

US Weekly Flash

Highlights

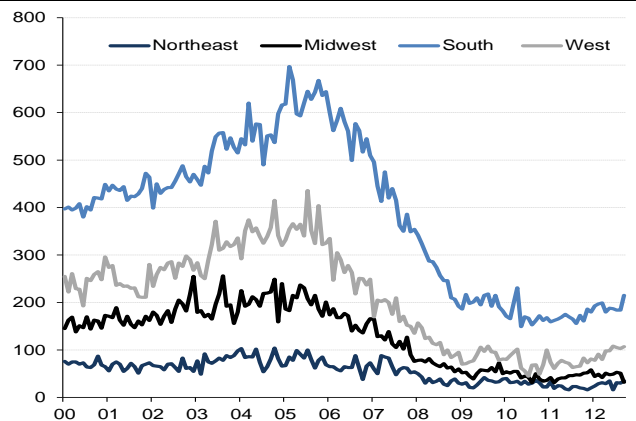
- Existing and new home sales fall as supply remains tight, causing prices to rise**
 - Despite the rising trends in housing demand throughout the latter part of 2012, both new and existing home sales declined in December. Existing home sales declined 1.0% after November's 4.8% gain, primarily due to a shortage of homes on the market which in turn helped to lift prices of homes sold for the second consecutive month. This is encouraging for home prices but a drag on the existing home sales market as they are where most families are attempting to reenter the market after the recession. Unable to acquire a loan based on tighter loan requirements, middle class families have been gobbling up lower priced homes, drastically reducing the supply. Since the beginning of the year, the supply of homes has fallen and the pace of construction has been trying to keep up but new homes are more expensive and therefore they price out a lot of families vying for the lower cost options. Nonetheless, existing home sales continue to be a driver of the recovering housing market, still up 12.8% on a YoY basis, and we expect that it will continue for some time this trend of double digit growth seen since October.
 - The report on new home sales for December was an interesting measure due to some key revisions that took place for the prior months. Although sales dipped by 7.9% in December, November's figure was revised up a massive 22,000, from 377K to 398K, while October's data was also revised up slightly. Still, December's figure of 369K is, regardless, a slower rate of growth than usual for a market that has been strong throughout the latter half of the year, showing a definite upward trend as home prices rise and demand gains momentum. The decline is most attributable to the same set of unfavorable circumstances impacting existing homes sales: tight mortgage standards and low supply coupled with increasing prices have priced out certain families that might not be able to borrow enough to incentivize purchasing a home. However, as the supply of homes increases, which is expected as home starts have risen dramatically over the year, we expect 2013 to show steady improvement of sales in both existing and new homes.
- Congress extends the borrowing ability of the nation but mandates a budget be passed**
 - While the S&P and Dow Jones indices reached a 5-year high, Congress put forth a bill to yet again delay the necessary budget issues facing our nation. The agreement pushes "suspends" the debt ceiling limit for another 3 months until May 15, allowing the government to continue paying off its debt until further notice.
 - The caveat on top of the time extension was an April 15th deadline for both the House and the Senate to pass a budget for U.S spending – otherwise, they would see their pay diverted into an escrow account until they emerge with a plan (or until the new Congress in 2015). Now eyes are on Capitol Hill to see whether policymakers can come up with a budget before spending cuts take place.

Graph 1
**Existing Home Sales
YoY % Change**



Source: National Association of Realtors & BBVA Research

Graph 2
**New Home Sales By Region
Levels**



Source: Us Census Bureau & BBVA Research

Week Ahead

Durable Goods Orders, Ex Transportation (December, Monday 8:30 ET)

Forecast: 1.7%, 1.0%

Consensus: 1.7%, 0.9%

Previous: 0.7%, 1.6%

After making significant gains in November, we expect durable goods orders to continue their upward trend into December despite the fear that production and manufacturing might slow due to fiscal uncertainty. Both industrial production and the ISM report posted modest gains in December, fueled by domestic demand and some growth from the international sphere as well. The ISM figure was the most telling, rising above the 50 level to indicate expansion after dipping below in November, though the new orders index remained flat. New export orders also crossed the threshold above 50 for the first time since May, showing some growth from the international markets that has been lacking over the past months. The industrial production figures also point to some expansion in the sectors tied to durable goods orders such as industrial supplies and equipment. Also a precursor to durable goods orders, the strong rise in vehicle sales and production should impact the transportation component of durable goods in a positive fashion.

