

US Weekly Flash

Highlights

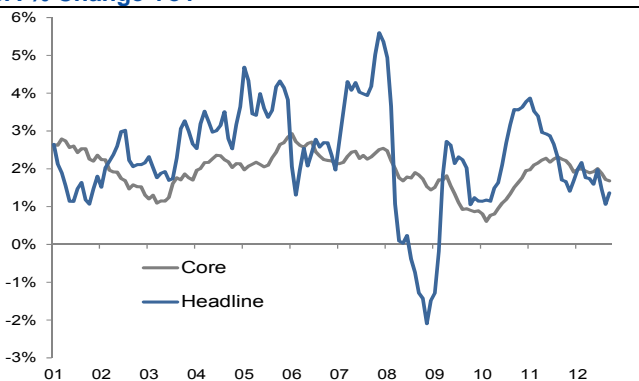
• **Headline Inflation Rises Moderately in May Due to Gains in Utility Prices**

- The headline consumer price index for May was on par with market expectations as energy prices rebounded slightly to prevent another month of falling prices. Up 0.1% in May, headline inflation was buoyed, not by motor fuels, but by utilities prices, which rose 2.4% MoM. This follows a 4.4% increase in April which was the highest seen since the beginning of the economic downturn in 2008. Motor fuel prices, surprisingly, were stagnant in May while fuel oil prices continue to plummet, down 2.9% after declining 4.4% in April. Electricity prices have remained positive over the past two months, rising by 0.8% as the demand from households rises due to the onset of summer. The other primary component to headline inflation, food, declined slightly as beverages and dairy related products dragged the component downward
- Shifting gears toward the core CPI figure, the 0.2% increase in May was boosted by modest price increases in the services sector rather than commodities. Apparel prices continue to fluctuate as producers cope with varying weather conditions across the nation, skewing consumers' demand. However, apparel was the only commodity-based component to rise in price, up 0.2% while new vehicle and tobacco prices remained stagnant for the month. Used cars & truck prices declined moderately by 0.1% while medical care commodities declined by 0.5%. The more impactful sector, services, rose by 0.2% in May as shelter prices continued to bolster the figure with help from transportation. Shelter prices rose 0.3% as its components, rent and owner's equivalent of rent, rose by 0.3% and 0.2%, respectively.

• **FOMC Outlines More Definitive Expectations for the Future of QE3**

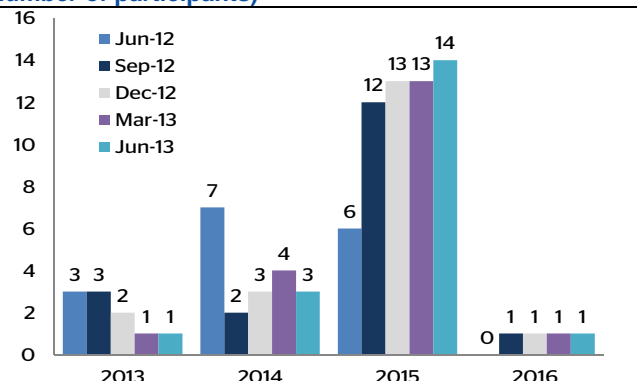
- The FOMC statement this week did not reveal many changes at face value, but instead drove various underlying implications for markets. The official statement was in line with our expectations for maintaining the current pace of \$85bn per month in asset purchases. While the statement did not reflect any immediate changes to the QE3 timeline, Bernanke's comments hinted at a definitive timeline for tapering, more details on policy normalization, and added caution for the timing of the first fed funds rate hike. The recent spike in interest rates was also addressed, although Bernanke made it clear that the Fed could only partially explain these movements.
- In his comments he divulged a more certain timeline for slowing asset purchases that will begin later this year, closing the door on any expectations for no tapering until 2014. Furthermore, Bernanke noted that the Fed "would continue to reduce the pace of purchases in measured steps through the first half of next year, ending purchases around midyear." Given Bernanke's press conference and the FOMC statement, we remain convinced that the Fed will take a slow and steady approach to backing down from their highly accommodative monetary policy stance. We continue to expect that the FOMC will begin to dial down asset purchases in late 3Q13, ultimately concluding the program in 1H14.

