

# US Weekly Flash

## Highlights

- FOMC Statement Surprises as QE3 Remains Unchanged with No “Preset Course”**
  - Market participants were positioned for the FOMC to announce its scale back of the monthly large scale asset purchases (LSAP) and were expecting to face an environment of increasing interest rates as the FOMC gradually winds down QE3. But surprisingly, the FOMC took a dovish policy stance and left the balance sheet policy unchanged at a monthly purchase pace of \$40 billion in mortgage-backed securities (MBS) and \$45 billion in longer-term Treasury securities. The unexpected dovish stand expressed both in the FOMC statement and in Chairman Bernanke’s press-conference led to a 17 basis point decrease in the 10-Year Treasury yield to 2.69% as well as a 20.76 point increase in the S&P500 to 1,725.52 (+1.22%).
  - In general, postponing a QE3 tapering announcement was welcomed by the markets. However, going forward, there is higher uncertainty for financial markets regarding the expected path of QE3 as well as the Fed’s successful exit and policy normalization. The questions on when and how the QE3 should be expected to be scaled down remained unanswered. Thus, tapering can likely result in a steeper pace for the wind-down process, a decreased credibility of future QE3 policy announcements, and an increase in financial markets volatility as market expectations of tapering news will grow by December. The Fed’s actions clearly remain data-driven and thus contingent upon labor market conditions and inflation. If conditions improve in the next two months, the FOMC could announce its plan to scale down QE3 in December. However, if the recovery stalls, the FOMC could delay tapering until 2014 ([see our Fed Watch](#)).
- Manufacturing Data Recovering as Expected in 3Q13**
  - Recent reports on the manufacturing sector have painted a brighter picture for activity in the third quarter compared to the weaker stretch seen in 2Q13. The industrial production index for August noted a modest 0.4% monthly increase overall but a 0.7% jump in manufacturing output following a decline in July. Much of this gain was due to a growing auto sector, leading the way for durable consumer goods production.
  - Other manufacturing indicators also showed a stronger picture. The New York and Philadelphia Federal Reserve Surveys moved in slightly different directions, but tell a very similar story: growing demand in new orders and a significant jump in shipments. Also, the two surveys noted strength in employment growth, though the Philadelphia region was much more positive in this respect. Overall, these indicators are supportive of our expectations for a stronger push from manufacturing in the second half of 2013.

Graph 1

**Federal Reserve Forecast Comparison: September 18<sup>th</sup> FOMC Statement and Press Conference (Central Tendency)**

	September 2013 FOMC Projections					June 2013 FOMC Projections					
	2013	2014	2015	2016	Longer run	2013	2014	2015	2016	Longer run	
<b>GDP, 4Q yoy % change</b>						<b>GDP, 4Q yoy % change</b>					
Low	2.0	2.9	3.0	2.5	2.2	Low	2.3	3.0	2.9	n.a.	2.3
High	2.3	3.1	3.5	3.3	2.5	High	2.6	3.5	3.6		2.5
<b>Unemployment rate, 4Q %</b>						<b>Unemployment rate, 4Q %</b>					
Low	7.1	6.4	5.9	5.4	5.2	Low	7.2	6.5	5.8	n.a.	5.2
High	7.3	6.8	6.2	5.9	5.8	High	7.3	6.8	6.2		6.0
<b>Core PCE, 4Q yoy % change</b>						<b>Core PCE, 4Q yoy % change</b>					
Low	1.2	1.5	1.7	1.9		Low	1.2	1.5	1.7	n.a.	
High	1.3	1.7	2.0	2.0		High	1.3	1.8	2.0		

Source: Federal Reserve &amp; BBVA Research

## Week Ahead

### S&P Case-Shiller Home Price Index (July, Tuesday 9:00 ET)

Forecast: 11.50%	Consensus: 12.40%	Previous: 12.07%
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Home prices have been accelerating at double-digit speed throughout most of 2013, helped in large part by constrained supply in the market. Most data on residential prices are delayed at least two months, so we are just starting to see a wave of reports for the start of 3Q13. The S&P Case-Shiller index is expected to increase in July for the eighth consecutive month, following in the footsteps of other indices that have already been released for the period. However, we do expect that annual growth rates will start to decelerate, having peaked at 12.2% in May. Rising home prices have boosted homeowner confidence and lifted many underwater borrowers out of the red, encouraging those owners to put their homes on the market. At the same time, the combination of rising home prices and higher mortgage rates has taken a toll on affordability, which may have a short-term impact on demand.

