

US Weekly Flash

Highlights

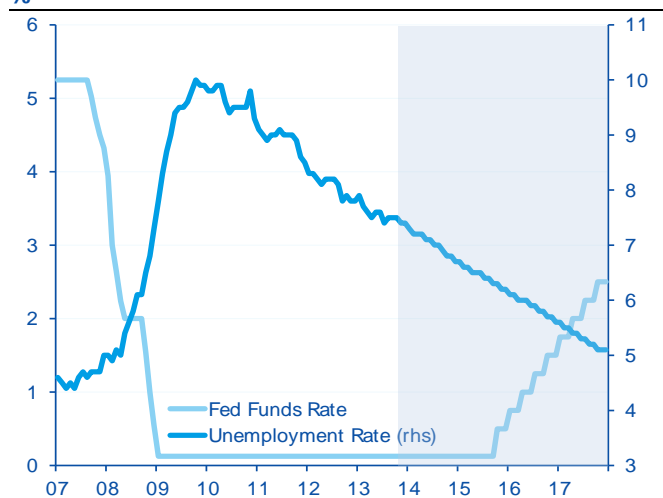
• FOMC Minutes: Foreseen Government Shutdown Put September Tapering on Hold

- The FOMC minutes from the September 17-18th meeting convey that the decision not to proceed with the expected “tapering” plan was a close call. Overall, Committee members viewed the cumulative progress of general economic and labor market conditions as satisfactory. However, a number of FOMC participants were concerned with “heightened uncertainty about the course of federal fiscal policy over the coming months,” foreseeing the government shutdown and the risk of economic strains around the debt ceiling debate. Those fiscal policy concerns elevated downside risks to the FOMC’s economic outlook and led them to question the sustainability of progress. The proponents to scale-down QE3 rightfully raised concerns that the delay would misalign monetary policy and financial market expectations, posing risk to future credibility and the effectiveness of FOMC communications. It was stated that postponing the announcement to scale-down “could potentially undermine the credibility or predictability of monetary policy.” The Fed’s communication has been under attack in FRB President speeches and by the financial media since the September statement. Conditional on greater fiscal policy clarity, the FOMC could announce its plan to scale down QE3 in December. However, if the government shutdown and the debt ceiling debate linger the FOMC would likely delay tapering until 2014.
- Together with the FOMC minutes release, Vice Chair Janet Yellen was officially nominated by President Obama to succeed Chairman Bernanke when his term expires in January 2014. The nomination of Yellen removed uncertainty related to the leadership transition at the Fed and increased FOMC credibility on forward guidance. This nomination reassures the continuity of the monetary policy course set by the current Committee.

• Consumer Credit Jumps Again on Growing Student Loan Debt

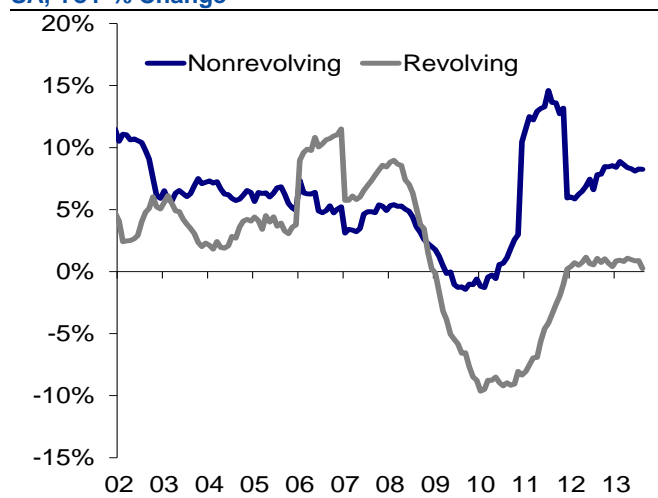
- Total outstanding consumer credit increased in August, continuing a two-year trend as nonrevolving credit remains the key driver. Student loan debt continues to surge, although it does nothing to reflect the true willingness of consumers to take on debt and increase spending.
- Revolving credit, which is more indicative of actual consumer activity, declined for the third consecutive month and suggests that consumers are more hesitant to take on additional debt (i.e. credit cards) in order to maintain current spending habits. This does not bode well for future consumption, at least in the short-term, especially with the government shutdown adding even more uncertainty to the consumer outlook.

