

US Weekly Flash

Highlights

Inflation up slightly in December as Fed begins tapering

The headline consumer price index for December increased by 0.3%, largely due to a surge in energy prices, specifically gasoline. Energy prices were up 2.1% MoM propelled by prices at the pump, which rose 3.1% in December. However, year-over-year rates showed that energy prices were mostly unchanged from a year ago, up a modest 0.5%. Even with the jump in December, gasoline prices were down 1.0% YoY in December, marking the fifth consecutive month for YoY price declines.

On a yearly basis, headline prices are up 1.5% and core prices are up 1.7% as inflation continues to hold below the Fed's target of 2.0%. The Federal Reserve has been cautious with regards to inflation and we expect the board to closely monitor the inflation rate as they continue on with tapering. The Fed has stated its intention to scale back the pace of asset purchases as the employment picture becomes brighter, so it will be interesting to see how they handle the balance with low inflation. Although we expect inflation to rise hand-in-hand with the economy as growth accelerates, tapering too quickly could put downward pressure on prices and increase the risk of low inflation or potential deflation. While the Fed looks more closely at the PCE inflation measure (which tends to run a bit lower than CPI), upcoming CPI data will remain an important indicator to watch.

JOLTS: Openings, hirings, and separations all post slight increases

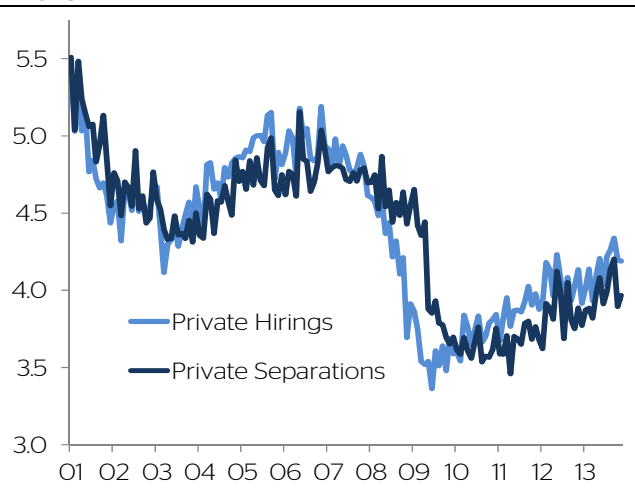
The Job Openings and Labor Turnover Survey (JOLTS) report for November 2013 showed little overall change from October. Job openings rose 70K (1.8%) for the fourth straight month to the highest level since March 2008. The sector breakdown was mixed, but overall, most experienced modest growth. Shifting to hiring, there was little overall change from October, but there were specific industries that saw significant movement. Total private hiring fell by 6K after declining 143K in October. As views on job availability improve, confidence on job mobility also rises and employees become more willing to leave current positions to find other work. This was the case in November, with separations up 53K after falling by 272K in the previous month. While the changes in November's JOLTS data appear minimal at face value, the underlying trends are becoming clearer. The growing discrepancy between job availability and hiring hints further at structural unemployment concerns, with businesses finding it more and more difficult to match job needs to the skillsets of available workers. Looking forward, we expect the December's report to remain stable or show a modest decline in hiring, as the unemployment report for December was less than stellar.

Graph 1
Consumer Price Inflation
YoY % Change



Source: ISM & BBVA Research

Graph 2
Private Hirings and Separations
Millions



Source: Conference Board & BBVA Research

Week Ahead

Jobless Claims (Week of January 18th, Thursday 8:30 ET)

Forecast: 330K

Consensus: 330K

Previous: 326K

The jobless claims report is generally regarded as one of the most volatile figures related to employment. This past week, initial jobless claims fell to 326K, the lowest level since November. After the unemployment rate dropped to 6.7% in December but the job market only added 74K jobs, the jobless claims data may give us better insight on the state of the labor force. Overall, initial claims have fallen significantly through the past year and reached 4-week average lows in October before trending upwards again over the last two months of the year. We expect that the data will continue to show a downward trend in claims throughout the coming quarter.

