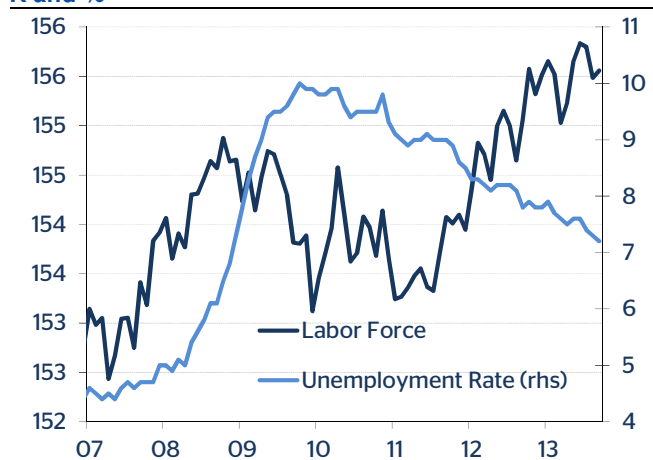


US Weekly Flash

Highlights

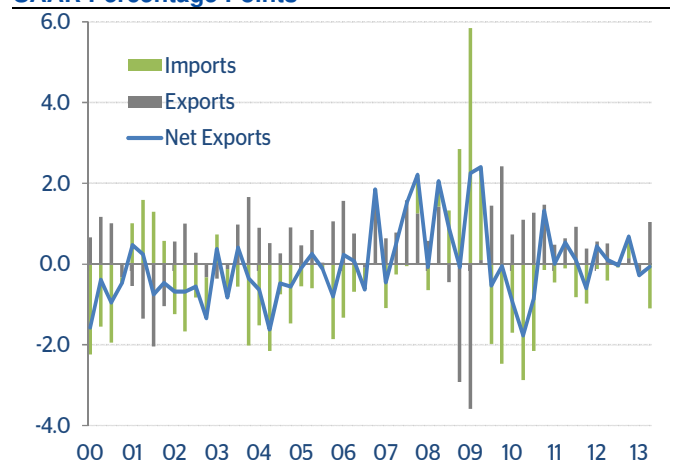
- Delayed Employment Report Finally Released, but Should Have Been Left a Mystery**
 - The much anticipated September employment report was finally released today after a 2-week government shutdown delay. Unfortunately, the report was not much to write home about, with total nonfarm payrolls up only 148K for the month. Payroll growth for August was actually better than initially thought, resulting in an upward revision from 169K to 193K. For September, private payrolls increased 126K while the public sector added 22K jobs (despite the foreseen government shutdown). Overall, average employment growth in 3Q13 was the weakest since second quarter of last year, when payrolls dropped to a low of 78K in June 2012. With the shutdown hitting in October, we do not expect that payroll growth will accelerate much over September's number.
 - Although job growth remains weak, the unemployment rate continues to fall, down to a recovery low of 7.2% in September. Surprisingly, the two more telling labor market indicators, the participation rate and employment-to-population ratio, were both unchanged for the month. According to CPS labor force status flows, the number of individuals not in the labor force increased for the fourth consecutive month. Flows from unemployed to employed, which would reflect a more genuine drop in the unemployment rate, also declined for the second straight month. In general, this data does not bode well for the Fed's eventual tapering of QE3, especially since we expect the shutdown to weigh on October's employment report.
- U.S. Trade Balance Unchanged in August as Domestic and Global Demand Stabilize**
 - The international trade balance was mostly unchanged in August at -\$38.8bn, following a slight revision in July to -\$38.6bn. Export growth remained negative for the second consecutive month, down 0.1% in August, while imports held flat. The report suggests that weak demand conditions are still at play, both domestically and abroad. The global economy, while still weak, appears to be stabilizing, with Europe already seeing signs of positive growth for the end of the year. Internally, demand has remained hesitant in large part due to the fiscal uncertainty related to the government shutdown and debt ceiling.
 - Our short-term outlook for trade reflects only gradual improvements in demand conditions, so it is unlikely that we will see significant narrowing of the trade deficit before 2014. However, with the U.S. becoming more self-sufficient when it comes to oil production, we are likely to see a deceleration in import growth and an overall improvement in the petroleum goods gap. Furthermore, we expect that exports will gain momentum as the global economy strengthens. In general, our baseline scenario assumes a small positive contribution from net exports throughout the next few years as exports outperform imports.

