

US Weekly Flash

Highlights

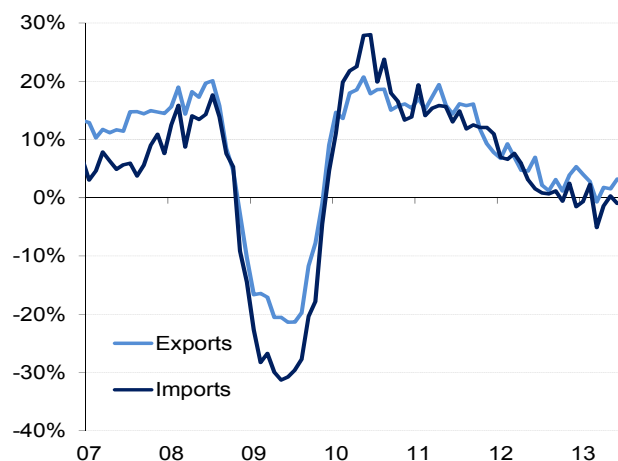
• U.S. International Trade Gap Narrows Significantly on Oil Related Shifts

- The U.S. international trade deficit shrank far more than expected, falling to its lowest level since October 2009. Reaching -\$34.2bn, the trade deficit fell largely due to a change in the petroleum dynamics of the U.S. economy. The nation actually exported far more oil than it imported, creating the smallest petroleum trade balance since January 2010. This was due to a large increase in demand for U.S. petroleum products at a pace that has not been seen in years. The petroleum export figure rose 13.2% while imports declined 7%, a scenario that the U.S. economy has been shifting towards as the nation becomes more energy independent. Despite the massive boost from petroleum products, other sectors managed to show export growth even with the purported stale global economy that has persisted over the past few quarters
- Imports in June did their part to positively impact the trade balance, down 2.5% after jumping back and forth over the past two quarters. Unlike exports, which saw growth throughout various sectors, the decline in imports was primarily focused in the aforementioned petroleum component. The large decline in the deficit may provide a 0.2-0.4pp boost to 2Q13 real GDP growth, all else remaining equal.

• JOLTS Report Notes Rise in Job Openings but Decline in Hiring

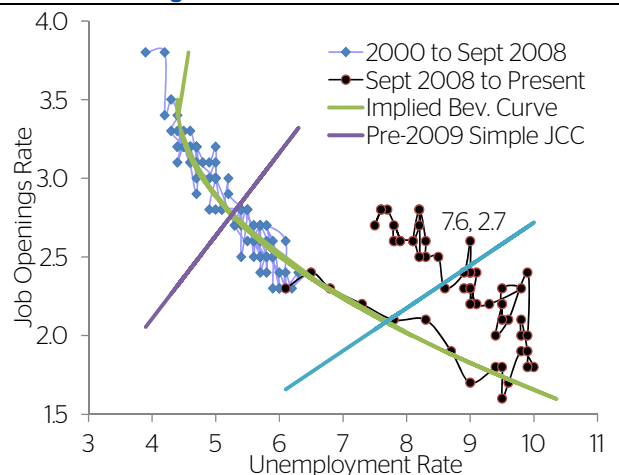
- The Job Openings and Labor Turnover Survey (JOLTS) report for June 2013 showed a mixed bag of data as job openings rose, hires declined, and separations fell. Job openings rose 29K (0.7%) for the third straight month to the highest level since May 2008. The breakdown in terms of sectors was mixed with construction, retail trade and accommodation & food services showing moderate to strong growth. Professional services were the driver in June however, adding 69K available jobs in June after a deep decline the month prior. Total private hiring fell 278K, the fastest pace since November 2008 as all but one category showed a decline. The industries with the largest declines were trade & transport (47K) and education & health (87K) services with the remaining components still showing overall weakness. The only industry to add any hires was arts & entertainment, which added 6K.
- Separations for June were a bright spot in the report, declining 300K overall with every industry reporting fewer separations. Similar to May's report, the decline in separations was primarily in the layoffs and discharges category, purportedly the least favorable given that it reports the involuntary separation of an employee rather than the quits level.

