

US Weekly Flash

Highlights

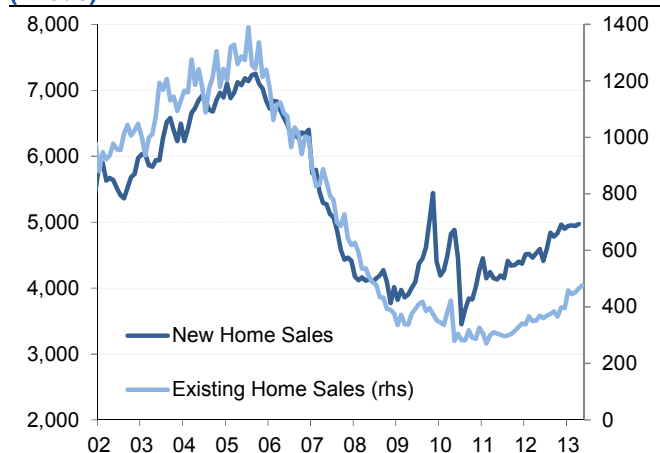
Existing Home Sales Emerge Weaker While New Sales Strengthen in June

- June presented a mixed bag of results for the housing market in terms of sales but the fundamentals remain strong for continued growth in the sector. Beginning with existing homes, the results from June's report show some weakness. Single family sales declined by 50K on what we expect to be a decline in affordability given the 5.5% rise in median home prices coupled with higher mortgage rates. However, on the plus side, the supply of existing homes rose in June which is in line with our expectations for the coming months. As home prices continue to rise, more home owners will be more likely to put their homes on the market to capture the increase in value and provide some room for flexibility
- Shifting toward new homes, the situation is brighter. Sales for June rose 8.3% on very strong results from the Northeast, South and West. The Midwest continued to struggle after a very strong May. This was helped further by the downward revision to May's figure which made the total MoM 38K. Demand was the key driver in June with the number of months it took to sell the house declining from 4.6 in May to 3.9 in June, consistent with annual trends. As a result, the current inventory of new homes fell from 4.2 months to 3.9 months, matching the recent low set in January. This may be due to the significant decline in median and average home prices for the last two months, falling 5% and 4% respectively.

Durable Goods Orders Grow for Third Consecutive Month

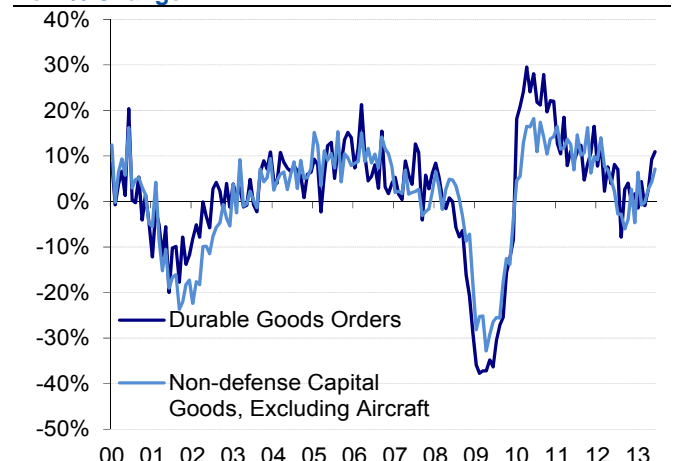
- Much higher than expected, new orders for durable goods have been a growing sign of strength in the manufacturing sector after many believed the industry was down and out for 1H13. New orders were up 4.2% in June as transportation continues to drive the figure upward. As expected, orders were augmented heavily by aircraft & parts which were up 29.2%.
- Excluding transportation, new orders remained flat for June while May's figure was revised upward slightly. Most of the drag that stunted order growth came from computer & electronic products and electrical equipment which fell 2.6% and 1.8% respectively. Machinery helped combat the decline however, up 2.4% for the third straight month of gains. Another positive sign that is usually overlooked was the non-defense capital goods readout which tends to cover anything from railroad equipment to construction tools and medical equipment. Experiencing its first three months of consecutive gains since 2007, nondefense capital goods rose 6.3% in June and excluding aircraft, 0.7%. In addition to stronger transportation figures, defense goods also rose by a strong clip, up 29.6% as defense capital goods also saw a significant gain of 35.2%.

