

US Weekly Flash

Highlights

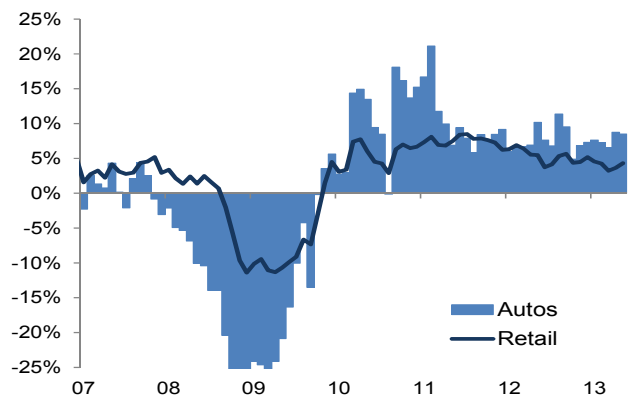
- **Retail Sales Rise Faster than Expected on Auto Demand and Building Materials**

- The retail sales report for May pointed toward a much more positive situation than expected for the consumer. Outpacing consensus estimates, retail sales rose 0.6% on a month-over-month basis in May despite a weak gasoline sales figure due to the decline in prices at the pump. The driver in terms of the headline figure was vehicle sales which surged 1.8% after rising a little less than one percent in April. This is due primarily to the growth in recent quarters of the American motor industry which has begun to focus on the current consumer who wants a smaller, more economical vehicle rather than the petrol hungry SUV.
- Excluding autos and gas, the figure was still higher than expected, rising 0.3% for the month on a rise in a handful of strong sectors. With the growing housing market, building materials have shown marked growth, up 0.9% in May and 10.1% since May of last year. Food and beverage sales also grew as the summer months have boosted sales, up 0.7% for the month. However, as far as a ubiquitous rise is concerned, there were a few components that continued to struggle in terms of consistent growth. Overall, it seems the growth in retail sales for May was focused in a few key components, primarily autos and building supplies, with other sectors showing some signs of not-yet sustainable growth. Nevertheless, with the summer months abound and consumers showing signs of increased optimism, we continue to expect stronger retail sales growth in the coming months.

- **Industrial Production Stalls as Manufacturing Remains Soft in May**

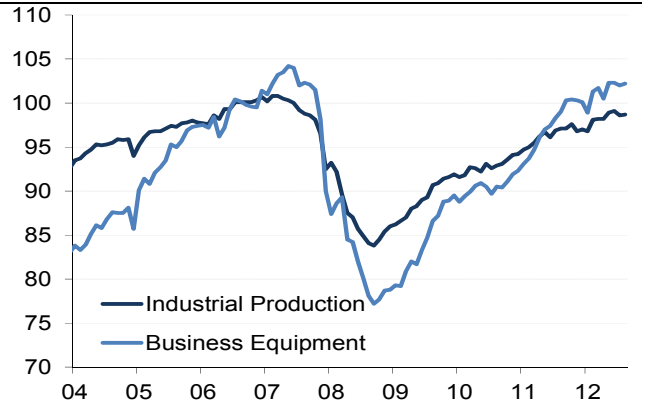
- Industrial production remained flat in May despite the 0.1 point rise in the headline index as the industry remains weak and demand falters. Much of the weakness stemmed from a second straight decline in utilities output, which dropped 1.8% in May following a 3.2% decline in April. Offsetting this decline were mining and manufacturing. Mining continued its upward momentum, rising 0.7% in May as some commodities remain in high demand. Manufacturing reversed a two-month downward trend but only slightly, up just 0.1% for the month as the sector's activity remains weak. Given the latest manufacturing indicators, we do not expect the sector to be a major driver of industrial production throughout the next few months, but it is likely that utilities output will increase again as we move into the hot summer months.
- Looking at the detailed components, business equipment output rose 0.2% which, looking back historically, is a relatively paltry showing from a usually strong sector. Turning attention to the consumer goods portion of the report, the figures are somewhat mixed. Durable goods production rose 0.2% as the automotive sector continued to bolster production, up 0.4%, coupled with the 0.8% increase in computer & video/audio equipment. Nondurable goods continued to decline for the second straight month as neither energy nor non-energy goods could find the demand to pull out from multi-month declines