GDP (4Q12 Advanced, Wednesday 8:30 ET)

Forecast: 1.5%

Consensus: 1.3%

Previous: 3.1%

Although the recovery is gaining traction and 3Q GDP figures surprised to the upside, the 4Q12 advanced GDP reading is expected to show markedly slower growth due to prevailing headwinds. While construction and the housing market have shown significant improvement in regards to the contribution to GDP, fourth quarter indicators don't convey that same strength in other key sectors. Early estimates put industrial production and consumption below their 3Q12 averages and there is little evidence pointing toward December figures that would pull up the average dramatically. International trade also shows little sign of aiding the figure, with the deficit widening to a 7-month high as exports struggle to offset gains in imports. In addition, Hurricane Sandy and the fiscal cliff debacle most likely put precipitous pressure on 4Q12 GDP. Therefore, we expect the advanced estimate to be closer to 2Q12 as the early figures suggest similar growth.

Personal Income & Spending (December, Thursday 8:30 ET)

Forecast: 0.4%, 0.5%

Consensus: 0.8%, 0.3%

Previous: 0.6%, 0.4%

We expect personal income and spending to rise slightly in December as the year comes to an end and the fiscal situation is taken into account. The expansion of income and spending will rely heavily on how affected the sectors were by the looming fiscal uncertainty; taking into account the data released so far, it seems that consumer activity was not as impeded and inflationary pressures were subdued so we expect the two levels to increase moderately for December. From the employment survey in December, the average hourly earnings indicator rose at its highest pace since July 2011 and the weekly earnings did the same, while average hours worked also rose, indicating a possible increase in personal income with soft inflationary pressures factored in. In terms of spending, December did see a boost in retail sales growth, with the MoM rate hitting the highest in 4Q12. However, a portion of November's increase in spending came from strong vehicle sales which reversed in December, possibly muting some of the overall increase in consumption.

Nonfarm Payrolls & Unemployment Rate (January, Friday 8:30 ET)

Forecast: 162K, 7.7%

Consensus: 158K, 7.8%

Previous: 155K, 7.8%

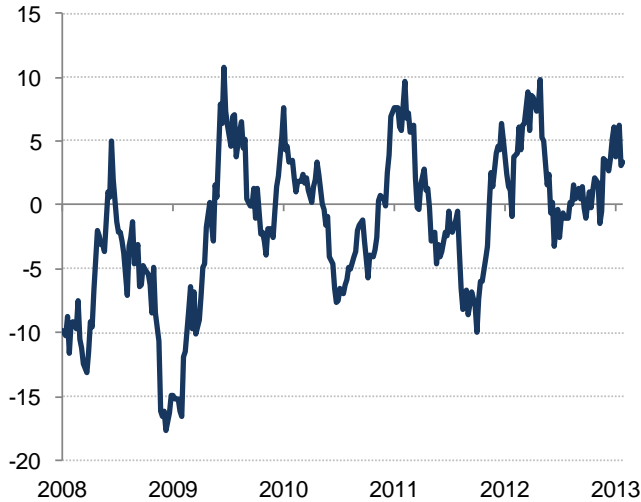
Nonfarm payrolls are expected to increase in January at a similar pace as in the past few months. Job growth decelerated only slightly in December, closing out the fourth quarter at a slower monthly average pace compared to 3Q12. In January, now that the fiscal cliff limelight has faded and firms have a better grasp on costs, employers may be more inclined to begin hiring for positions they were hesitant to fill before the new year. Initial jobless claims for the month thus far are slightly lower than December's average, though the indicator does not always directly translate to employment growth or a decline in the unemployment rate. Industrial production and manufacturing were on the rise in December with the ISM entering into expansionary territory, although recent surveys show some slowdowns for the sector in January. This could weigh slightly on payroll growth, but we expect growing strength in other sectors to offset this drag.

