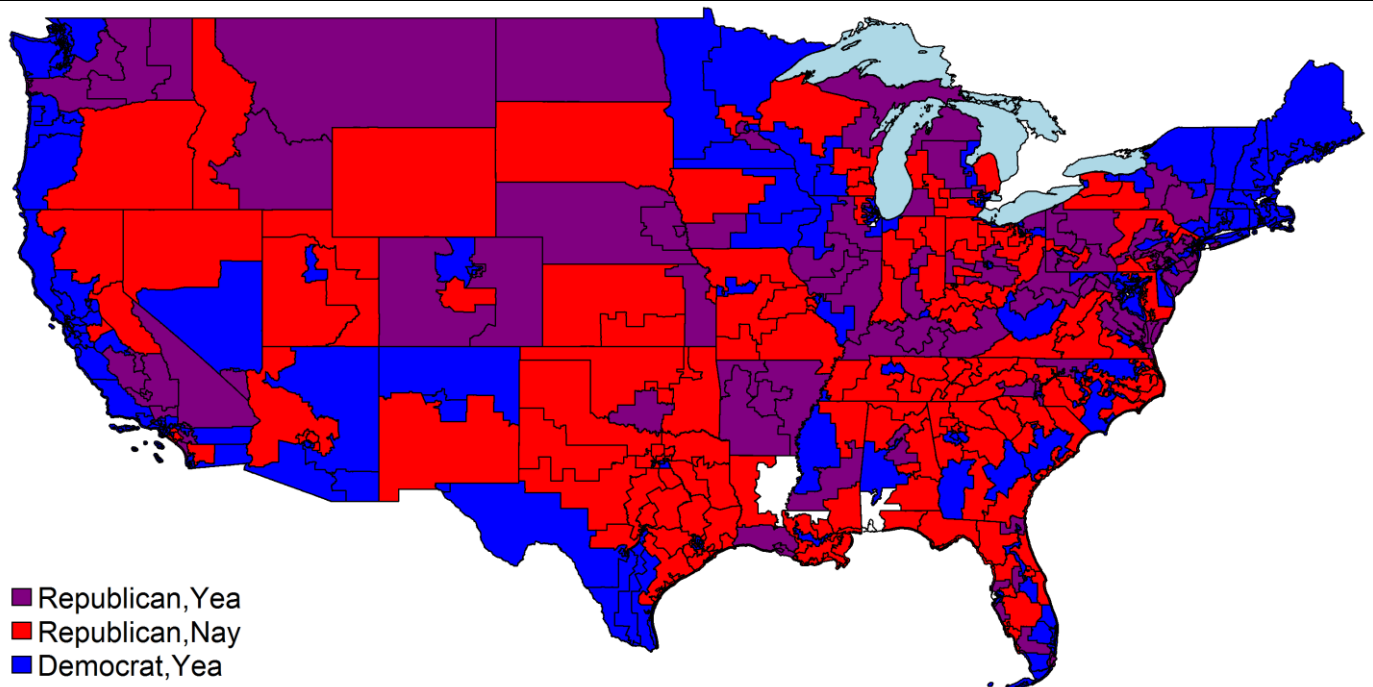


US Weekly Flash

Highlights

- **Congress Agrees to End Government Shutdown and Increase Debt Ceiling, For Now...**
 - As expected, policymakers in Washington finally came to a last-minute agreement to end the government shutdown and increase the debt ceiling. The deal, however, was simply another round of kicking the can down the road yet again. This temporary fix will fund the government through January 15, 2014 and allow for an increase in the debt ceiling through February 7th. Consequently, we will see another round of debt ceiling negotiations in the near future, with a new deadline around mid-March. The formal budget committee established in the deal will attempt to reach a longer term agreement by December 13th.
 - Given that the shutdown lasted only 16 days and most furloughed workers will be paid retroactively, the impact to 4Q13 should be minimal. Our estimates suggest a modest 0.2% hit to real GDP growth for the quarter, mostly due to activity that could not be recouped during the shutdown (i.e. tourism). Compared to the debt ceiling debacle in 2011 and the fiscal cliff in 2012, the economic impact from political uncertainty has been limited. Furthermore, despite this intense budget and debt ceiling debate, the U.S. is moving toward short-term fiscal stability. Still, we have a long way to go before achieving a longer-term solution.
 - With all this commotion, it has become apparent that the political brinkmanship and constant berating in Congress has become much more severe over time. Regardless of which party is right or wrong when it comes to appropriate fiscal strategy, it seems that the staunch stance of Republicans finally got the best of them. Public polls put most of the blame on Republicans, with public feeling toward President Obama holding positive throughout this whole ordeal. Although both sides were unwilling to concede fully on their requests, the GOP strategy failed to shift public opinion and ultimately forced them to compromise. In the end, Republican House Speaker John Boehner conceded: "We fought the good fight. We just didn't win." His choice to vote against the party majority heightened the ongoing internal struggle within the GOP and created a much more uncertain outlook for the future of the Republican party.

