

US Weekly Flash

Highlights

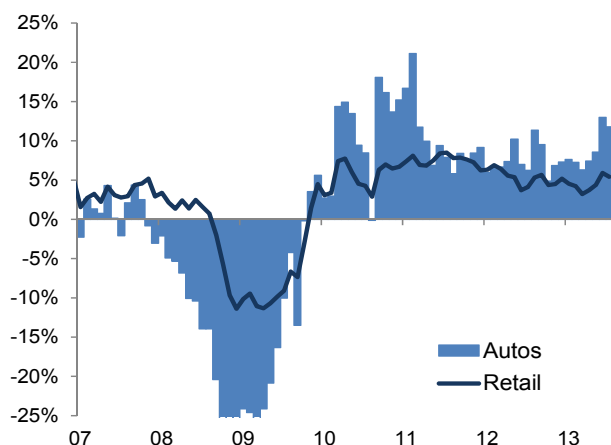
• **Headline retail sales decelerate but core consumer goods remain resilient**

- Retail sales for July convey a mixed bag of consumer habits that buck the trend of the last few months. At the headline level, sales rose 0.2% for the month, much less than the consensus expectations for a 0.6% gain. However, after three months of strong growth in the auto industry, nominal sales actually declined 1.0% in July, ending its trajectory toward all-time high levels for the time being.
- Shifting to the core retail sales, excluding autos, the situation carries a much brighter tone with sales rising 0.5% for July. Food and beverage stores experienced a 0.8% rise in sales while health and personal care sales rose 0.7%, purportedly fueled by the rush for a much needed vacation. As we expected, clothing stores also gained from the proximity to the end of summer as school shopping begins, sending clothing and accessory store sales up 0.9% after two months of decline. School shopping didn't end at backpacks and jeans, however – athletes also contributed with sporting goods sales up 1.0% for its highest monthly increase in six months. Online purchases were up 0.8% and department store sales rose 0.6%, conveying a more optimistic tone for 3Q13 consumption.

• **Despite slower growth in energy prices, U.S. inflation rose moderately for July**

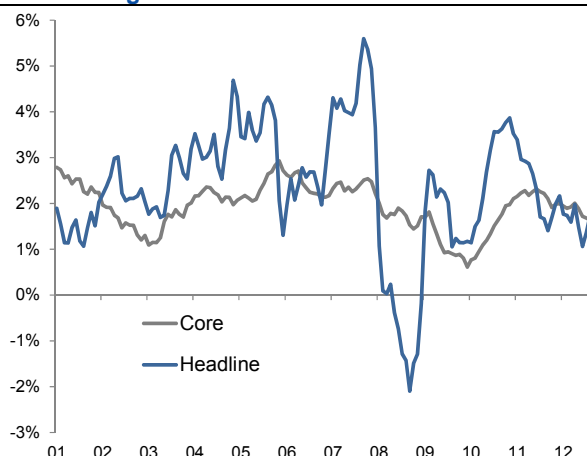
- The headline consumer price index for July rose a moderate 0.2% on slightly higher energy prices and an extra push from some services. The energy index increased only 0.2% following a 3.4% gain in June due to a boost from energy commodities, specifically gasoline fuels. This comes as somewhat of a surprise given the call for much weaker inflationary pressures as the EIA reported lower average gasoline prices across the U.S. for all grades and types. Nevertheless, gasoline was the primary driver as the remaining energy components, utility gas and electricity services, declined. Food prices also bumped up slightly with the food at home category rising 0.1% and food away, up 0.2%. While the meager food price increase did little to boost YoY price growth, energy prices YoY did tick upward for the second straight month to its highest point since early 2012.
- Focusing on core price inflation, the index remained rather quiet which is on par with our expectations. Used car and truck prices fell 0.4% for the third consecutive month, pulling down the commodities component despite strong gains from apparel and medical care commodities. The highest price index increases were in transportation services, however, as motor insurance prices rose 1.3%, its quickest pace since June of 1986. This brought core YoY prices up slightly to 1.7% which is closer to the Fed's target of 2% and subdues the fear of deflation that was spreading earlier in the quarter.