PMI Manufacturing Index Flash (January, Thursday 8:58 ET)

Forecast: 54.8

Consensus: 55.0

Previous: 54.4

Manufacturing indicators have been relatively strong throughout the past few months as the sector has helped propel the economy forward, coming as a relief amid several pessimistic forecasts early in 2013. Production continues to reach new heights and the employment picture is slowly looking brighter, an encouraging sign that manufacturing should continue moving forward in a positive light. As we enter the new year, we expect manufacturing to steadily climb upwards in 2014 and continue to be a significant force in boosting economic activity. The PMI flash should follow in line with other manufacturing surveys for the month to suggest overall expansion in the sector.

Existing Home Sales (December, Thursday 10:00 ET)

Forecast: 4.92M

Consensus: 4.95M

Previous: 4.90M

Existing home sales are expected to remain mostly unchanged in December as housing activity remains slow to close out the year. Pending home sales, which are a leading indicator for existing home sales, partially reversed its downward trend in November, but not enough to suggest a big uptick in closings for the coming months. In November, sales of existing homes slumped for the third consecutive month, down 4.3% MoM which marked the lowest pace of the year, an indication of a slowing housing market at year-end. On a YoY basis, existing home sales fell 1.2%, the first annual decline in over two years. The slump could be attributed to rising mortgage rates in recent months, as the 30-year fixed mortgage rose jumped above 4.0% in the latter half of 2013. Furthermore, the median sales price of existing homes has increased significantly, rising at double-digit rates throughout most of the year. This hit to affordability is should be temporary, but for now it keeps our expectations for existing home sales tempered.

Leading Indicators (December, Thursday 10:00 ET)

Forecast: 0.2%

Consensus: 0.0%

Previous: 0.8%

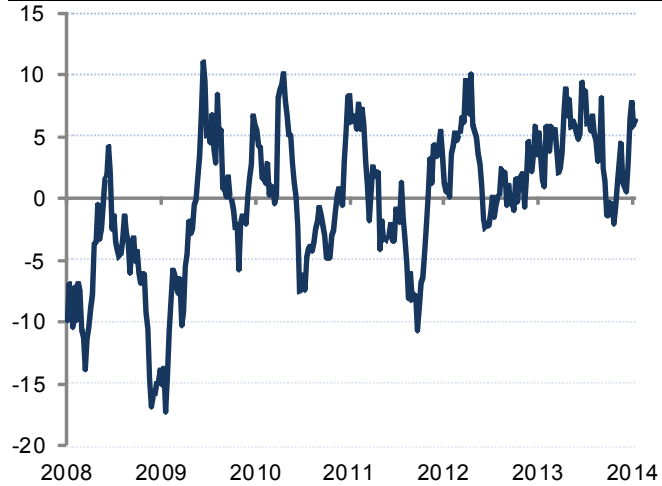
The leading indicators report outpaced estimates in November, increasing 0.8% MoM after posting an increase of 0.1% in October. Recent gains have mostly been driven by an increase in manufacturers' new orders, a larger spread between the 10-year treasury bond and Fed Funds rate, and an appreciation of the stock market. For December, we expect a jump in consumer expectations to push the leading indicators upward and a slowdown in building permits to temper the indicator. The stock market was up slightly last month, and the interest rate spread remained relatively stable. Coming off of a very strong gain in November, the leading indicators index should increase but at a much slower pace in December.

Market Impact

The markets have finally slowed down after digesting the dismal unemployment rate early this month. With a shortened and an exceptionally quiet week in terms of economic activity, we are not expecting any significant market movement. Markets will be holding relatively quiet in preparation for the following week, which is chalk full of major indicators as well as another FOMC meeting announcement.