Graph 1
October 16th House Vote, Shaded by Congressional District



Week Ahead

Existing Home Sales (September, Monday 10:00 ET)

Forecast: 5.51M

Consensus: 5.30M

Previous: 5.48M

Existing home sales have finally reached a recovery high for the first time since the government tax credit caused a brief spike in demand in late 2009. As is the usual trend, sales in July and August of this year were relatively strong despite the fact that rising prices and mortgage rates are hurting affordability for potential homebuyers. Most recently, however, mortgage rates have stabilized in line with the Fed's commitment to QE3 which should help boost home sales for the time being. While there are still some lingering concerns regarding the housing market, it appears that activity is moving in the right direction, albeit very gradually. On an annual basis, sales of existing homes have been growing at double digits rates through most of 2013, and we expect this to continue throughout the second half of the year, pending any further damage to the outlook from fiscal uncertainty.

Jobless Claims (October, Thursday 8:30 ET)

Forecast: 341K

Consensus: 340K

Previous: 358K

Jobless claims reports have been holding down the fort for the economic calendar this month as most other indicators were delayed due to the partial government shutdown. Unfortunately, initial claims data have not been impressive in October, clearly noting an abundance of furloughed government workers. The 4-week moving average has jumped to 337K, the highest level since July, and has offset some of September's employment optimism. Since the employment report for last month has not yet been released, it is unclear whether the drop in initial claims actually translated into higher nonfarm payroll growth for September. Still, the outlook for October does not look great. While we do not expect to see much improvement for the rest of October, figures should progress as we try to move past the government issues.

New Home Sales (September, Thursday 10:00 ET)

Forecast: 430K

Consensus: 425K

Previous: 421K

New home sales have basically been flat since the midst of the recession in early 2009, overshadowed by the cheaper and more available supply of existing homes on the market. Unfortunately, we don't see this trend turning around quickly in the near future. In September, the home builder confidence index held near recovery highs, noting consistent strength in current and future single family sales, as well as prospective buyer traffic. Furthermore, mortgage rates remain low and attractive for new home construction. Despite the increasing uncertainty due to the latest fiscal pressures, we expect to see very gradual gains in new home sales over the coming months.

Consumer Sentiment (October, Friday 9:55 ET)

Forecast: 74.5

Consensus: 75.0

Previous: 75.2

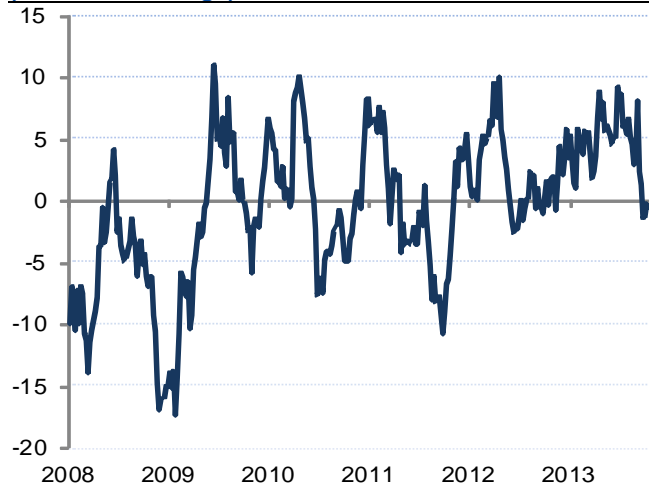
The initial reading for consumer sentiment in October was somewhat discouraging, with the index hitting the lowest level since January. Expectations have been a big drag lately, having declined throughout the past four months as underlying sentiments from recent Fed announcements and fiscal issues put a damper on the economic outlook. Consumer views on current conditions have held up so far, but we expect that sentiment will remain subdued given the government shutdown and threat of default. On the other hand, falling gas prices and low inflation expectations provide consumers a little boost with added purchasing power. With this in mind, we expect the final consumer sentiment reading for October to decline slightly, remaining below levels seen since the start of this year.