Market Impact:

Based on the new fiscal situation that has arisen via the legislation passed this week, the market will have an interesting week ahead as some very important data comes out and eyes continue to be fixated on Washington. As far as important indicators go there are four key ones that are going to be very telling of the new year's activity along with what kind of momentum the economy could be carrying from 2012. The advanced GDP figure for 4Q12, durable goods orders, employment situation, and personal income and spending make up the pillars of next week's data. Coupled with possible talks about a budget from Washington, next week will have key indicators emerging about the final month of 4Q12 and some indicating features of January.

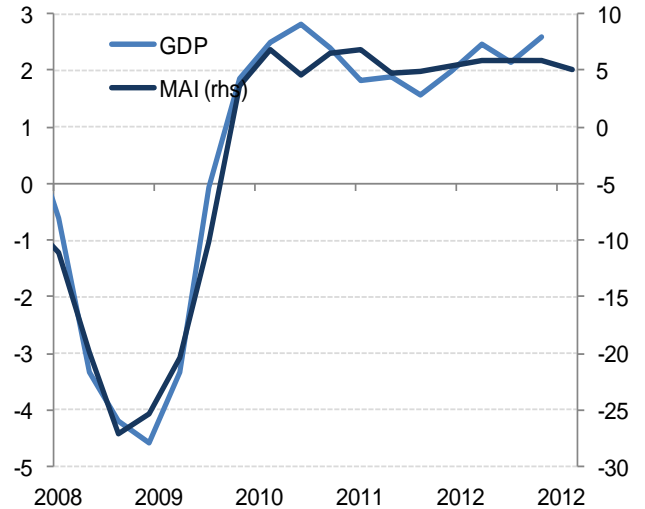
Economic Trends

Graph 3
BBVA US Weekly Activity Index
 (3 month % change)



Source: BBVA Research

Graph 4
BBVA US Monthly Activity Index & Real GDP
 (4Q % change)



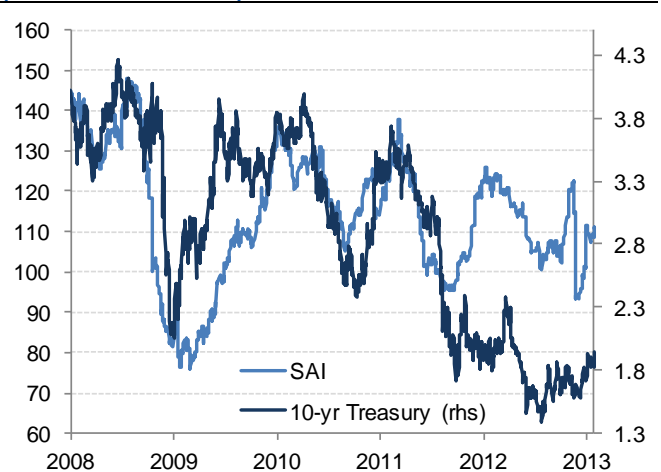
Source: BBVA Research & BEA

Graph 5
BBVA US Surprise Inflation Index
 (Index 2009=100)