Graph 1
U.S. Exports and Imports
YoY % Change



Source: U.S. Census Bureau & BBVA Research

Graph 2
National Beveridge Curve



Source: Bureau of Labor Statistics & BBVA Research

Week Ahead

Retail Sales, Ex Autos & Gas (July, Tuesday 8:30 ET)

Forecast: 0.5%, 0.2%

Consensus: 0.3%, 0.4%

Previous: 0.4%, -0.1%

Headline retail sales for July are expected to increase at a moderate pace due to stronger auto sales. According to Edmunds car research data, July auto sales are expected to outperform months prior in total dollar value, resulting in a strong driver for headline growth in retail sales. Unit sales reported by Autodata actually declined slightly for the month, though this doesn't always translate directly to the retail sales data. Nominal headline sales may be dampened slightly by the decline in gasoline prices across the U.S., but given the strength of the auto sector as of late, we do not expect much of an impact from gasoline. Turning toward the core, more brick and mortar type retail, the situation looks to be moderately stronger than in June. Back to school shopping and continued summer sales should help to drive apparel and multipurpose department stores. According to the Goldman Sachs chain store indicator, sales are up 0.4% in July and the Redbook retail sales index for the month came in at 0.8% after falling in June. However, given the weaker than expected summer months that have produced strong headline figures and moderate core figures, there is some downside potential considering the lagged effect from the income tax increase earlier in the year.

Consumer Price Index, Ex Food & Energy (July, Thursday 8:30 ET)

Forecast: -0.1%, 0.1%

Consensus: 0.2%, 0.2%

Previous: 0.5%, 0.2%

Headline inflation is expected to decline slightly as the price of gasoline fell in July and food prices remain only marginally up. According to the Energy Information Agency, an average of all gasoline grades across the U.S. declined 2¢ and as much as 6¢ for regular unleaded. While not enough to make daily commuters rejoice, given the fact that gasoline prices have been rising steadily since the beginning of the year, the decline in price will hamper CPI growth for July. Further dampening the headline CPI figure, S&P's index for agricultural and livestock prices fell 5.2% along with additional indicators that have foodstuffs declining in July. As for the core CPI numbers, we expect much the same situation as has been the case year-to-date with shelter prices driving most of the growth and certain textiles or commodities fluctuating causing higher or lower core rates. June's core rate was due to continuing growth in housing and medical prices coupled with an unexpected rise in apparel prices. Given the steady rise in home and medical prices we expect a less severe decline in headline prices and a soft, but not negative core rate.

Industrial Production & Capacity Utilization (July, Thursday 9:15 ET)

Forecast: 0.4%, 77.8%

Consensus: 0.3%, 77.9%

Previous: 0.3%, 77.8%

We expect industrial production to continue to rise in July as better-than-expected manufacturing conditions have the potential to drive further industrial growth, in addition to the increase in utilities use and mining capability. Looking at the breakdown of the index, utilities is the first component that we expect to have a positive impact on July's report due to the hotter than expected month in certain regions. Mining is also considered to be a continuous strong point for industrial production overall given the increase in the demand and prices for certain commodities. In terms of manufacturing, regional Federal Reserve Surveys are, on the whole, optimistic about July's outcome. Both the Philadelphia and New York Fed indices on manufacturing and the business outlook suggested significant growth in shipments for July after a weak reading in June. Kansas City's report was magnitudes more positive with its production index reaching two-year highs. However, the Richmond Fed reported a 15% drop in its shipments index and an overall 11% decline in its composite index. Nevertheless, coupling the forward looking data available, the sentiment remains positive and on par with our forecasts for a stronger industrial outlook in 2H13.

Housing Starts & Building Permits (July, Friday 8:30 ET)