Graph 1
Retail and Autos Sales
YoY % Change



Source: U.S. Census Bureau & BBVA Research

Graph 2
Consumer Price Inflation
YoY % Change



Source: Bureau of Labor Statistics & BBVA Research

Week Ahead

Existing Home Sales (July, Wednesday 10:00 ET)

Forecast: 5.18M

Consensus: 5.13M

Previous: 5.08M

We expect July to continue to show moderate gains in existing home sales despite the uptick in mortgage rates closer to the end of the month. The rise in rates would theoretically dis-incentivize home buyers as those who were at the margin lost their opportunity to enter in the market with sound financial capability. However, rates have remained at their new level and seem stable, giving home buyers a little more confidence to try their hand again at a mortgage. This comes on the back of rising home prices which have been bringing more supply onto the market. As has been the case over past few quarters, higher prices have attracted more sellers into the market as their most valuable asset begins to appreciate. Concurrently, buyers at the margin are being priced out of homes and with the recent uptick in rates, their opportunity might have passed them by already. However, we continue to expect that those who are looking for a home have some flexibility and the majority are not being priced out with rates rising given the better than expected consumption that has fueled real GDP growth.

Initial Jobless Claims & Continued Claims (week of July 17th & 10th, Thursday 8:30 ET)

Forecast: 328K, 2943K

Consensus: 330K, -

Previous: 320K, 2969K

Initial jobless claims have been the talk within the circle of pundits as the indicator bounces up and down but continue to hit deeper lows as 3Q13 reaches the midway point. This has some confused as claims drop to very impressive levels but the overall labor market continues to sputter rather than ignite and unemployment is still much higher than the economy needs for sustainable growth. That being said, claims are still at record lows for the post-recession period which is a good indication as to the strength of August's jobs report. The 4-week average for claims continues on its downward trend after stabilizing for most of March through June, is at its lowest point since the recovery began, and is 10K below its month-ago trend. This should be a positive signal for the remaining weeks in August but we expect the volatile nature of the indicator to continue to pop upwards for the coming week before declining for the last week of the month. Continued claims, unlike initial claims, have shown a strong downward trend with very few reversal and we therefore expect the figure to decline further as the situation improves.

PMI Manufacturing Index (August, Thursday 9:15 ET)

Forecast: 54.0

Consensus: 54.0

Previous: 53.7

After a weak showing for industrial production in July, there is some concern that manufacturing might be slowing slightly despite the last few months of stronger than expected output. However, the ISM manufacturing survey for July showed strong growth which may offset the flat reading for industrial production and some weaker figures from July's Federal Reserve Surveys. August's PMI survey should begin to show our expectations for a stronger 2H13 however, with Europe exiting its 6-quarter long recession and China showing renewed demand for imports of U.S. goods and services. Strong housing market data may also play into the materials and equipment manufacturing as housing starts continue to strengthen in both the multi and single family sectors. Overall we believe that the recent production numbers for July do not tell the whole story and that manufacturing and output are still growing faster than was anticipated this early in 2H13. Nevertheless, with prevailing headwinds putting pressure on certain sectors, there is room for some weakening if demand fails to live up to expectations.

New Home Sales (July, Friday 10:00 ET)