Graph 1
Consumer Price Inflation
SA % Change YoY



Source: BLS & BBVA Research

Graph 2
Appropriate Timing of Policy Firming
(Number of participants)



Source: Federal Reserve Board & BBVA Research

Week Ahead

S&P Case Shiller HPI (April, Tuesday 9:00 ET)

Forecast: 1.2%	Consensus: 1.2%	Previous: 1.1%
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The S&P Case Shiller Index, one of the more heavily watched home prices indicators, is expected to rise slightly on a MoM basis as the continuing friction between supply and demand favors the seller with prices continuing to rise. Over the past 12 months, the index has increased more than 10%, and this rate is not expected to slow down anytime soon. Fueled by the lack of homes available for sales, the market for homes has been heating up quite substantially as more and more renters are coming around to the idea of choosing a home, hesitant after the collapse of the market. Nevertheless, as the sale of new homes edges past the 20% YoY mark, it can be said with some certainty that the housing market will continue to rise for the near future, creating sustained demand for homes of which the supply will be racing hand over fist to meet. Therefore, we expect a stable rise in the Case-Shiller index to continue with some acceleration into the summer months as the housing market begins to enter into its peak period.

New Home Sales (May, Tuesday 10:00 ET)

Forecast: 463K	Consensus: 460K	Previous: 454K
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Despite the recent surge in building permits and housing starts, we do not expect new home supply to reflect the rise in construction and therefore expect sales of homes should continue to be hindered by limited supply. The supply of single family homes, at the current sales rate, has been declining precipitously since mid-2011 and is current at 4.1 months. With this in mind, we expect the rise in home prices to bring more potential buyers into the market who have been reluctant to re-enter come in for the first time. That being said, the supply of existing homes does not leave much room for choice and may cause an increased demand in new homes to become more prevalent as the summer buying season picks up. We also expect the South to continue to dominate in terms of regional growth as states like Texas continue to expand at a relatively quick clip and the West picks up momentum.

GDP Final (1Q13, Wednesday 8:30 ET)

Forecast: 2.4%	Consensus: 2.4%	Previous: 2.4%
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Since the preliminary 1Q13 GDP report released in May, there have been no new releases that would affect the overall figure although revisions do have some potential to shift the reading slightly. Released a week after the preliminary figure in May, the international trade deficit was revised down slightly as better exports and lower imports signaled a slight improvement in global trends. However, while the revision was in favor of a better GDP figure, the -\$1.7B shift is unlikely to be enough to nudge GDP upward on its own. Construction spending for March was also revised slightly, reflecting a smaller decline than originally predicted. On the other hand, both business inventories and personal consumption expenditures were revised down in March, offsetting any significant potential for the final 1Q13 GDP estimate. Thus, we expect the figure to remain at 2.4% as government policies put a drag on an otherwise moderate recovery from the consumer sector

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

Forecast: 0.1%, 0.4%	Consensus: 0.2%, 0.3%	Previous: 0.0%, -0.2%
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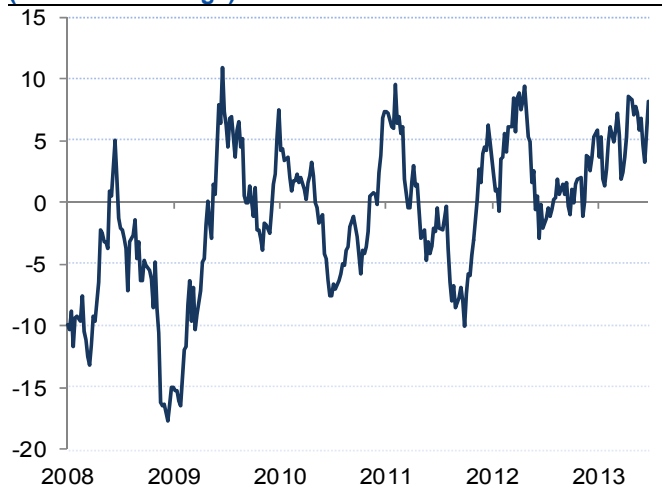
Personal income is expected to rise slightly in May as the latest employment report showed a marked increase in the number of those employed and hours worked, although only a minor increase in average hourly earnings. In terms of consumer spending the most recent indicators are pointing toward a moderate rise in consumption as consumer activity has picked up momentum into the summer months. Retail sales for May rose, at the headline level, by 0.6% and 0.3% at the core which points toward some strong activity in terms of where consumers may be directing their savings. After a decline in April, auto sales for both light autos and trucks have shown signs of returning to their strong levels seen in prior months. Retail activity and strong sales in high value items continues to point toward a strong consumer spending figure. Furthermore, the price index for PCE will also be pivotal to watch for, and with energy prices remaining stable or flat and shelter prices pushing up the core rate, we expect a slight upward reversal which should help bolster the Fed's policy action and reduce worries that have arisen with regard to deflation.

