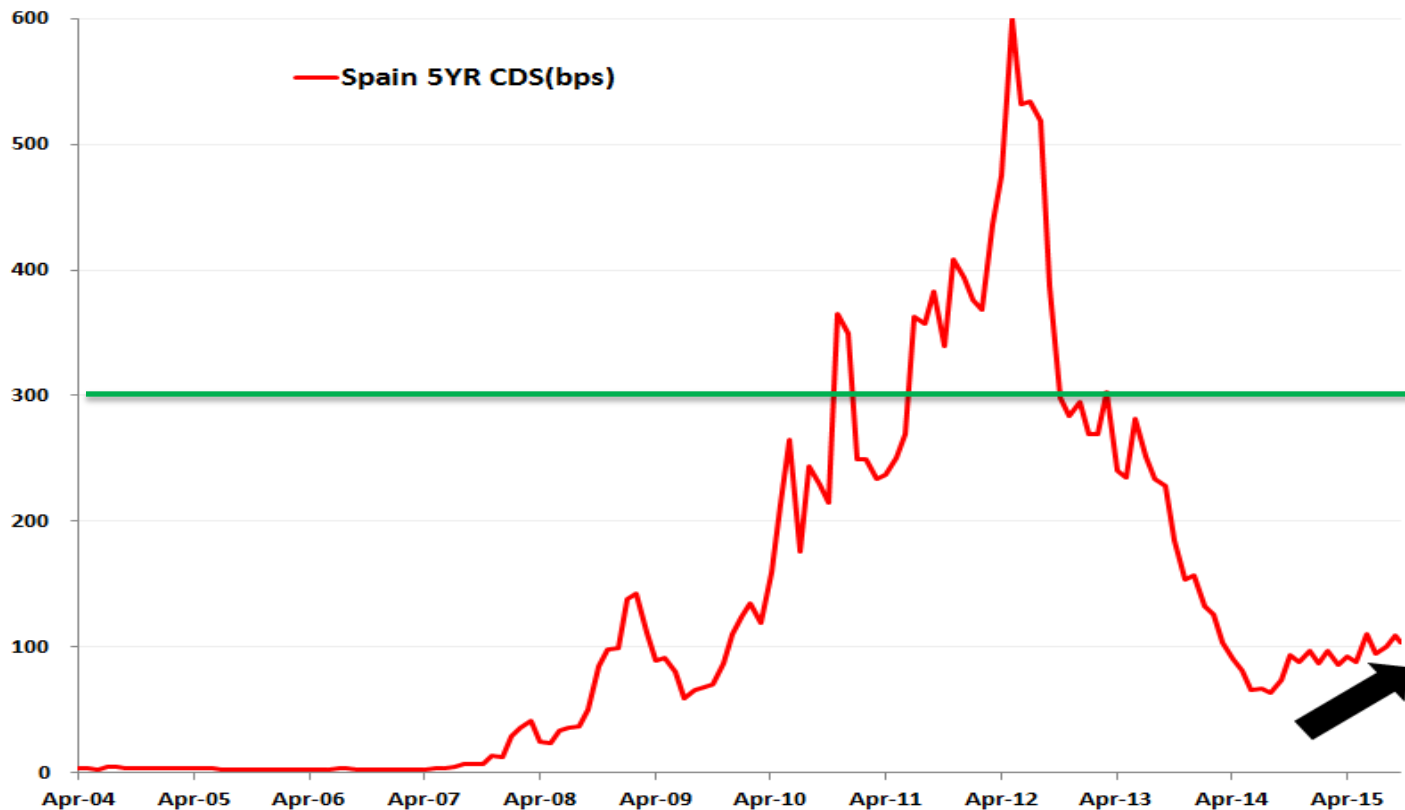
CONFIDENCE BREAKING



AS GOOD AS GOOD GETS?