Graph 1
Civilian Labor Force and Unemployment Rate
K and %



Source: BLS & BBVA Research

Graph 2
Net Exports, Contribution to Real GDP Growth
SAAR Percentage Points



Source: BEA & BBVA Research

Week Ahead

S&P Case-Shiller HPI (August, Tuesday 9:00 ET)

Forecast: 12.56%

Consensus: 12.40%

Previous: 12.39%

Home prices have been rising consistently throughout the past year, approaching annual growth rates last seen prior to the recession. Constrained supply and a declining share of distressed sales have boosted home prices across the country. However, levels remain extremely low compared to the pre-crisis peak, with the S&P Case-Shiller HPI barely up 30% from the low point in early 2009. Still, this index is pointing to strong improvements in the near future, and we expect the upward trend to continue in August. Other home price data, such as the Core Logic and FHFA indices, suggest steady gains for the month. In the mid to longer run, our baseline scenario assumes that these double-digit annual growth rates are not sustainable, and we expect that home prices will soon decelerate to a more stable pace.

Consumer Confidence (October, Tuesday 10:00 ET)

Forecast: 76.3

Consensus: 75.0

Previous: 79.7

The consumer confidence index is expected to decline in October after falling slightly in September on account of a still-sluggish recovery and looming fiscal uncertainty. Down to the lowest level since May, September's index reflected a sharp drop in the expectations component, while views on the present situation improved even in anticipation of a shutdown and possible government default. For October, we do not expect the current component to hold up given that the government did shut down for nearly three weeks. At the same time, gas prices continue to fall and early holiday shopping deals are beginning to pop up, boosting consumers' purchasing power at a delicate time. We expect that this factor could partially offset the negative impact on confidence from the fiscal side.

Motor Vehicle Sales (October, Friday 8:30 ET)

Forecast: 15.70M

Consensus: 15.40M

Previous: 15.21M

Auto demand has been a strong factor driving consumer lending and spending since the crisis, with lower financing options creating an attractive market. Total auto sales have nearly approached pre-recession levels, with domestic outweighing the imported products. In September, auto sales declined slightly as is typical for this time of year when manufacturers and dealers are preparing to introduce updated models. With the holiday shopping season approaching, we expect that special offers and the low cost of borrowing will continue to attract consumers. Furthermore, buying plans for autos have certainly been on the rise throughout the past year and suggest continued gains in total auto sales for the next six months, at least.

ISM Manufacturing Index (October, Friday 10:00 ET)

Forecast: 56.0

Consensus: 55.0

Previous: 56.2

Manufacturing activity, according to the ISM index, has been on the rise for four consecutive months, reaching a two-year high in September. However, most of the main components have decelerated recently, with the production index up only a few tenths and new orders down slightly more. The employment index was the winner for September, but we don't expect that the government shutdown will bode well for manufacturing hiring in October. While we do expect to see a lower headline figure in October for the ISM Manufacturing Index, it is unlikely that these major components will drop below the 50 growth mark. As these temporary headwinds fade, we expect to see a subsequent pickup in manufacturing activity in the near future.

Market Impact

Delayed economic releases have shifted the economic calendar, pushing back the October employment report as well as the advance report for 3Q13 GDP that were originally scheduled for this week. Now we'll see some of the indicators that we've missed throughout the past month, such as retail sales and inflation. Still, we don't expect that the delayed data will be big market movers. This week's focus will likely be centered on the FOMC announcement, with markets looking for more details on future monetary policy plans. The news should keep markets happy, however, as we expect the Fed to avoid tapering for yet another month.