Market Impact

Finally the government is up and running again, but the economic calendar may not yet be back to normal. With nearly three weeks of delayed releases, it could take some time to sort everything out. The few scheduled economic indicators for this week shouldn't make much noise in the markets. However, if coupled with previously delayed data (such as September's employment report), then we could see more mixed market emotions. In general though, we don't expect that much of the news will knock markets down from near historical highs.

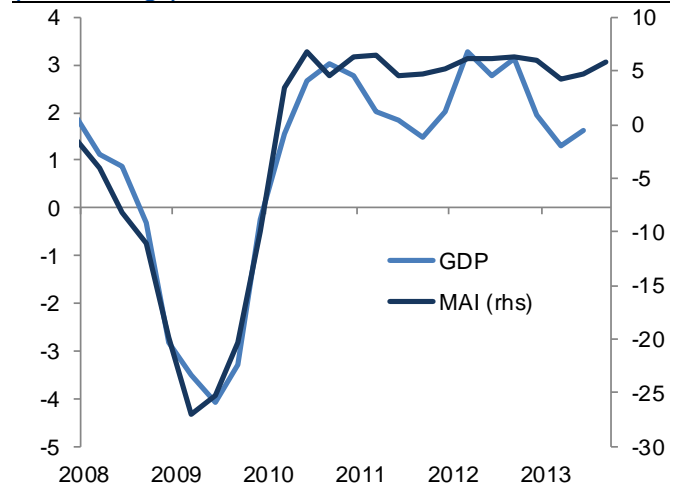
Economic Trends

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



Source: BBVA Research