Forecast: 495K

Consensus: 490K

Previous: 497K

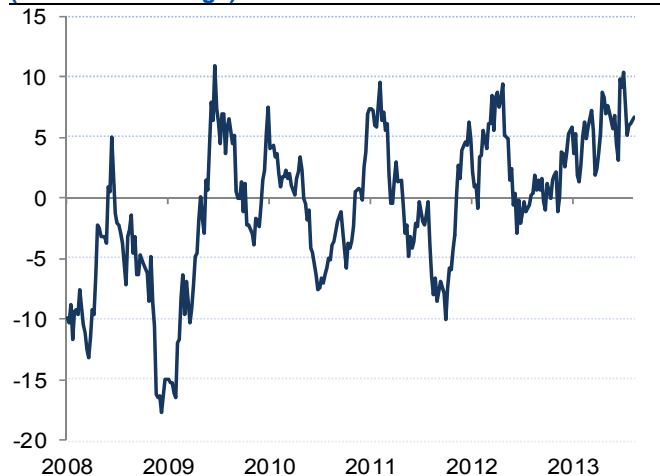
Despite the rise in mortgage rates that may have priced out potential buyers, stronger consumer standing and greater availability of credit to strong borrowers should help maintain new home sales close to their June release. The new home sector has had its share of headwinds in July, with mortgage rates rising above 4% after holding at enticing lows throughout 1H13. Inventory remains meager which both raises the price of homes, sometimes pricing out potential buyers, and making it difficult to find a home that suits a buyer's needs. Sentiment from builders is on the rise which may signal increased availability of credit to construction firms vying for lots to construct the growing numbers of multi and single family homes. This, however, will do little to affect July's sales figure which we expect to come in slightly less than June given mortgage rate increases and low availability.

Market Impact

With no data that would affect the Fed's tapering agenda, markets may find solace this week. Housing data is the primary focus of the agenda with both measures of home sales expected to show the difficult market that buyers are facing with higher rates and fewer choices. Nevertheless we do not expect any surprises in terms of markedly lower sales and with jobless claims already reaching a strong position, optimism should carry into this week. Egypt is on the radar for some investors however, as their tie with the Middle East and oil could put strain on markets around the world. However, as is the case with the Fed, no week is free of some influential tidbit of information and we expect the viewpoints of Fisher and Yellen to be market movers if the rest of the week emerges too quiet.