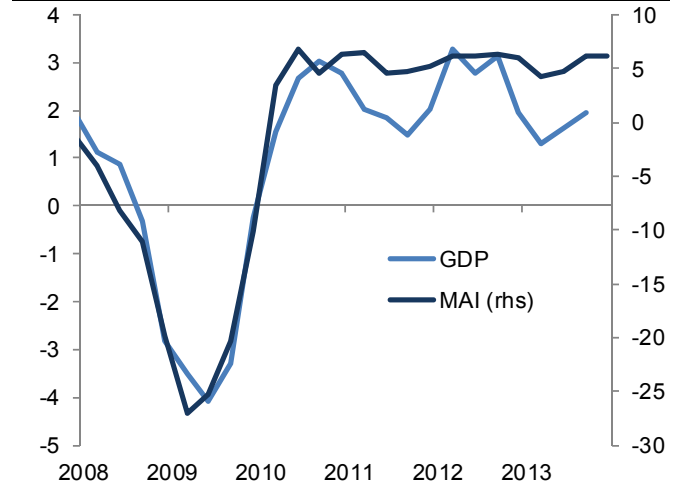
Economic Trends

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



Source: BBVA Research

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



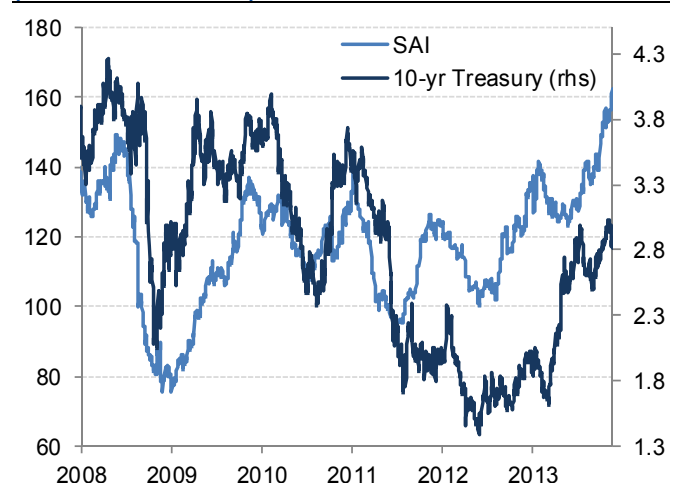
Source: BBVA Research & BEA

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



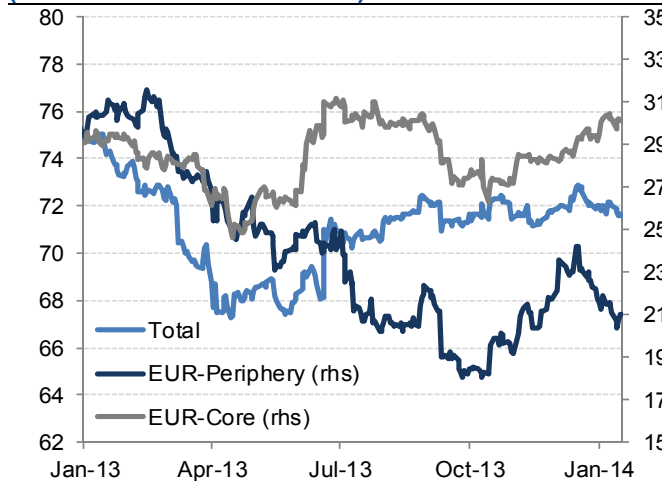
Source: BBVA Research

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



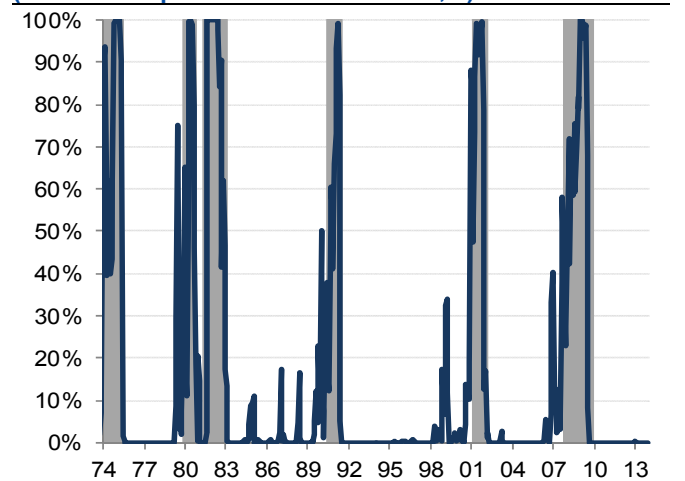
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