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



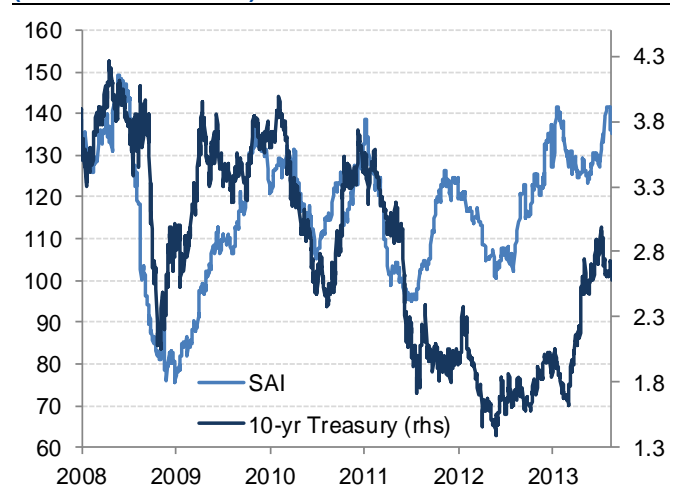
Source: BBVA Research & BEA

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



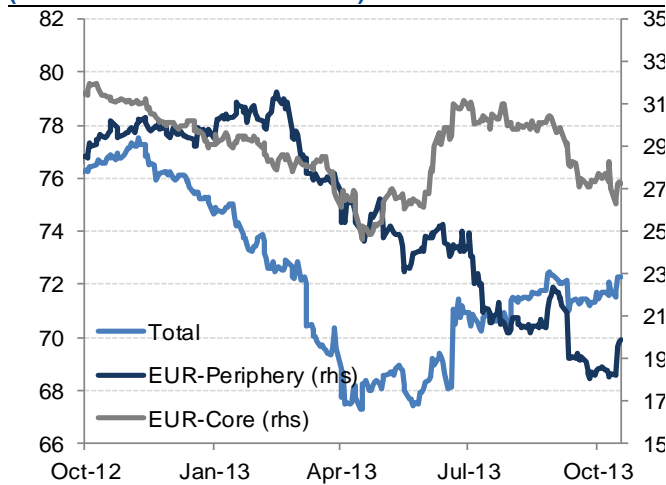
Source: BBVA Research

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



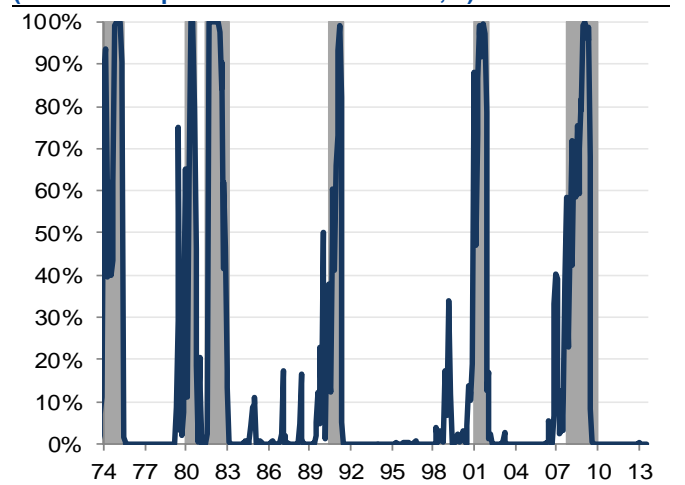
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

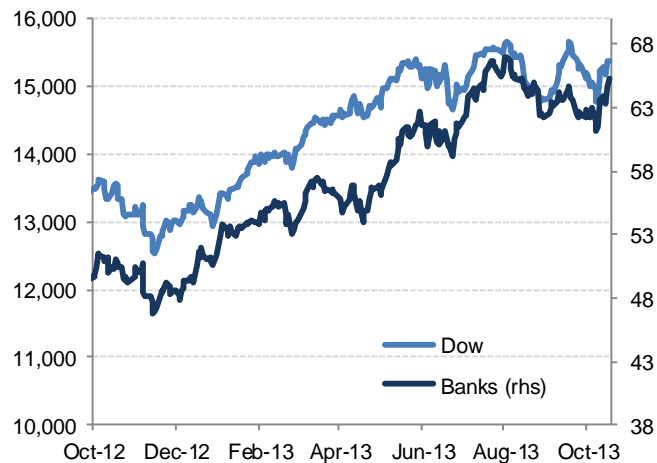
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

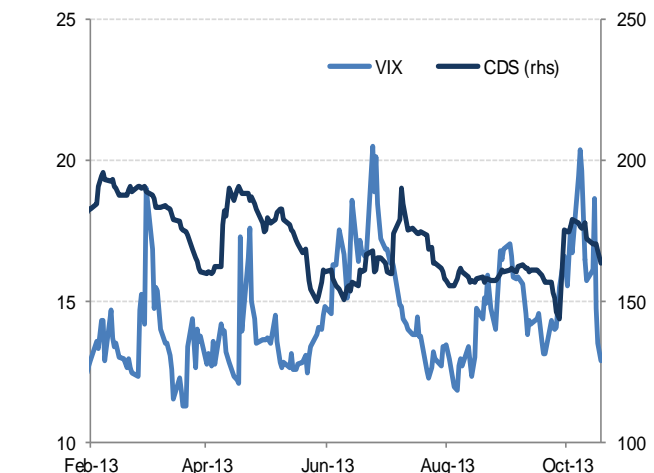
Financial Markets

Graph 9
Stocks
(Index, KBW)



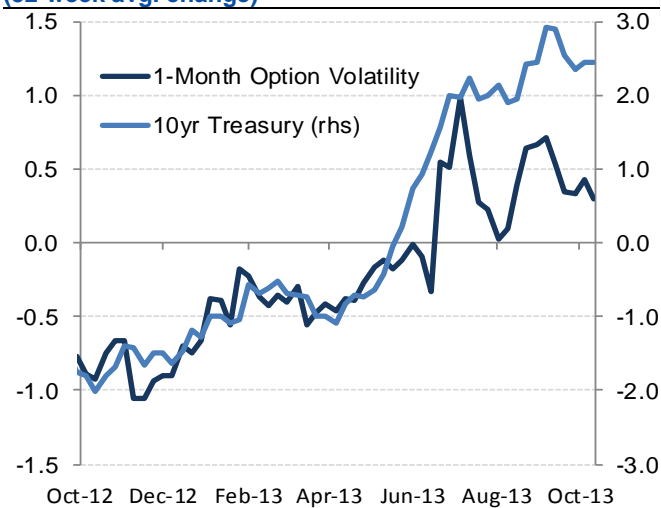
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