Graph 1
Retail Sales & Autos
SA % Change YoY



Source: Census Bureau & BBVA Research

Graph 2
Industrial Production & Business Equipment
SA Index



Source: Federal Reserve Board & BBVA Research

Week Ahead

Consumer Price Index, Ex Food & Energy (May, Tuesday 8:30 ET)

Forecast: 0.2%, 0.2%

Consensus: 0.2%, 0.2%

Previous: -0.4%, 0.1%

Headline inflation for May has some upside potential as WTI energy spot prices have increased slightly while food prices also appear to be on the rise for the first time in months. While the price of natural gas dipped 3% in May, some petroleum prices reversed a multiple-month downward trend. Average WTI prices increased just enough to make up for April's decline, though prices remain lower compared to earlier in the year. Brent crude oil prices did decline for the third consecutive month, but only slightly. The Energy Information Administration publishes an index of all grades, areas and formulations of petroleum products and in May the average price rose slightly after declining the month prior. Food prices, according to the S&P Goldman Sachs Agriculture Index, rose for the first time on average since last August. Given the rise in both components, we expect the headline figure to show similar movement than the core inflationary figure for May. The potential rise in the price of autos and homes will help negate the effect of any fall in price that might befall apparel or recreation. Thus, we expect the core rate to accelerate slightly in May.

Housing Starts & Building Permits (May, Tuesday 8:30 ET)

Forecast: 940K, 970K

Consensus: 950K, 985K

Previous: 853K, 1017K

Given the potential for momentum in housing construction, prefaced by stronger than expected building permits over the past few months, we expect housing starts to rise in May as inventories remain low. The decline in April's housing starts was led primarily by multifamily units which have grown significantly since the housing recovery began. Single family units also declined but by a smaller fraction and given the high demand for homes we expect the figure to reverse itself as it attempts to fuel the market demand for new construction. A recovery in the multifamily figure is likely to occur as well due to the demand for rental properties whose prices have remained resiliently high despite the growing shift toward homeownership. Nevertheless, we expect the significant decline in housing starts to have been a rare occurrence in the current recovery and we therefore expect the figure to rebound in May.

FOMC Rate Announcement (June, Wednesday 14:00 ET)

Forecast: 0.25%

Consensus: 0.25%

Previous: 0.25%

No changes to the highly accommodative monetary policy are expected to come from the upcoming June 18 – 19 FOMC Meeting. The FOMC is projected to maintain monthly purchases at the current pace of \$40bn in mortgage-backed securities and \$45bn in long-term treasuries, with and the target range for the federal funds rate at 0 to 1/4 percent. Despite the increasing pressures within the FOMC to dial down asset purchases in the near term, there remains a divided opinion on the issue due to lower than expected inflation indicators. The June 19th FOMC statement will likely reveal more on the stance of the Committee regarding the labor market outlook and the inflation path. We maintain our baseline projections for the dialing down of the pace of asset purchases starting in late 3Q13, with the program ultimately ending by 1Q14.

Existing Home Sales (May, Thursday 10:00 ET)

Forecast: 4.99M

Consensus: 5.00M

Previous: 4.97M

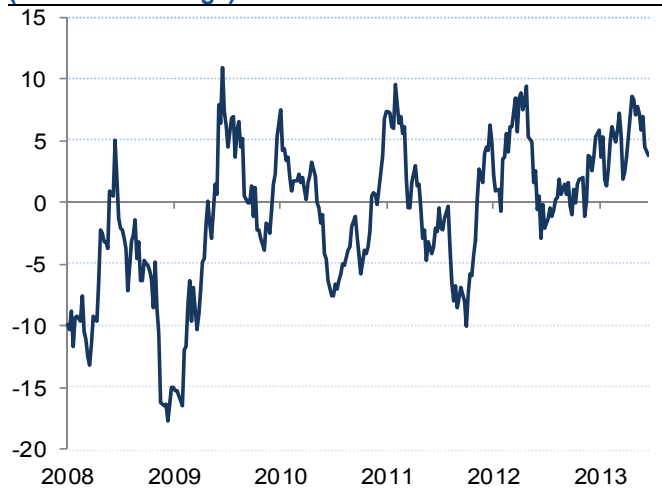
While new homes are being bought and built at a hare's pace in comparison to last year, existing homes sales are dealing with another dynamic that is contingent on the rise in homes prices and the ability of people to actually put their home up for sale. Many of those who were able to avoid foreclosure have been waiting for prices to increase enough to be able to leave their home in good standing and downsize to a more affordable living situation. Still, the national median sales price of all existing homes remains more than \$35,000 off of its 2007 peak, holding homeowners at bay until prices rise enough to allow those underwater owners to put their homes for sale. Furthermore, we expect that the recent jump in mortgage rates will put a damper on existing home sales for the month.