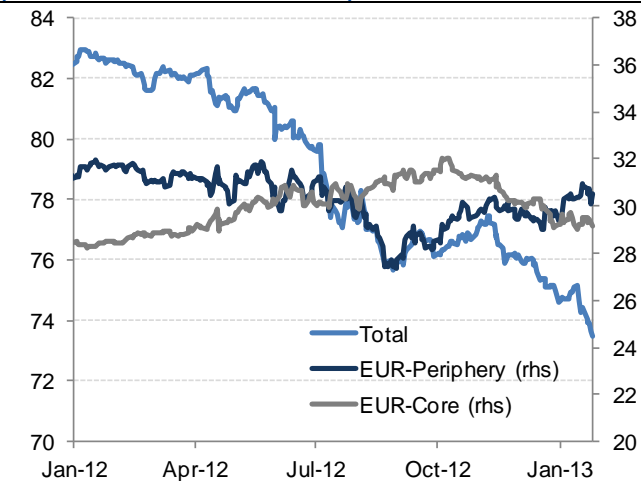
Source: BBVA Research

Graph 6
BBVA US Surprise Activity Index & 10-yr Treasury
 (Index 2009=100 & %)



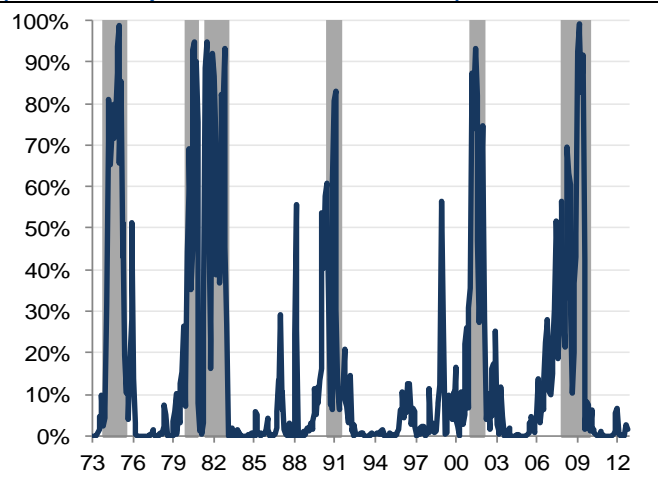
Source: Bloomberg & BBVA Research

Graph 7
Equity Spillover Impact on US
 (% Real Return Co-Movements)



Source: BBVA Research

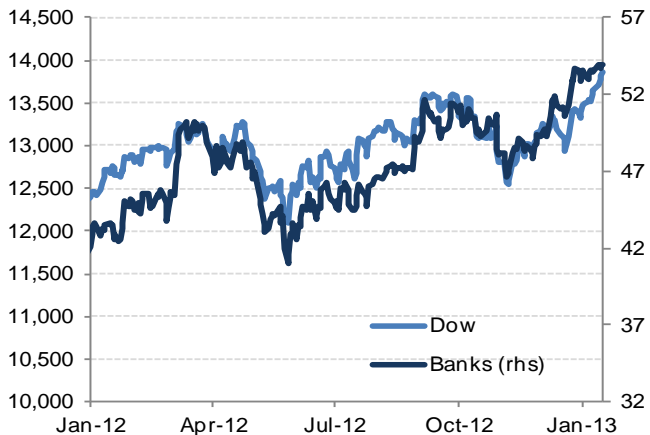
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

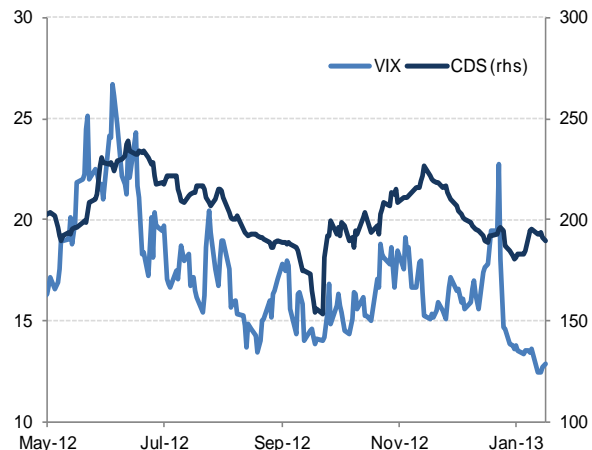
Financial Markets

Graph 9
Stocks
(Index, KBW)