Graph 1
Fed Funds & Unemployment Rate
%



Source: FRB & BBVA Research

Graph 2
Consumer Credit Type Outstanding
SA, YoY % Change



Source: Federal Reserve & BBVA Research

Week Ahead

Empire State Manufacturing Survey (October, Tuesday 8:30 ET)

Forecast: 7.10

Consensus: 8.00

Previous: 6.29

The Empire State Survey has been indicative of manufacturing growth throughout the past few months as new orders and production recover from a weak start to the year. The index, which dropped slightly in September, holds near annual highs but is still much lower than levels seen prior to the crisis. New orders and shipments are actually near the low end of the spectrum as well when compared to pre-recession levels. Surprisingly, employment in the manufacturing sector is faring relatively well despite overall weakness in the labor market. For October, we don't expect to see much acceleration in manufacturing activity, particularly with the government shutdown and fiscal uncertainty putting a damper on business and consumer confidence.

Consumer Price Index, Core (September, Wednesday 8:30 ET)

Forecast: 0.1%, 0.1%

Consensus: 0.2%, 0.2%

Previous: 0.1%, 0.1%

Inflationary pressures have been muted for some time now, and the current slow-growth environment doesn't signal a changing trend anytime soon. The consumer price index has increased for four consecutive months, though at a slow enough pace that the Fed does not feel pressured to immediately scale-back its asset purchase program. The usual suspects are at play here, with shelter and medical care services driving core inflation and volatile energy prices influencing the headline figure. In September, inflation pressures from the energy sector were relatively low, with Brent crude oil prices up slightly offsetting a minor decline in WTI. Natural gas prices, however, jumped back up in September for the first time since April. Overall, we do not expect significant changes to occur throughout the next few months regarding the path of inflation.

Housing Starts and Building Permits (September, Thursday 8:30 ET)

Forecast: 903K, 941K

Consensus: 910K, 935K

Previous: 891K, 926K

Housing activity has certainly been moving in the right direction throughout the past year, yet recent gains in mortgage rates appear to be hurting homebuyer demand at the moment. Housing starts hit a recovery high back in February but have fallen off slightly since then. However, building permits (which are a leading indicator for housing starts) are faring a bit better and suggest that new home construction should continue to increase in the coming months. The supply of new and existing homes on the market remains tight, so the demand for residential construction is out there. Still, with prices rising along with rates, home affordability has shifted slightly and many potential homebuyers have stepped back from the market for now. Ultimately, we expect the somewhat volatile monthly swings to continue for some time until the recovery gets back on stronger footing.

Industrial Production (September, Thursday 9:15 ET)

Forecast: 0.3%

Consensus: 0.4%

Previous: 0.4%

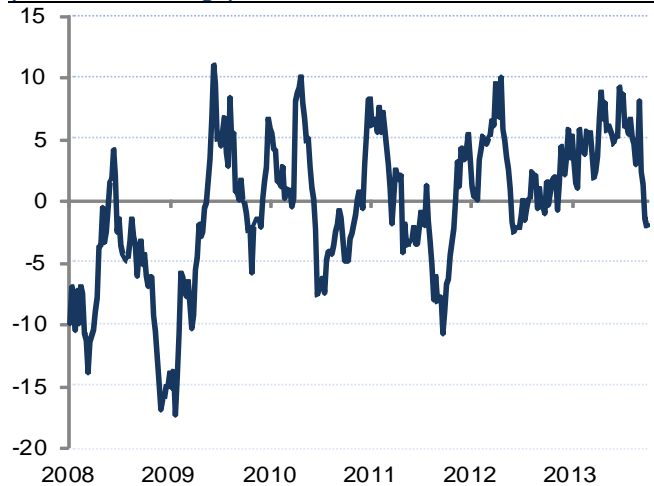
Industrial production jumped in August to recover from a flat reading in July and very subtle gains at the end of the second quarter. Manufacturing production was the big winner for the month while utilities output declined for the fifth consecutive period. For September, we expect the data to show a similar picture as manufacturing activity continues to gain momentum but at a very gradual pace. Demand (both domestically and abroad) is still not certain enough for businesses to significantly ramp up production in the short-term, although conditions remain mostly favorable for modest increases throughout the rest of the year.

Market Impact

Another round of the government shutdown has come and gone, and now we are faced with the deadline for increasing the debt ceiling. Again, there may not be very many economic releases this week to warrant attention, yet markets have been plenty busy adjusting to a lack of fiscal clarity. If we do get some sort of resolution this week, we could see an influx of economic data that has been delayed so far this month, although the actual release schedule remains unclear. Another standoff in Congress in the face of a deadline could send markets into a whirlwind until some agreement is reached.