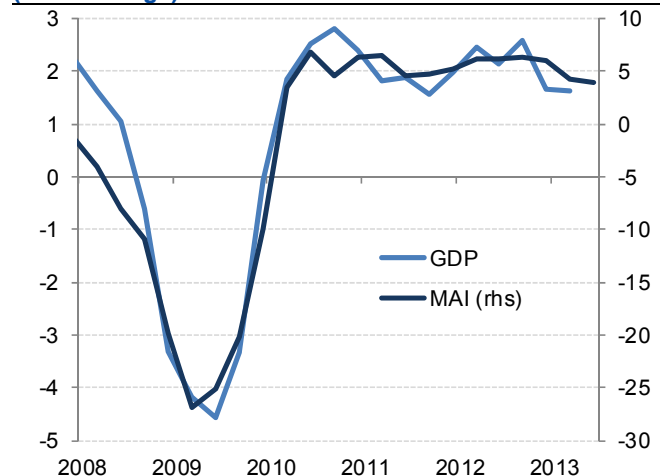
Economic Trends

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



Source: BBVA Research

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



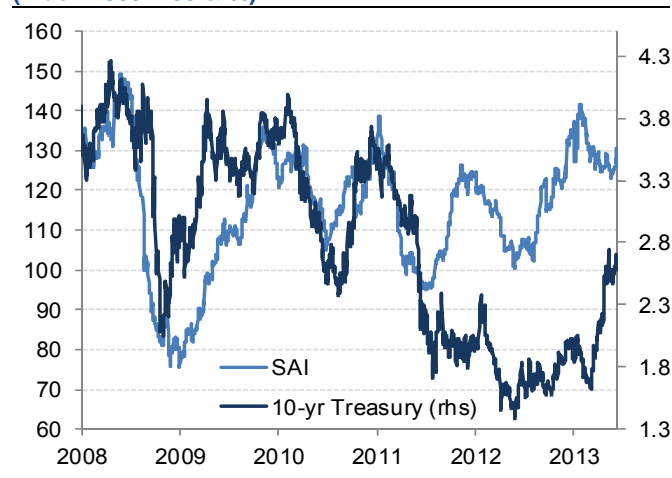
Source: BBVA Research & BEA

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



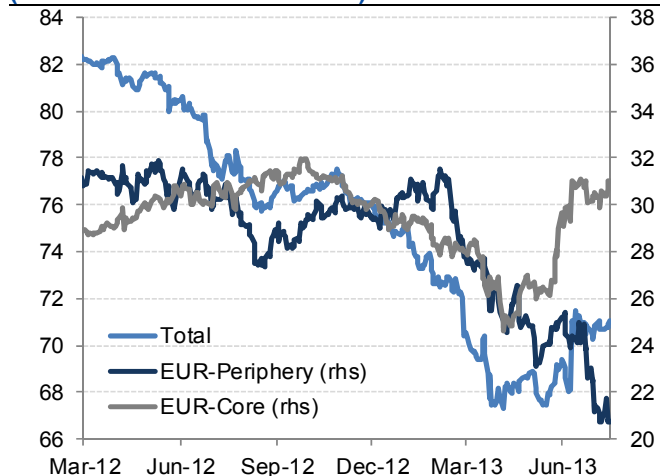
Source: BBVA Research

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



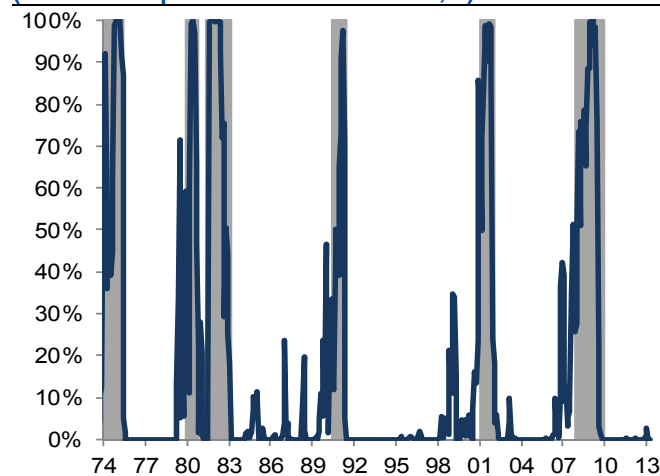
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

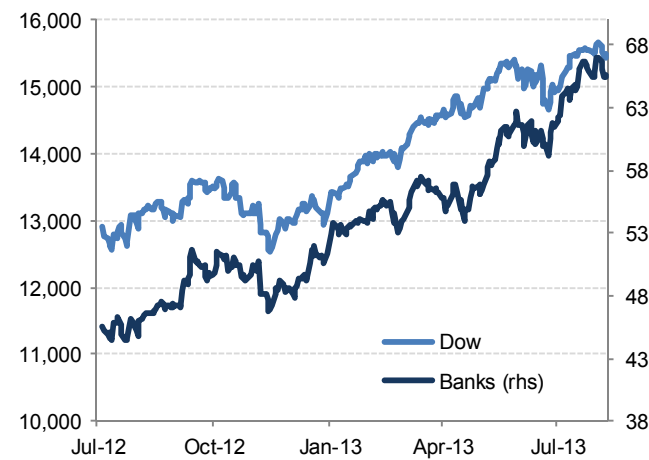
Graph 8
**BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)**



Source: BBVA Research

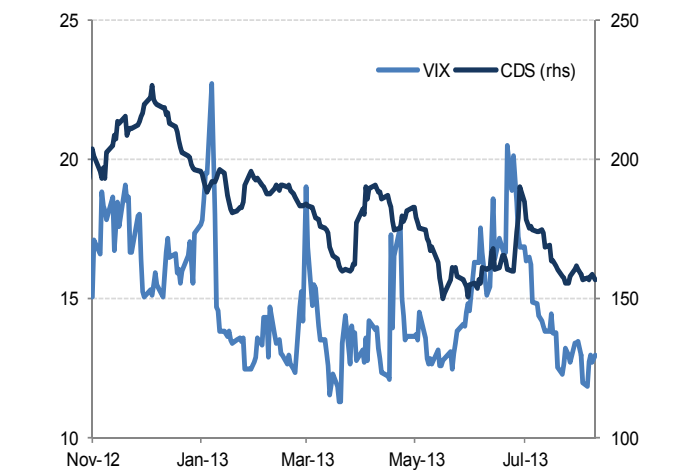
Financial Markets

Graph 9
Stocks
(Index, KBW)