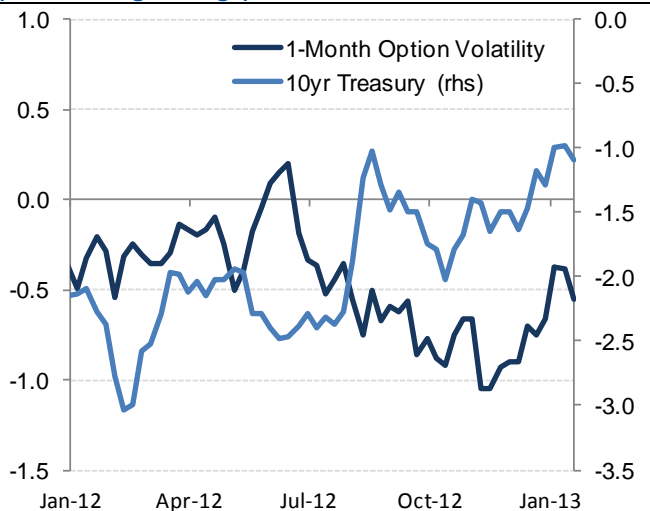
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



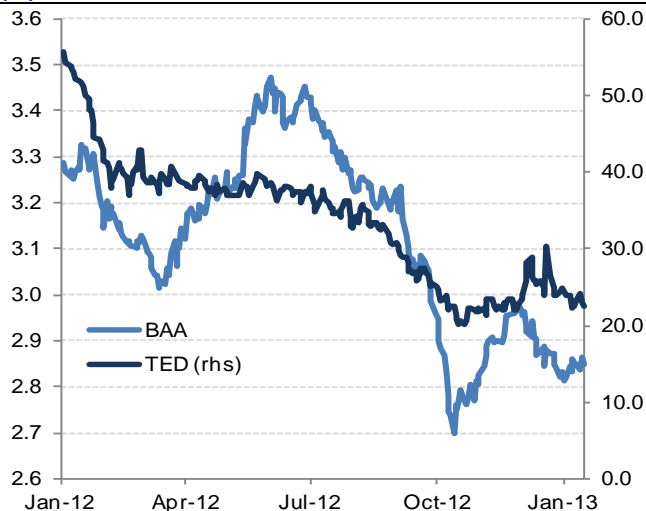
Source: Bloomberg & BBVA Research

Graph 11
Option Volatility & Real Treasury
(52-week avg. change)



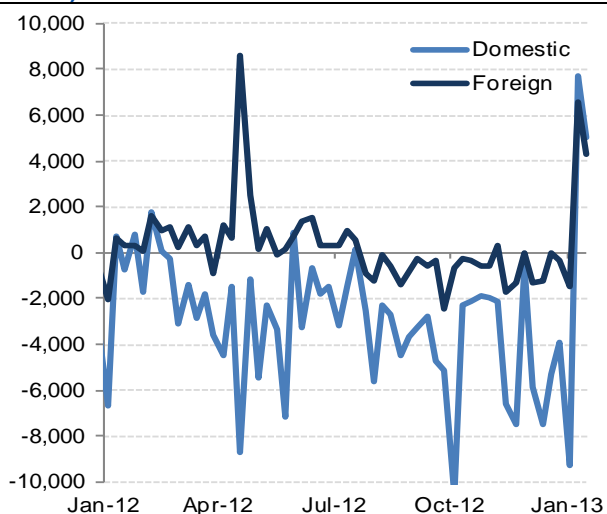
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



