

US Weekly Flash

Highlights

• Government Shutdown in Full Effect as Brinkmanship Continues in Congress

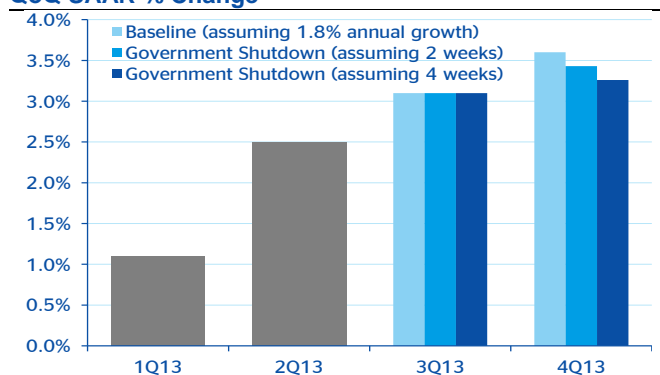
- As September 30th drew to a close, Congress was unable to agree on a last-minute continuing resolution to establish budget appropriations for FY2014, sending the government into shutdown mode on October 1st. Difficulties arose as both Democrats and Republicans held firm on their respective proposals, each side hoping to concede as little as possible. Leading up to the deadline, resolutions passed by the House did not include a statutory increase in the Treasury's borrowing capacity (debt-ceiling) and were amended to include riders that would delay and defund the Affordable Care Act (ACA) and repeal the tax on medical devices. Any resolution that aimed to alter the implementation of the ACA was almost assuredly dead in the Senate, and if passed, would have otherwise been vetoed immediately by President Obama. Moreover, language that ties statutory increases in the debt-ceiling to spending cuts was also likely to face challenges from the White House and Senate.
- With this shutdown, programs deemed essential by the U.S. government such as air traffic control, border security, food inspections, and the U.S. Postal Service have continued to operate. Entitlement programs are not considered during the annual budgeting process and as a result payment to Social Security, Medicare and Medicaid recipients will occur. It is still unclear whether this shutdown will have lasting economic consequences given that furloughed wages are most likely to be paid retroactively. Nevertheless, there seem to have been limited developments in coming to an agreement since October 1st, and it is likely that this government shutdown could drag out until the debt-ceiling deadline in a few weeks. Further evidence of political brinkmanship and another failure by the U.S. Congress to respond to a fiscal crisis could force credit agencies to revisit and possibly downgrade the U.S. credit rating. As a result, policy uncertainty could return to levels seen during the lead-up to the fiscal cliff and debt-ceiling debates of 2011 which threatens to derail an economy that is still vulnerable to policy-related shocks. Our baseline scenario of 1.8% annual growth for 2013 does not assume a government shutdown of any duration, and thus a longer government shutdown implies a greater bias to the downside for 4Q13 growth.

• ISM Indices Point to Steady Gains in Manufacturing and Services Activity

- The ISM Manufacturing Index jumped to 56.2 in September, implying acceleration in the sector's activity at the fastest pace in more than two years. Production and employment were the big winners for the month, while the new orders index dropped slightly but continues to hold well above the 50-mark.
- On the other hand, the ISM Non-Manufacturing Index fell slightly to 54.4 in September from a recovery high of 58.6 in August. Unlike manufacturing, the services report noted acceleration in new orders that offset slower growth in other components. Overall, both ISM indices signal stable economic growth throughout 3Q13 that supports our baseline scenario for a stronger 2H13, pending further fiscal-related damage in 4Q.

Graph 1

Real GDP Growth QoQ SAAR % Change



Source: BEA & BBVA Research

Graph 2

ISM Manufacturing and Services Index SA, +50=Increasing



Source: ISM & BBVA Research

Week Ahead

Consumer Credit (August, Monday 15:00 ET)

Forecast: \$11.500B	Consensus: \$12.000B	Previous: \$10.437B
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Nonrevolving loan growth continues to drive the overall consumer credit figure, a trend which is not expected to change anytime soon. Growing student loan balances remain a large factor that has limited consumers from taking on other forms of debt, with revolving credit down in the past few months. Increasing demand for auto loans is also helping to drive the nonrevolving figure, which has been increasing more than \$10bn per month since May. For August, we expect that consumer credit will continue to increase at a similar pace, though we have seen only a slight acceleration in consumption throughout 3Q13 thus far. While this data is lagged two months, we could start to see some hesitation from the consumer as it relates to monetary and fiscal uncertainties.

