US Weekly Flash

Highlights

FOMC Announces Long-Awaited Tapering, Reduces Asset Purchases to $75bn

- The long-awaited tapering announcement has finally arrived, setting up 2014 to be the year of the Fed. FOMC members agreed to reduce the pace of asset purchases by $10bn to $75bn per month beginning next January, in an even split between Treasuries and mortgage-backed securities (MBS). The FOMC meeting statement noted no change to the forward guidance thresholds. The pace of asset purchases remains data driven. Labor market improvements were the main driver in the FOMC's decision to taper, outweighing concerns of low inflation. To that point, most FOMC members agree that inflation will trend towards the 2.0% target. There was not much reaction to the in the Treasury market given that tapering had already been priced in. The statement today led to a 4 basis point increase in the 10-Year Treasury yield to 2.88% as well as a 1.66% increase in the S&P500. The surprise uptick in equities reflects the FOMC success in emphasizing the importance of balance sheet holdings –stock- relative to the monthly purchases –flows.
- The Fed met our expectations for the initial timing of reduction in the pace of asset purchases, and in particular regarding the even split between Treasuries and MBS. Looking ahead, we expect the Fed to continue with cautious measured steps for reducing QE3. We expect that this gradual tapering process could take us through to 4Q14, given that the Fed will uphold the $10bn increments. Now that the tapering process has begun, questions on monetary policy will shift toward the ability to assure a smooth normalization process, including the unwinding of the balance sheet, the effectiveness of additional policy tools such as term deposits and interest rate on excess reserves. In addition, forward guidance thresholds and the timing of the first rate hike will draw more attention.

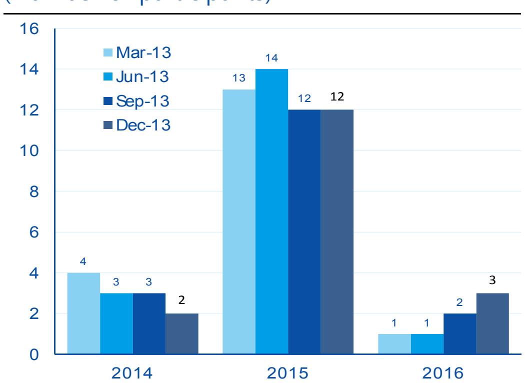
GDP Revised Upwards to 4.1% Fueled by Increased Consumption

- The BEA's final estimate showed an upward revision to 4.1% on a QoQ seasonally-adjusted annualized basis (SAAR). The figure is reasonably higher than the second estimate of 3.6% and is a leap from the initial report of a 2.8% increase in GDP. Growth in consumption is encouraging and is a sign that households are more liberally spending, which could be reflected in a higher indicator for consumer confidence. While the upwards revision of consumption and nonresidential investment numbers is encouraging, we believe their growth is still comparably weak to maintain desired levels of economic growth, as a significant portion of the final 2Q13 GDP estimate is vastly attributed to the buildup in private inventories. Growth over the next few quarters will be crucial in determining whether the economy is able to sustain this momentum, as previous bursts of growth have disappeared in the past.

Graph 1

Appropriate Timing of Policy Firming

(Number of participants)

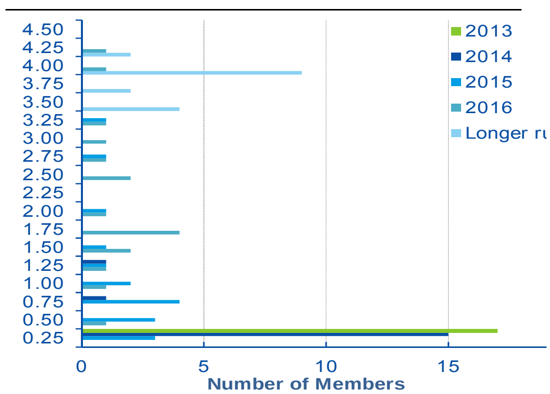


Source: Federal Reserve & BBVA Research

Graph 2

Target Federal Funds Rate Forecast

(Year-end %)