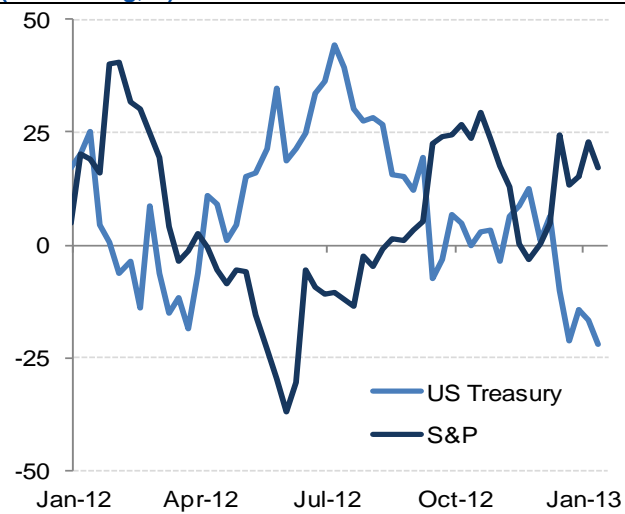
Source: Bloomberg & BBVA Research

Graph 13
Long-Term Mutual Fund Flows
(US\$m)



Source: Haver Analytics & BBVA Research

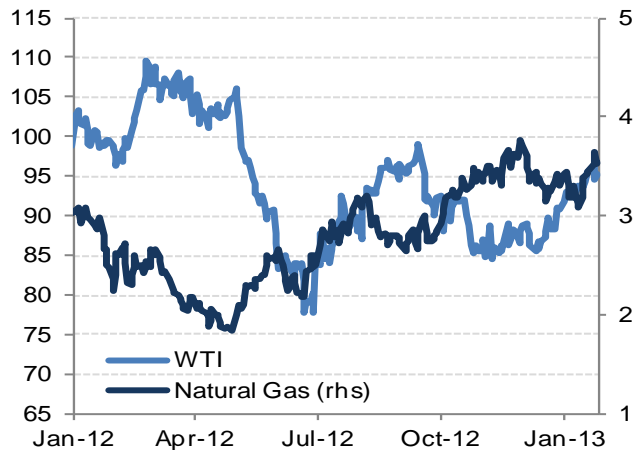
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

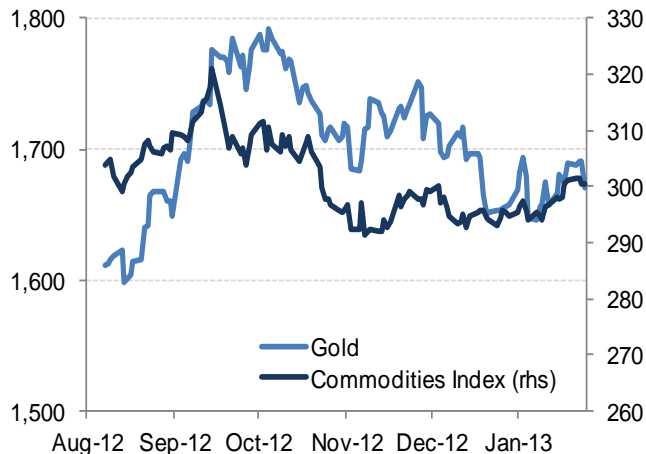
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



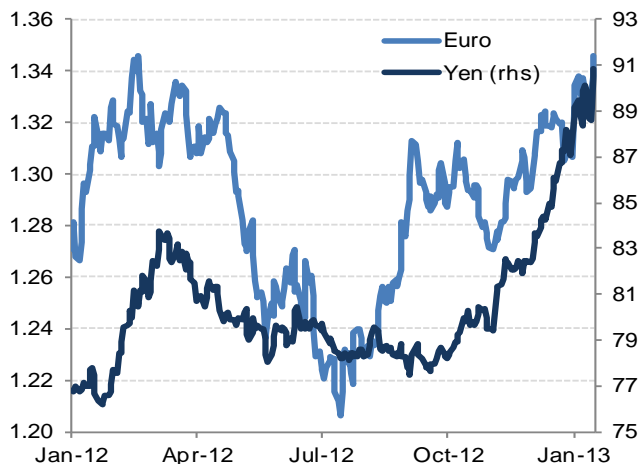
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US\$ & Index)