International Trade (August, Tuesday 8:30 ET)

Forecast: -\$37.9B	Consensus: -\$39.4B	Previous: -\$39.1B
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The international trade balance has been at the helm of the global economy in recent quarters, with slow external growth putting a damper on U.S. exports. At the same time, continued hesitation among domestic businesses and uncertainty regarding future consumer demand has limited investment in the form of imported goods and services. In July, a monthly decline in exports dragged down the trade balance to -\$39.1B, though this is on par with the quarterly average for 2Q13. Given the impending fiscal breakdown in the U.S. and the still-sluggish economic environment overseas, we do not expect to see much improvement in the trade gap for August. However, we expect that export growth will at least partially recover from July's drop and import growth will decelerate, ultimately helping to narrow the trade deficit slightly for the month.

Retail Sales, Ex Autos (September, Friday 8:30 ET)

Forecast: 0.2%, 0.3%	Consensus: 0.1%, 0.4%	Previous: 0.2%, 0.1%
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Retail sales are expected to continue growing in September, albeit at a very gradual pace. Monthly growth has been positive since March of this year, but recent indicators do not suggest significant acceleration for the end of 3Q13. Various weekly retail sales surveys were quite volatile throughout September and do not point to a clear story regarding strength in consumer demand. The back-to-school shopping season is mostly over at this point, and consumers may be hitting a spending lull before the holidays come back into view. Additionally, gas prices were up only modestly in September and therefore should have little influence over nominal headline retail sales. Unit auto sales declined for the month, which hints at a slight drag on the headline figure, although these numbers don't always coincide with the nominal retail sales report. Still, we expect to see somewhat stronger growth in the ex-autos category.

Business Inventories (August, Friday 10:00 ET)

Forecast: 0.3%	Consensus: 0.3%	Previous: 0.4%
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Business inventory growth appears to be recovering from a relatively weak 2Q13, mostly due to retailers boosting stock in anticipation of upcoming back-to-school and holiday shopping periods. July's modest increase reflected a 0.8% monthly jump in retail inventories and a 0.2% gain from manufacturers, with merchant wholesalers up only slightly for the first time in four months. August's increase in business inventories will likely be slower than July's, with durable goods only showing a moderate gain for the month. The retail component should continue to lead overall growth, although we do not expect to see such a sharp increase in August.

Market Impact

This week's economic calendar is relatively light when it comes to economic news, and with the government shutdown in full effect, many reports are being delayed. Markets don't seem to be too distraught over the ongoing political brinkmanship, possibly because the fiscal impasse implies continued stimulus from the Fed. The FOMC meeting minutes will be closely watched for more details on why the Committee delayed QE3 tapering, although at this point the fiscal-related reasons seem obvious. Retail sales, if released on schedule, will provide a clearer picture for consumer activity in 3Q13, while international trade will reveal how external demand is faring in a slow-growing global economy. If the government shutdown does end sometime this week, we could also be hit with a wave of already-delayed reports, particularly the employment report for September, which could move markets.