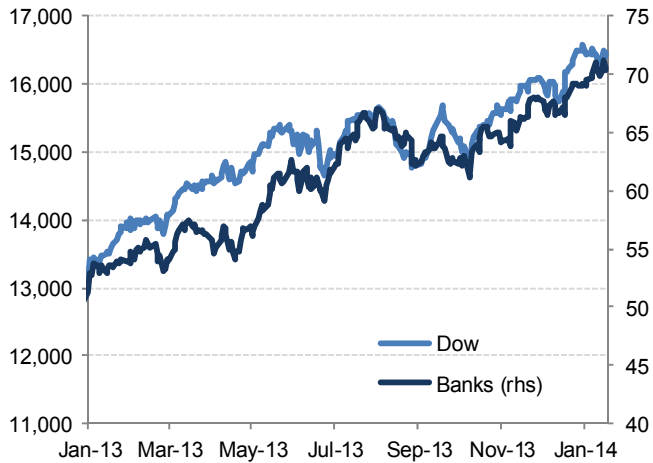
Graph 8
**BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)**



Source: BBVA Research

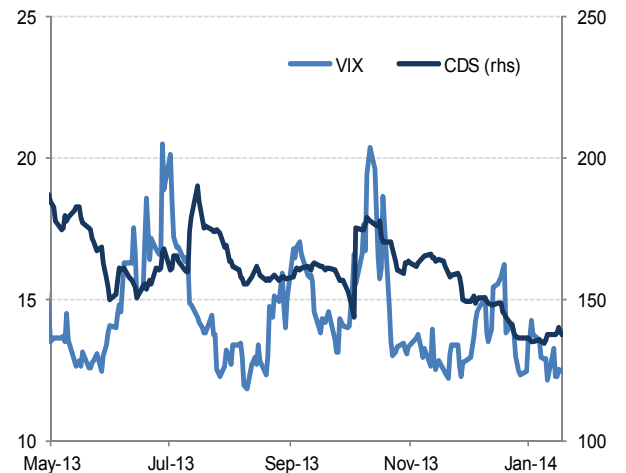
Financial Markets

Graph 9
Stocks
(Index, KBW)



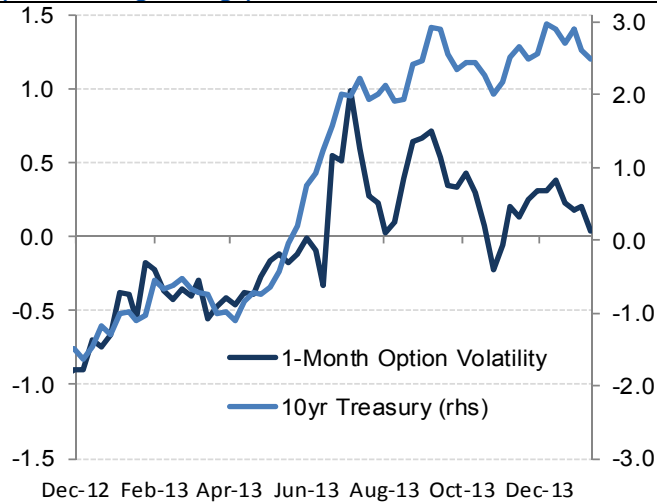
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