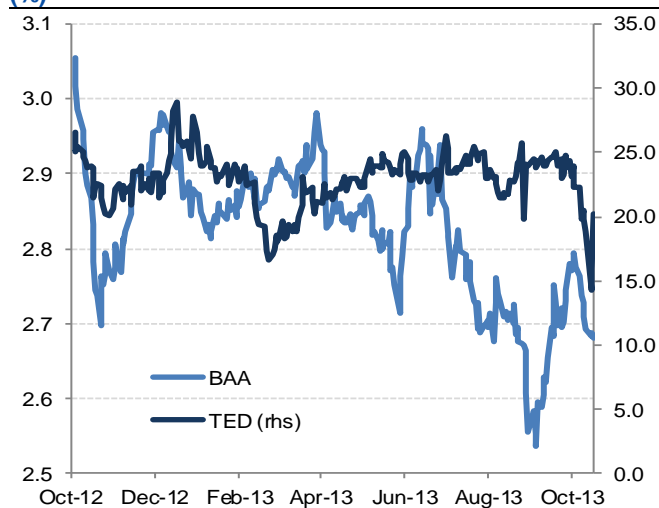
Source: Bloomberg & BBVA Research

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



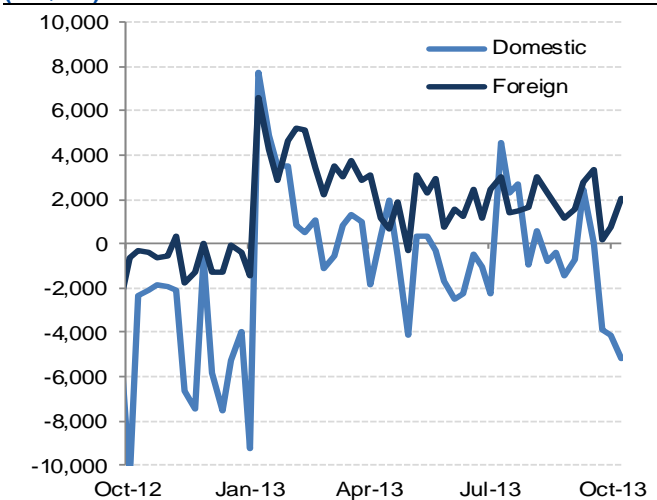
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



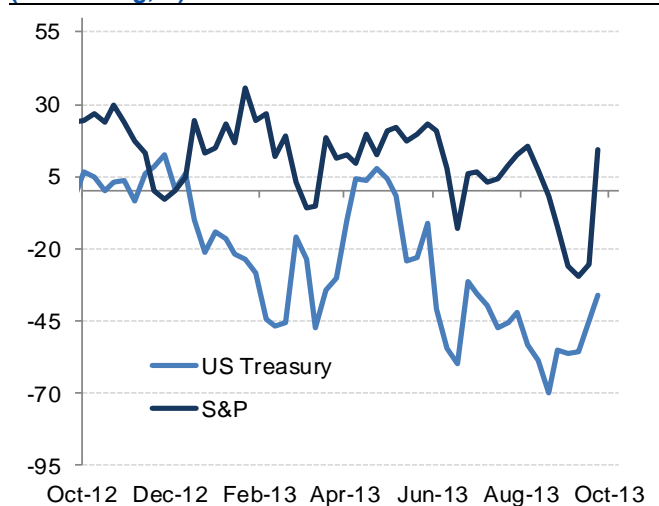
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

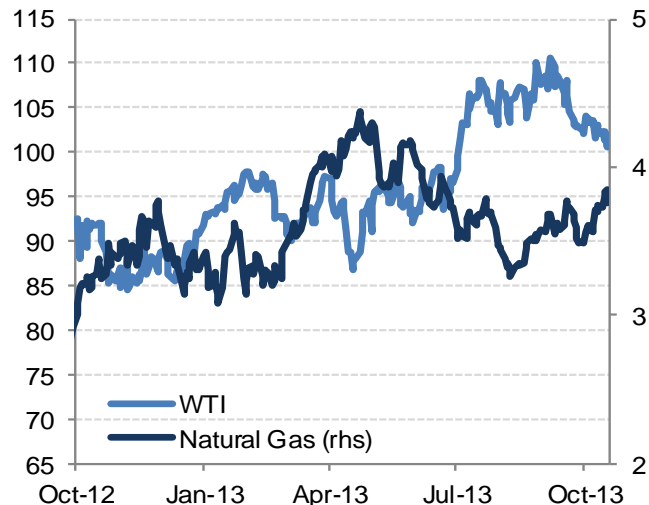
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