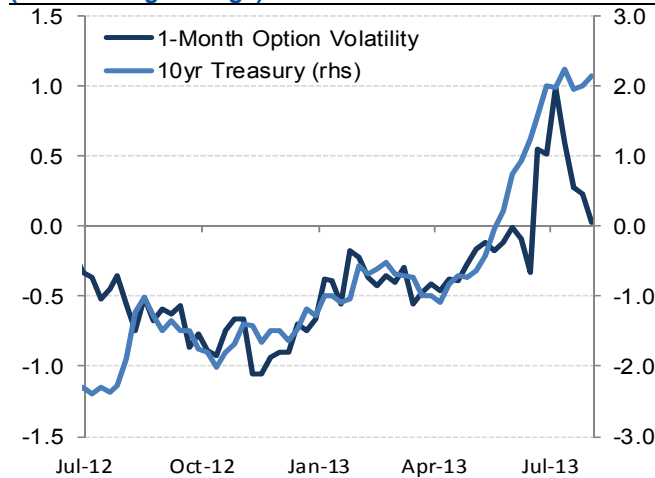
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



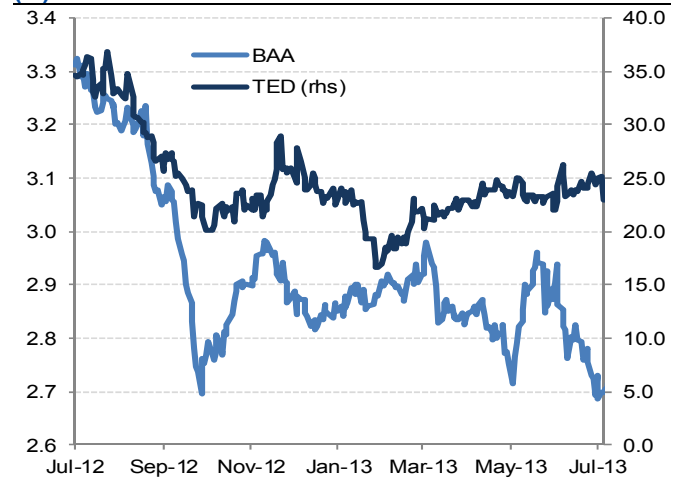
Source: Bloomberg & BBVA Research

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



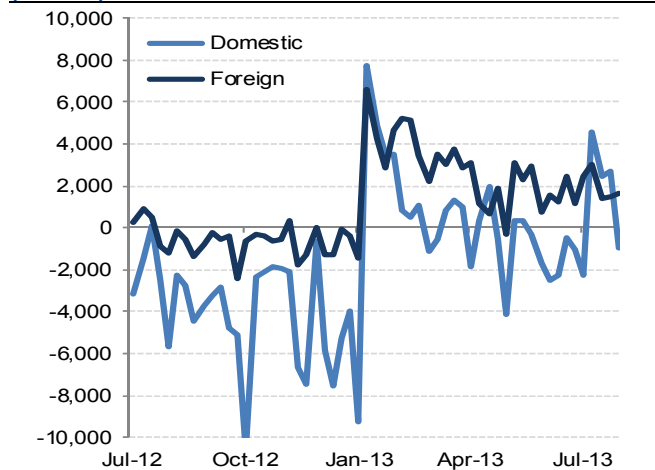
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