Source: Federal Reserve & BBVA Research

Week Ahead

Personal Income and Outlays (November, Monday 8:30 ET)

Forecast: 0.6%, 0.6%	Consensus: 0.5%, 0.5%	Previous: -0.1%, 0.3%

Personal income growth has been growing at a healthy clip for the majority of 2013, although consumption has not followed the trend. This appears to be partially attributed to personal savings remaining higher than average and consumer spending habits staying conservative. Additionally, the prospect of income growth remains low as the labor market continues to grow sluggishly post-recovery. After several consecutive strong months, October saw a slight decline in personal income for the first time since January. On a positive note, the recent employment reports shows the employment situation beginning to pick up after stagnating in the middle of the year. We feel that the wave of positive economic news could increase consumer confidence and encourage consumers to spend more freely. Furthermore, the continued rise in asset prices in equities and real estate, particularly the stock market reaching record highs in November, point to a larger-than-expected boost in personal income for December to finish out the year.

Consumer Sentiment (December, Monday 9:55 ET)

Forecast: 83.0	Consensus: 83.0	Previous: 82.5

Over the past two months, consumer sentiment has picked up after free-falling between July and September, propelled by encouraging economic data, lower gasoline prices, and a positive stock market. The initial reading for consumer sentiment in December was very encouraging, as the index reached the highest level since May. Furthermore, the unexpected announcement of a budget deal is an encouraging sign that Congress is finally working together in negotiations. Q413 has shown promising signs of optimism after a drastically different tone during the first nine months of the year; we expect to see a stronger-than-expected consumer sentiment report in December due to a combination of increased political certainty, tempered inflation expectations, and suppressed gasoline prices that provide consumers with extra purchasing power.

Durable Goods Orders, Ex. Transportation (November, Tuesday 8:30 ET)

Forecast: 1.3%, 0.7%	Consensus: 1.8%, 0.7%	Previous: -2.0%, -0.1%

After an encouraging 4.2% increase in September, durable goods orders fell by 1.62% in October partially attributed to a sharp decline in transportation equipment. However, we expect durable goods orders to rise in November, driven by recent boosts in manufacturing and hiring. Additionally, because building permits have accelerated rapidly during the second half of the year, we believe that increases in electric equipment and appliances demand will be a catalyst for overall durable goods orders in November. Excluding transportation, we expect the measure to increase in November after falling slightly in October due mostly to the encouraging manufacturing numbers.

New Home Sales (November, Tuesday 10:00 ET)

Forecast: 452K	Consensus: 450K	Previous: 444K

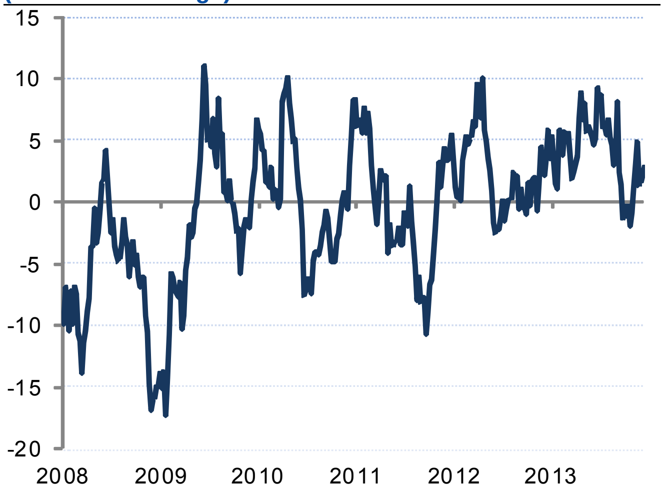
New homes sales are expected to rise in November but at a slower pace as rising mortgage rates may discourage potential home buyers. The recent increase in mortgage rates may deter homebuyers who were hoping to tie their payments down at a lower rate, causing them to refrain from purchasing a new home immediately. Though it may not affect all home buyers, a substantial amount of them may be pushed out of the market after interest rates rose to a certain rate and they were forced to rethink their purchase. On the other hand, given the expectation of further increases in long-term interest rates, borrowers may be inclined to speed up the purchase process in order to lock into lowest possible rates.