Market Impact

Given the mass of speculation revolving around the Fed's decision with regard to their monetary policy, the market will be primarily focused on any indication as to what the FOMC is thinking. There has been a large sell off as of late in both equities and gold which signals investors' fidgety nature about the possible reduction of QE. As for economic indicators that will impact the market, the housing market will be the highlighted sector. We continue to expect the market to grow at a steady pace as home prices continue to rise, lifting those who were underwater closer to being solvent. With that in mind, housing starts and existing home sales should shed some light on the pace of the housing recovery as credit remains tight as does the supply of homes. Nevertheless, we expect continued growth to emerge from the data and an overall positive spin on the week as markets should find solace in the FOMC announcement.

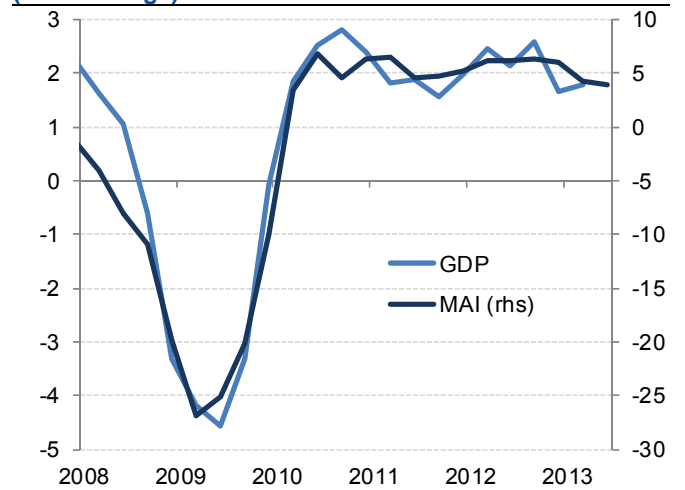
Economic Trends

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



Source: BBVA Research

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



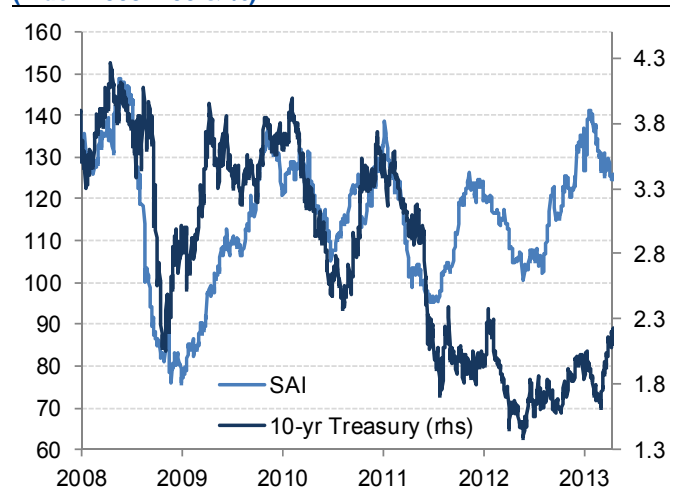
Source: BBVA Research & BEA

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



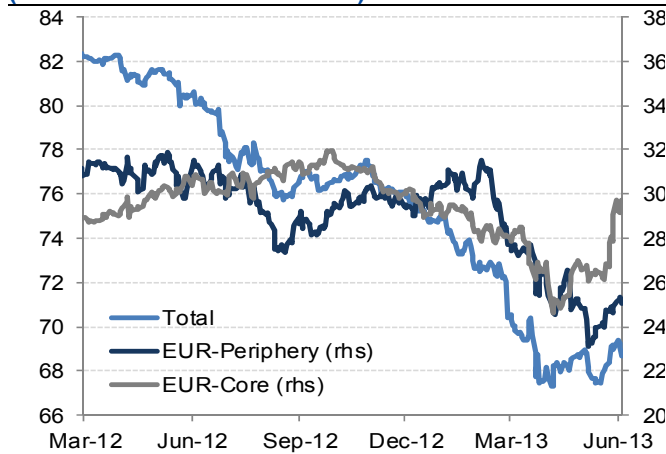
Source: BBVA Research

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



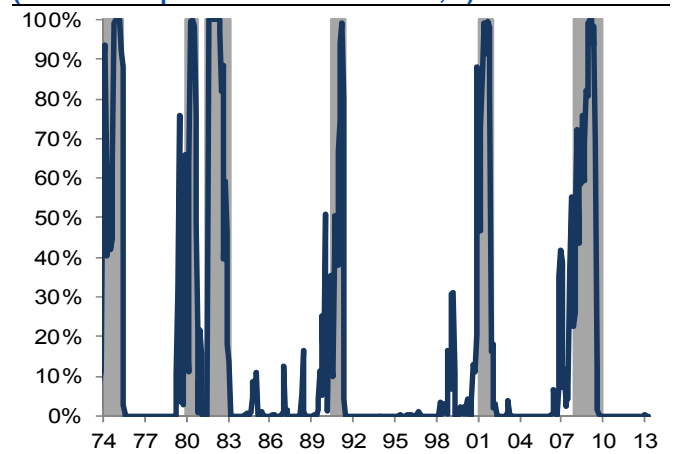
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

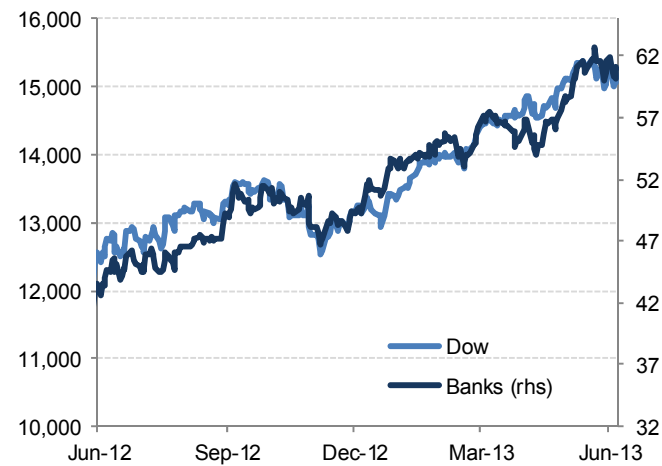
Graph 8
**BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)**



Source: BBVA Research

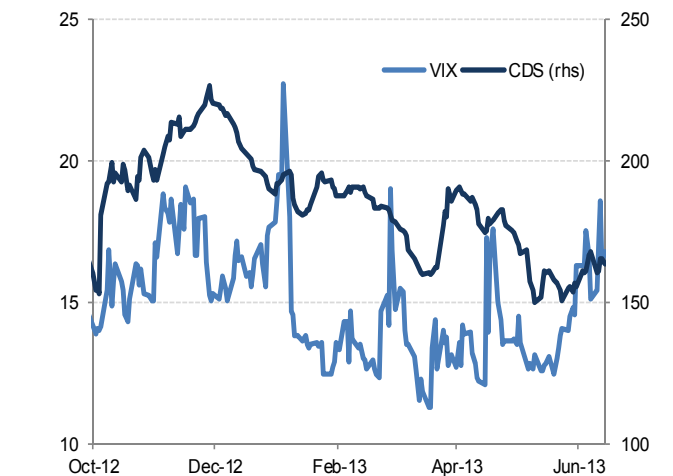
Financial Markets

Graph 9
Stocks
(Index, KBW)



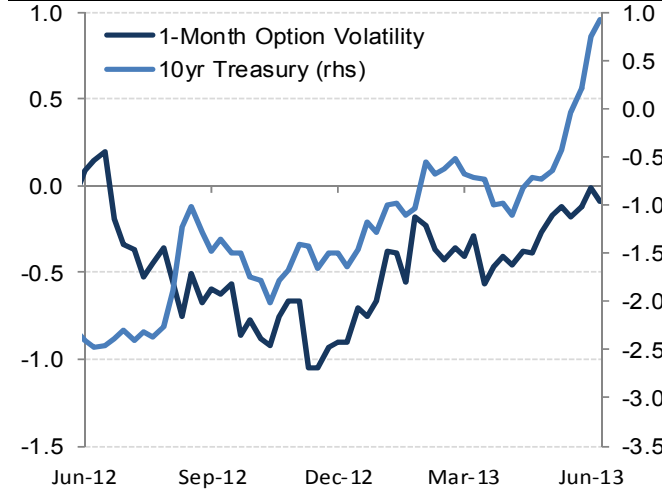
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