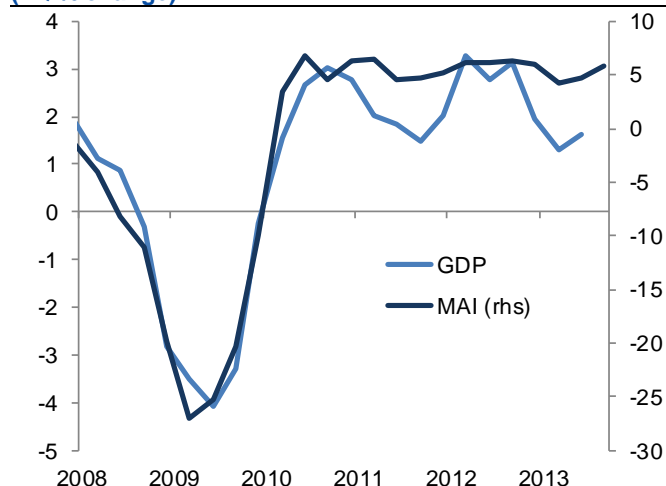
Economic Trends

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



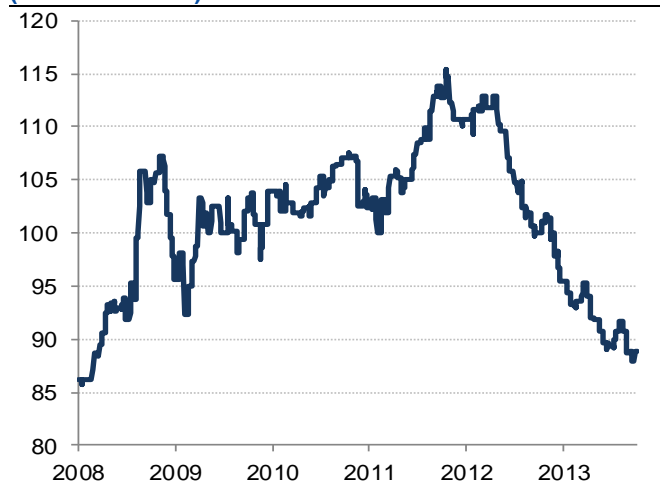
Source: BBVA Research

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



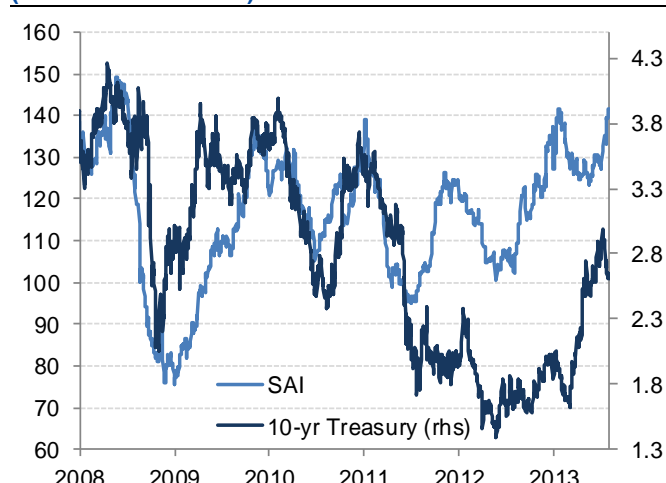
Source: BBVA Research & BEA

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



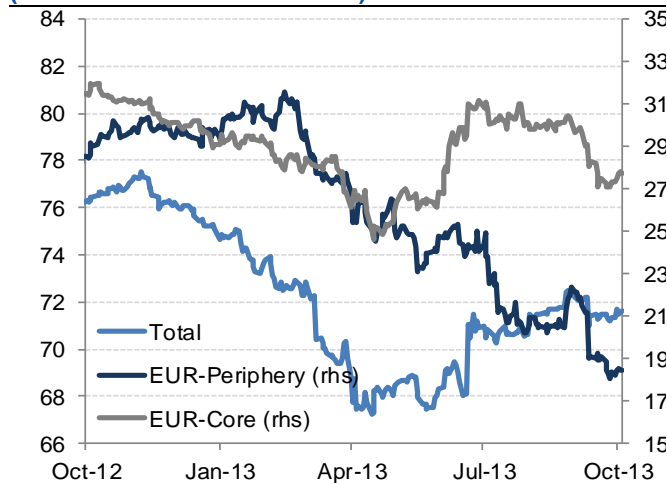
Source: BBVA Research

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



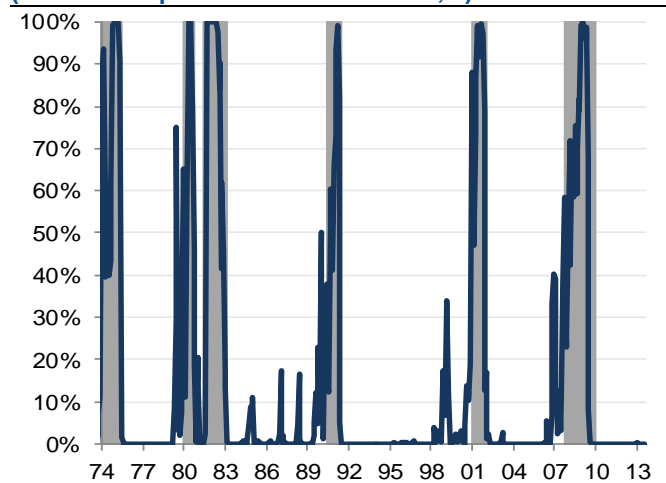
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

