

US Weekly Flash

Highlights

- **Existing and New Home Sales Rise in April Despite Limited Supply**

- Existing homes sales for April showed some positive momentum, rising 0.6% to 4.97M. Reaching the highest point since November 2009, data suggest that the decline in both supply and sales in March was only temporary and that prices are continuing to bring buyers and sellers into the market. With the supply of existing homes reaching a yearly high of 5.2 months, buyers had increased incentive to go out and look for homes. While we expect the supply of homes to remain constrained for the coming months, a shift above the 5-month level shows that the homes are out there and available, but obviously for the right price.
- New home sales made similar gains, rising 2.3% to 454K, following upward revisions to both February and March. On a regional basis, the South and West led gains in April, rising a combined 19K while the Northeast and Midwest declined by 9K to level out the figure. However, the supply of new homes remains far weaker than the existing counterpart despite the latest gains in housing starts over the past quarter. This partially explains the 8.3% rise in median sales price for new homes in April. As long as demand for homes continues to outpace supply at its current rate, prices will continue to rise at an accelerated pace. Overall, April emerged as a strong month for housing in terms of sales and prices after a slight hiccup in March. We expect, as the spring housing market blooms, to see continued strengthening throughout the sector.

- **QE3 Tapering Expected in 3Q13 Despite Calls to Decrease Asset Purchases in June**

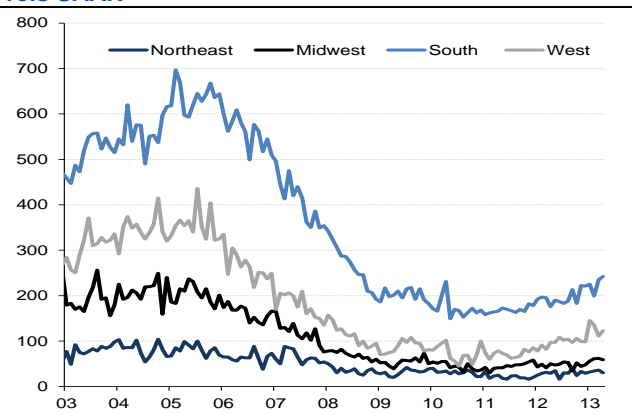
- The FOMC minutes (April 30th – May 1st meeting) revealed concerns as the third round of quantitative easing rolls on. Committee members discussed distress over increased investor expectations regarding the cumulative size of QE3. A number of FOMC members agreed that recent improvements in economic conditions were sufficient to warrant a reduction in the pace of purchases as early as June. The general expectation of softer economic data related to the fiscal drag may be prompting some members to lower their threshold for what could be considered substantial labor market improvement needed to start tapering. The FOMC appeared to be in agreement regarding a possible shift from MBS to Treasury securities purchases as a result of continued improvement in the housing sector. With Bernanke reigning, it appears that the Fed will hold off as long as possible before making any major market-moving changes. Thus, we maintain our baseline projections for tapering starting in 3Q13, with the program ultimately ending by 1Q14.
- The committee also discussed a need to further review their Exit Strategy Principles outlined back in June 2011. This is somewhat of a delayed reaction on the FOMC's behalf to the general public sentiment of questioning how well they are prepared for an appropriate exit and normalization of the balance sheet, which will be close to \$4tr by year-end. We expect that the upcoming meetings will reveal further discussion on an appropriate exit strategy.

Graph 1
Existing Home Sales
YoY % Change SAAR



Source: NAR & BBVA Research

Graph 2
New Home Sales by Region
Levels SAAR



Source: U.S. Census Bureau & BBVA Research

Week Ahead

S&P Case-Shiller Home Price Index (March, Tuesday 9:00 ET)

Forecast: 0.9%

Consensus: 1.0%

Previous: 1.2%

The Case-Shiller Home Price Index for the composite 20 metro areas is expected to increase again on a monthly basis in March given the underlying strength in the housing sector and accommodative market conditions. According to both the new and existing home sales reports for March, the supply of homes remains low while demand continues to rise as homebuyers attempt to take advantage of affordable mortgage rates. Price reports of homes sold were slightly mixed with new home prices falling 6.7% while existing home prices rose 6.1% from the prior month. The core logic national home price index, excluding distressed homes, rose 2.4% in March which was its fastest pace in over a decade. The FHFA home price index also showed significant acceleration, gaining 1.3% in March which is the highest increase since the recession began. While some headwinds are still present we expect that YoY gains will continue to accelerate throughout the coming months, most likely moving into double-digit growth in March.