Market Impact

After a dramatic few days in terms of equity market volatility and Fed analysis, the coming week should remain more stable as markets have already priced in their expectations given the recent bout of data. Nevertheless, this week is not void of important data. Durable goods orders, although notoriously volatile, will likely point toward a continued deceleration in the manufacturing sector for mid-2Q13. Thereafter, housing market data in the form of the Case-shiller index and new homes sales will likely continue the recent trend of dwindling supply and limited sales until housing construction accelerates dramatically. With little new data, the GDP estimate for 1Q13 is unlikely to change and thus should warrant minimal market reaction. Overall, we do not expect markets to react anywhere near as strongly to this week's data, though we may continue to see lingering effects from the Fed's comments.

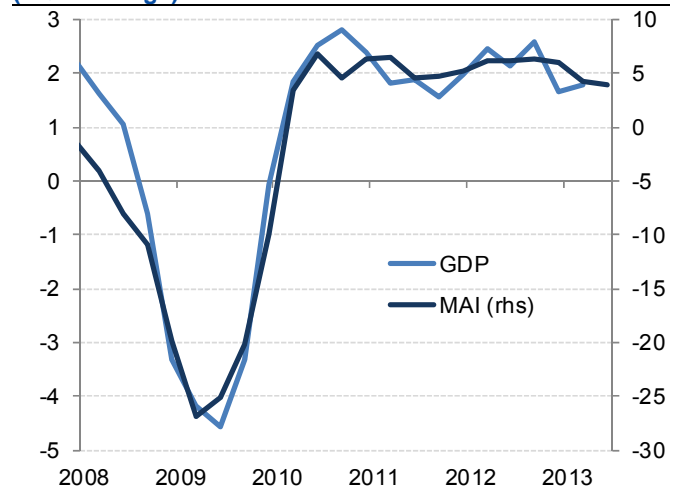
Economic Trends

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



Source: BBVA Research

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



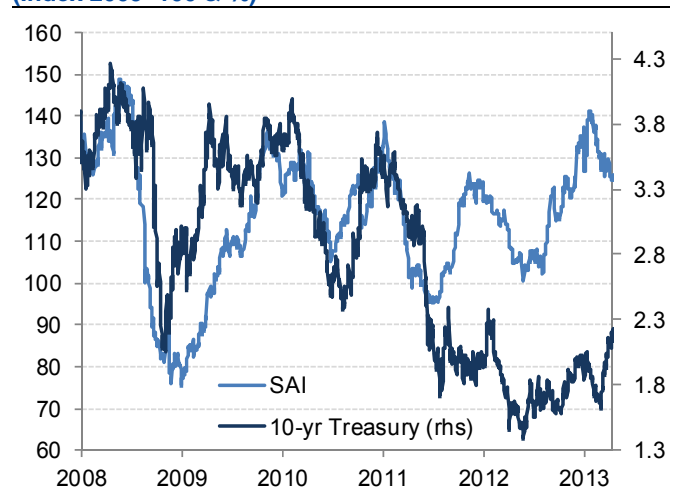
Source: BBVA Research & BEA

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



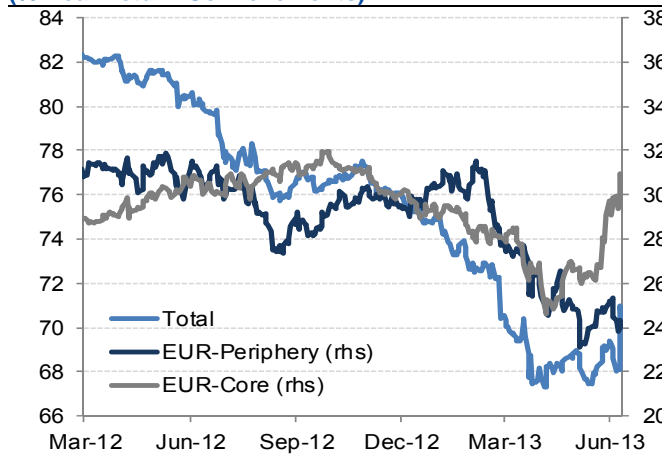
Source: BBVA Research

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



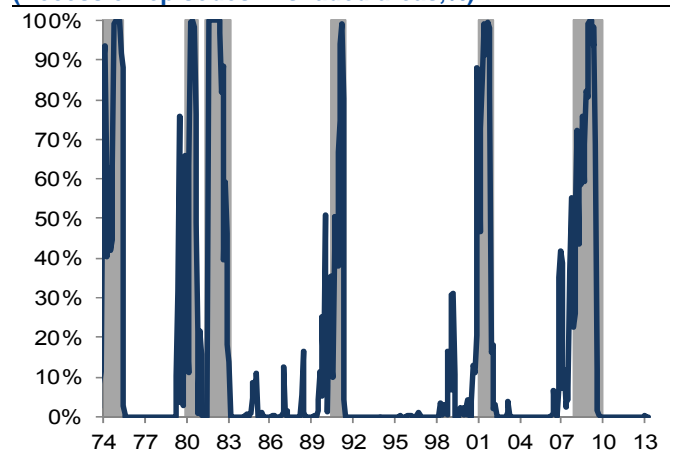
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

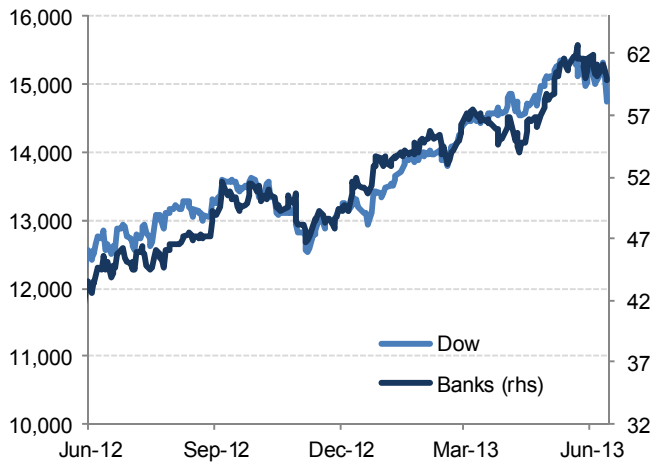
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

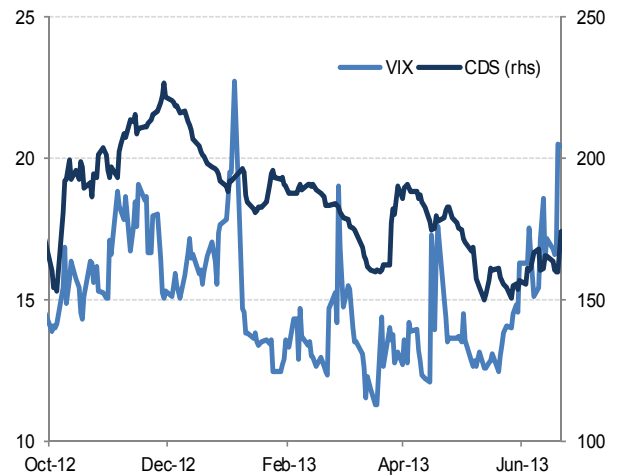
Financial Markets

Graph 9
Stocks
(Index, KBW)



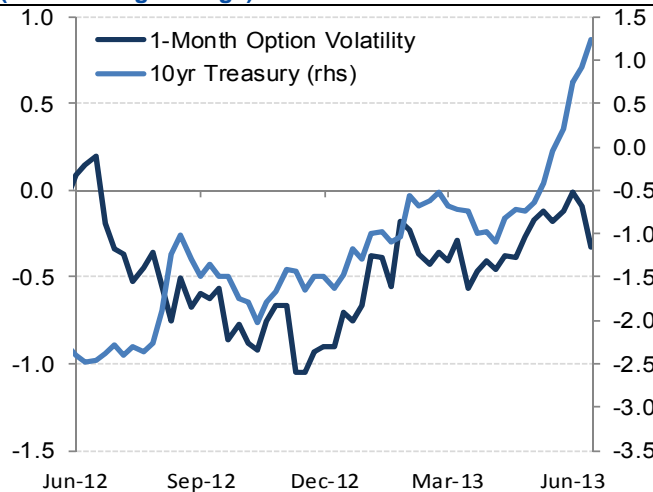
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