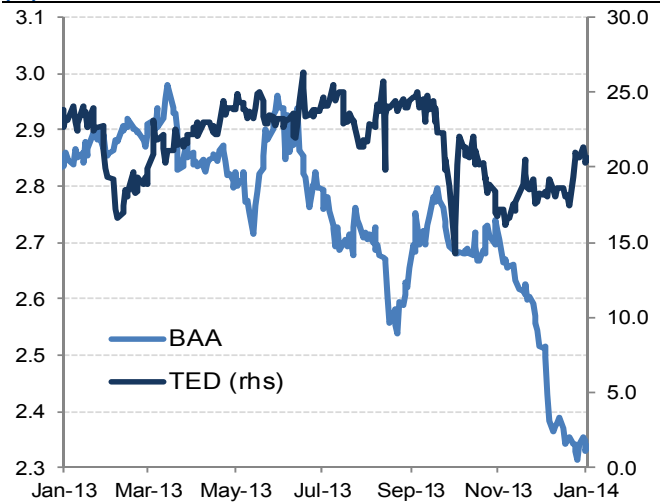
Source: Bloomberg & BBVA Research

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



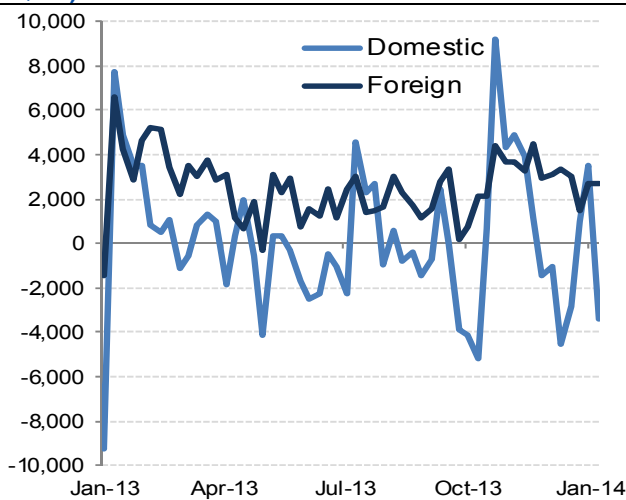
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



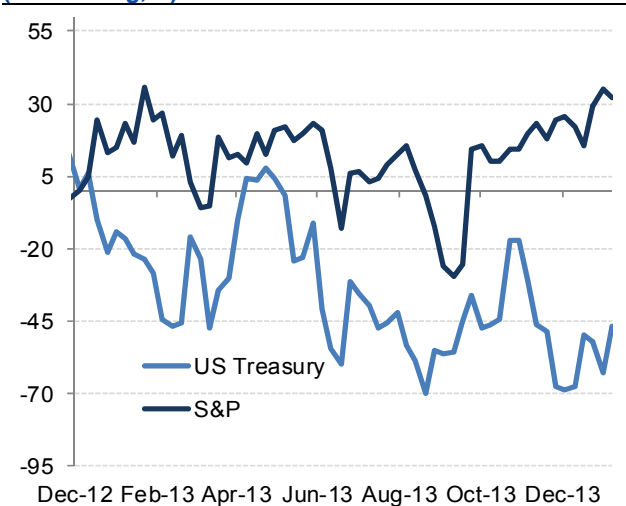
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

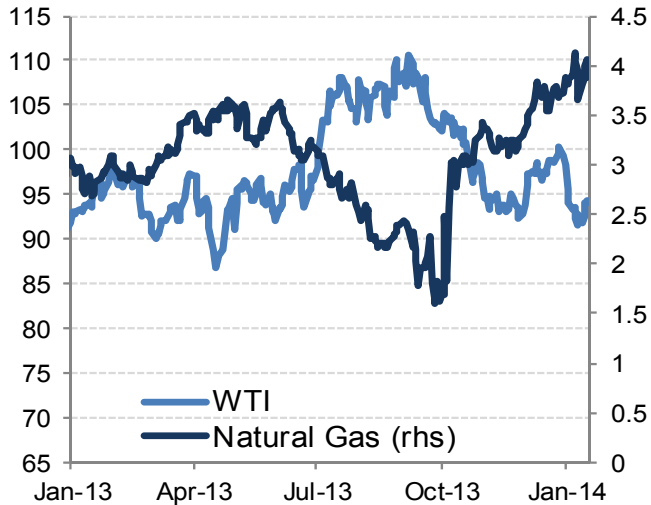
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