Consumer Confidence (May, Tuesday 10:00 ET)

Forecast: 70.0

Consensus: 71.0

Previous: 68.1

The Conference Board's measure of consumer confidence is likely to rise in May as lower energy prices and a lack of endogenous hiccups boost the consumer's outlook. The index has bounced around relatively low levels in recent months but is expected to increase in May to the highest level since November. Consumer-centric indicators for the month are mixed as retail sales declined while equity markets reached new highs and March's initially weak employment report turned out to be more positive. With the continuation of QE3 and fiscal stimulus the consensus from the market is that new highs are in the future although there remains some scepticism as to whether or not a change is imminent. Still, there is little indication of a decline in confidence for May as consumer expectations seem to be moving along at a relatively stable pace.

GDP (1Q13 Preliminary, Thursday 8:30 ET)

Forecast: 2.4%

Consensus: 2.5%

Previous: 2.5%

Since the advanced report for 1Q13 real GDP growth, there have been few indicators that warrant much optimism in terms of revisions to the initial figure. A large positive shift came from the international trade reading which showed an improvement to -\$38.8bn in March. Exports did decline for the month, but imports were even weaker. While this may influence a slight upward revision to the GDP figure, we did see some weaker data that we expect to offset the better than expected trade balance. Data for the end of the quarter was revised down slightly for manufacturing and consumer spending. Industrial production showed weak growth in March, with manufacturing output down a revised 0.3%, while the composite ISM index decelerated rather rapidly. As for the consumer, despite strong confidence readings, retail sales declined more than expected in March which does not bode well for the consumption contributor to GDP growth. Finally, business inventories were revised down for February to a flat ready and remained unchanged again in March, further offsetting any positive revision that may come from the improved trade balance.

Personal Income and Spending (April, Friday 8:30 ET)

Forecast: 0.2%, 0.1%

Consensus: 0.1%, 0.1%

Previous: 0.2%, 0.2%

Personal income is expected to grow at a similar level in April after rising a modest 0.2% in March, while consumer spending will likely decelerate slightly. With the employment situation improving gradually, we could start to see some upward pressures on wage growth, though still very minimal for the time being. We expect that income growth on a monthly basis will return back to a more stable trend after some volatility surrounding the fiscal deal in January. Despite some gains in income, consumer spending is likely to remain subdued as weak retail sales point toward a continuing hesitation in activity. According to the report, even excluding autos and gasoline, the figure did not impart much optimism on behalf of the consumer. Coupled with the lack of activity at the store front, auto sales reported by Autodata and the BEA declined significantly in April which does not bode well for spending given its positive impact on consumer spending over 1Q13. The PCE price index will also be particularly important given its relevance for the Fed's policy, though we expect it to remain relatively flat as home prices continue to rise while commodities continue to trend downward.

Market Impact

Despite the shorter holiday week in the U.S., there is no lack of influential data. GDP revisions for 1Q13 are unlikely to shift too much given the mix of more complete data released for the quarter. Nonetheless, markets will not weigh any changes lightly due to the ostensible weakness in 2Q13 growth already showing in manufacturing and consumer activity. Personal income and spending should help remedy any curiosity surrounding the state of the consumer but given the weaker retail sales figure for March it is unlikely to be too positive. Consumer confidence may continue to rise as equities remain at multi-year highs but with ongoing political debacles it is difficult to gauge how optimistic things will stay, especially as we progress with increasing fiscal negotiations throughout the summer months.