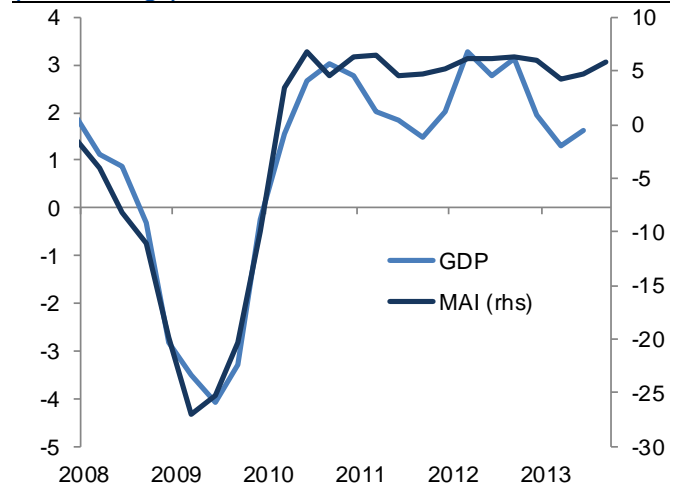
Economic Trends

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



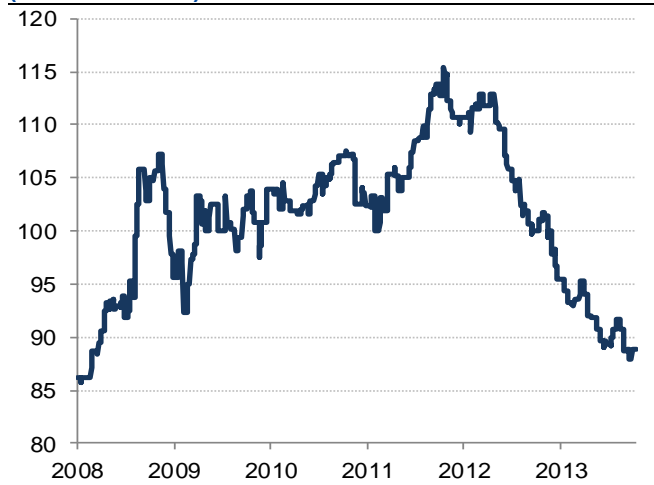
Source: BBVA Research

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



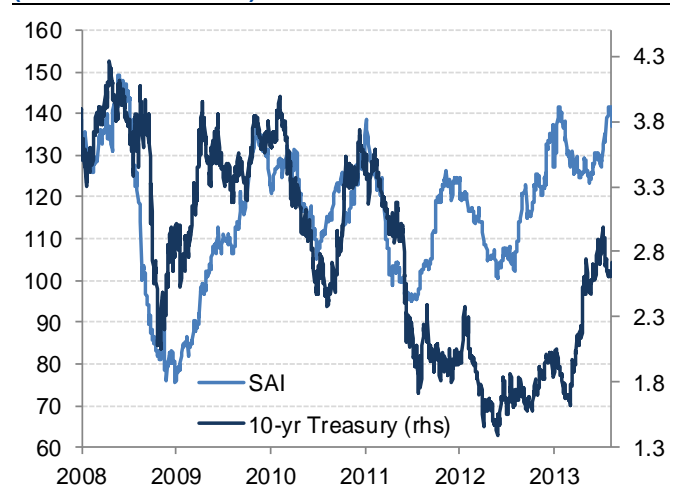
Source: BBVA Research & BEA

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



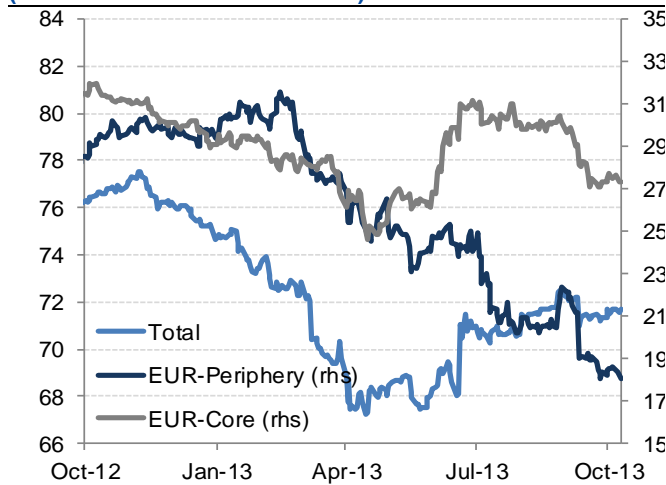
Source: BBVA Research