### Consumer Confidence (September, Tuesday 10:00 ET)

Forecast: 80.0	Consensus: 80.0	Previous: 81.5
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Consumer confidence has reached new post-recession highs throughout the past few months, though we do not expect this upward trend to continue for September. Views on the present situation, in particular, are likely to weigh on the overall index given that employment conditions still remain weak and political uncertainty high. However, we expect that the expectations component will remain strong as consumers look to 2014 for better business conditions, an improved labor market, and higher income growth. While consumer confidence is making steady moves to recover to the +100 peak reached back in 2007, we still have a long way to go before consumers feel comfortable with the economic environment.

### GDP, Final Estimate (2Q13, Thursday 8:30 ET)

Forecast: 2.6%	Consensus: 2.6%	Previous: 2.5%
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The final estimate for real GDP growth in 2Q13 is not expected to change much from the preliminary report. While we did see an unexpected upward revision from the first to second estimate (1.7% to 2.5%), it is unlikely that we will see a similar movement this month given that most of the relevant data have already been accounted for. Since the preliminary GDP figures were released, subsequent reports for a few major indicators noted upward revisions for June's data. Most notably, personal consumption expenditures were revised up from 0.5% to 0.6%, business inventory growth shifted from 0.0% to 0.1%, and construction spending improved from a 0.6% drop to a flat reading for the month. At the same time, the trade balance for June was slightly worse, revised from -\$34.2bn to -\$34.5bn. Still, we expect that the minor upward revisions to the data will offset the trade balance and provide a small boost to 2Q13 GDP growth.

### Personal Income and Outlays (August, Friday 8:30 ET)

Forecast: 0.2%, 0.2%	Consensus: 0.4%, 0.3%	Previous: 0.1%, 0.1%
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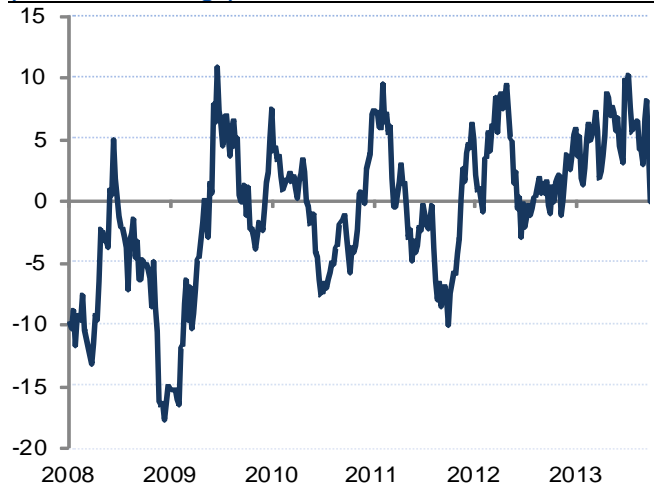
Personal income and spending are expected to improve in August after a somewhat disappointing report in July. Although both nominal income and spending did increase in July, real growth remained unchanged for the month, setting a discouraging tone for the start of 3Q13 GDP-related data. However, the latest data have been more promising, with an upward revision to retail sales figures for July and a healthy boost in average hourly earnings for August. Inflation has remained subdued throughout the past few months, so we expect that real income and spending growth will accelerate throughout the coming months. Back-to-school shopping followed by Halloween and holiday sprees should help boost consumer activity in the third and fourth quarters. Therefore, we maintain our expectations for stronger growth in the second half of the year.