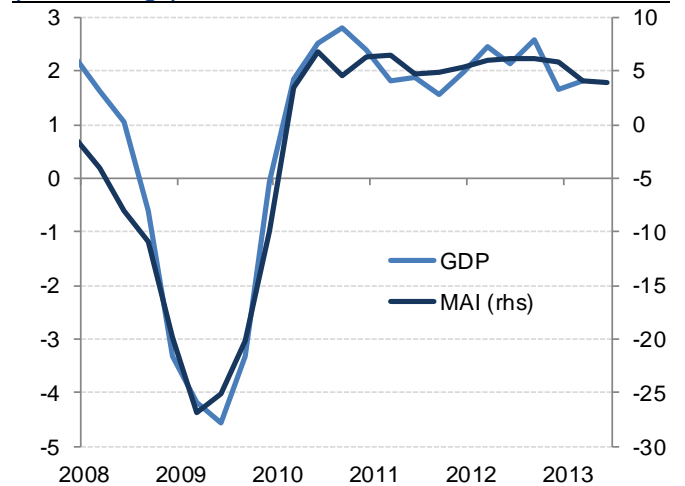
Economic Trends

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



Source: BBVA Research

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



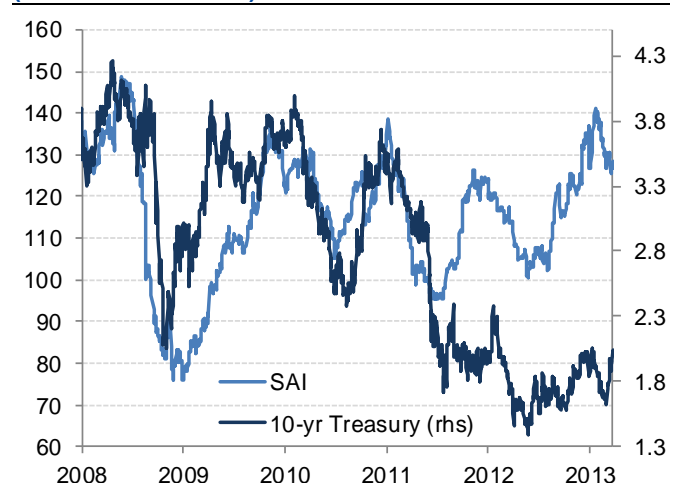
Source: BBVA Research & BEA

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



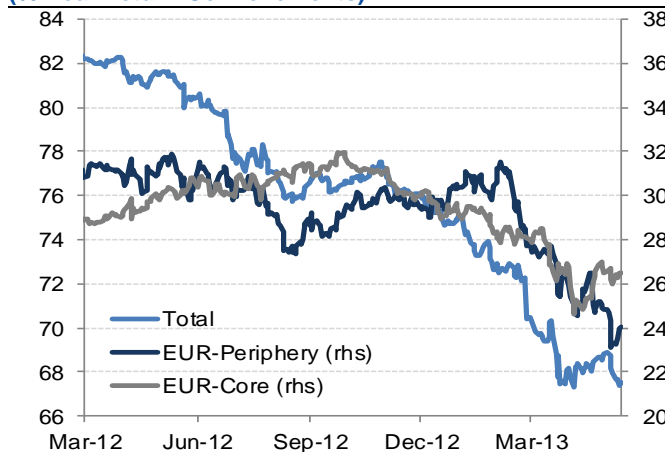
Source: BBVA Research

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



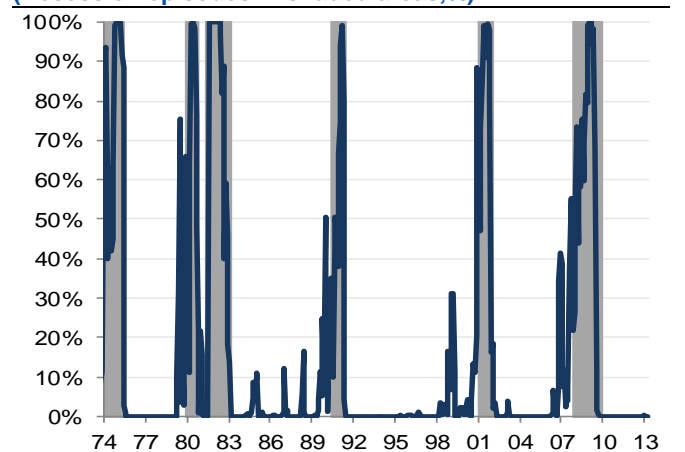
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