Market Impact

Looking forward, next week is going to be pretty quiet as the Fed already announced its next monetary policy move and there are no major economic indicators to be released for the rest of the month. Therefore, markets are expected to react positively but moderately to this week's economic indicators.

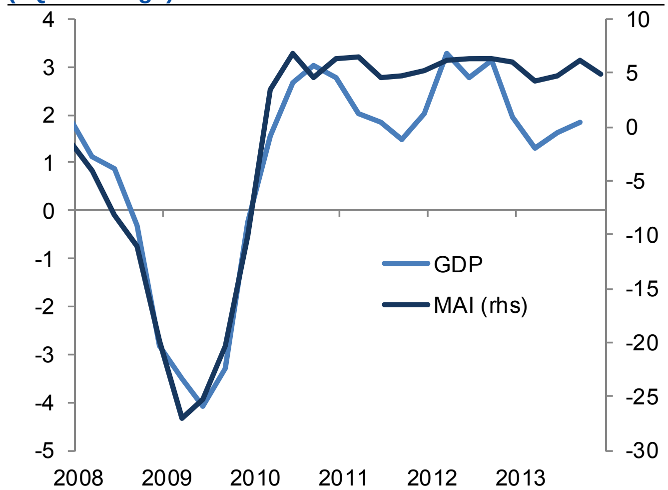
Economic Trends

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



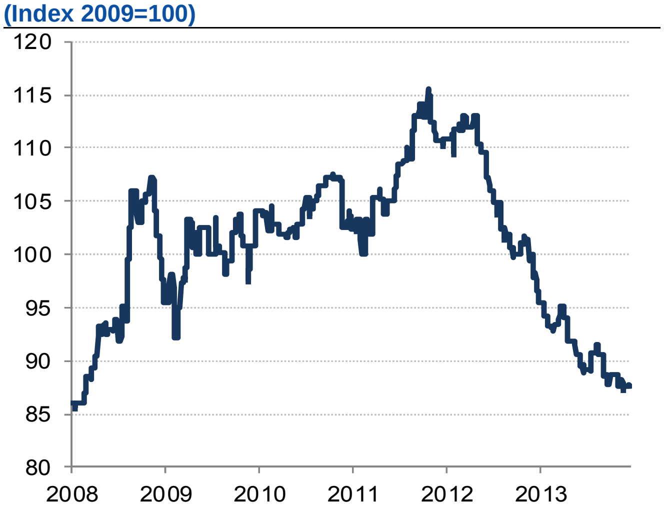
Source: BBVA Research