RISK RISES, SLOWLY, THEN ALL AT ONCE



Beware of the 300bp line, aka the Lehman Brothers line, a level that historically has shown to be a key breakout line if violated to the upside.

DRAGHI'S RIVER CARD... MORE QE FOR LONGER?

- **ECB's Mersch** said that it will take somewhat longer than previously anticipated for inflation to return to a rate that we consider sufficiently close to 2% and stabilize at that rate...

... "we should also go further with our current policies. It is clear that Europe's economic and monetary union will need to strengthen its tools to manage and prevent the build-up of fiscal, financial and other macroeconomic risks." (10/13)

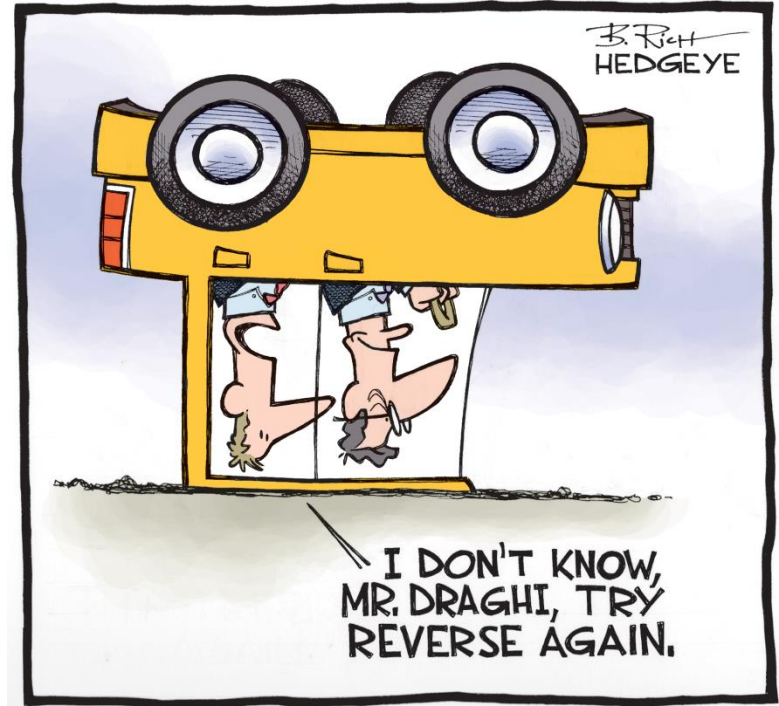
- **ECB's Nowotny** said both Eurozone headline and core inflation are clearly undershooting the central bank's goal of 2%, pointing to ECB forecasts showing inflation would average 0.1% this year and 1.1% in 2016. (10/15)

BUT, THE ECB IS NOT A PANACEA

“Yes the ECB will provide opportunities (through QE), but investors need to be aware that pricing of risk is too fixated on what the ECB can vs cannot do – it can print money, but it cannot print growth!”

-Daniel Lacalle

On Hedgeye's Greece Flash Call (6/29/15)



ELECTION PREVIEW – DECEMBER 20TH

A RETURN TO OLD (POLITICAL) WAYS?

The ruling Conservatives (PP) – PM Rajoy and his party face the backlash of unpopular austerity measures and corruption accusations, and might win by a very small majority.

The Socialists (PSOE) - also faces a major loss of votes due to corruption and the past performance in government.

The Socialists + the Communist-anti-establishment parties (Podemos, Ahora en Comun) - could become part of a coalition for the next government with the promise of stopping the recent reforms, especially the labor market law.

The moderate center party, Ciudadanos - has steadily risen in polls, could be the deciding factor.

Polling: a new Celeste-Tel poll shows (PP) in the lead at 28.9%, (PSOE) at 27.1%, Ciudadanos at 16.2%, Podemos at 10.1%.

- Compared to last month's survey, Ciudadanos gained over 6 percentage points – while PP, PSOE and Podemos all lost ground.

FOR MORE INFORMATION CONTACT:

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