Graph 1
New & Existing Home Sales (Thous)



Source: U.S. Census Bureau & BBVA Research

Graph 2
Durable Goods & Non-defense Capital Goods ex. Aircraft YoY % Change



Source: U.S. Census Bureau & BBVA Research

Week Ahead

GDP (2Q13, Wednesday 8:30 ET)

Forecast: 1.0%

Consensus: 1.0%

Previous: 1.8%

The advance figure for 2Q13 real GDP growth is expected to decelerate compared to 1Q13 as consumer spending and investment have not improved much since the end of March and government spending reduction weighs heavily on growth. While the first quarter was expected to show stronger private consumption and a slightly better manufacturing situation prior to the final estimate, the sentiment for 2Q13 has been decidedly weak since the beginning of the year. Personal consumption remains the significant driving force behind growth in the U.S. and we expect the weaker consumption figure in April may be bolstered by a stronger June report as consumers continue to benefit from rising asset prices and the ensuing wealth effect. However, barring any stellar growth from consumers, the remaining indicators like production, investment and government spending will look to be creating quite a drag on 2Q13 growth. Stronger durable goods growth may help alleviate the minimal rise in industrial production, which gained only 0.1% from 1Q13. With regards to the trade deficit, the recent figures for April and May are strongly negative for the quarter with the deficit increasing to its highest level since November, causing further drag. Consistent with our forecasts for 2Q13, the largest drag on real GDP will be the deceleration of government spending due to the sequester. We expect the decline in spending at the federal, state and local level to create a proportionally larger drag on GDP than in the first quarter as the brunt of the fiscal policy took effect throughout this period.

FOMC Announcement (Wednesday 14:00 ET)

Forecast: 0.25%

Consensus: 0.25%

Previous: 0.25%

No changes to monetary policy are expected from the upcoming July 30-31st FOMC meeting. We project the FOMC to maintain the current pace of purchases of \$40bn in mortgage-backed securities and \$45bn in long-term treasuries. Chairman Bernanke's Congressional testimony emphasized that the pre-announced plan of tapering the monthly pace of purchases "later this year" remains entirely data-driven and that the "markets are beginning to understand (the FOMC's) message." While Bernanke took a dovish stance re-stating that the highly accommodative monetary policy is "needed for the foreseeable future," we expect the deflationary concerns within the FOMC to ease. Thus, we maintain our baseline scenario of the Fed announcing tapering later in 3Q13 and will be on the lookout for the September 18th announcement and the Chairman's press conference.

Nonfarm Payrolls and Unemployment Rate (July, Friday 8:30 ET)

Forecast: 186K, 7.7%

Consensus: 185K, 7.5%

Previous: 195K, 7.6%

Nonfarm payroll growth in July is expected to be marginally less than June's figure as the employment situation has not shown much indication of drastic improvement. Compared to June, we expect the goods-producing sectors like manufacturing and construction to show stronger jobs growth, with housing activity continuing to improve and Federal Reserve Manufacturing Surveys positing better employment conditions. We continue to expect service-based payrolls to grow as the retail and wholesale sector are benefitting from the increase in consumer spending. Also, given the influx of graduates into the labor force as of early summer, we may see continued growth in sectors such as professional, financial and IT services where young talent is in continuous demand as of late. We expect government payroll growth to remain negative as the sequester puts pressure on all levels to lean themselves. With that in mind, we believe the unemployment rate will remain stable as payroll growth is mitigated by the recent rise in the labor force and participation rate.