Forecast: 875K, 900K

Consensus: 903K, 950K

Previous: 836K, 911K

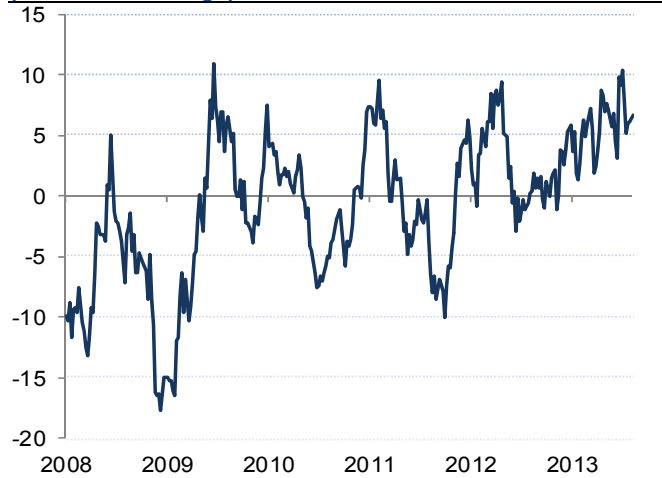
While the housing market has been on a tear since early 2012, a handful of indicators, housing starts included, have experienced some mild volatility as of late. Focusing on housing starts, the multifamily component of the indicator has been on a bumpy trajectory since November as the glut of condos and apartment buildings have finally come into contact with a market that is incentivizing home ownership. As prices continue to rise on new and used homes, single family units should begin to accelerate given that credit remains tight for most construction firms and single family units are both less expensive and easier to construct. This shift may have been captured by the National Association of Homebuilders index which reached a multiyear high and bolstered the continued optimism that has been hard to deny throughout the housing recovery. We therefore expect single family housing starts and building permits to continue to rise at a modest pace. Although we expect multifamily units to rise in July, we still maintain our belief that they will begin to wane as single family units regain popularity.

Market Impact

This week will be rather dynamic day-to-day with multiple key data points being released. Touching on the Fed, we expect the weaker CPI figures to continue to accommodate their policy actions while stronger retail sales may invoke some calls that tapering is around the corner. Overall, we expect a bumpy ride for markets but an overall positive week barring any breaking international news.