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



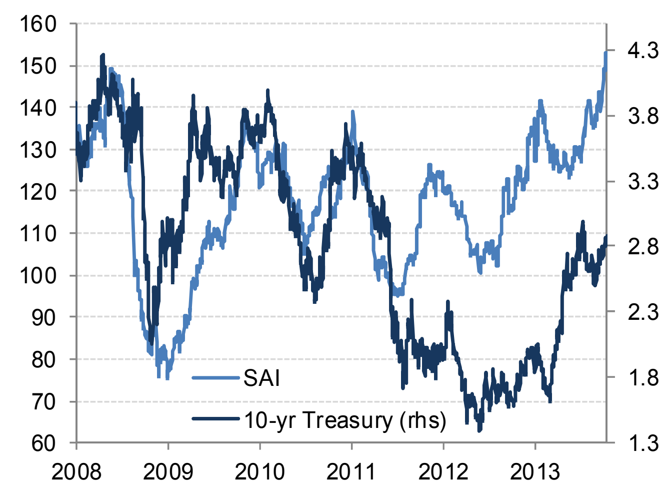
Source: BBVA Research & BEA

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



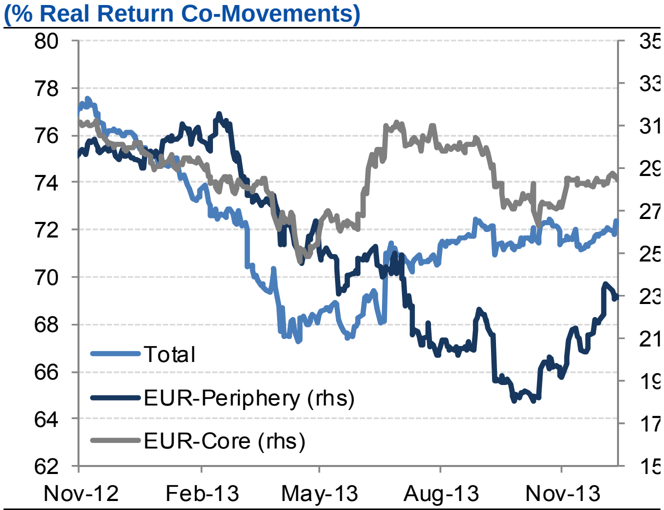
Source: BBVA Research

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



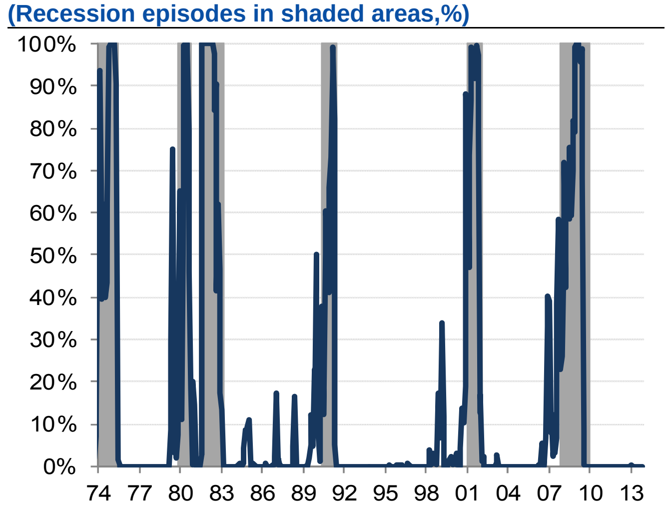
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

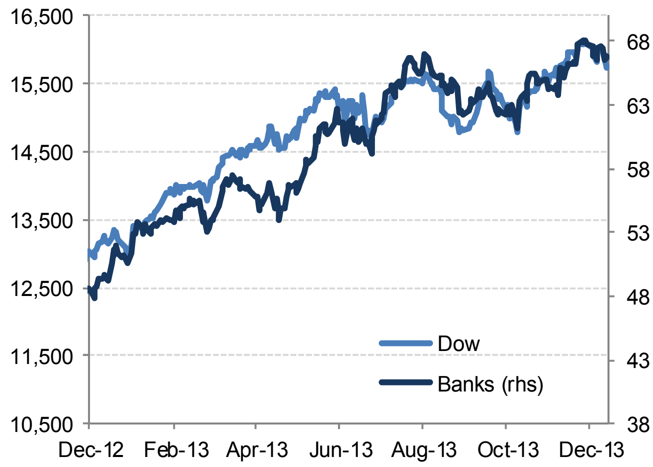
Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas,%)