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

Forecast: 0.3%, 0.5%

Consensus: 0.4%, 0.5%

Previous: 0.5%, 0.3%

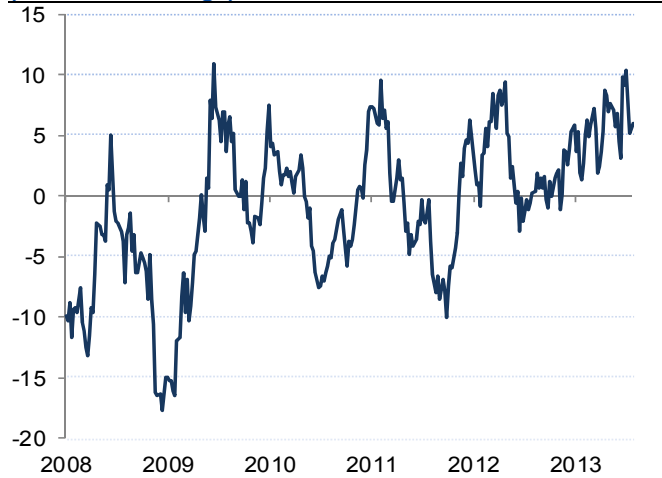
We expect personal income growth to decelerate in June as the employment situation shows some signs of stagnating. Average hourly earnings rose at roughly the same pace as in the prior month, and hours worked remained the same. What might provide a boost to the income figure will be the continued rise in asset prices, ranging from equities to real estate. Personal consumption, on the other hand, is expected to rise at a faster pace than in May. Retail sales showed some moderate strength in June with a 0.3% rise over May. Furthermore, the auto industry looks to continue its momentum forward as auto sales rose in June according to Autodata. With ears glued to the Fed's actions, the PCE inflation figure for June will also be an important component to look out for. We expect only a slight rise in the core rate as home prices continue to rise and remaining components remain stable.

Market Impact

This week is chock full of integral indicators of which most can move the market independent of each other. The varying reports reflecting activity from May to July will also be telling as to how much of an impact the indicators have on the market. Regardless, a weaker 2Q13 GDP figure will do nothing to spur any optimism. However, the Fed should calm things with another installment of announcements that we expect to remain unchanged. Employment will also be a large driving force. The situation looks slightly less optimistic but we expect the underlying trend to remain positive. Overall, the week will be a handful but our expectations are that the less positive outcomes of major macro variables will not paint a rosy picture for markets.