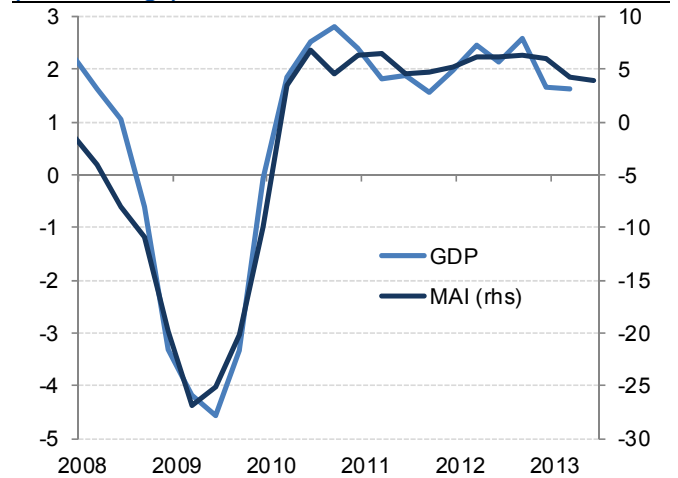
Economic Trends

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



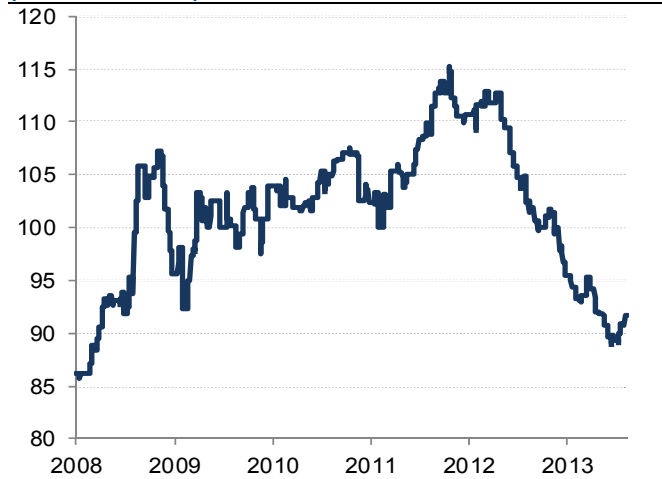
Source: BBVA Research

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



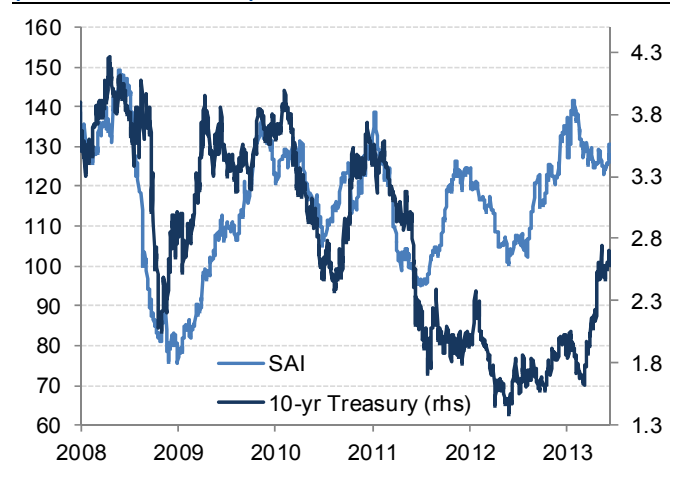
Source: BBVA Research & BEA

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



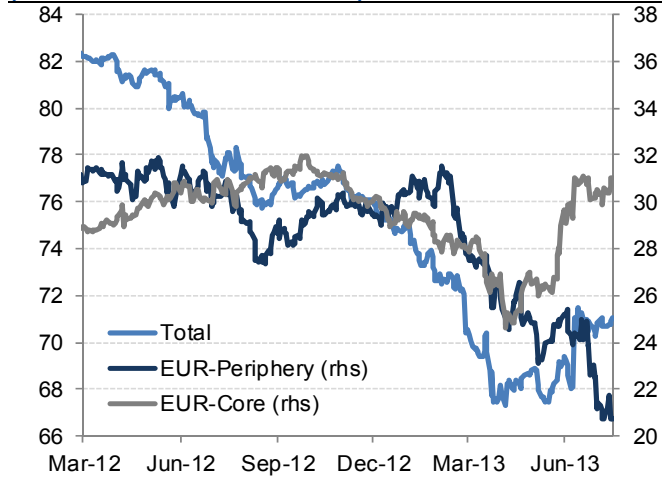
Source: BBVA Research

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



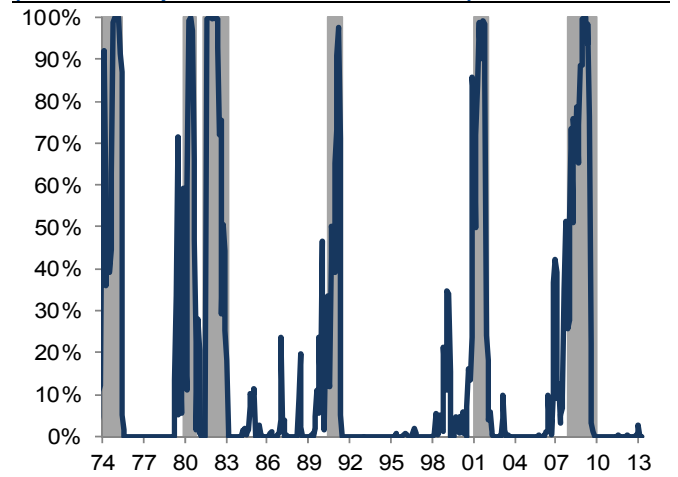
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

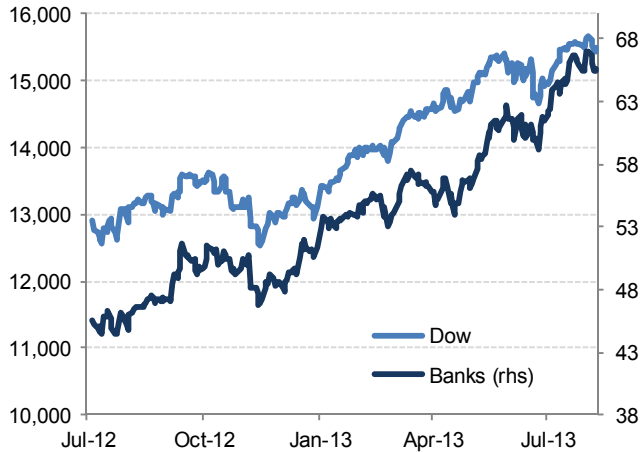
Graph 8
**BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)**