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



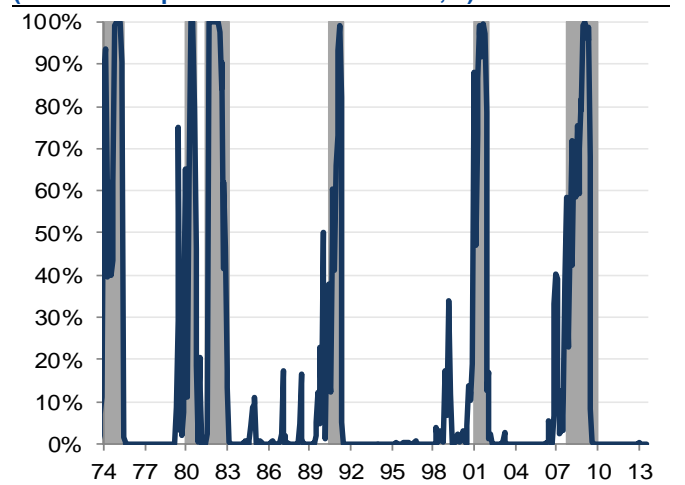
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

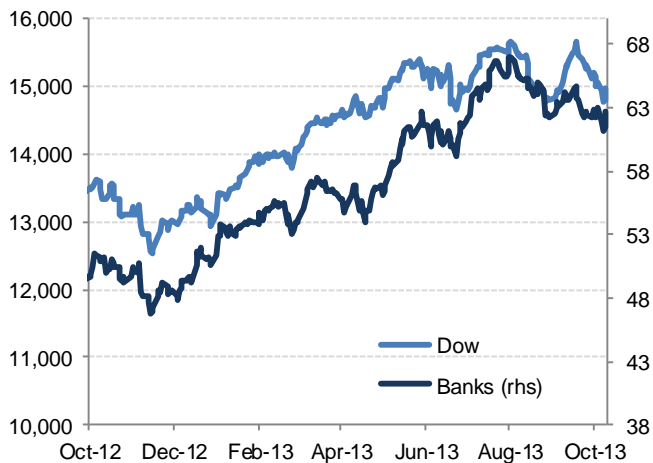
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

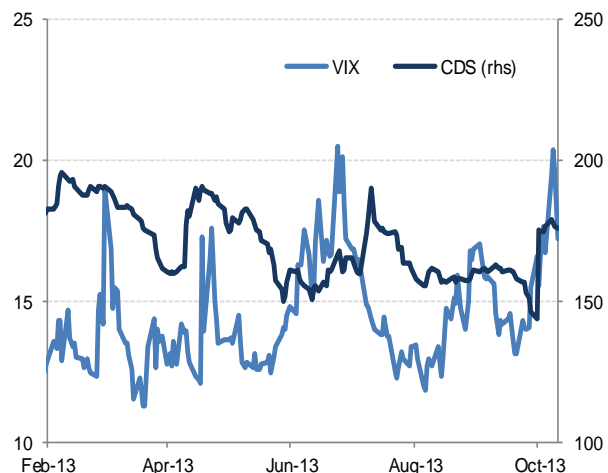
Financial Markets

Graph 9
Stocks
(Index, KBW)



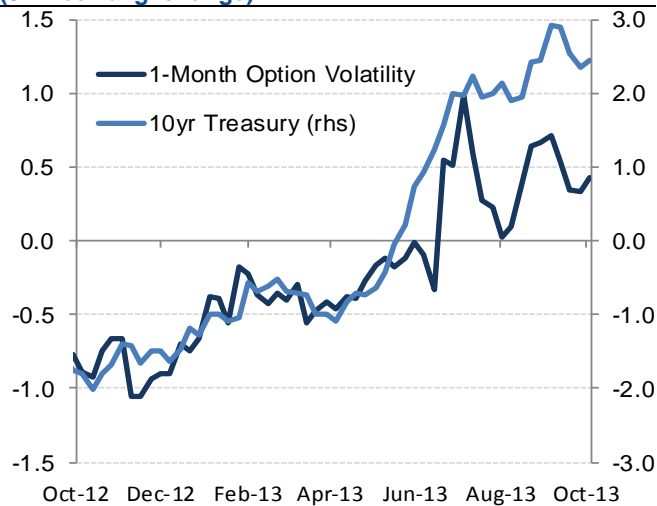
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