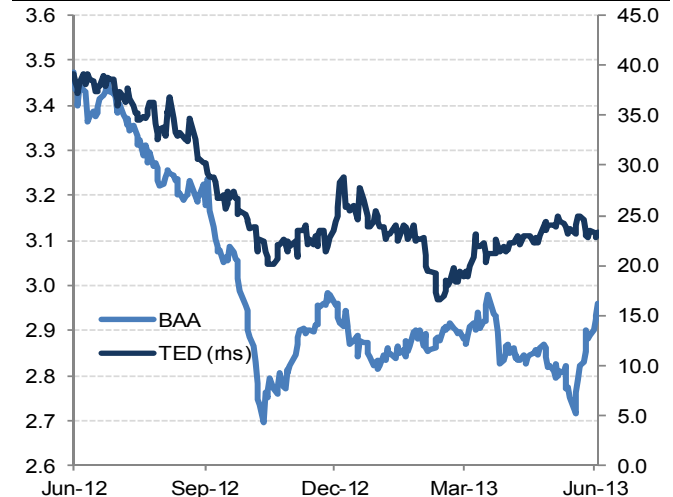
Source: Bloomberg & BBVA Research

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



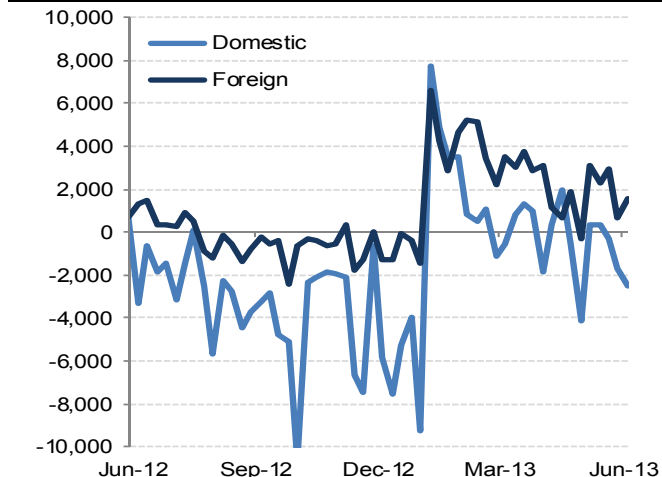
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



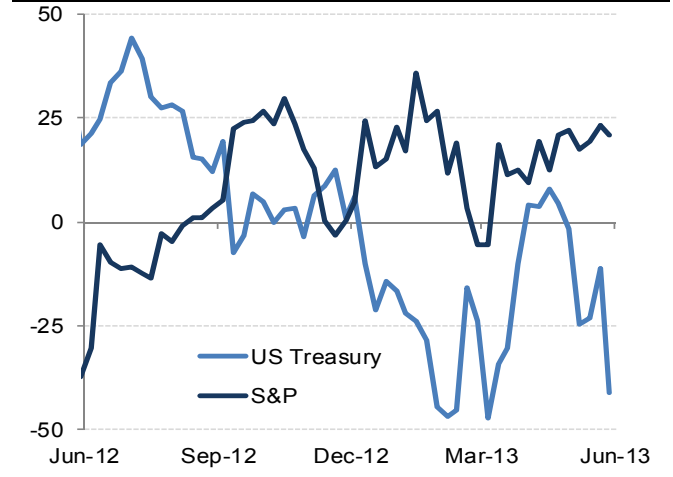
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

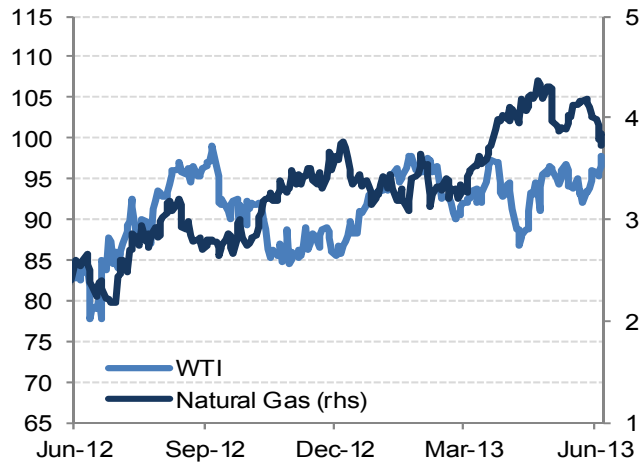
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