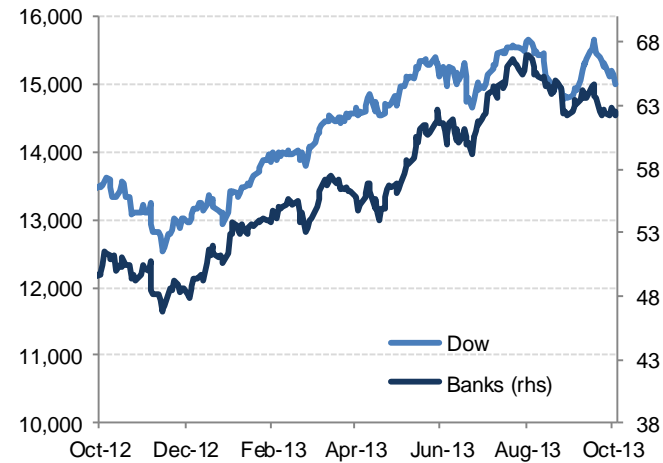
Graph 8
**BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)**



Source: BBVA Research

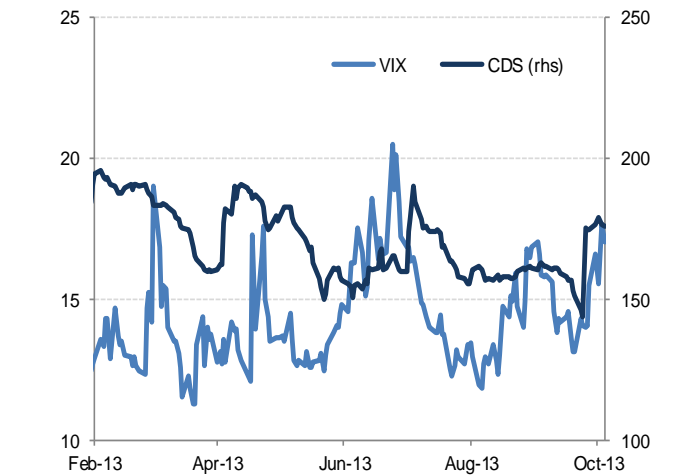
Financial Markets

Graph 9
Stocks
(Index, KBW)



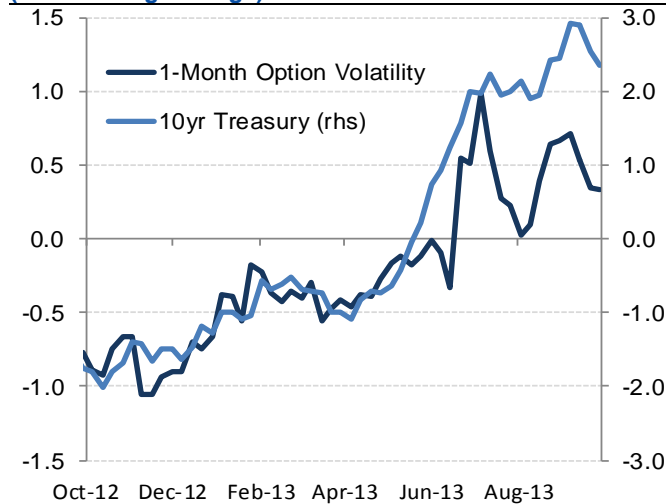
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