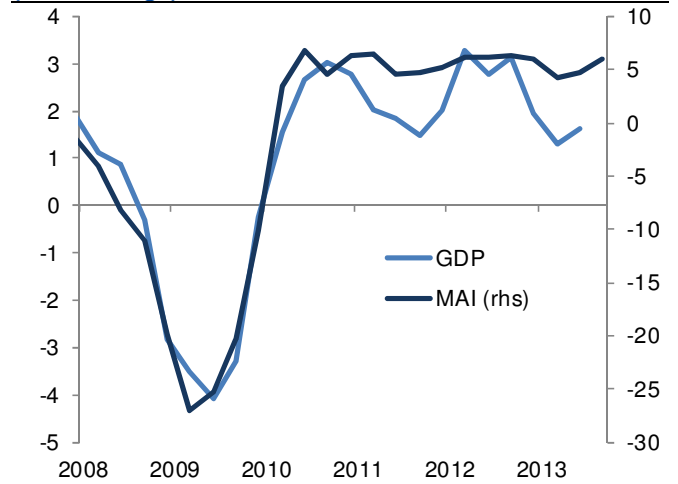
Economic Trends

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



Source: BBVA Research

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



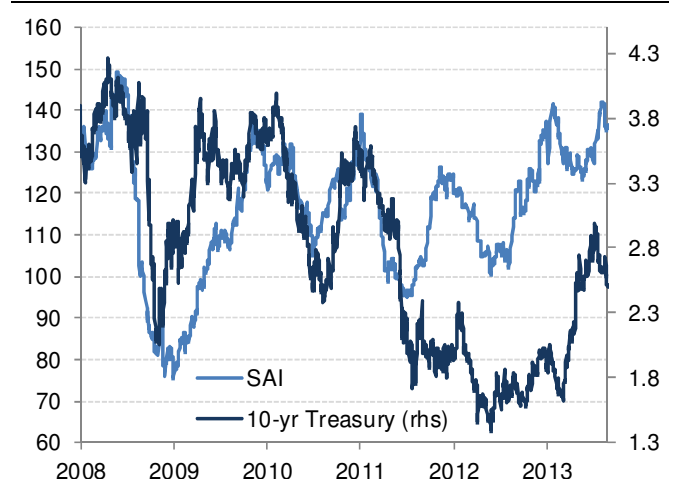
Source: BBVA Research & BEA

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



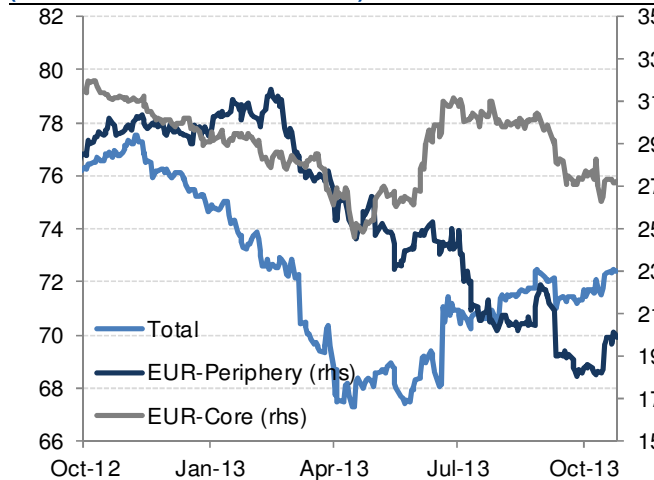
Source: BBVA Research

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



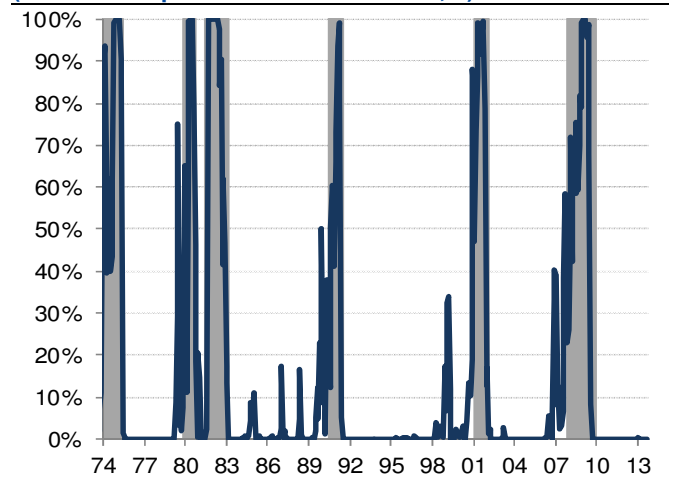
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