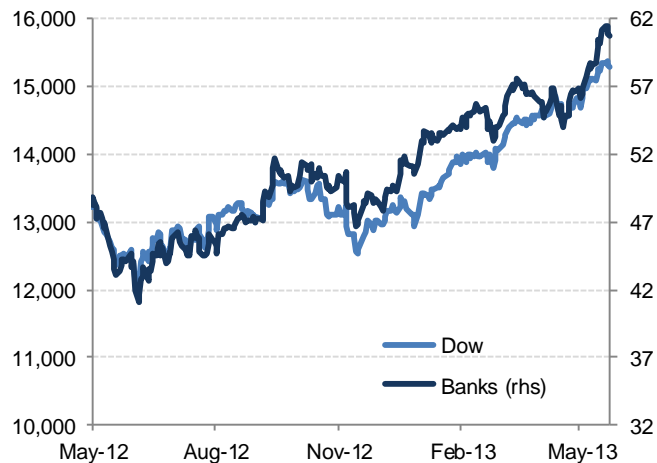
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

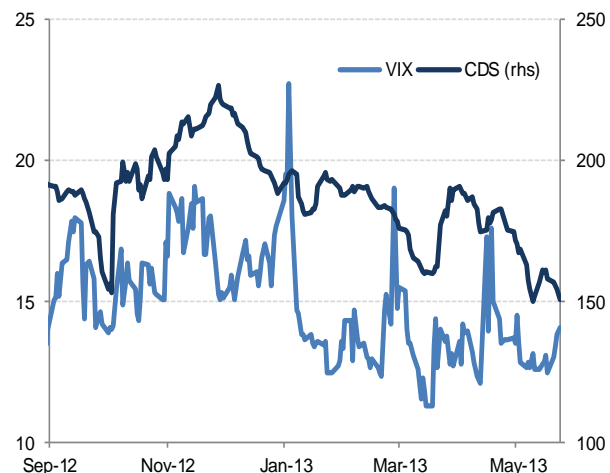
Financial Markets

Graph 9
Stocks
(Index, KBW)



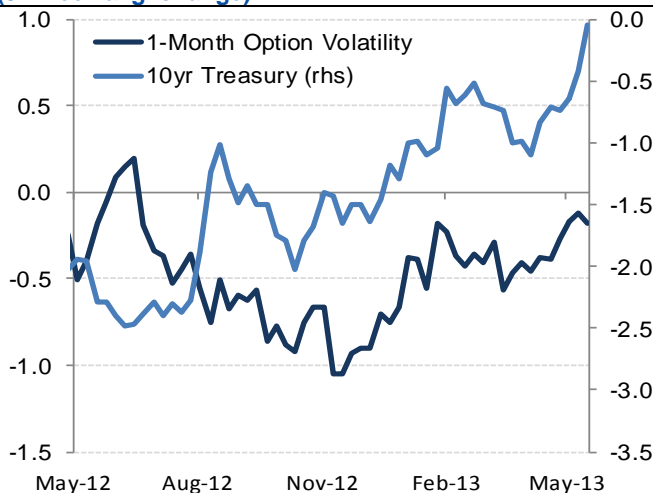
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