### Market Impact

Markets are still digesting from the surprising FOMC announcement to hold off on tapering, and economic news this week are not expected to significantly excite markets. Housing data will help to confirm whether or not rising mortgage rates are truly holding back demand, though a deceleration in home price growth could offset this development. Personal consumption could have serious implications for 3Q13 GDP growth if the report comes in below expectations. Finally, the 2Q13 GDP report is not likely to move markets given that most of the data has already been accounted for.

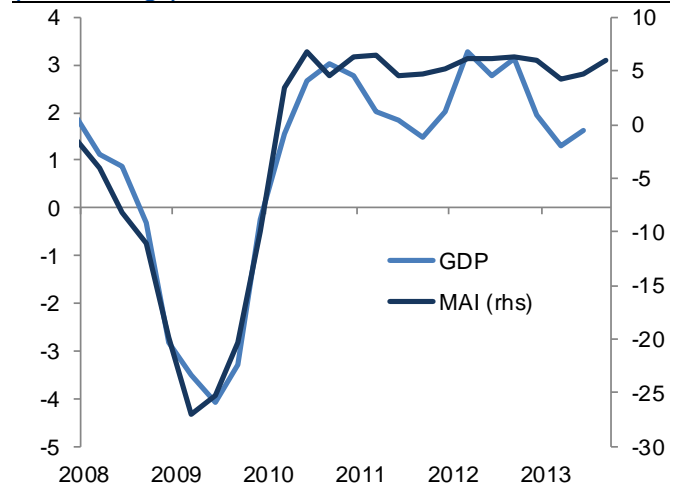