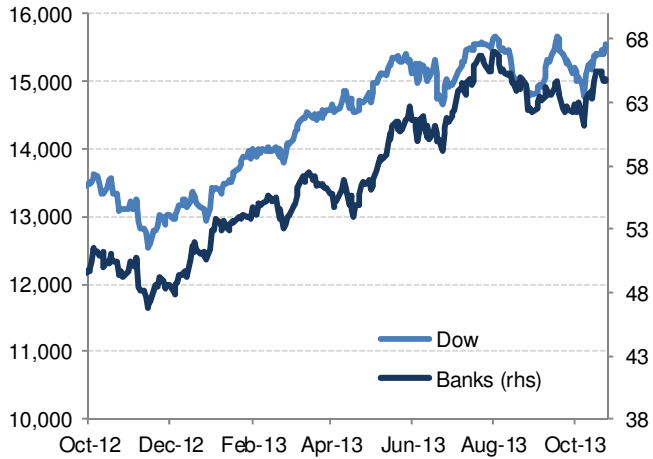
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas,%)



Source: BBVA Research

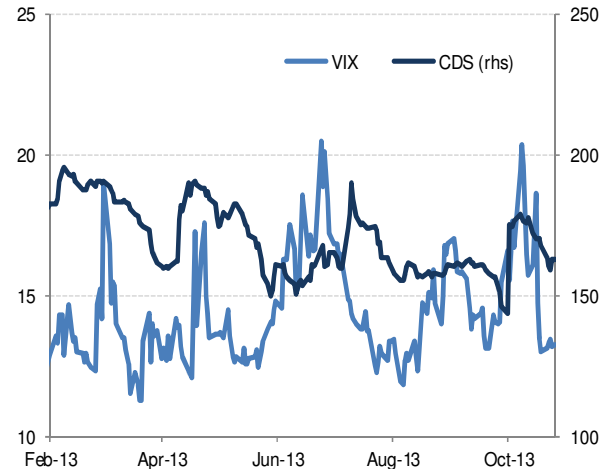
Financial Markets

Graph 9
Stocks
(Index, KBW)



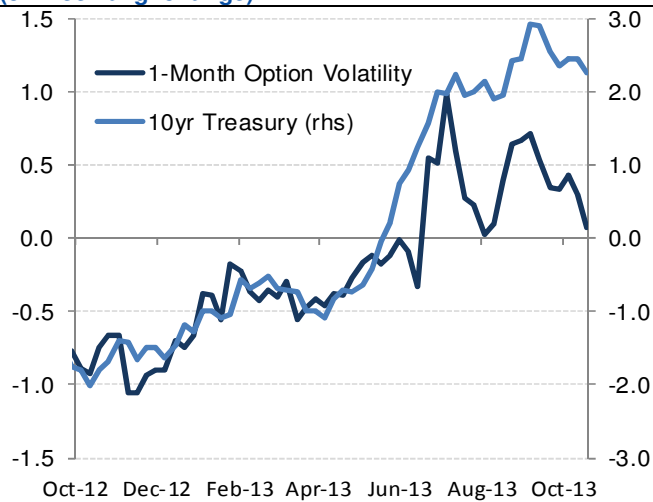
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