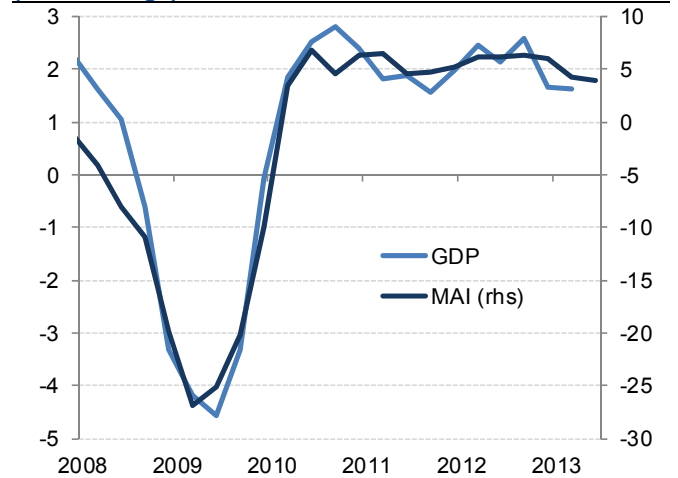
Economic Trends

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



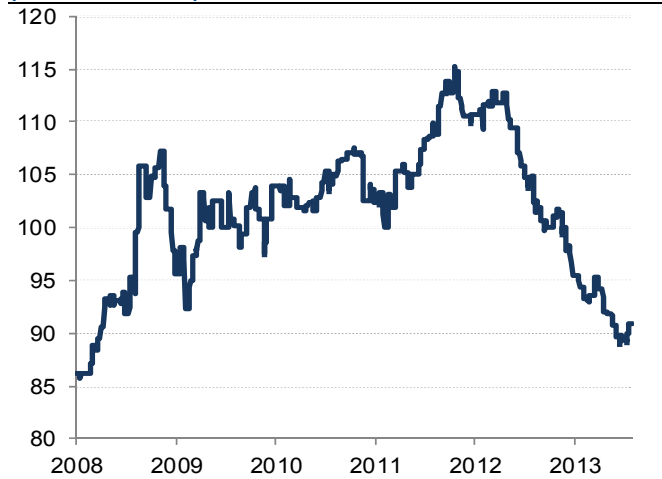
Source: BBVA Research

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



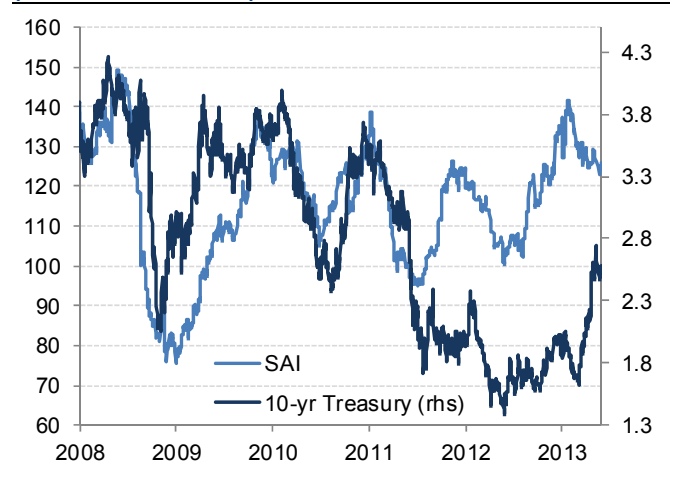
Source: BBVA Research & BEA

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



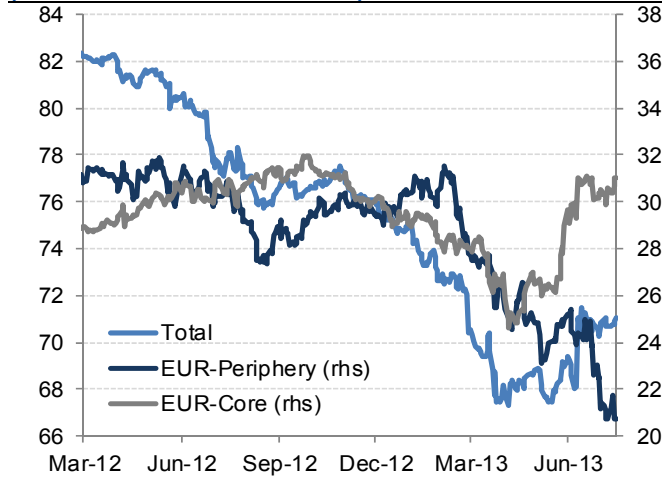
Source: BBVA Research

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



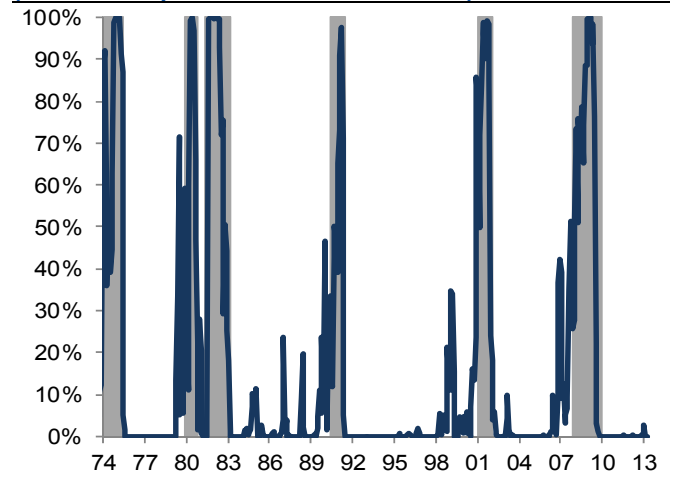
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