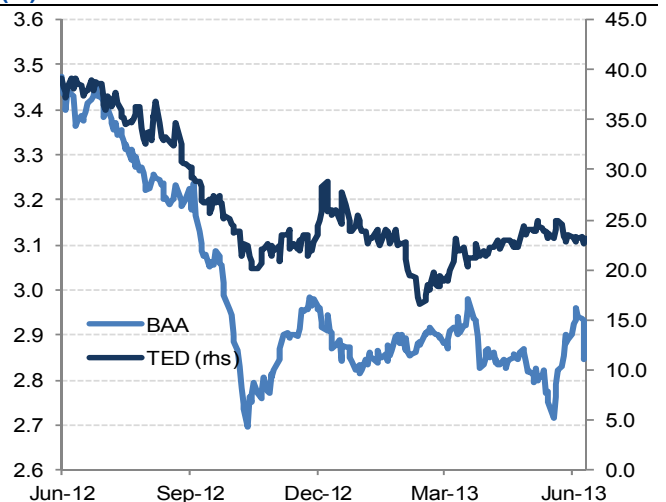
Source: Bloomberg & BBVA Research

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



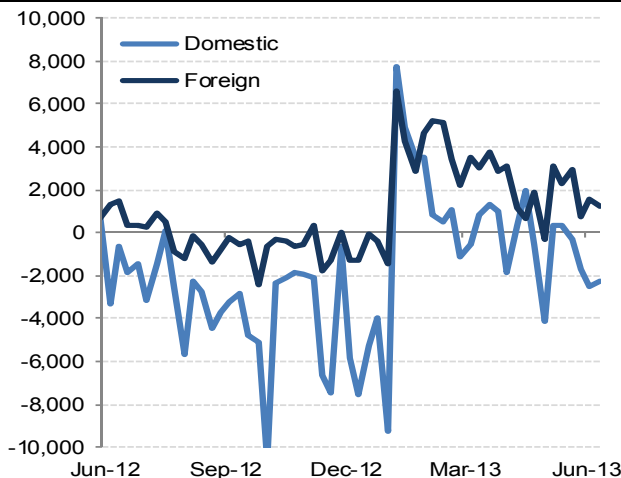
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



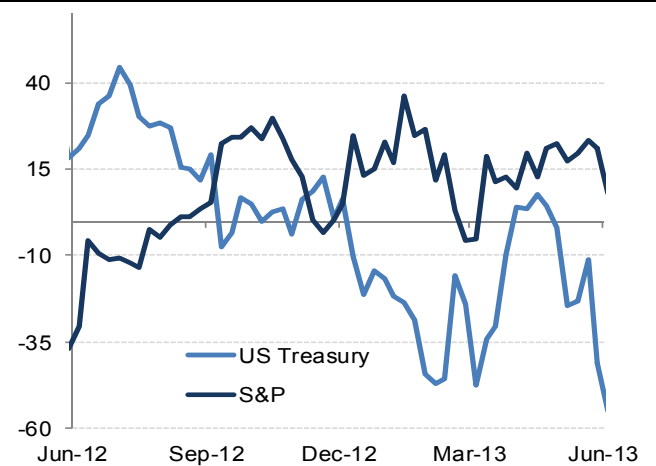
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

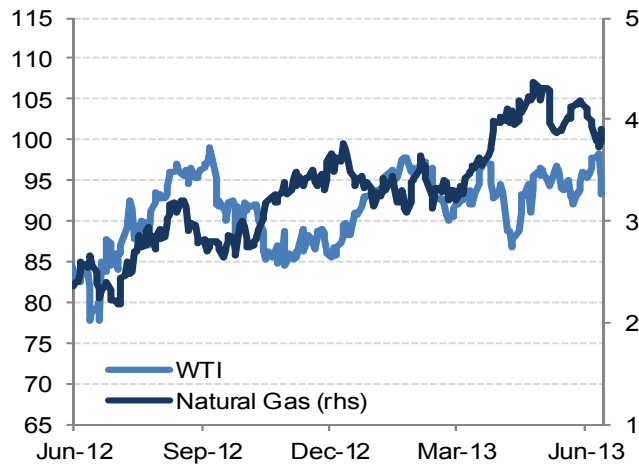
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