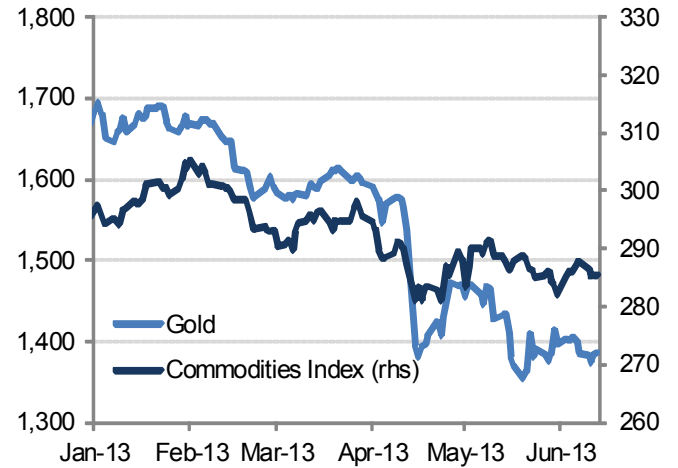
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



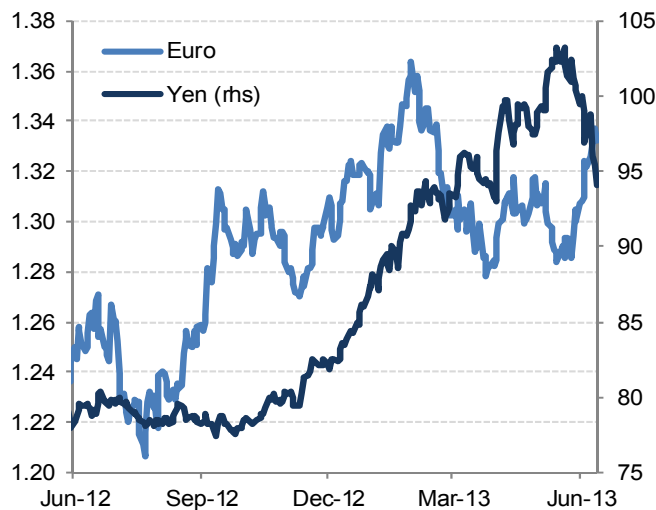
Source: Bloomberg & BBVA Research

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



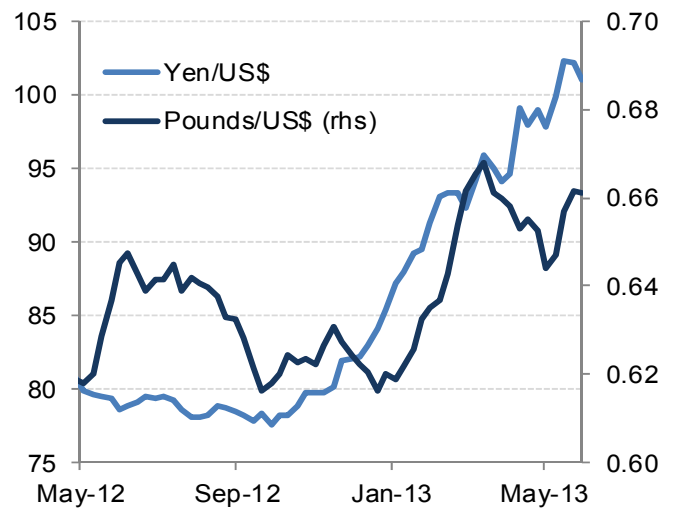
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