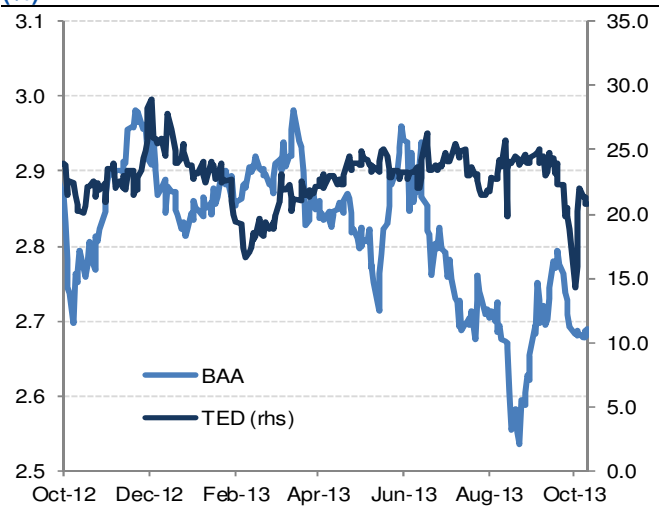
Source: Bloomberg & BBVA Research

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



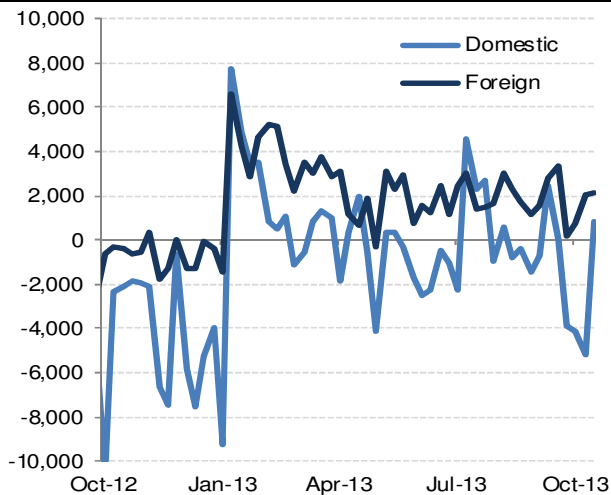
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



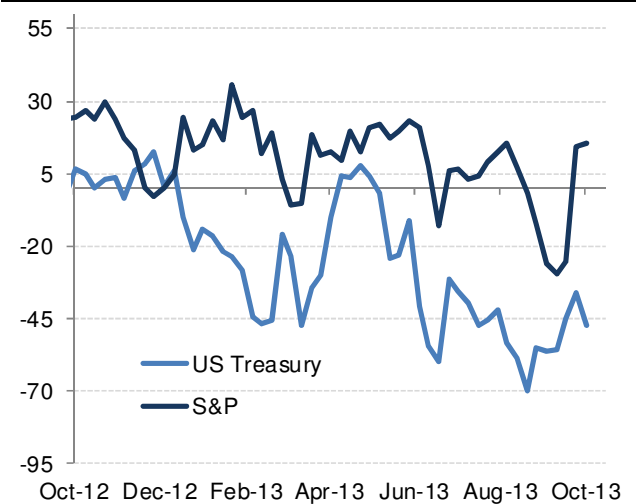
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

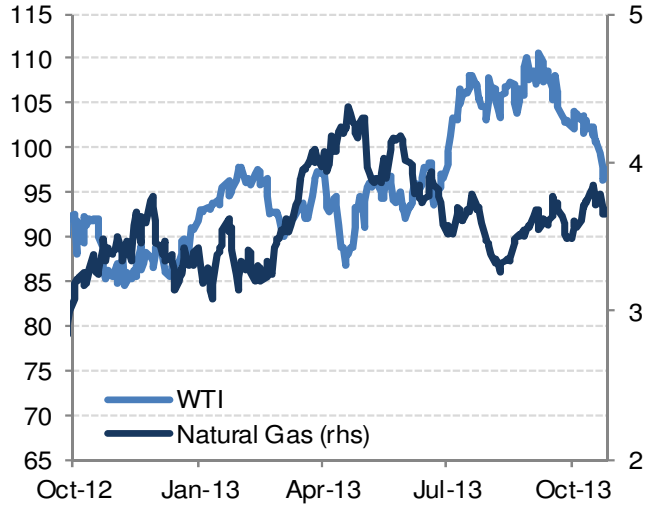
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

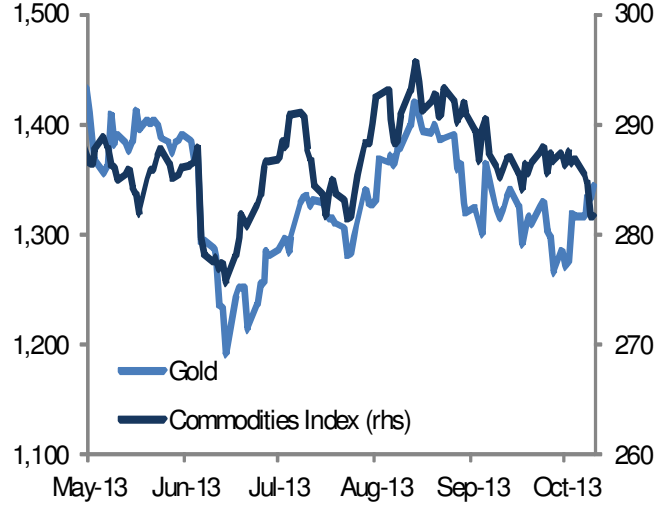
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