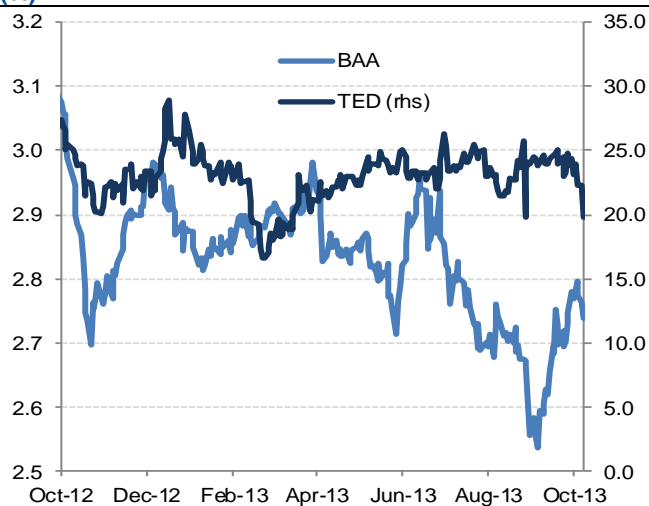
Source: Bloomberg & BBVA Research

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



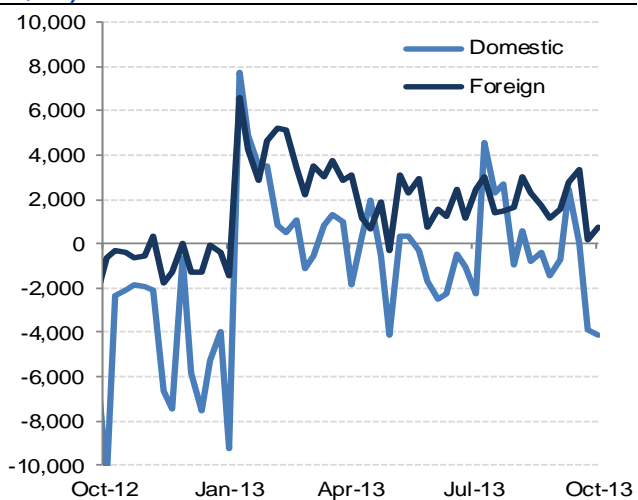
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



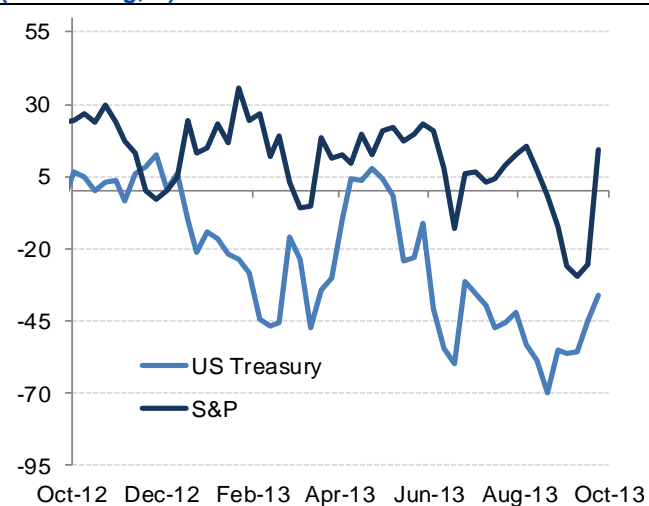
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