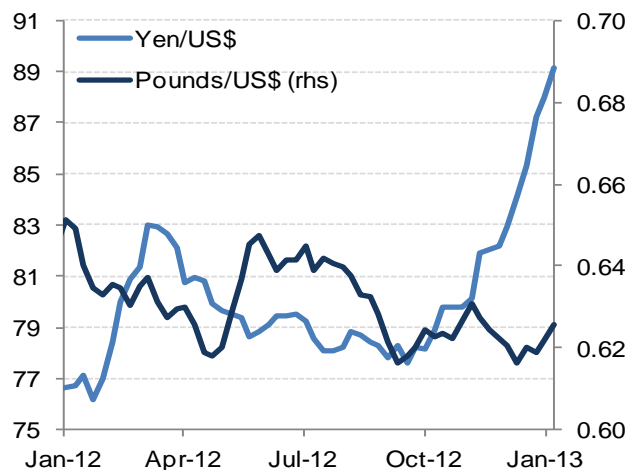
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



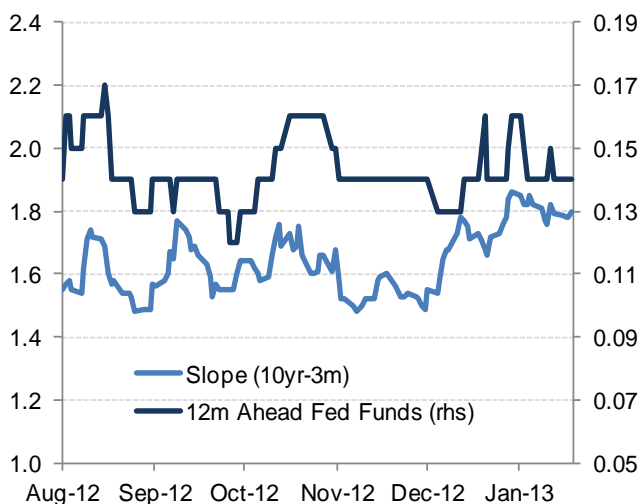
Source: Bloomberg & BBVA Research

Graph 18
6-Month Forward Exchange Rates
(Yen & Pound / US\$)



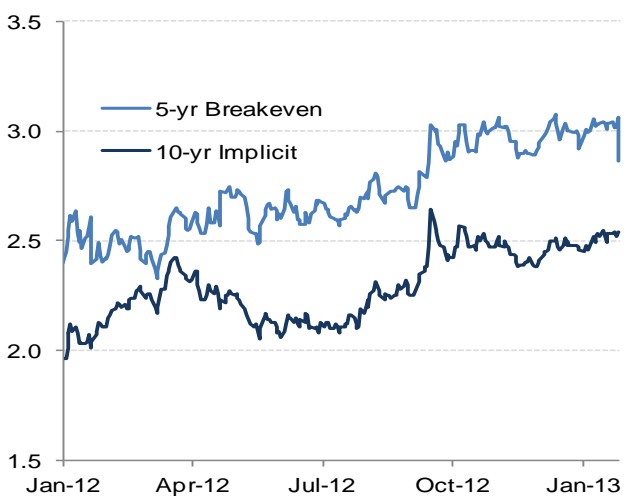
Source: Haver Analytics & BBVA Research

Graph 19
Fed Futures & Yield Curve Slope
(% & 10year-3month)



Source: Haver Analytics & BBVA Research

Graph 20
Inflation Expectations
(%)



Source: Bloomberg & BBVA Research

Interest Rates

Table 1
Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	14.46	14.46	13.98	13.94
New Auto (36-months)	2.58	2.69	2.76	3.54
Heloc Loan 30K	5.36	5.38	5.45	5.55
5/1 ARM*	2.67	2.67	2.70	2.85
15-year Fixed Mortgage*	2.71	2.66	2.65	3.24
30-year Fixed Mortgage*	3.42	3.38	3.35	3.98
Money Market	0.50	0.51	0.51	0.51
2-year CD	0.79	0.79	0.83	0.77