# Economic Trends

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



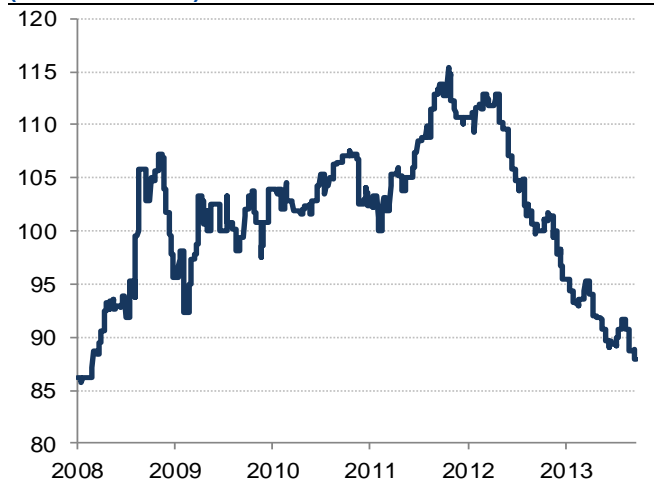
Source: BBVA Research

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



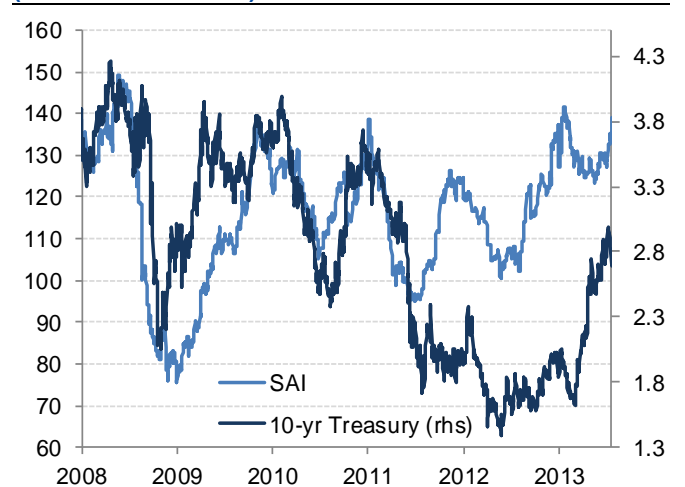
Source: BBVA Research & BEA

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



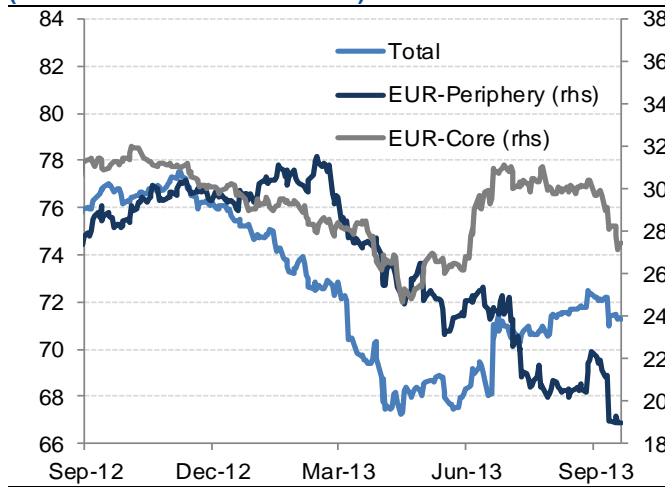
Source: BBVA Research

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



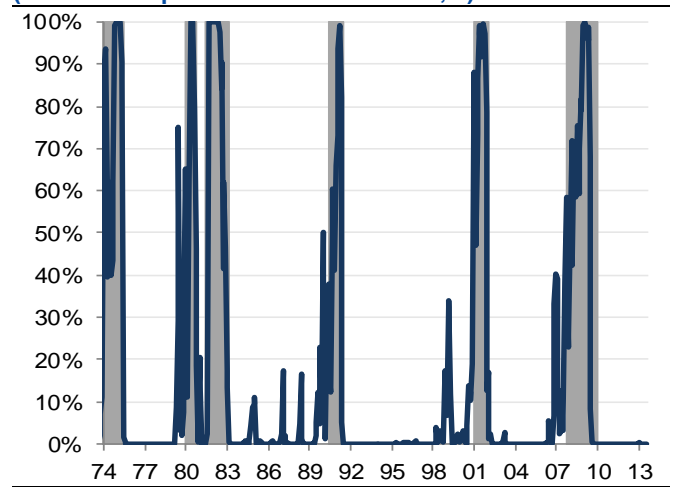
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

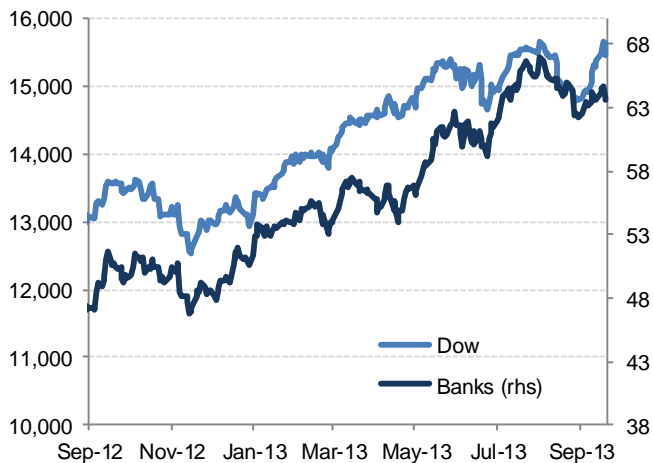
Graph 8  
**BBVA US Recession Probability Model**  
 (Recession episodes in shaded areas, %)