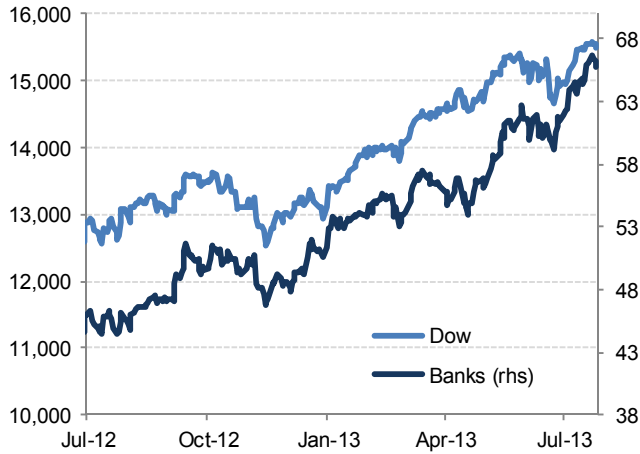
Graph 8
**BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)**



Source: BBVA Research

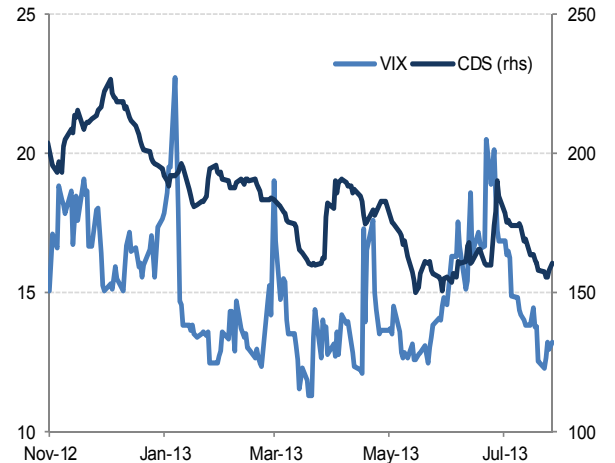
Financial Markets

Graph 9
Stocks
(Index, KBW)



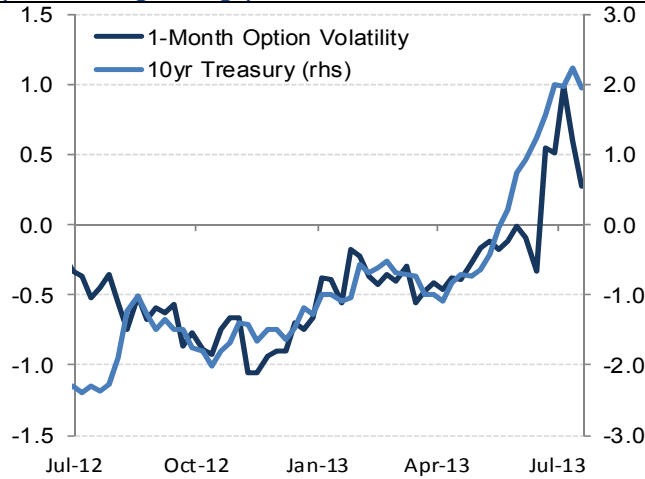
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