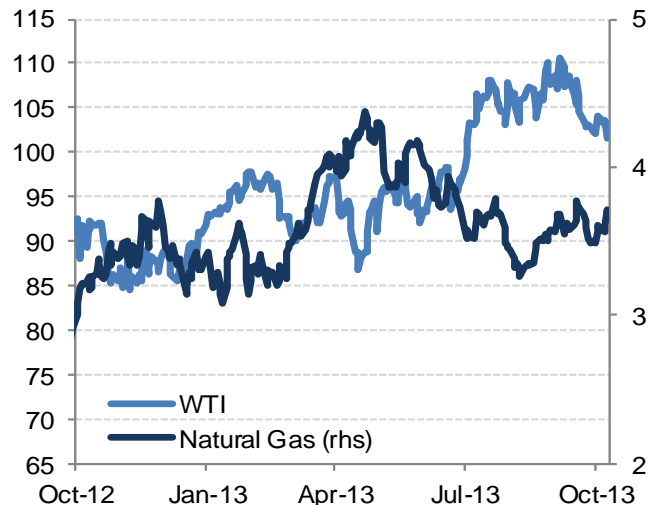
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

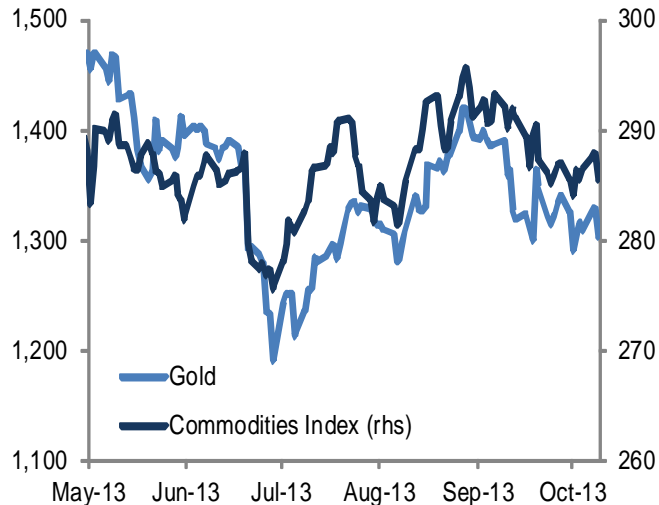
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



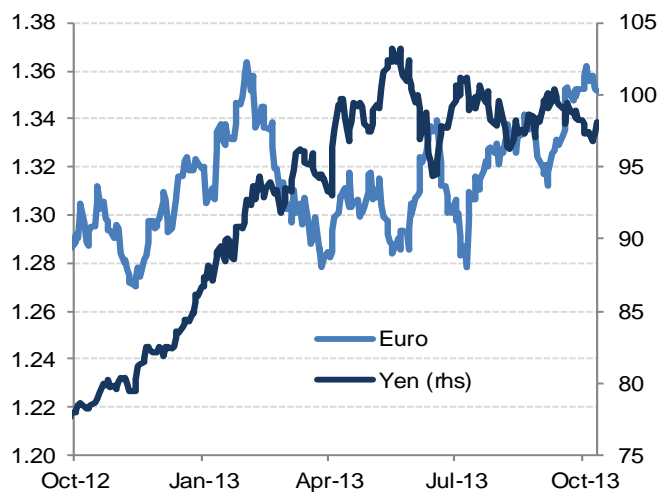
Source: Bloomberg & BBVA Research

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



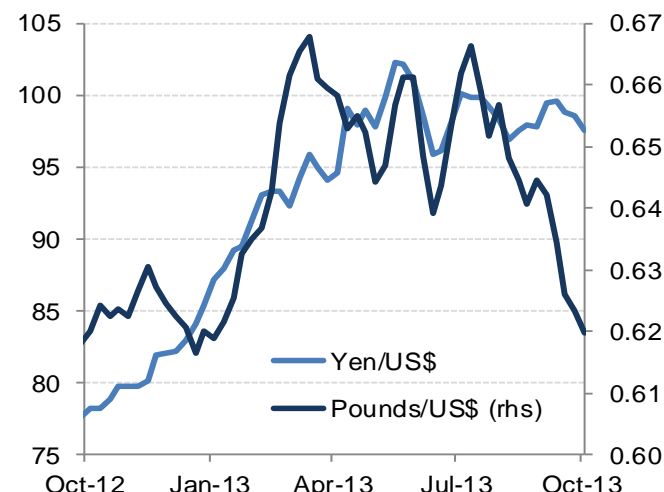
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