Source: BBVA Research

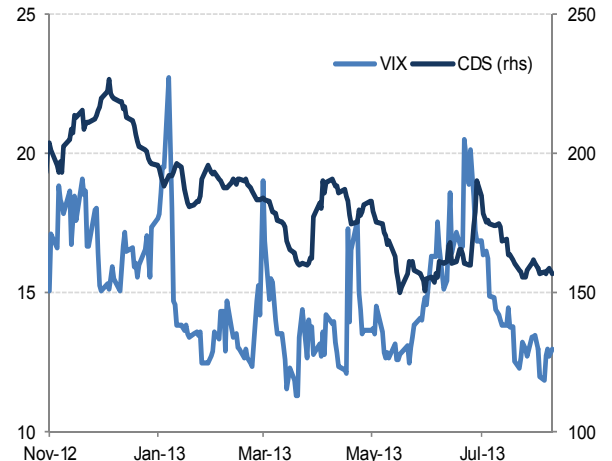
Financial Markets

Graph 9
Stocks
(Index, KBW)



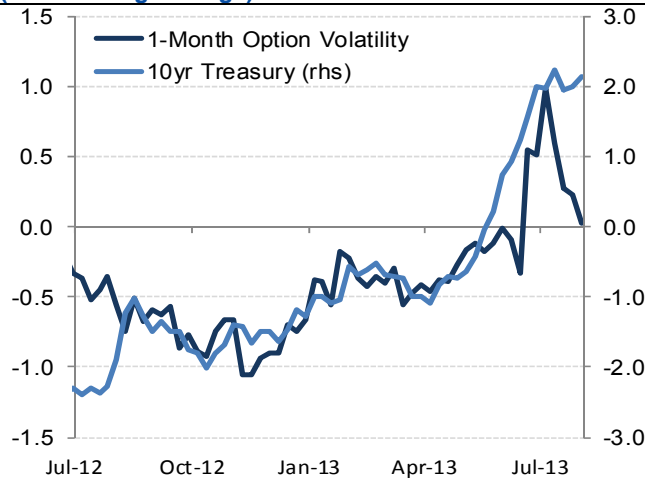
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



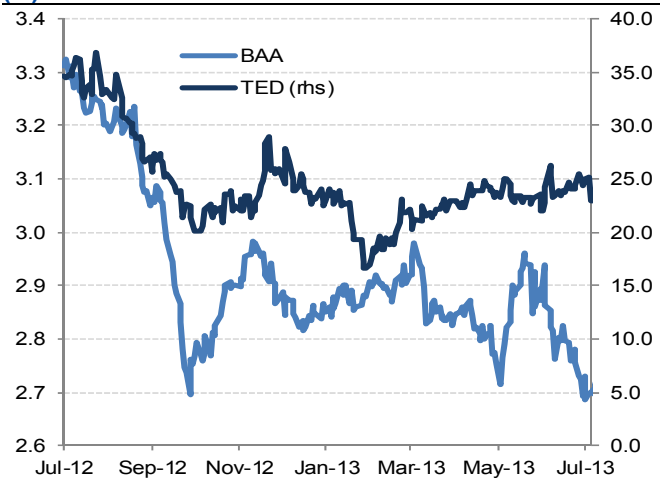
Source: Bloomberg & BBVA Research

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



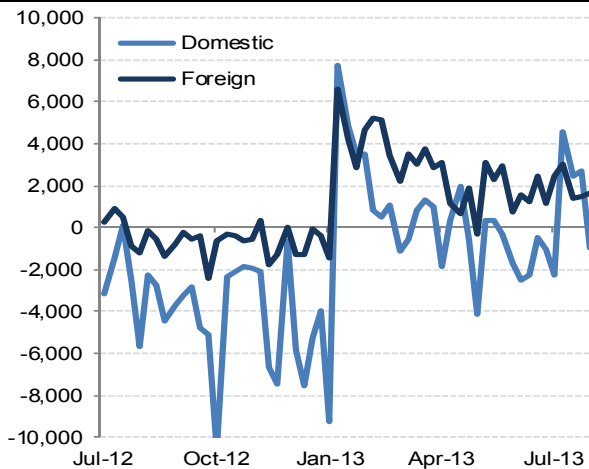
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



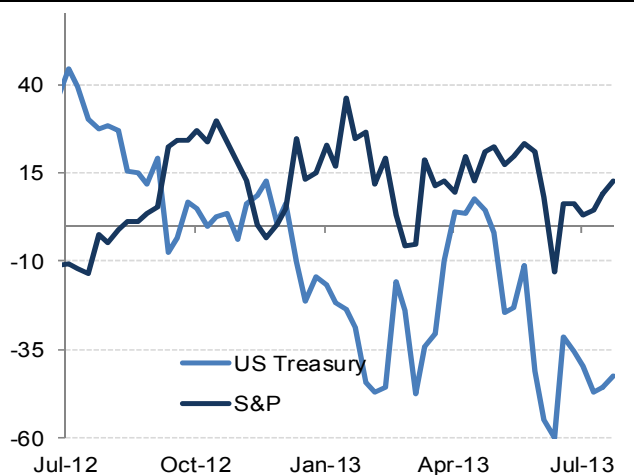
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