Source: BBVA Research

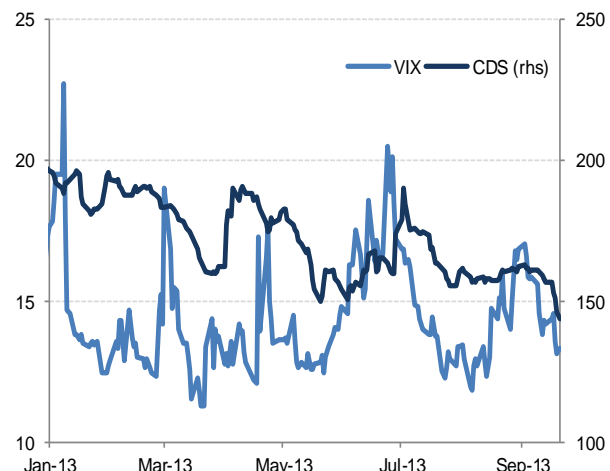
# Financial Markets

Graph 9  
**Stocks**  
**(Index, KBW)**



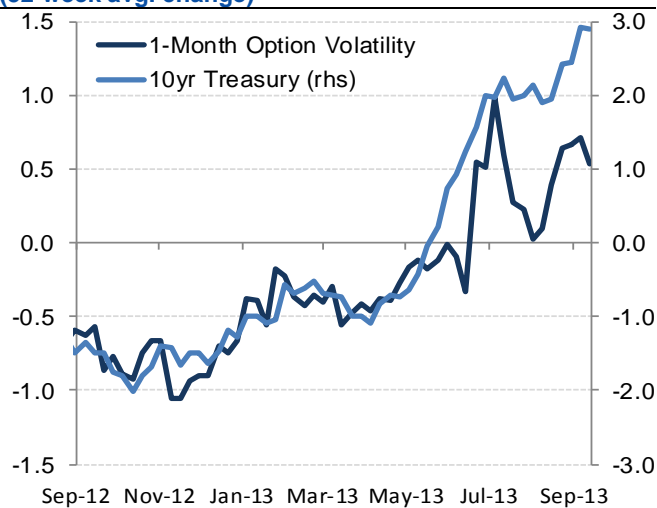
Source: Bloomberg & BBVA Research

Graph 10  
**Volatility & High-Volatility CDS**  
**(Indices)**



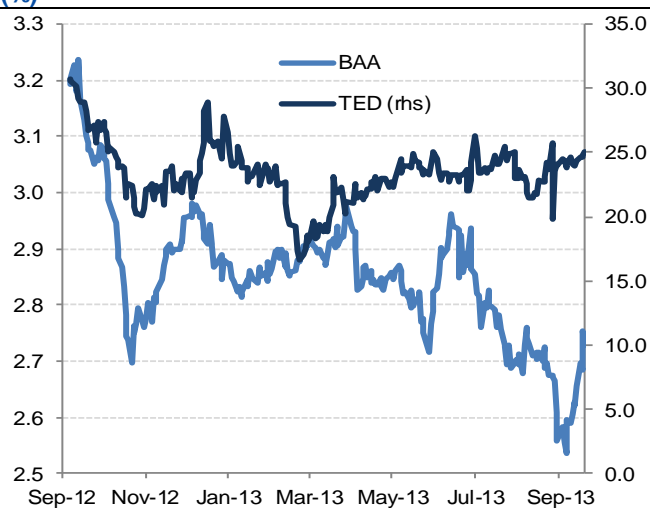
Source: Bloomberg & BBVA Research

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



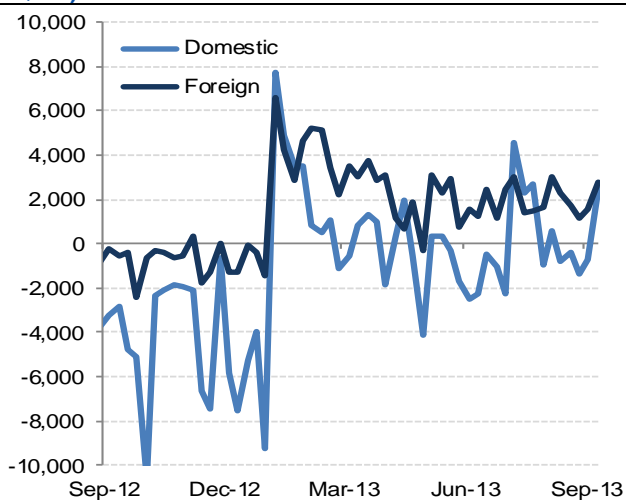