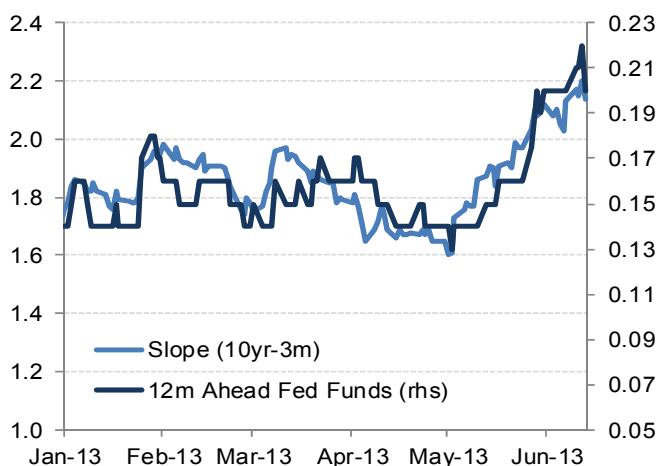
Source: Bloomberg & BBVA Research

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



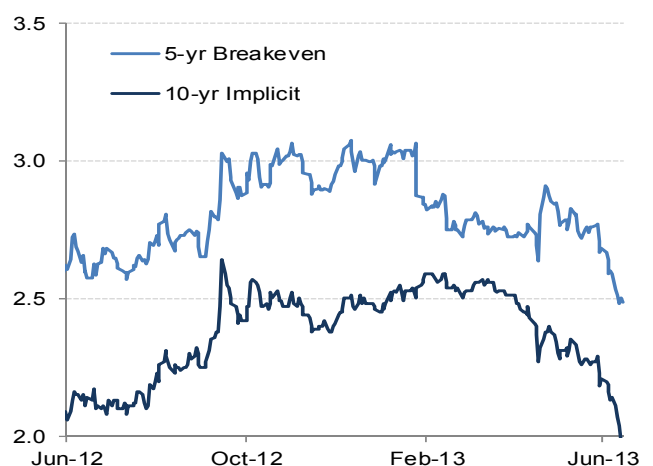
Source: Haver Analytics & BBVA Research

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	4-Weeks		
		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)	2.39	2.47	2.29	3.43
Heloc Loan 30K	5.35	5.35	5.35	5.56
5/1 ARM*	2.79	2.68	2.58	2.90
15-year Fixed Mortgage*	3.10	2.76	2.61	3.23
30-year Fixed Mortgage*	3.98	3.57	3.42	3.99
Money Market	0.45	0.45	0.47	0.72
2-year CD	0.70	0.70	0.67	0.90

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

Table 1
Key Interest Rates (%)

	Last	4-Weeks		
		Week ago	ago	Year ago
1M Fed	0.09	0.09	0.10	0.18
3M Libor	0.27	0.27	0.45	0.47
6M Libor	0.41	0.41	0.65	0.00
12M Libor	0.67	0.69	0.98	1.07
2yr Sw ap	0.43	0.48	0.39	0.54
5yr Sw ap	1.21	1.29	0.99	0.95
10Yr Sw ap	2.30	2.37	2.09	1.73
30yr Sw ap	3.19	3.26	3.09	2.42
30day CP	0.12	0.12	0.12	0.33
60day CP	0.13	0.14	0.14	0.40
90day CP	0.16	0.15	0.16	0.46

Source: Bloomberg & BBVA Research

Quote of the Week

St. Louis Federal Reserve President James Bullard
Global Outlook in Montreal, Canada
10 June 2013

"While labor market conditions have improved since last summer, surprisingly low inflation readings may mean the Committee can maintain the aggressive program over a longer time frame."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
17-Jun	Empire State Manufacturing Survey	JUN	0.8	0.0	-1.43
17-Jun	NAHB Housing Market Index	JUN	46	45	44
18-Jun	Consumer Price Index	MAY	0.2%	0.2%	-0.4%
18-Jun	CPI Ex Food & Energy	MAY	0.2%	0.2%	0.1%
18-Jun	Housing Starts	MAY	940K	952K	853K
18-Jun	Building Permits	MAY	970K	975K	1017K
19-Jun	FOMC Meet Announcement	19-Jun	0.25%	0.25%	0.25%
20-Jun	Initial Jobless Claims	14-Jun	330K	340K	334K
20-Jun	Continued Claims	8-Jun	2958K	2978K	2973K
20-Jun	Existing Home Sales	MAY	4.99M	5.00M	4.97M
20-Jun	Philadelphia Fed Survey	JUN	-0.2	-1.0	-5.2
20-Jun	Leading Indicators	MAY	0.4%	0.2%	0.6%

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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