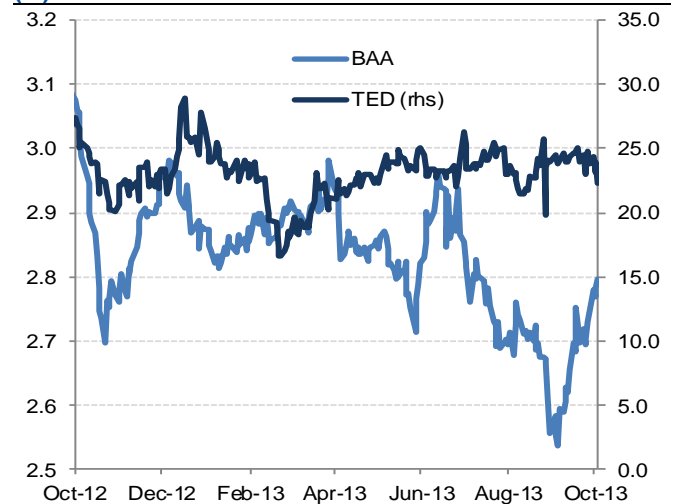
Source: Bloomberg & BBVA Research

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



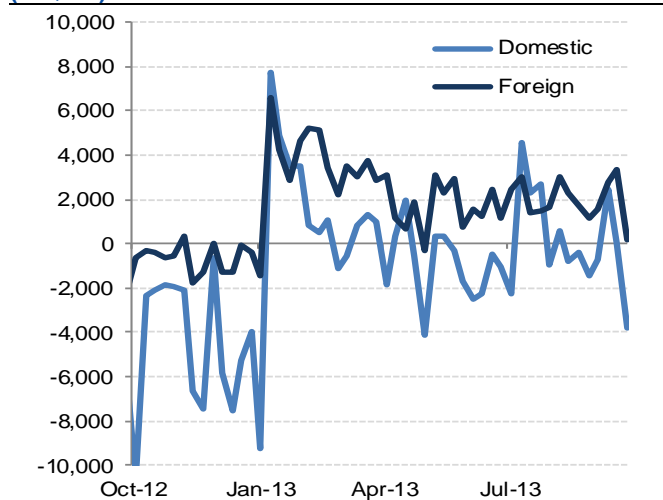
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



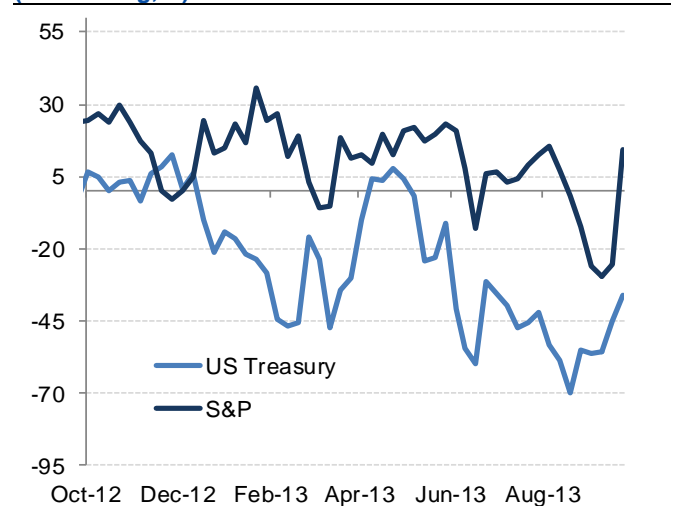
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

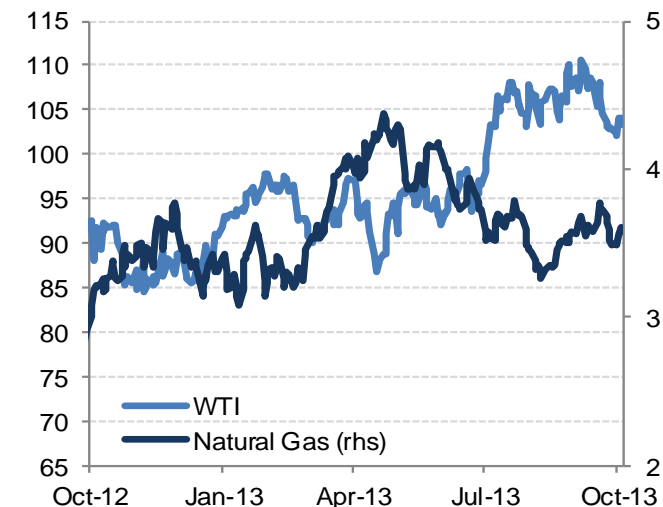
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