Source: Haver Analytics & BBVA Research

Graph 12  
**TED & BAA Spreads**  
**(%)**



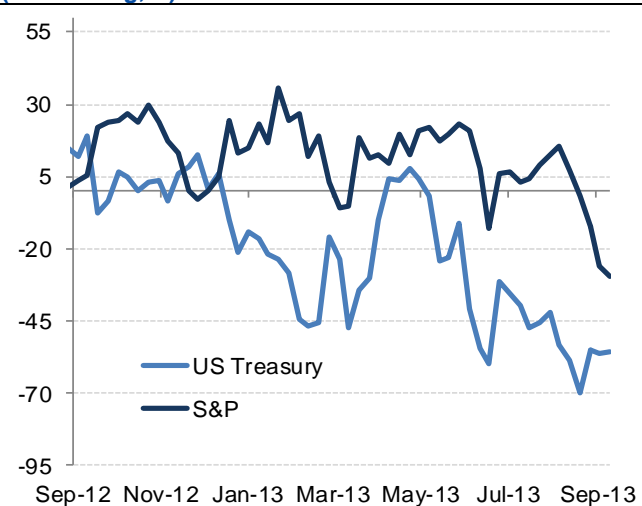
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

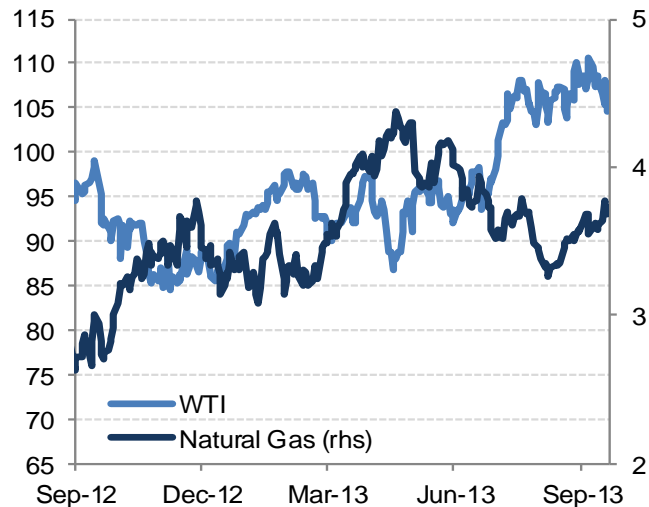
Graph 14  
**Total Reportable Short & Long Positions**  
**(Short-Long, K)**



Source: Haver Analytics & BBVA Research

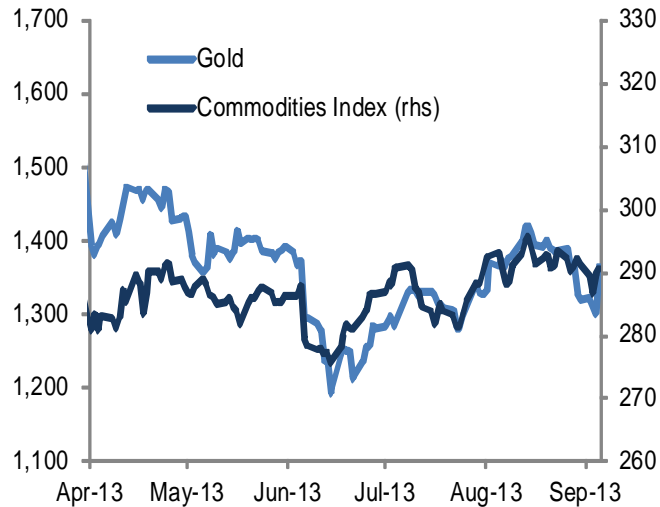
# Financial Markets

Graph 15  
**Commodities**  
(Dpb & DpMMBtu)