Source: BBVA Research

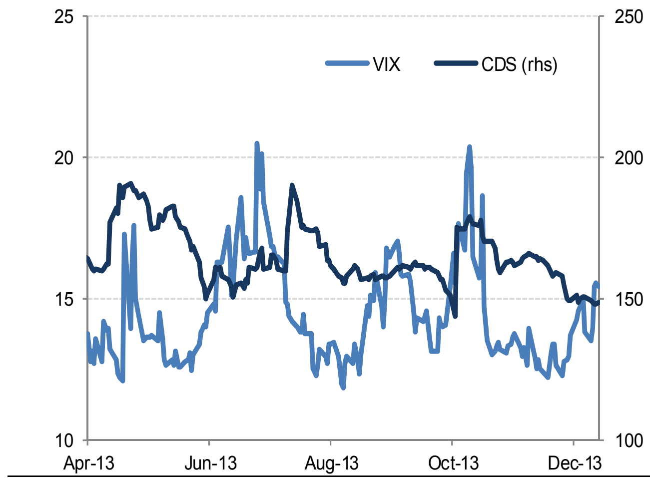
Financial Markets

Graph 9
Stocks (Index, KBW)



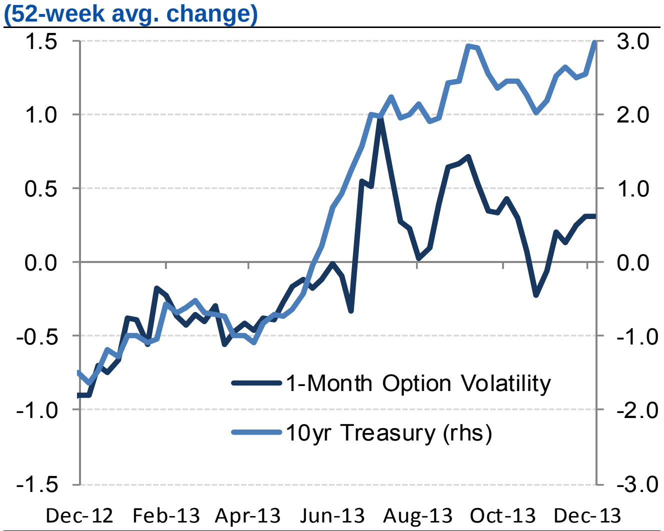
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS (Indices)



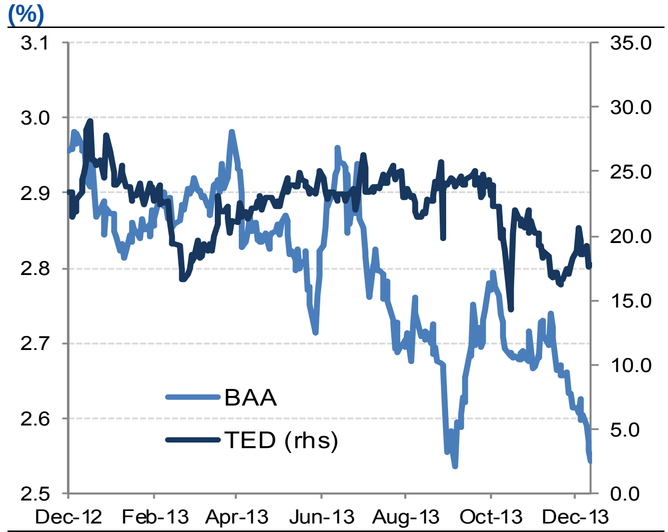
Source: Bloomberg & BBVA Research

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



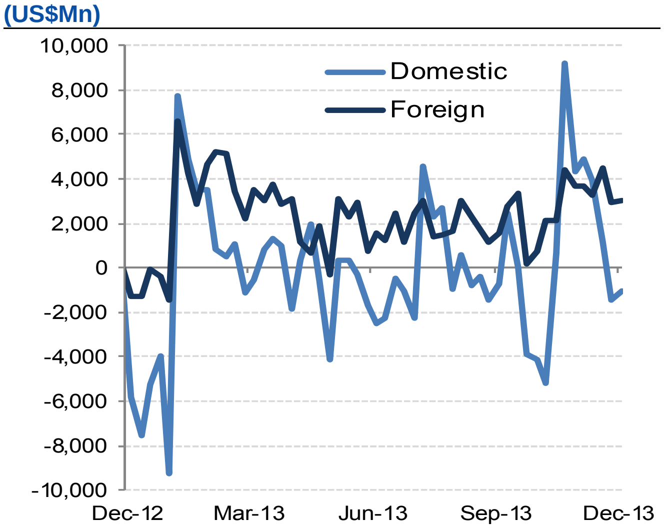
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads (%)