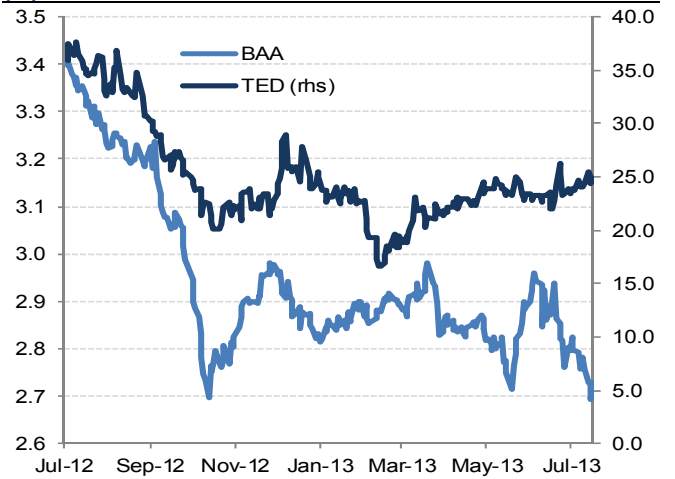
Source: Bloomberg & BBVA Research

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



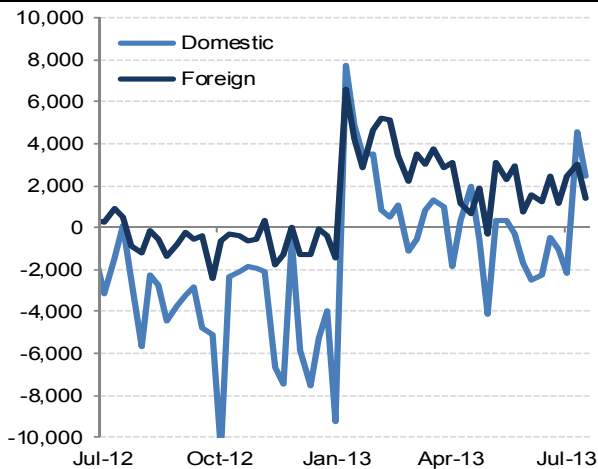
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



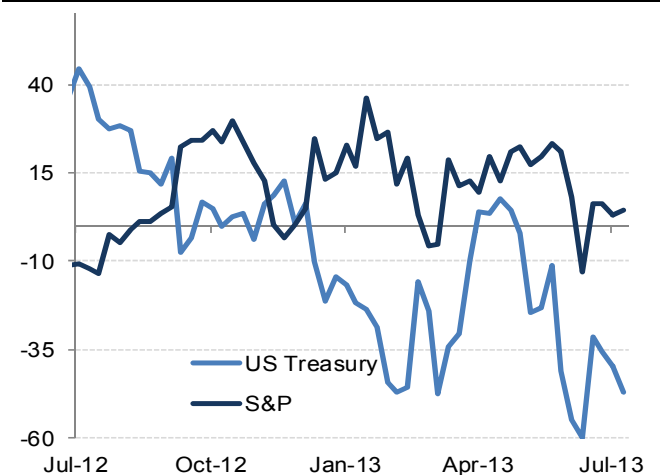
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

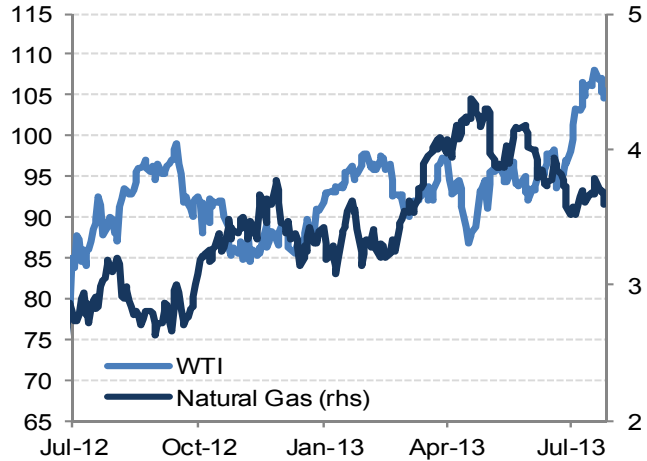
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

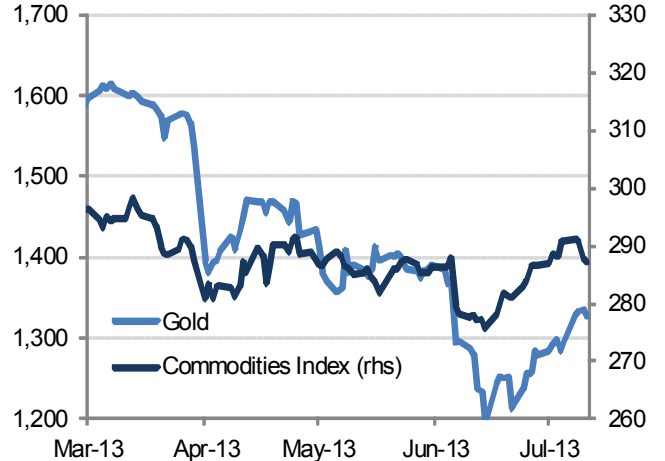
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