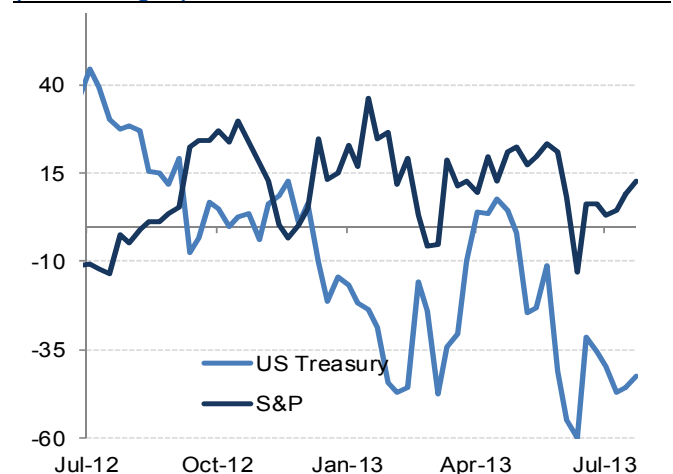
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

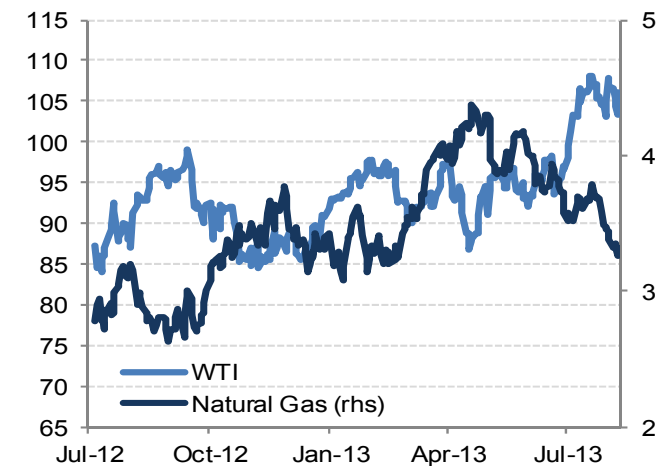
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

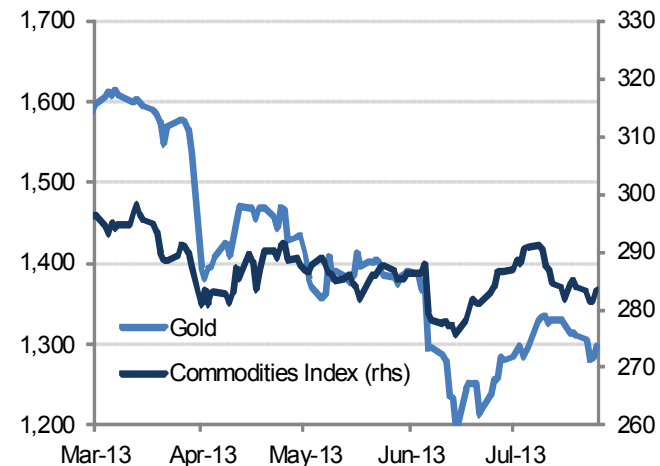
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