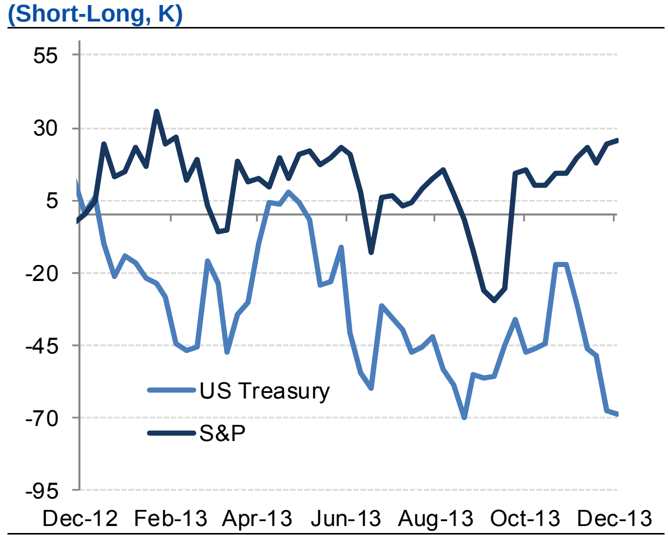
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

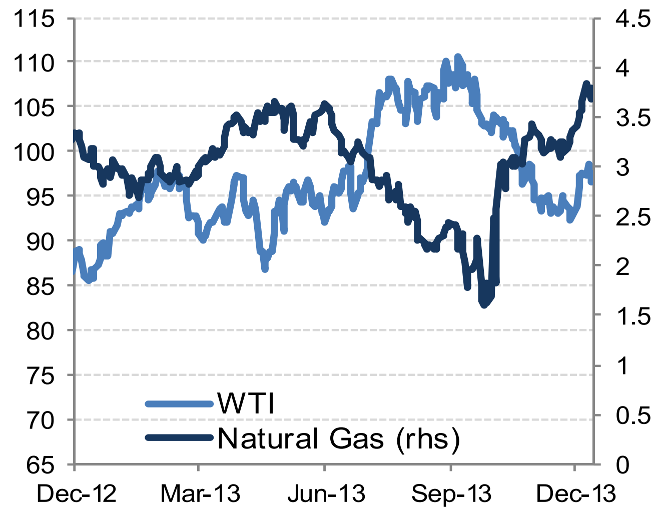
Graph 14
Total Reportable Short & Long Positions (Short-Long, K)



Source: Haver Analytics & BBVA Research

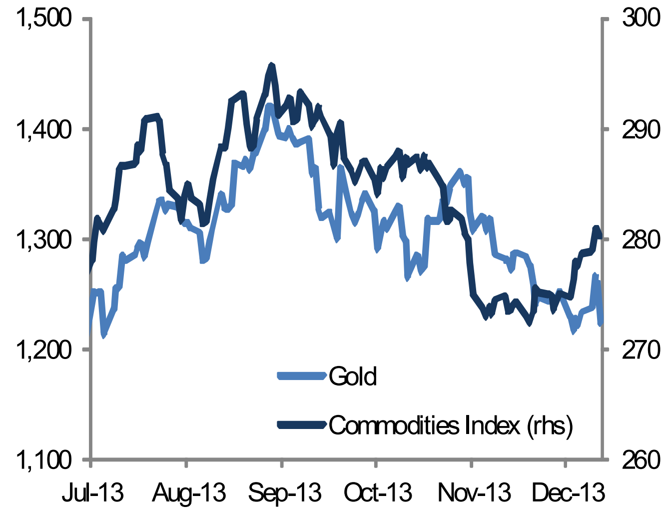
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