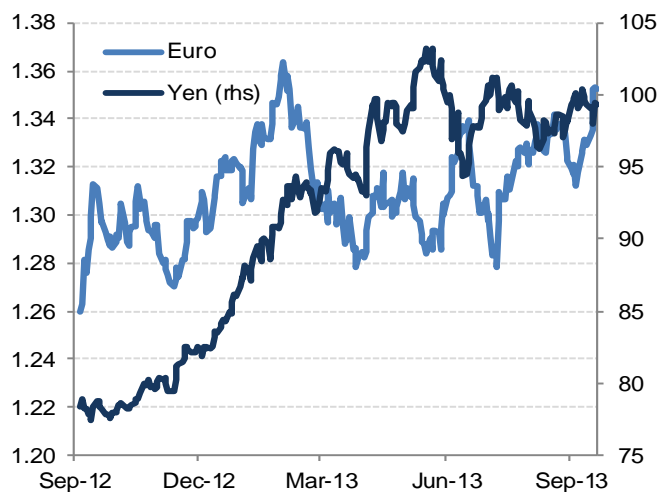
Source: Bloomberg & BBVA Research

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



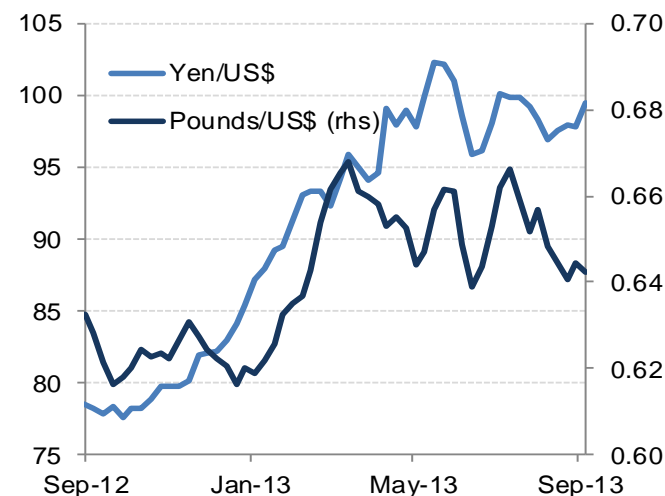
Source: Haver Analytics & BBVA Research

Graph 17  
**Currencies**  
(Dpe & Ypd)