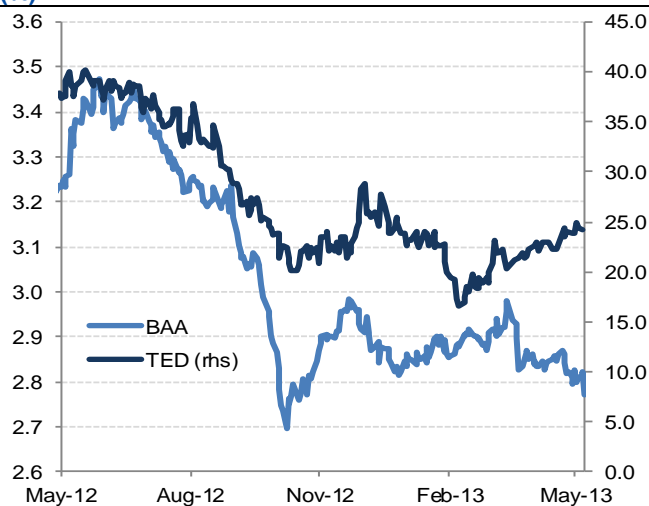
Source: Bloomberg & BBVA Research

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



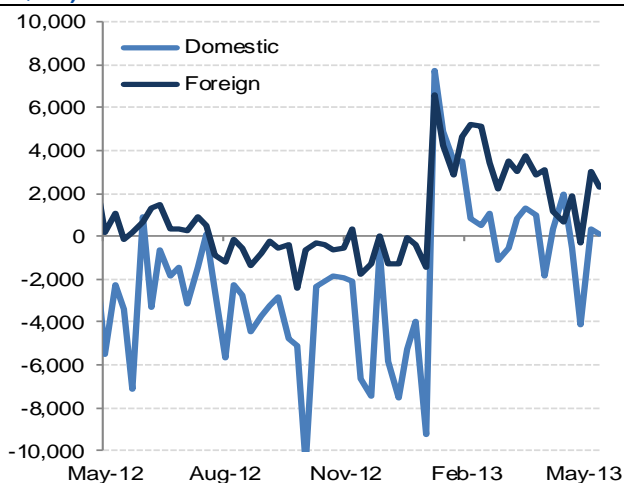
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



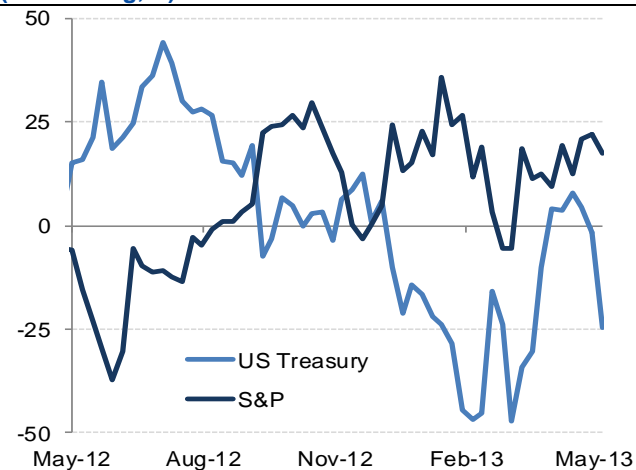
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

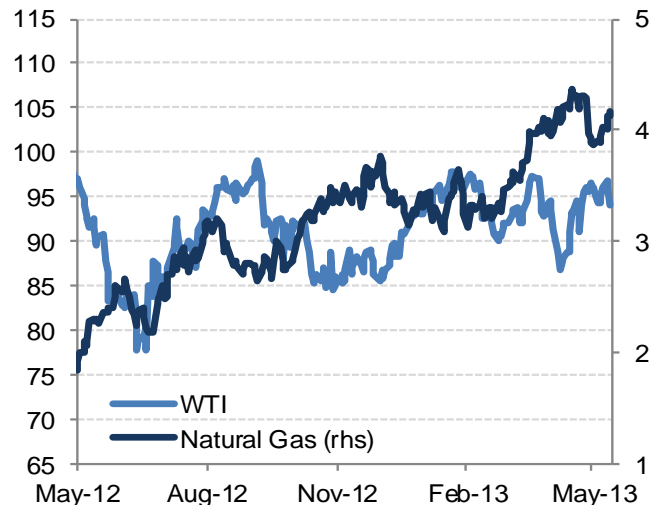
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