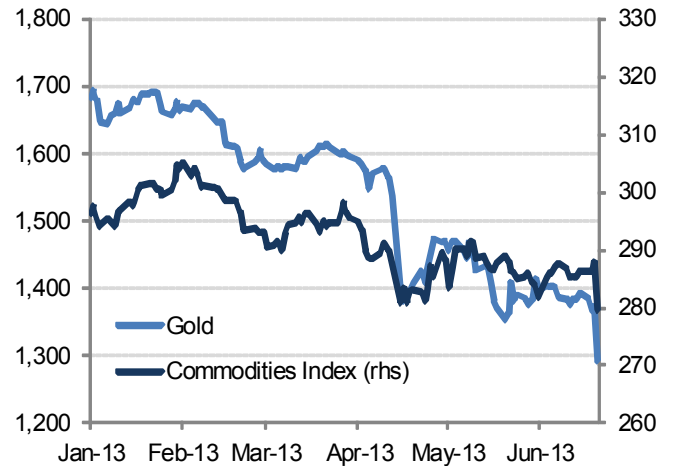
Financial Markets

Graph 15
Commodities
 (Dpb & DpMMBtu)



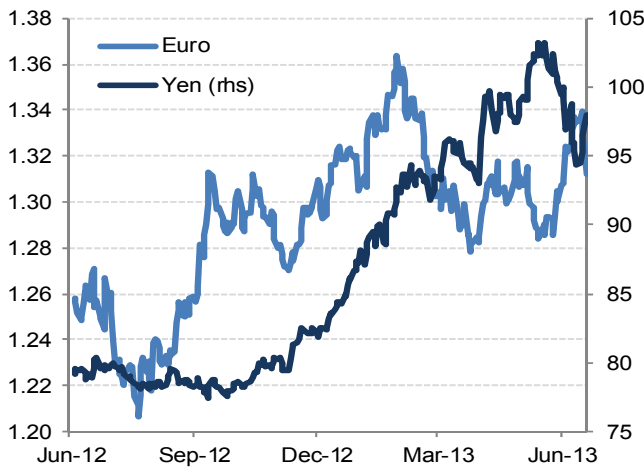
Source: Bloomberg & BBVA Research

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



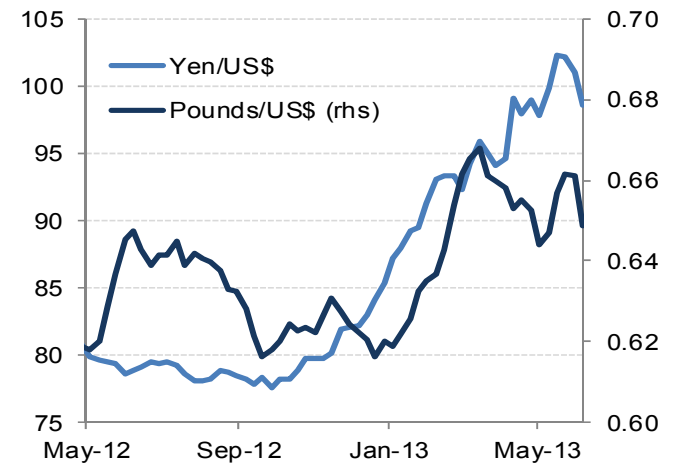
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
 (Dpe & Ypd)