*Freddie Mac National Mortgage Homeowner Commitment US
Source: Bloomberg & BBVA Research

Table 1
Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
1M Fed	0.15	0.14	0.17	0.09
3M Libor	0.30	0.30	0.45	0.55
6M Libor	0.48	0.49	0.65	0.79
12M Libor	0.80	0.81	0.98	1.10
2yr Sw ap	0.43	0.40	0.39	0.54
5yr Sw ap	0.99	0.90	0.83	1.04
10Yr Sw ap	2.00	1.90	1.76	2.01
30yr Sw ap	2.95	2.84	2.70	2.76
7day CP	0.14	0.14	0.19	0.50
30day CP	0.16	0.16	0.25	0.72
60day CP	0.17	0.18	0.15	0.65
90day CP	0.18	0.20	0.20	0.55

Source: Bloomberg & BBVA Research

Quote of the Week

Ohio Republican and Speaker of the House John Boehner
Floor Debate on HR 325
23 January 2013

"The premise here is pretty simple; it says that there should be no long-term increase in the debt limit until there's a long-term plan to deal with the fiscal crisis that faces our country, this is the first step in an effort to bring real fiscal responsibility to Washington."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
28-Jan	Durable Goods Orders	DEC	1.7%	2.0%	0.7%
28-Jan	Durable Goods ex. Transportation	DEC	1.0%	0.8%	1.6%
28-Jan	Pending Home Sales Index	DEC	0.7%	0.2%	1.7%
29-Jan	S&P Case-Shiller HPI (YoY)	NOV	6.0%	5.5%	4.3%
29-Jan	Consumer Confidence	JAN	65.7	64	65.1
30-Jan	GDP QoQ Annualized	4Q12 A	1.5%	1.2%	3.1%
30-Jan	Personal Consumption	4Q12 A	1.7%	2.1%	1.6%
30-Jan	GDP Price Index	4Q12 A	1.9%	1.5%	2.7%
30-Jan	Core PCE QoQ	4Q12 A	1.4%	1.0%	1.1%
31-Jan	Jobless Claims	27-Jan	320K	350K	330K
31-Jan	Continued Claims	20-Jan	3122K	3171K	3157K
31-Jan	Personal Income (MoM)	DEC	0.4%	0.8%	0.6%
31-Jan	Personal Spending (MoM)	DEC	0.5%	0.3%	0.4%
31-Jan	Employment Cost Index	4Q12	0.4%	0.5%	0.4%
1-Feb	Change in Nonfarm Payrolls	JAN	162K	160K	155K
1-Feb	Change in Manufacturing Payrolls	JAN	10K	10K	25K
1-Feb	Unemployment Rate	JAN	7.7%	7.8%	7.8%
1-Feb	Average Hourly Earnings (MoM)	JAN	0.1%	0.2%	0.3%
1-Feb	Average Work Week Hours	JAN	34.5	34.5	34.5
1-Feb	Consumer Sentiment	JAN	71.8	71.5	71.3
1-Feb	ISM Mfg Index	JAN	50.6	50.5	50.7
1-Feb	Construction Spending	DEC	0.3%	0.6%	-0.3%

Forecasts

	2011	2012	2013	2014	2015
Real GDP (% SAAR)	1.8	2.2	1.8	2.3	2.5
CPI (YoY %)	3.1	2.1	2.1	2.2	2.3
CPI Core (YoY %)	1.7	2.1	1.9	2.0	2.1
Unemployment Rate (%)	8.9	8.1	7.8	7.2	6.7
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25	0.50
10Yr Treasury (eop, % Yield)	1.98	1.72	2.35	2.80	3.37
US Dollar/ Euro (eop)	1.32	1.31	1.32	1.32	1.36

Note: Bold numbers reflect actual data

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