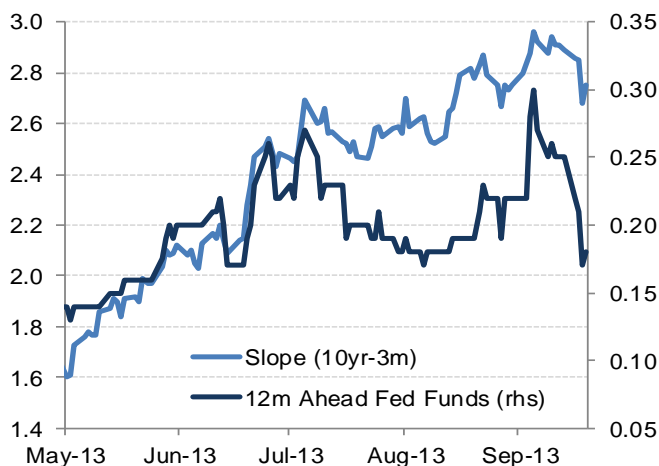
Source: Bloomberg & BBVA Research

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



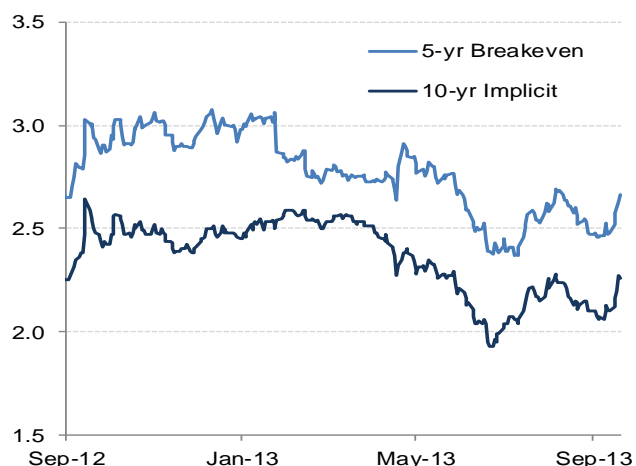
Source: Haver Analytics & BBVA Research

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)	2.51	2.43	2.39	3.15
Heloc Loan 30K	5.23	5.23	5.35	5.50
5/1 ARM*	3.11	3.22	3.21	2.90
15-year Fixed Mortgage*	3.54	3.59	3.60	3.23
30-year Fixed Mortgage*	4.50	4.57	4.58	3.99
Money Market	0.41	0.41	0.44	0.51
2-year CD	0.78	0.78	0.75	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	0.08	0.08	0.15
3M Libor	0.25	0.26	0.26	0.37
6M Libor	0.37	0.39	0.40	0.66
12M Libor	0.64	0.66	0.68	0.99
2yr Sw ap	0.49	0.59	0.56	0.39
5yr Sw ap	1.66	1.86	1.81	0.82
10Yr Sw ap	2.89	3.05	3.01	1.79
30yr Sw ap	3.74	3.84	3.79	2.67
30day CP	0.11	0.11	0.12	0.34
60day CP	0.12	0.13	0.13	0.35
90day CP	0.14	0.15	0.16	0.30

Source: Bloomberg & BBVA Research

## Quote of the Week

Warren Buffett  
Comments on Ben Bernanke  
19 September 2013

"When you have a .400 hitter in the lineup you don't take him out. He may want to leave, but I think he's done -- since the panic of five years ago -- I think he's done a terrific job. And I think he ought to get a little bit more of a chance to play out the hand."

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
23-Sep	Chicago Fed National Activity Index	AUG	-0.10	-0.05	-0.15
24-Sep	S&P Case-Shiller Home Price Index (YoY)	JUL	11.50%	12.40%	12.07%
24-Sep	Consumer Confidence	SEPT	80.0	80.0	81.5
25-Sep	Durable Goods Orders (MoM)	AUG	2.00%	-0.20%	-7.30%
25-Sep	Durable Goods Orders, Ex Transportation	AUG	0.50%	1.00%	-0.60%
25-Sep	New Home Sales (K)	AUG	385K	420K	394K
25-Sep	New Home Sales (MoM)	AUG	-2.3%	6.6%	-13.4%
26-Sep	GDP QoQ Annualized	2Q F	2.6%	2.6%	2.5%
26-Sep	Personal Consumption	2Q F	1.9%	1.8%	1.8%
26-Sep	GDP Price Index	2Q F	0.8%	0.8%	0.8%
26-Sep	Core PCE QoQ	2Q F	0.8%	0.8%	0.8%
26-Sep	Initial Jobless Claims	21-Sep	310K	325K	309K
26-Sep	Continuing Claims	14-Sep	2800K	2820K	2787K
27-Sep	Personal Income (MoM)	AUG	0.2%	0.4%	0.1%
27-Sep	Personal Spending (MoM)	AUG	0.2%	0.3%	0.1%
27-Sep	U. of Michigan Consumer Sentiment	SEPT	76.0	78.0	76.8

## Forecasts

	2011	2012	2013	2014	2015
Real GDP (% SAAR)	<b>1.8</b>	<b>2.8</b>	1.8	2.3	2.5
CPI (YoY %)	<b>3.1</b>	<b>2.1</b>	1.6	2.3	2.4
CPI Core (YoY %)	<b>1.7</b>	<b>2.1</b>	1.9	2.0	2.1
Unemployment Rate (%)	<b>8.9</b>	<b>8.1</b>	7.5	7.0	6.4
Fed Target Rate (eop, %)	<b>0.25</b>	<b>0.25</b>	0.25	0.25	0.50
10Yr Treasury (eop, % Yield)	<b>1.98</b>	<b>1.72</b>	3.00	3.35	3.64
US Dollar/ Euro (eop)	<b>1.32</b>	<b>1.31</b>	1.30	1.30	1.35

Note: Bold numbers reflect actual data



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