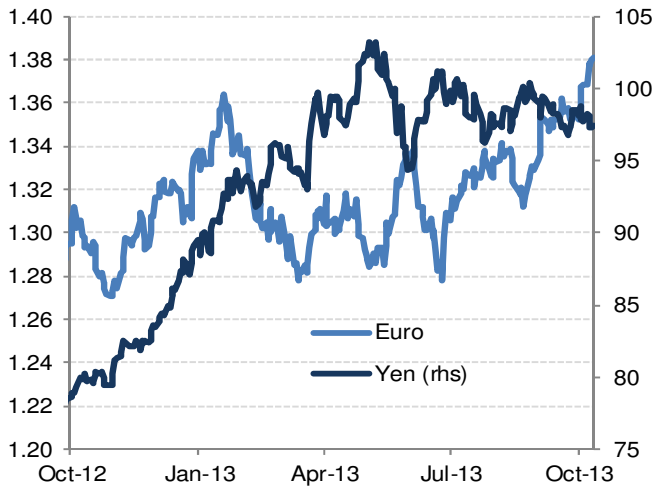
Source: Bloomberg & BBVA Research

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



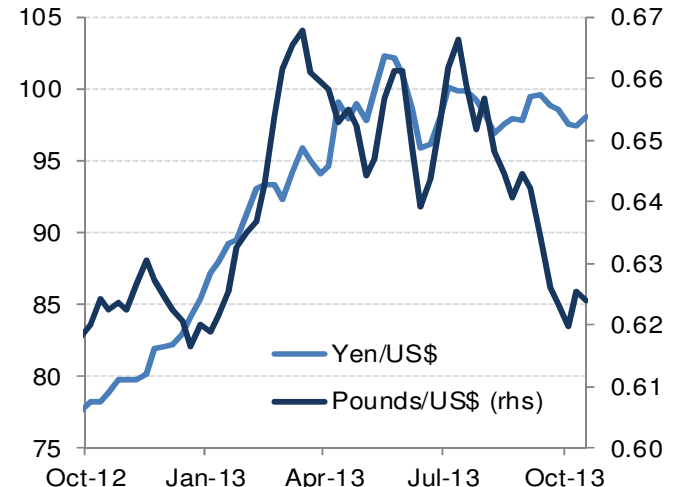
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