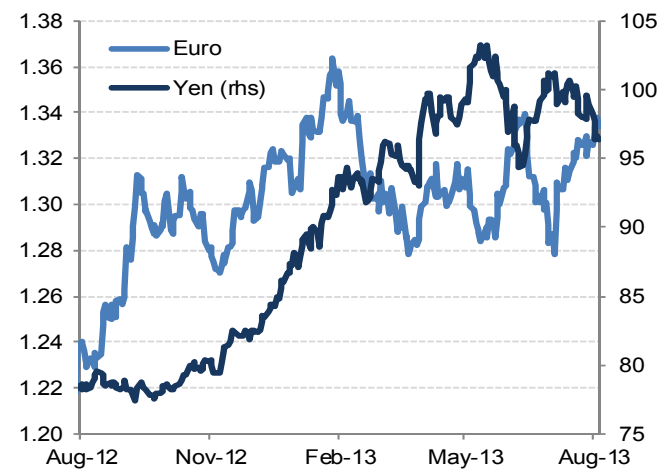
Source: Bloomberg & BBVA Research

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



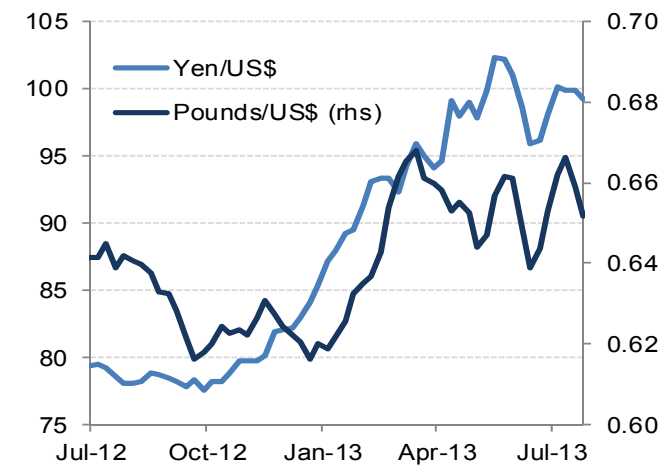
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



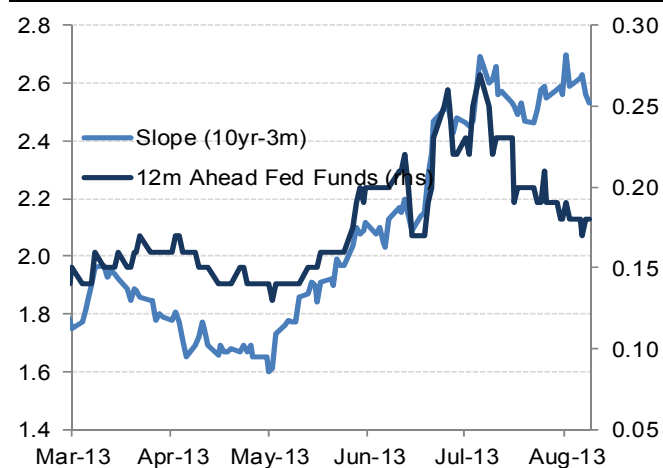
Source: Bloomberg & BBVA Research

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



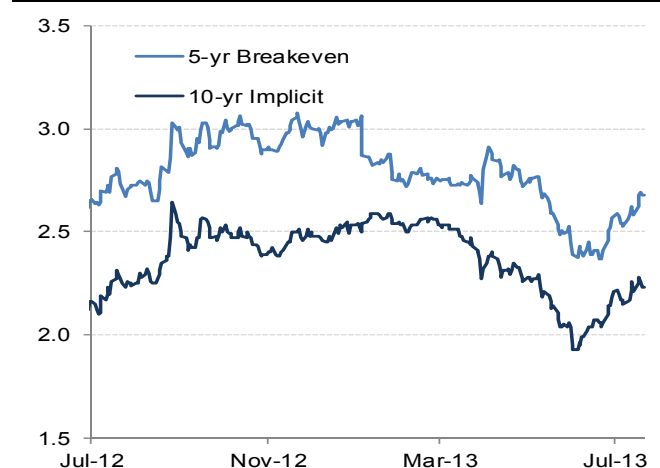
Source: Haver Analytics & BBVA Research

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 (%)

	Last	Week ago	4-Weeks 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 (%)

	Last	Week ago	4-Weeks 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

St. Louis Federal Reserve President James Bullard
Speech on the Economy and Monetary Policy
15 August 2013

"To the extent you have higher inflation numbers in this report, that would be bolstering the notion that inflation would naturally be moving back toward target in the coming months and quarters. But one concern is that inflation may be pushed even lower by a decision to taper and hence the risk of deflation may increase."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
21-Aug	Existing Home Sales	JUL	5.18M	5.13M	5.08M
22-Aug	Initial Jobless Claims	17-Aug	328K	330K	320K
22-Aug	Continued Claims	10-Aug	2943K	-	2969K
22-Aug	FHFA House Price Index	JUN	0.6%	0.6%	0.7%
22-Aug	PMI Manufacturing Index	AUG	54.0	54.0	53.7
22-Aug	Leading Indicators	JUL	0.4%	0.5%	0.0%
23-Aug	New Home Sales	JUL	495K	490K	497K

Forecasts

	2011	2012	2013	2014	2015
Real GDP (% SAAR)	1.8	2.8	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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