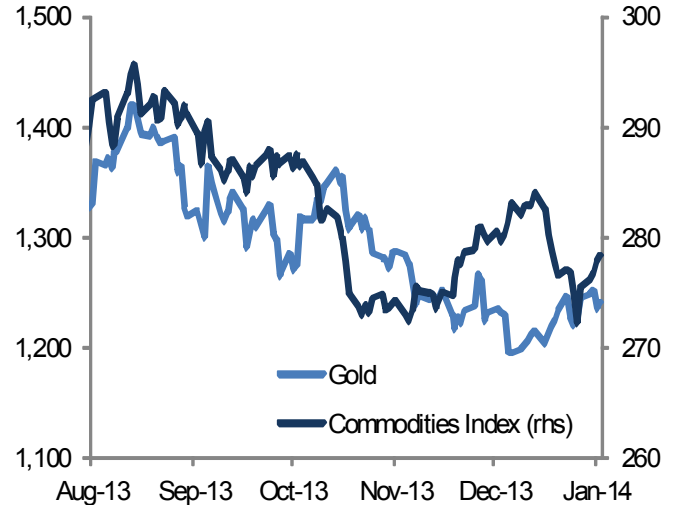
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



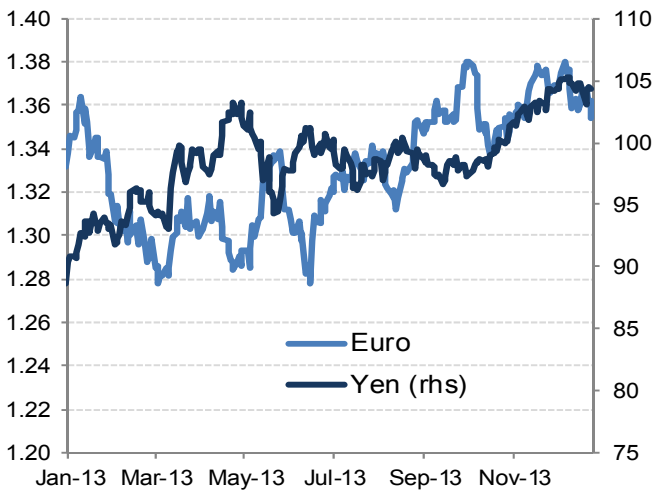
Source: Bloomberg & BBVA Research

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



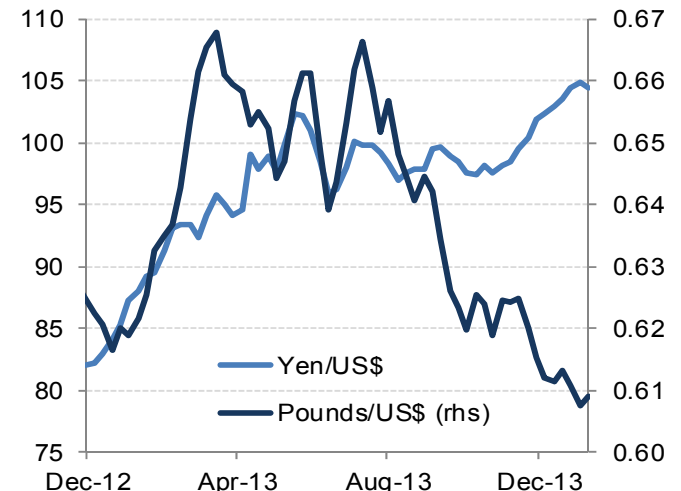
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