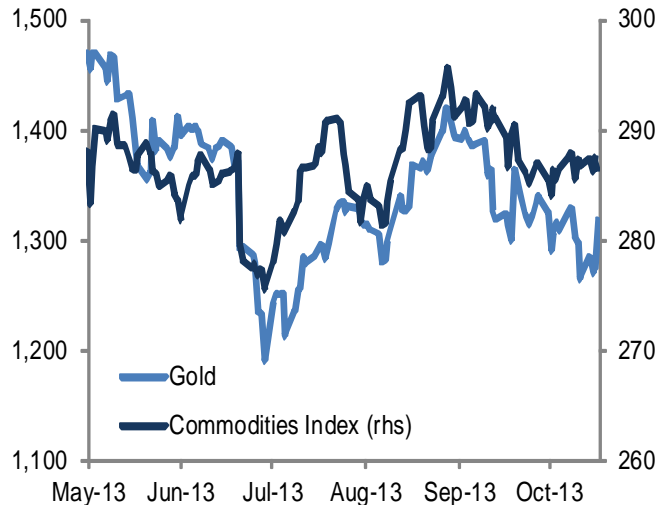
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



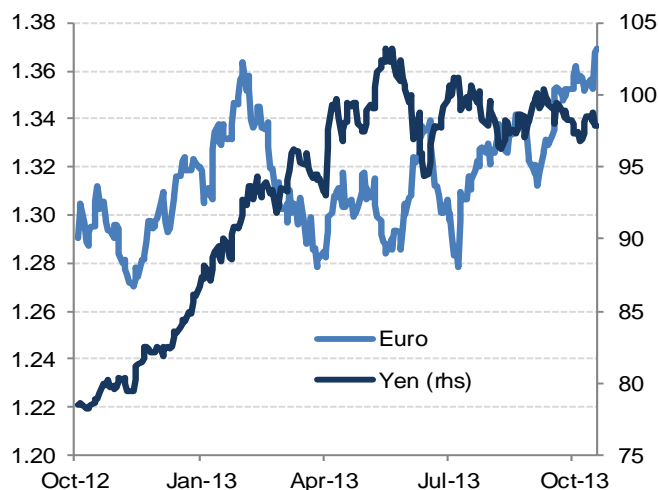
Source: Bloomberg & BBVA Research

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



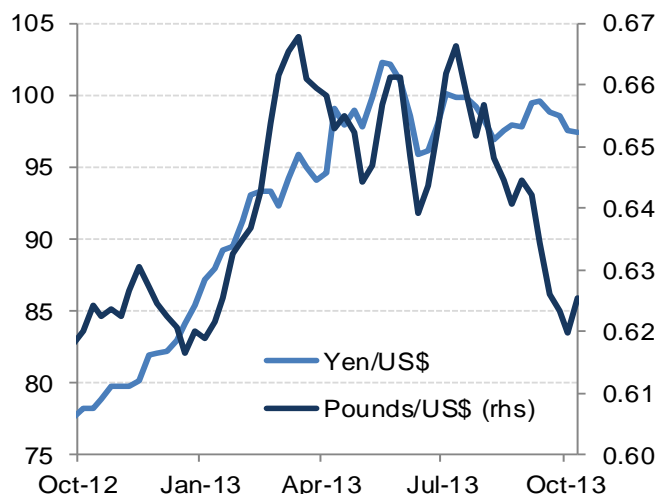
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