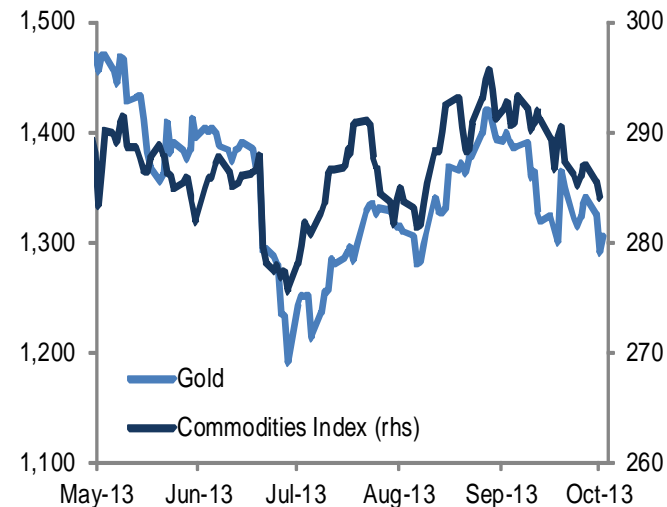
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



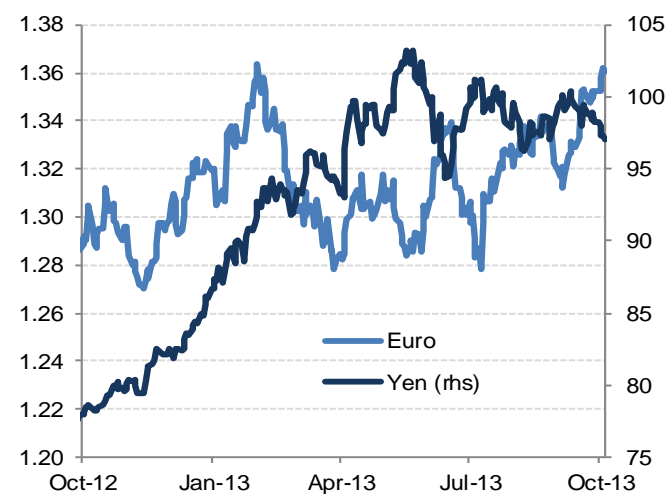
Source: Bloomberg & BBVA Research

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



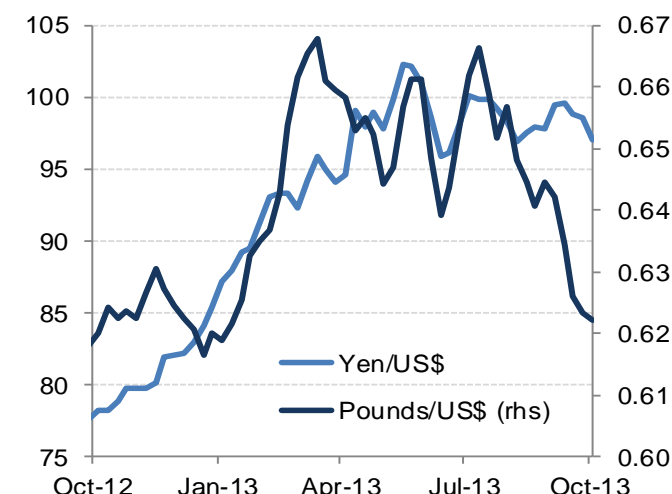
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