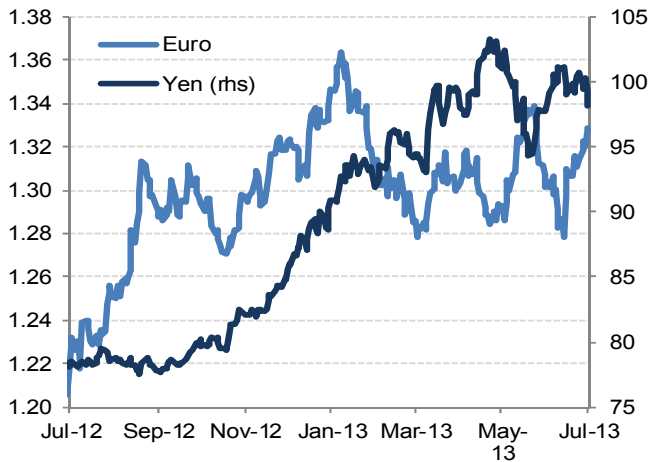
Source: Bloomberg & BBVA Research

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



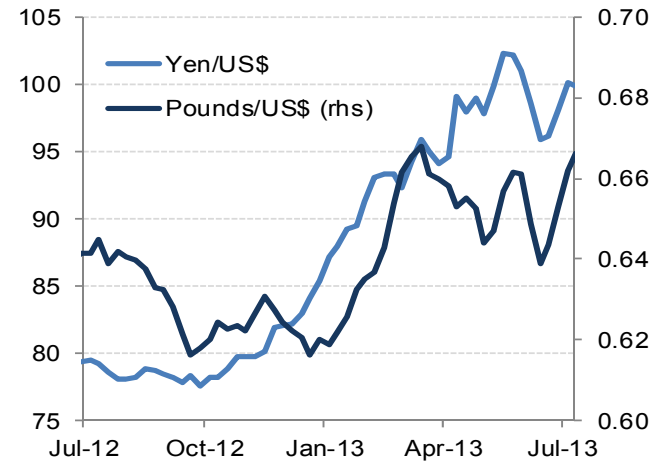
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