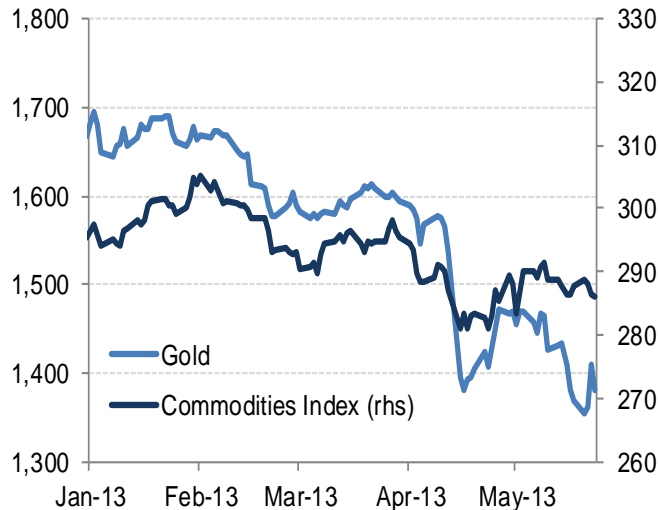
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



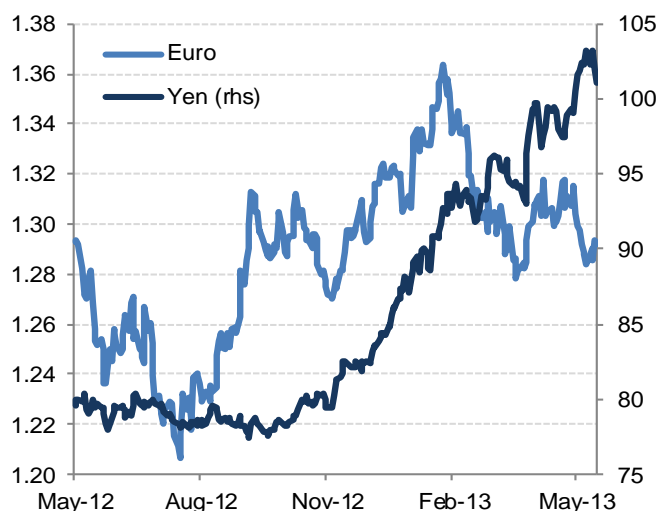
Source: Bloomberg & BBVA Research

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



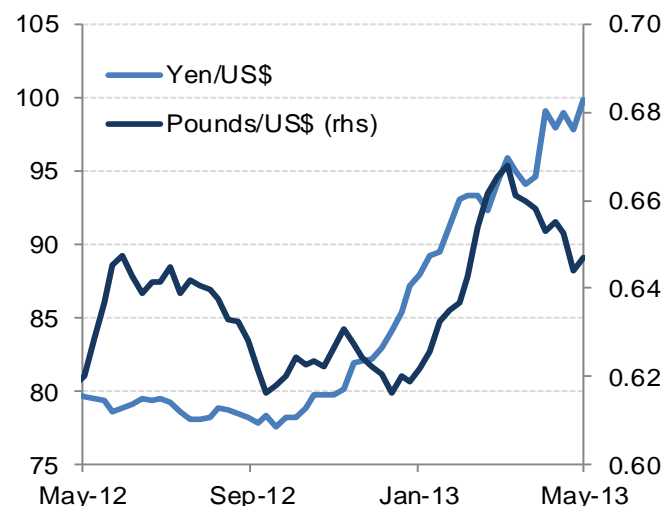
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