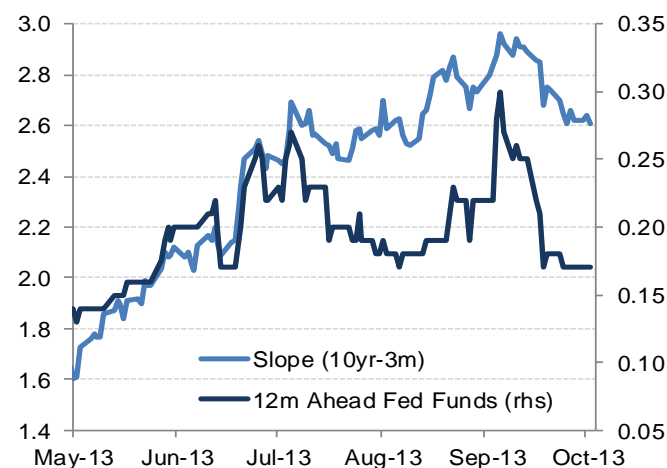
Source: Bloomberg & BBVA Research

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



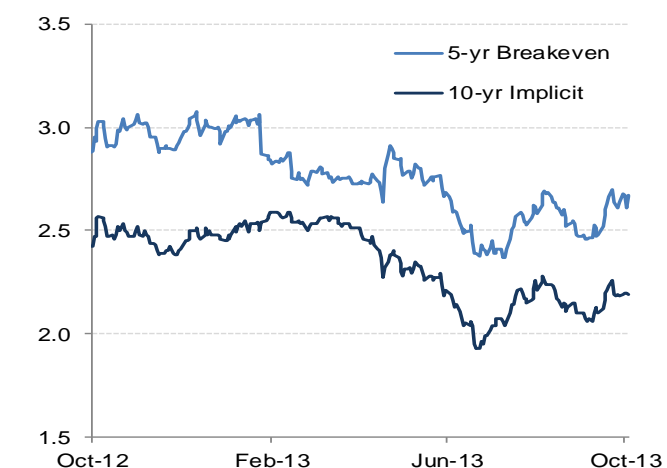
Source: Haver Analytics & BBVA Research

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 (%)

	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)	2.49	2.50	2.43	3.14
Heloc Loan 30K	5.20	5.19	5.38	5.49
5/1 ARM*	3.03	3.07	3.28	2.90
15-year Fixed Mortgage *	3.29	3.37	3.59	3.23
30-year Fixed Mortgage *	4.22	4.32	4.57	3.99
Money Market	0.41	0.42	0.44	0.51
2-year CD	0.80	0.80	0.78	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	0.08	0.08	0.08	0.15
3M Libor	0.24	0.25	0.26	0.35
6M Libor	0.37	0.37	0.39	0.62
12M Libor	0.62	0.63	0.68	0.96
2yr Sw ap	0.46	0.47	0.62	0.38
5yr Sw ap	1.56	1.55	1.91	0.77
10Yr Sw ap	2.80	2.78	3.12	1.75
30yr Sw ap	3.70	3.66	3.89	2.69
30day CP	0.13	0.10	0.12	0.29
60day CP	0.11	0.11	0.15	0.32
90day CP	0.14	0.13	0.18	0.35

Source: Bloomberg & BBVA Research

Quote of the Week

Dennis Lockhart, President of the Federal Reserve Bank of Atlanta
Fed's Lockhart Says Government Shutdown to Hurt Fourth Quarter U.S. Growth
3 October 2013

"I would say that events like the government shutdown or conceivably a debt ceiling debate that undermines confidence has a lasting effect in that it makes our economy look more prone to politically induced shocks."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
7-Oct	Consumer Credit (MoM Change)	AUG	\$11.500B	\$12.000B	\$10.437B
8-Oct	International Trade	AUG	-\$37.9B	-\$39.4B	-\$39.1B
8-Oct	JOLTS Job Openings	AUG	3600K	--	3689K
9-Oct	Wholesale Inventories (MoM)	AUG	0.40%	0.30%	0.10%
9-Oct	FOMC Meeting Minutes	SEPT	--	--	--
10-Oct	Initial Jobless Claims	5-Oct	330K	310K	308K
10-Oct	Continuing Claims	28-Sep	2905K	2863K	2925K
10-Oct	Import Prices (MoM)	SEPT	0.20%	0.20%	0.00%
10-Oct	Export Prices (MoM)	SEPT	0.10%	--	-0.50%
11-Oct	Producer Price Index (MoM)	SEPT	0.20%	0.20%	0.30%
11-Oct	Producer Price Index, Core (MoM)	SEPT	0.20%	0.10%	0.00%
11-Oct	Retail Sales (MoM)	SEPT	0.20%	0.10%	0.20%
11-Oct	Retail Sales, Ex Autos (MoM)	SEPT	0.30%	0.40%	0.10%
11-Oct	U. of Michigan Consumer Sentiment	OCT	76.9	76.0	77.5
11-Oct	Business Inventories (MoM)	AUG	0.30%	0.30%	0.40%

Forecasts (Note: Revisions Pending)

	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	7.5	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	3.00	3.35	3.64
US Dollar/ Euro (eop)	1.32	1.31	1.30	1.30	1.35

Note: Bold numbers reflect actual data

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