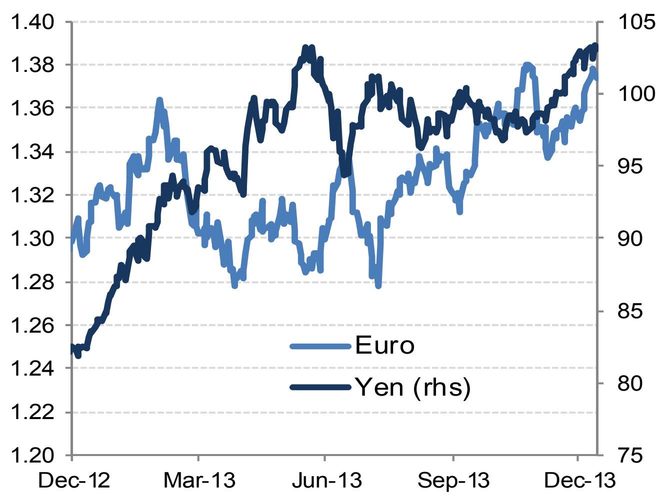
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US$ & Index)



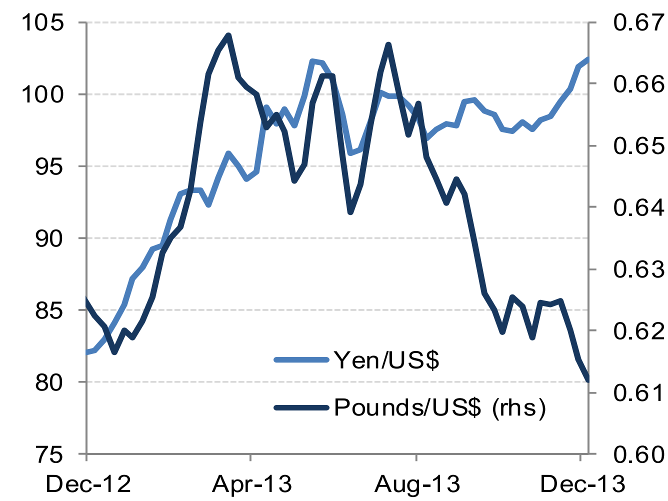
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