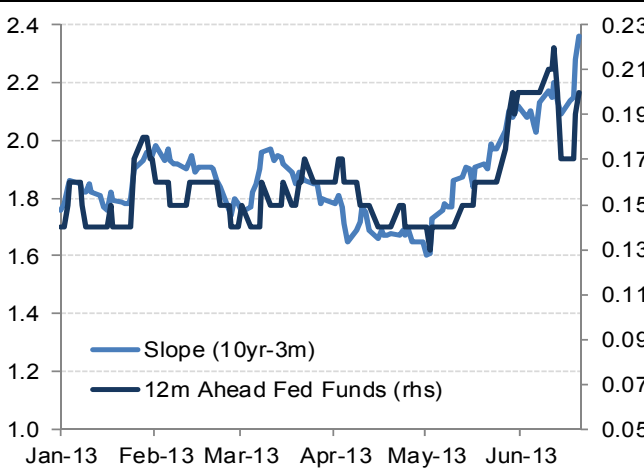
Source: Bloomberg & BBVA Research

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



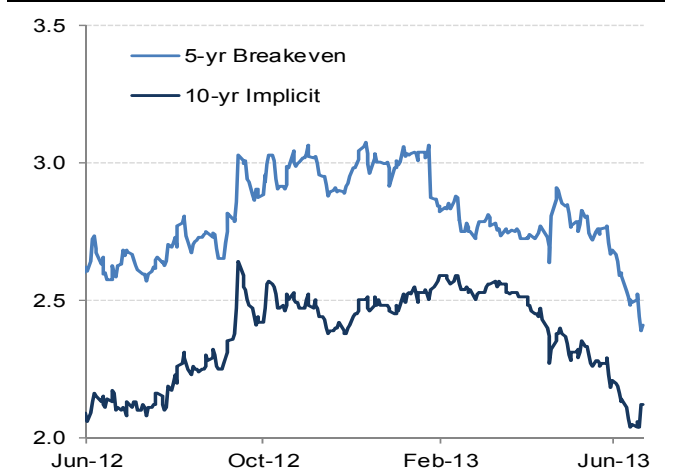
Source: Haver Analytics & BBVA Research

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)	2.47	2.40	2.29	3.08
Heloc Loan 30K	5.34	5.34	5.35	5.53
5/1 ARM*	2.79	2.68	2.62	2.90
15-year Fixed Mortgage*	3.04	2.76	2.69	3.23
30-year Fixed Mortgage*	3.93	3.57	3.51	3.99
Money Market	0.45	0.45	0.46	0.72
2-year CD	0.72	0.70	0.70	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	0.10	0.10	0.09	0.17
3M Libor	0.27	0.27	0.45	0.47
6M Libor	0.41	0.41	0.65	0.00
12M Libor	0.68	0.68	0.98	1.07
2yr Sw ap	0.56	0.43	0.41	0.55
5yr Sw ap	1.61	1.22	1.07	1.01
10Yr Sw ap	2.73	2.31	2.16	1.81
30yr Sw ap	3.46	3.20	3.10	2.50
30day CP	0.14	0.13	0.12	0.29
60day CP	0.14	0.13	0.15	0.31
90day CP	0.16	0.16	0.16	0.38

Source: Bloomberg & BBVA Research

Quote of the Week

Jonathan Wright, Professor of Economics at Johns Hopkins
Interview with Bloomberg
19 June 2013

"Saying that the Fed will taper later this year tightens financial conditions right now -- a risky strategy when the economy is only just gaining a bit of momentum."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
24-Jun	Dallas Fed Manufacturing Survey	JUN	-3.0	-5.0	-10.5
25-Jun	Durable Goods Orders (MoM)	MAY	0.0%	3.0%	3.3%
25-Jun	Durable Goods Ex Transportation	MAY	-0.5%	-0.2%	1.3%
25-Jun	S&P Case Shiller HPI (MoM)	APR	1.2%	1.2%	1.1%
25-Jun	New Home Sales	MAY	463K	460K	454K
26-Jun	GDP	1Q13 F	2.4%	2.4%	2.4%
27-Jun	Personal Income	MAY	0.1%	0.2%	0.0%
27-Jun	Personal Spending	MAY	0.4%	0.3%	-0.2%
27-Jun	PCE Core	MAY	0.1%	0.1%	0.0%
27-Jun	PCE Core YoY	MAY	1.1%	1.1%	1.1%
27-Jun	Initial Jobless Claims	22-Jun	335K	345K	354K
27-Jun	Continued Claims	15-Jun	2940K	2964K	2951K
27-Jun	Pending Home Sales	MAY	0.8%	1.0%	0.3%
28-Jun	Chicago PMI	JUN	58	55.0	58.7
28-Jun	Consumer Confidence	JUN F	82.5	83.0	82.7

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	2.0	2.2	2.3
CPI Core (YoY %)	1.7	2.1	1.9	2.0	2.1
Unemployment Rate (%)	8.9	8.1	7.5	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	2.30	2.73	3.39
US Dollar/ Euro (eop)	1.32	1.31	1.29	1.30	1.35

Note: Bold numbers reflect actual data



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