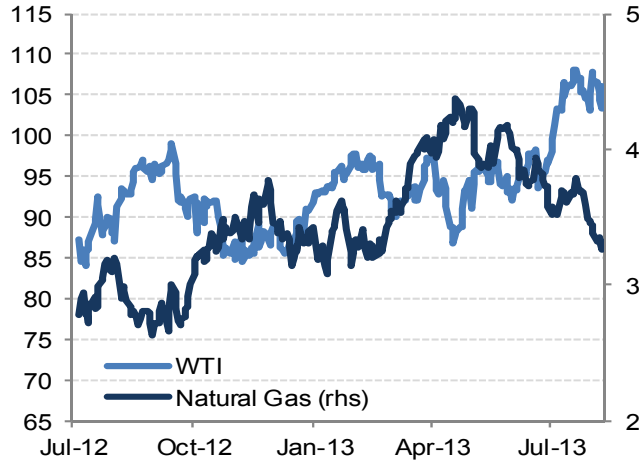
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

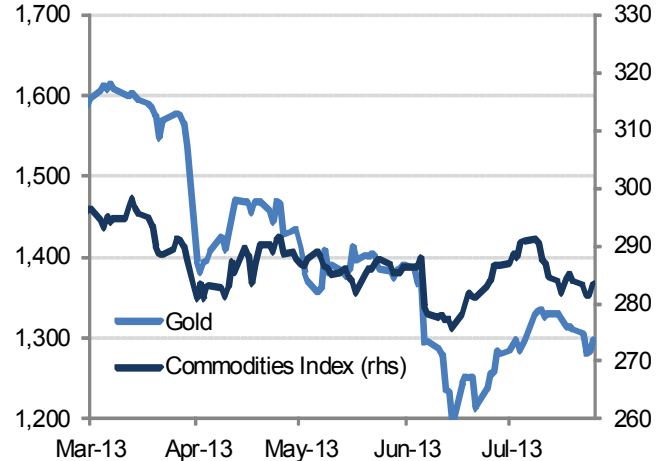
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



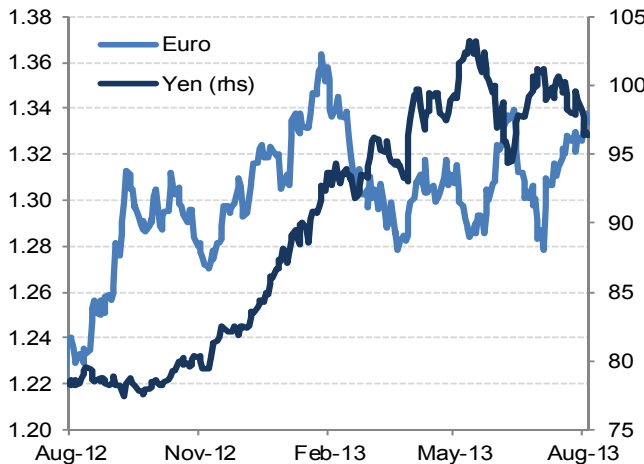
Source: Bloomberg & BBVA Research

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



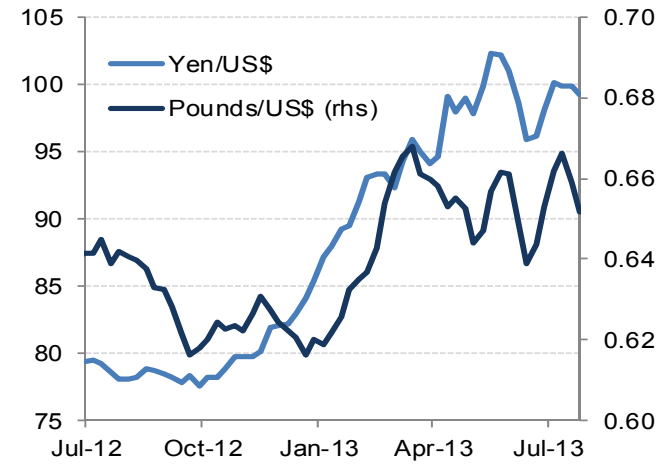
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