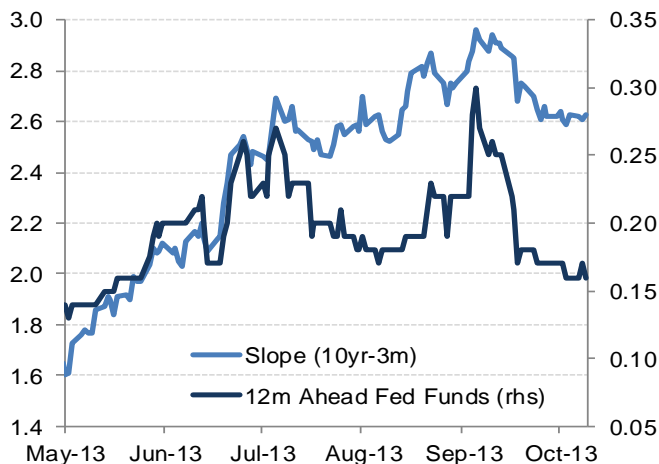
Source: Bloomberg & BBVA Research

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



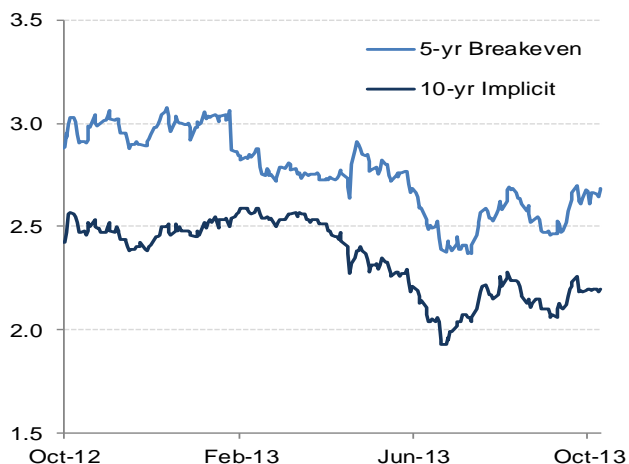
Source: Haver Analytics & BBVA Research

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	2.49	2.43	3.66
Heloc Loan 30K	5.28	5.20	5.23	5.48
5/1 ARM*	3.03	3.03	3.22	2.90
15-year Fixed Mortgage*	3.29	3.29	3.59	3.23
30-year Fixed Mortgage*	4.22	4.22	4.57	3.99
Money Market	0.41	0.41	0.41	0.52
2-year CD	0.79	0.80	0.78	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	0.16
3M Libor	0.24	0.25	0.25	0.34
6M Libor	0.37	0.37	0.38	0.61
12M Libor	0.63	0.62	0.66	0.94
2yr Sw ap	0.49	0.45	0.59	0.38
5yr Sw ap	1.61	1.53	1.87	0.78
10Yr Sw ap	2.85	2.77	3.07	1.73
30yr Sw ap	3.74	3.68	3.85	2.66
30day CP	0.12	0.12	0.11	0.28
60day CP	0.14	0.11	0.13	0.35
90day CP	0.16	0.14	0.15	0.38

Source: Bloomberg & BBVA Research

Quote of the Week

President Barack Obama
Obama Picks Yellen for Top Fed Job, Urges Quick Senate Approval
9 October 2013

“Janet is exceptionally well qualified for this role. She doesn’t have a crystal ball, but what she does have is a keen understanding about how markets and the economy work, not just in theory but also in the real world. And she calls it like she sees it.”

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
15-Oct	Empire State Manufacturing Survey	OCT	7.10	8.00	6.29
16-Oct	Consumer Price Index (MoM)	SEPT	0.10%	0.20%	0.10%
16-Oct	Consumer Price Index, Core (MoM)	SEPT	0.10%	0.20%	0.10%
16-Oct	Housing Market Index	OCT	58.00	57.00	58.00
17-Oct	Housing Starts	SEPT	903K	910K	891K
17-Oct	Housing Starts (MoM)	SEPT	1.35%	2.10%	0.91%
17-Oct	Building Permits	SEPT	941K	935K	926K
17-Oct	Building Permits (MoM)	SEPT	1.62%	1.00%	-2.94%
17-Oct	Initial Jobless Claims	12-Oct	345K		374K
17-Oct	Continuing Claims	5-Oct	2915K		2905K
17-Oct	Industrial Production (MoM)	SEPT	0.30%	0.40%	0.40%
17-Oct	Capacity Utilization	SEPT	77.90%	78.00%	77.80%
17-Oct	Philadelphia Fed Survey	OCT	13.50	16.00	22.30
18-Oct	Leading Indicators (MoM)	SEPT	0.40%	0.60%	0.70%

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	7.5	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	2.90	3.50	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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