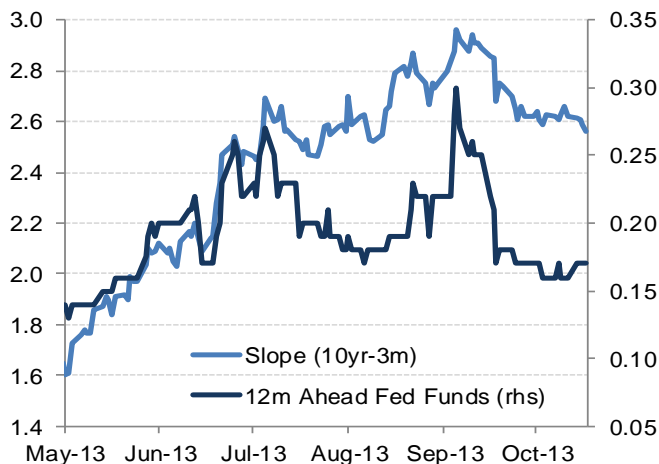
Source: Bloomberg & BBVA Research

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



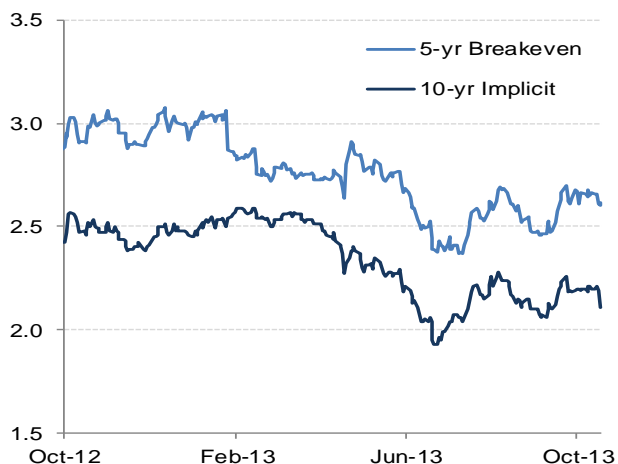
Source: Haver Analytics & BBVA Research

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)	2.63	2.51	2.51	3.14
Heloc Loan 30K	5.28	5.28	5.23	5.46
5/1 ARM*	3.07	3.05	3.11	2.90
15-year Fixed Mortgage*	3.33	3.31	3.54	3.23
30-year Fixed Mortgage*	4.28	4.23	4.50	3.99
Money Market	0.41	0.41	0.41	0.51
2-year CD	0.81	0.80	0.77	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	0.10	0.10	0.08	0.16
3M Libor	0.24	0.24	0.25	0.32
6M Libor	0.36	0.37	0.37	0.57
12M Libor	0.61	0.63	0.64	0.90
2yr Sw ap	0.45	0.48	0.49	0.40
5yr Sw ap	1.50	1.57	1.66	0.91
10Yr Sw ap	2.73	2.82	2.89	1.87
30yr Sw ap	3.63	3.71	3.74	2.77
30day CP	0.14	0.14	0.13	0.27
60day CP	0.15	0.15	0.13	0.31
90day CP	0.15	0.16	0.14	0.39

Source: Bloomberg & BBVA Research

Quote of the Week

Richard W. Fisher, President of the Federal Reserve Bank of Dallas
Annus Horribilis or Annus Mirabilis?
17 October 2013

“Kicking the can down the road for a few months will not solve the pathology of fiscal misfeasance that undermines our economy and threatens our future...unless the fiscal authorities get their act together, looking to the Fed to solve the nation’s economic ills through ever-expansive monetary policy might well make the situation worse.”

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
21-Oct	Chicago Fed National Activity Index	SEPT	0.09	--	0.14
21-Oct	Existing Home Sales	SEPT	5.51M	5.30M	5.48M
21-Oct	Existing Home Sales (MoM)	SEPT	0.55%	-3.30%	1.70%
24-Oct	Initial Jobless Claims	19-Oct	341K	340K	358K
24-Oct	Continuing Claims	12-Oct	2820K	2865K	2859K
24-Oct	New Home Sales	SEPT	430K	425K	421K
24-Oct	New Home Sales (MoM)	SEPT	2.14%	1.00%	7.90%
25-Oct	Durable Goods Orders (MoM)	SEPT	1.00%	2.00%	0.10%
25-Oct	Durable Goods Orders, Ex Transportation	SEPT	1.70%	0.50%	-0.10%
25-Oct	Consumer Sentiment	OCT	74.50	75.00	75.20

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	3.37	3.64
US Dollar/ Euro (eop)	1.32	1.31	1.30	1.30	1.35

Note: Bold numbers reflect actual data



DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.