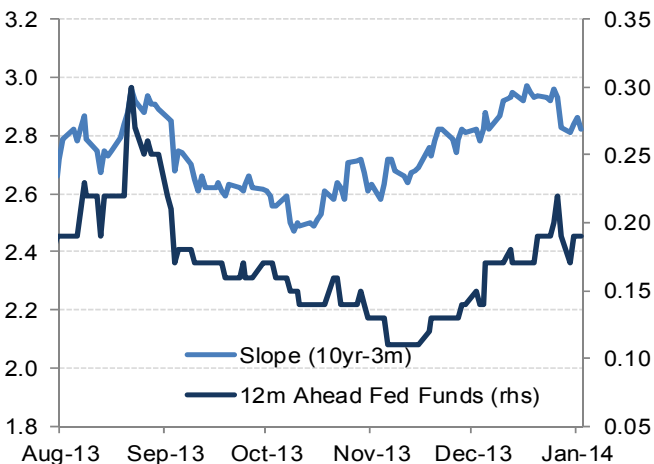
Source: Bloomberg & BBVA Research

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



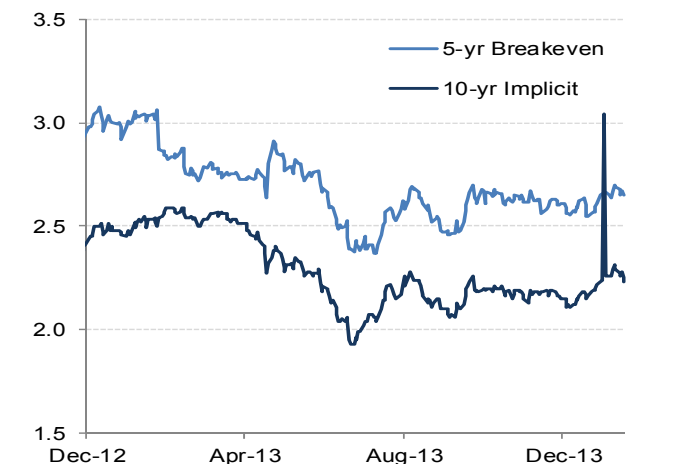
Source: Haver Analytics & BBVA Research

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	4-Weeks		
		Week ago	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)	2.42	2.44	2.67	2.69
Heloc Loan 30K	5.36	5.30	5.32	5.38
5/1 ARM*	3.10	3.15	2.96	2.90
15-year Fixed Mortgage*	3.45	3.56	3.51	3.23
30-year Fixed Mortgage*	4.41	4.51	4.47	3.99
Money Market	0.42	0.42	0.42	0.51
2-year CD	0.82	0.83	0.81	0.79

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

Table 1
Key Interest Rates (%)

	Last	4-Weeks		
		Week ago	ago	Year ago
1M Fed	0.07	0.07	0.09	0.14
3M Libor	0.24	0.24	0.25	0.30
6M Libor	0.33	0.34	0.35	0.48
12M Libor	0.57	0.58	0.58	0.81
2yr Sw ap	0.50	0.49	0.46	0.39
5yr Sw ap	1.73	1.71	1.70	0.90
10Yr Sw ap	2.93	2.95	2.95	1.90
30yr Sw ap	3.74	3.78	3.78	2.84
30day CP	0.13	0.12	0.11	0.16
60day CP	0.12	0.13	0.11	0.18
90day CP	0.14	0.13	0.13	0.19

Source: Bloomberg & BBVA Research

Quote of the Week

Ben Bernanke, Chairman of Federal Reserve Bank
Bernanke Says QE Works While Posing No Immediate Bubble Risk
16 January 2014

"Those who have been saying for the last five years that we're just on the brink of hyperinflation, I think I would just point them to this morning's CPI number and suggest that inflation is not really a significant risk of this policy."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
23-Jan	Initial Jobless Claims	18-Jan	330K	330K	326K
23-Jan	Continuing Claims	11-Jan	3010K	2900K	3030K
23-Jan	PMI Manufacturing Index	DEC	54.8	55	54.4
23-Jan	Existing Home Sales	DEC	4.92M	4.94M	4.90M
15-Jan	Existing Home Sales (MoM)	DEC	0.40%	0.70%	-4.30%
15-Jan	Leading Index	DEC	0.20%	0.20%	0.80%

Forecasts

	2011	2012	2013	2014	2015	2016
Real GDP (% SAAR)	1.8	2.8	1.8	2.5	2.5	2.8
CPI (YoY %)	3.1	2.1	1.5	2.3	2.4	2.4
CPI Core (YoY %)	1.7	2.1	1.8	2.3	2.4	2.3
Unemployment Rate (%)	8.9	8.1	7.4	6.8	6.2	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	3.03	3.37	3.64	4.05
US Dollar/ Euro (eop)	1.31	1.31	1.37	1.30	1.38	1.36

Note: Bold numbers reflect actual data. Forecast revisions pending.



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