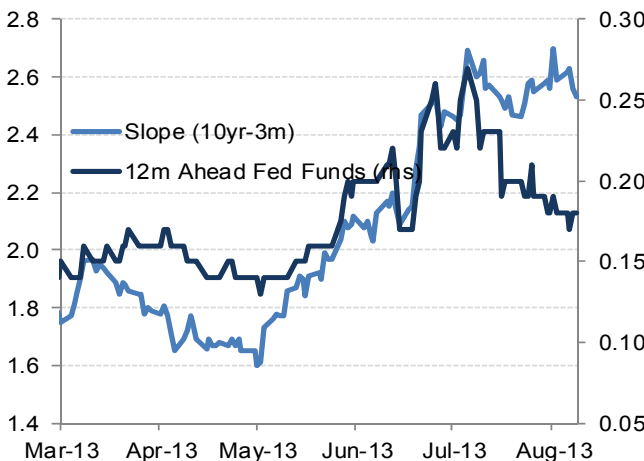
Source: Bloomberg & BBVA Research

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	14.16	14.10
New Auto (36-months)	2.37	2.50	2.45	2.93
Heloc Loan 30K	5.30	5.27	5.32	5.49
5/1 ARM*	3.19	2.68	3.10	2.90
15-year Fixed Mortgage *	3.43	2.76	3.39	3.23
30-year Fixed Mortgage *	4.40	3.57	4.29	3.99
Money Market	0.44	0.44	0.44	0.52
2-year CD	0.73	0.73	0.73	0.86

*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	0.09	0.13
3M Libor	0.26	0.27	0.45	0.44
6M Libor	0.39	0.40	0.65	0.00
12M Libor	0.66	0.67	0.98	1.05
2yr Sw ap	0.48	0.47	0.53	0.47
5yr Sw ap	1.53	1.53	1.61	0.91
10Yr Sw ap	2.75	2.77	2.81	1.77
30yr Sw ap	3.62	3.64	3.61	2.53
30day CP	0.12	0.13	0.13	0.30
60day CP	0.14	0.15	0.15	0.34
90day CP	0.16	0.15	0.16	0.36

Source: Bloomberg & BBVA Research

Quote of the Week

President Barack Obama
Speech on housing reform in Phoenix, Arizona
6 August 2013

"That begins with winding down the companies known as Fannie Mae and Freddie Mac. For too long, these companies were allowed to make big profits buying mortgages, knowing that if their bets went bad, taxpayers would be left holding the bag. It was "heads we win, tails you lose." And it was wrong. The good news is that there's a bipartisan group of Senators working to end Fannie and Freddie as we know them."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
13-Aug	Retail Sales	JUL	0.5%	0.3%	0.4%
13-Aug	Retail Sales Ex. Autos & Gas	JUL	0.2%	0.4%	-0.1%
13-Aug	Buisness Inventories	JUL	0.2%	0.3%	0.1%
14-Aug	Producer Price Index	JUL	0.3%	0.3%	0.8%
14-Aug	PPI Ex Food & Energy	JUL	0.2%	0.2%	0.2%
15-Aug	Consumer Price Index	JUL	-0.1%	0.2%	0.5%
15-Aug	CPI Ex Food & Energy	JUL	0.1%	0.2%	0.2%
15-Aug	Initial Jobless Claims	10-Aug	338K	330K	333K
15-Aug	Continued Claims	3-Aug	3000K		3018K
15-Aug	Empire State Manufacturing Index	AUG	7.3	10.0	9.4
15-Aug	Industrial Output	JUL	0.4%	0.3%	0.3%
15-Aug	Capacity Utilization	JUL	77.8%	77.9%	77.8%
15-Aug	Philadelphia Fed Survey	AUG	13.2	15.3	19.8
16-Aug	Housing Starts	JUL	875K	903K	836K
16-Aug	Building Permits	JUL	900K	950K	911K
16-Aug	Consumer Sentiment	AUG	85.4	85.5	85.1

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	2.90	3.28	3.64
US Dollar/ Euro (eop)	1.32	1.31	1.31	1.30	1.35

Note: Bold numbers reflect actual data

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