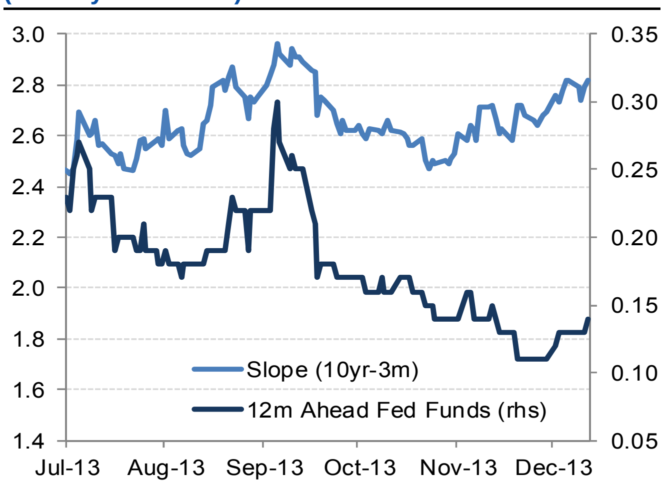
Source: Bloomberg & BBVA Research

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



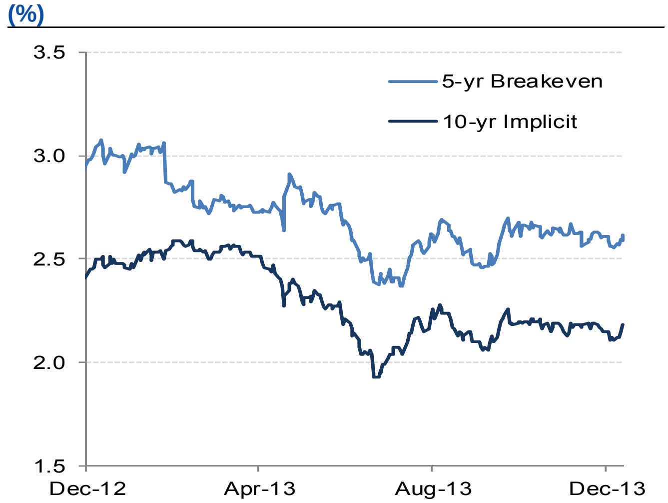
Source: Haver Analytics & BBVA Research

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)	14.23	14.23	14.23	14.10
New Auto (36-months)	2.67	2.66	2.68	2.76
Heloc Loan 30K	5.32	5.31	5.18	5.44
5/1 ARM *	2.96	2.94	2.95	2.90
15-year Fixed Mortgage *	3.51	3.43	3.27	3.23
30-year Fixed Mortgage *	4.47	4.42	4.22	3.99
Money Market	0.42	0.42	0.42	0.51
2-year CD	0.81	0.81	0.83	0.83

*Freddie Mac National Mortgage Homeowner Commitment US
Source: Bloomberg & BBVA Research

Table 2
Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
1M Fed	0.09	0.08	0.09	0.17
3M Libor	0.25	0.24	0.24	0.31
6M Libor	0.35	0.34	0.35	0.51
12M Libor	0.58	0.58	0.57	0.84
2yr Sw ap	0.45	0.43	0.38	0.40
5yr Sw ap	1.70	1.62	1.45	0.89
10Yr Sw ap	2.95	2.93	2.81	1.85
30yr Sw ap	3.77	3.78	3.75	2.78
30day CP	0.12	0.12	0.11	0.17
60day CP	0.14	0.12	0.11	0.18
90day CP	0.15	0.13	0.13	0.19

Source: Bloomberg & BBVA Research

Quote of the Week

Ben Bernanke, Chairman of the Federal Reserve Bank
Fed Trims QE Pace to $74 Billion on Labor Market Outlook
18 December 2013

"The steps that we take will be data dependent, if we're making progress in terms of inflation and continued job gains, then I imagine we'll continue to do, probably at each meeting, a measured reduction in purchases. If the economy slows, the Fed could skip a meeting or two, and if the economy accelerates it could taper a bit faster."

Economic Calendar

Date	Event	Period	Forecasts	Survey	Previous
23-Dec	Personal Income	Nov	0.6%	0.5%	-0.1%
23-Dec	Personal Spending	Nov	0.3%	0.1%	-0.1%
23-Dec	PCE Deflator MoM	Nov	0.1%	0.1%	0.0%
23-Dec	PCE Deflator YoY	Nov	0.9%	0.9%	0.7%
23-Dec	PCE Core MoM	Nov	0.1%	0.1%	0.1%
23-Dec	PCE Core YoY	Nov	1.2%	1.2%	1.1%
23-Dec	Univ. of Michigan Confidence	Dec	83.0	83.0	82.5
24-Dec	Durable Goods Orders	Nov	1.3%	1.8%	-2.0%
24-Dec	Durables Ex Transportation	Nov	0.7%	0.7%	-0.1%
24-Dec	House Price Index MoM	Oct	0.6%	0.5%	0.3%
24-Dec	New Home Sales	Nov	452K	440K	444K
24-Dec	New Home Sales MoM	Nov	1.8%	-0.9%	25.0%
26-Dec	Initial Jobless Claims	21-Dec	345K	347K	379K
26-Dec	Continuing Claims	21-Dec	2800K	2817K	2884K

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**	2.75	3.37	3.64	4.05
US Dollar/ Euro (eop)	**1.31**	**1.31**	1.30	1.30	1.38	1.36

Note: Bold numbers reflect actual data

Michael Soni
Michael.Soni@bbvacompass.com

BBVA | RESEARCH

| 2200 Post Oak Blvd, 21st Floor, Houston, Texas 77056 | Tel.: +1 713 831 7345 | www.bbvaresearch.com

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.