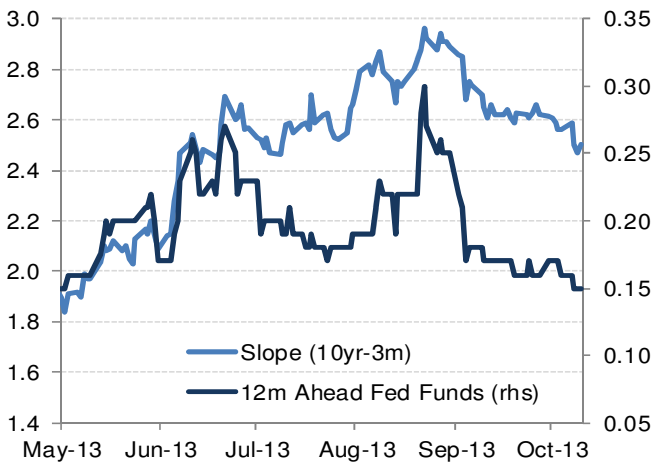
Source: Bloomberg & BBVA Research

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



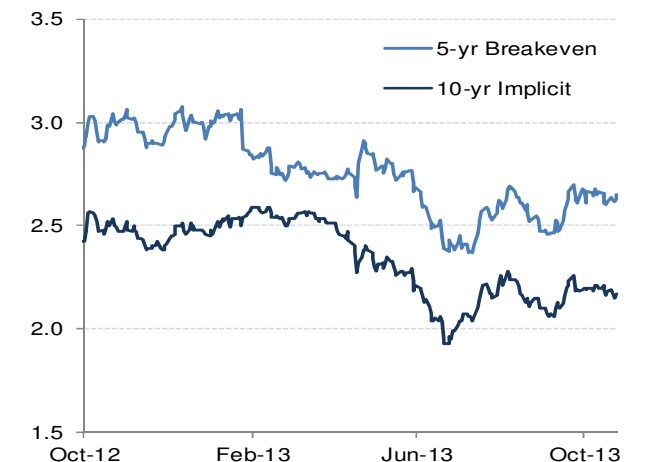
Source: Haver Analytics & BBVA Research

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)	2.63	2.63	2.50	3.14
Heloc Loan 30K	5.26	5.28	5.19	5.45
5/1 ARM*	3.00	3.07	3.07	2.90
15-year Fixed Mortgage*	3.24	3.33	3.37	3.23
30-year Fixed Mortgage*	4.13	4.28	4.32	3.99
Money Market	0.42	0.41	0.42	0.51
2-year CD	0.81	0.81	0.80	0.84

*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	0.10	0.08	0.16
3M Libor	0.24	0.24	0.25	0.31
6M Libor	0.35	0.36	0.37	0.55
12M Libor	0.61	0.61	0.63	0.88
2yr Sw ap	0.43	0.45	0.47	0.42
5yr Sw ap	1.43	1.50	1.55	0.92
10Yr Sw ap	2.65	2.72	2.78	1.87
30yr Sw ap	3.56	3.63	3.66	2.73
30day CP	0.12	0.15	0.12	0.29
60day CP	0.15	0.15	0.12	0.24
90day CP	0.15	0.15	0.13	0.27

Source: Bloomberg & BBVA Research

Quote of the Week

Charles Evans, President of the Federal Reserve Bank of Chicago
Shutdown May Delay Taper by Months
21 October 2013

“October is a tough one. December? I think we need a couple of good labor reports and evidence of increasing growth, GDP growth. It's probably going to take a few months to sort that out.”

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
28-Oct	Industrial Production (MoM)	SEPT	0.30%	0.40%	0.40%
28-Oct	Capacity Utilization	SEPT	77.90%	78.00%	77.80%
28-Oct	Pending Home Sales (MoM)	SEPT	0.70%	-0.20%	-1.60%
28-Oct	Dallas Fed Manufacturing Survey	OCT	10.30	--	12.80
29-Oct	Producer Price Index (MoM)	SEPT	0.20%	0.20%	0.30%
29-Oct	Producer Price Index, Core (MoM)	SEPT	0.20%	0.10%	0.00%
29-Oct	Retail Sales (MoM)	SEPT	0.20%	0.00%	0.20%
29-Oct	Retail Sales, Ex Autos (MoM)	SEPT	0.30%	0.40%	0.10%
29-Oct	S&P Case-Shiller HPI (YoY)	AUG	12.56%	12.40%	12.39%
29-Oct	Consumer Confidence	OCT	76.30	75.00	79.70
30-Oct	ADP Employment Report	OCT	151K	150K	166K
30-Oct	Consumer Price Index (MoM)	SEPT	0.10%	0.20%	0.10%
30-Oct	Consumer Price Index, Core (MoM)	SEPT	0.10%	0.20%	0.10%
31-Oct	Initial Jobless Claims	26-Oct	340K	340K	350K
31-Oct	Continuing Claims	19-Oct	2825K	--	2847K
31-Oct	Chicago PMI	OCT	55.10	55.00	55.70
1-Nov	Motor Vehicle Sales	OCT	15.70M	15.40M	15.21M
1-Nov	ISM Manufacturing Index	OCT	56.00	55.00	56.20

Forecasts

	2011	2012	2013	2014	2015	2016
Real GDP (% SAAR)	1.8	2.8	1.6	2.3	2.5	2.8
CPI (YoY %)	3.1	2.1	1.7	2.2	2.4	2.4
CPI Core (YoY %)	1.7	2.1	1.8	2.0	2.1	2.3
Unemployment Rate (%)	8.9	8.1	7.5	7.0	6.4	5.9
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25	0.50	1.50
10Yr Treasury (eop, % Yield)	1.98	1.72	2.90	3.37	3.64	4.05
US Dollar/ Euro (eop)	1.31	1.31	1.30	1.30	1.38	1.36

Bold numbers reflect actual data

Note:

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