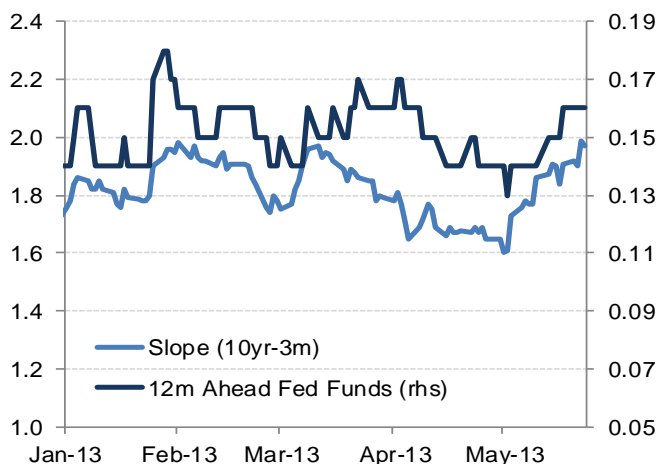
Source: Bloomberg & BBVA Research

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



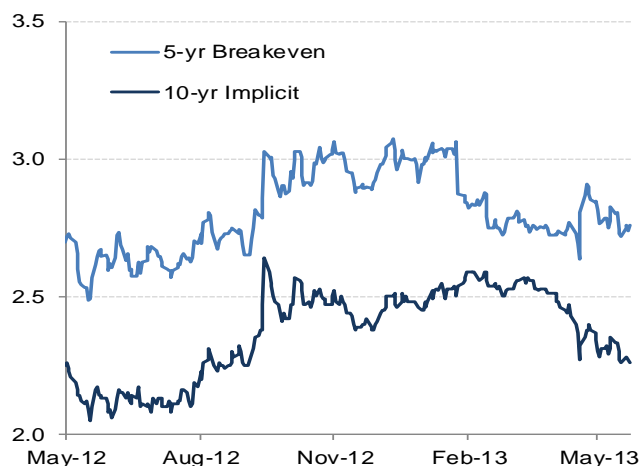
Source: Haver Analytics & BBVA Research

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 (%)

	4-Weeks			
	Last	Week ago	ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	14.12	14.12	14.12	14.10
New Auto (36-months)	2.29	2.30	2.43	3.11
Heloc Loan 30K	5.34	5.34	5.24	5.53
5/1 ARM*	2.63	2.68	2.60	2.90
15-year Fixed Mortgage*	2.77	2.76	2.64	3.23
30-year Fixed Mortgage*	3.59	3.57	3.41	3.99
Money Market	0.46	0.46	0.47	0.72
2-year CD	0.70	0.70	0.66	0.90

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

Table 1
Key Interest Rates (%)

	4-Weeks			
	Last	Week ago	ago	Year ago
1M Fed	0.08	0.10	0.13	0.15
3M Libor	0.27	0.27	0.45	0.47
6M Libor	0.42	0.42	0.65	0.00
12M Libor	0.69	0.70	0.98	1.07
2yr Sw ap	0.41	0.39	0.36	0.64
5yr Sw ap	1.07	0.99	0.84	1.09
10Yr Sw ap	2.16	2.09	1.84	1.89
30yr Sw ap	3.10	3.09	2.80	2.57
30day CP	0.12	0.15	0.13	0.35
60day CP	0.14	0.14	0.14	0.44
90day CP	0.16	0.15	0.15	0.48

Source: Bloomberg & BBVA Research

Quote of the Week

Dallas Federal Reserve President Richard Fisher
Interview with CNBC
20 May 2013

"Personally, I would like to see Ben stay. I think he is extraordinary, he has progressed enormously on the job, he was given a pile of x and he sorted his way through it. I admire him immensely, and the question is can someone else do the job better, particularly given what has been learned as a practitioner in the job as we have done something that has never been done before."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
22-May	S&P Case Shiller HPI	MAR	0.9%	1.0%	1.2%
23-May	Consumer Confidence	MAY	70.0	71.0	68.1
23-May	GDP	1Q13 P	2.4%	2.5%	2.5%
23-May	Initial Jobless Claims	24-May	327K	340K	340K
24-May	Continued Claims	18-May	2930K	2970K	2912K
24-May	Pending Home Sales Index	APR	1.8%	1.5%	1.5%
23-May	Personal Income	APR	0.2%	0.1%	0.2%
23-May	Consumer Spending	APR	0.1%	0.1%	0.2%
24-May	PCE Index	APR	-0.2%	0.1%	0.0%
24-May	Consumer Sentiment	MAY	84.5	83.7	83.7

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	7.6	7.0	6.5
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25	0.50
10Yr Treasury (eop, % Yield)	1.98	1.72	2.45	2.73	3.39
US Dollar/ Euro (eop)	1.32	1.31	1.32	1.30	1.35

Note: Bold numbers reflect actual data



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