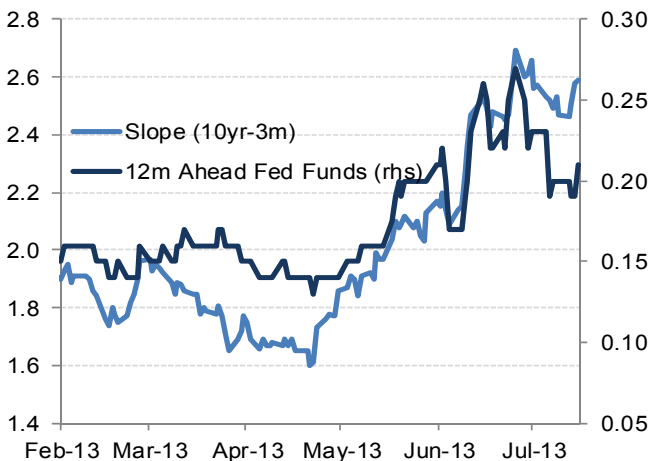
Source: Bloomberg & BBVA Research

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



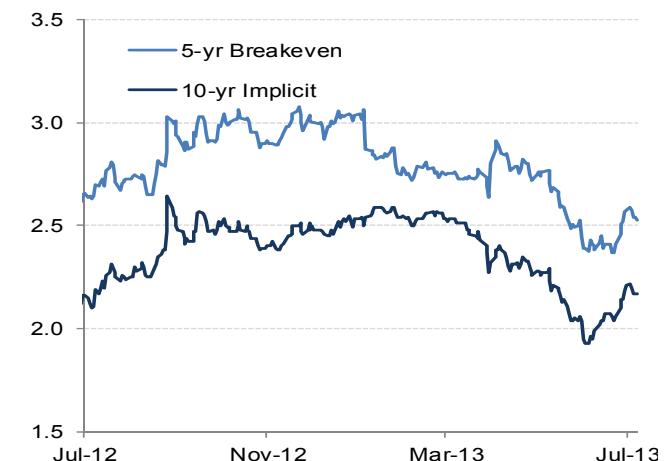
Source: Haver Analytics & BBVA Research

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)	14.16	14.16	14.12	14.10
New Auto (36-months)	2.50	2.51	2.46	3.01
Heloc Loan 30K	5.29	5.29	5.35	5.42
5/1 ARM*	3.16	2.68	2.79	2.90
15-year Fixed Mortgage *	3.39	2.76	3.04	3.23
30-year Fixed Mortgage *	4.31	3.57	3.93	3.99
Money Market	0.44	0.44	0.45	0.53
2-year CD	0.74	0.74	0.71	0.87

*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	0.09	0.09	0.07	0.14
3M Libor	0.27	0.27	0.45	0.45
6M Libor	0.40	0.40	0.65	0.00
12M Libor	0.67	0.69	0.98	1.06
2yr Swap	0.47	0.47	0.51	0.44
5yr Swap	1.53	1.48	1.57	0.85
10Yr Swap	2.76	2.69	2.70	1.67
30yr Swap	3.60	3.54	3.45	2.40
30day CP	0.13	0.12	0.12	0.37
60day CP	0.15	0.15	0.14	0.39
90day CP	0.15	0.17	0.16	0.42

Source: Bloomberg & BBVA Research

Quote of the Week

President Barack Obama
Knox College Galesburg, Illinois
24 July 2013

"...with this endless parade of distractions and political posturing and phony scandals, Washington has taken its eye off the ball. And I am here to say this needs to stop. This needs to stop. This moment does not require short-term thinking. It does not require having the same old stale debates. Our focus has to be on the basic economic issues that matter most to you — the people we represent."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
29-Jul	Pending Home Sales	JUN	-0.5%	-1.0%	6.7%
30-Jul	Consumer Confidence	JUL	81	81.0	81.4
31-Jul	ADP Employment	JUL	180K	180K	188K
31-Jul	GDP	2Q13	1.0%	1.0%	1.8%
31-Jul	FOMC Announcement	31-Jul	0.25%	0.25%	0.25%
1-Aug	Initial Jobless Claims	27-Jul	335K	345K	343
1-Aug	Continued Claims	20-Jul	2983K	3000K	2997K
1-Aug	Construction Spending	JUN	0.3%	0.4%	0.5%
1-Aug	ISM Manufacturing	JUL	51.6	52.0	50.9
1-Aug	Total Vehicle Sales	JUL	15.85M	15.8M	15.89M
2-Aug	Nonfarm Payrolls	JUL	186K	185K	195K
2-Aug	Unemployment Rate	JUL	7.7%	7.5%	7.6%
2-Aug	Personal Income	JUN	0.3%	0.4%	0.5%
2-Aug	Personal Spending	JUN	0.5%	0.5%	0.3%
2-Aug	PCE Core MoM	JUN	0.1%	0.1%	0.1%
2-Aug	Factory Order	JUL	2.2%	2.3%	2.1%

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	1.6	2.3	2.4
CPI Core (YoY %)	1.7	2.1	1.9	2.0	2.1
Unemployment Rate (%)	8.9	8.1	7.6	7.0	6.4
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25	0.50
10Yr Treasury (eop, % Yield)	1.98	1.72	2.70	3.06	3.67
US Dollar/ Euro (eop)	1.32	1.31	1.31	1.30	1.35

Note: Bold numbers reflect actual data

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