

US Weekly Flash

Highlights

Existing Home Sales Finally on the Rise Again in December

- Existing home sales increased 1.0% MoM in December, breaking the three-month skid of consecutive decreases in sales and bouncing back from a 14-month low in November to finish on a positive note. On a YoY basis, existing home sales declined 0.6%, the second straight month in which it saw a YoY decline after nearly two years of increases. The decline could be attributed to stricter guidelines for loans which tighten credit as well as rising mortgage rates compared to last year, with the 30-year fixed-mortgage at 4.46% in December versus 3.35% at the end of 2012.
- On a YoY basis, the median sales price for existing homes increased 9.9%, a sign that homes are continuing to gain value which is encouraging for the housing market and homeowners. Even with rising prices, mortgage rate increases have stabilized and have helped boost affordability in recent months. Looking ahead to 2014, we still expect the pace of existing home sales to rise, backed by increased demand for homes and added jobs. Still, there are hurdles the housing market may need to overcome; now that the Fed has announced tapering, we expect interest rates to steadily rise, which could temper demand for homes.

Chicago Fed Activity Index Shows Slowing Economic Expansion in December

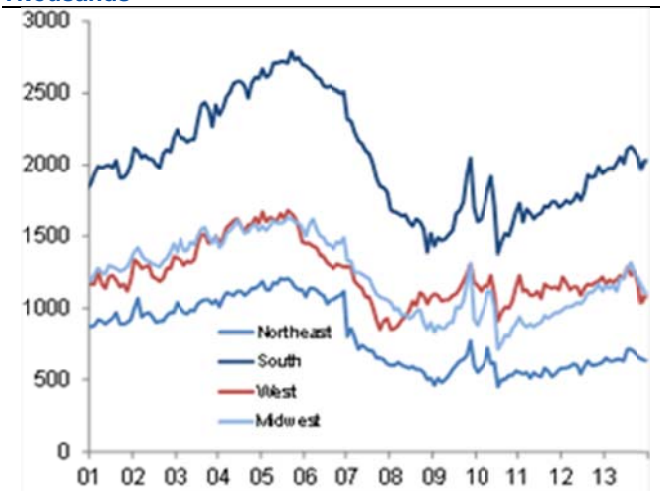
- The Chicago Fed's National Activity Index fell from 0.69 in November to 0.16, a sign that the pace of economic growth slowed during the last month of the year. Overall, the three month moving average moved down slightly from 0.36 to 0.33. Still, the fact that the index is positive is a signal that the economy still experienced above-average growth. The positive read marked the fifth consecutive month of growth, after the economy experienced six consecutive negative months prior.
- Specific components of the indicator show that most factors remained positive for the month, including employment, unemployment, and hours, as well as production & income. Personal consumption and housing dragged down on the index, with growth in economic activity falling further below the historical trend. Overall, this deceleration should not be cause for alarm as we enter 2014, in large part because other related indicators are hinting at optimism moving forward.

Graph 1
Existing Home Sales
SAAR YoY% Change



Source: ISM & BBVA Research

Graph 2
Existing Home Sales by Region
Thousands



Source: Conference Board & BBVA Research

Week Ahead

New Home Sales (December, Monday 10:00 ET)

Forecast: 463K

Consensus: 455K

Previous: 464K

New home sales are expected to remain mostly unchanged in December after falling slightly in November, in large part just correcting from a significant 17.6% jump in the month prior. On a YoY basis, new home sales numbers have been very positive through most of 2013, so it is clear that home buying has accelerated rapidly since 2012. A positive new home sales report for December could enhance views on consumer confidence, as those who are willing to purchase a house are typically in good financial standing. Although there has been gradual increases in mortgage rates over the last couple months of 2013, existing home sales were slightly positive in December, hinting at ongoing demand for homes. Furthermore, new home starts increased more than 23% in November, confirming our outlook for continued gains in home sales for the coming year.

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

Forecast: 1.5%, 0.4%

Consensus: 1.8%, 0.6%

Previous: 3.5%, 1.2%

Durable goods orders have been a bright spot through the latter half of 2013 as manufacturing activity has surprised largely to the upside since starting the year off on weak footing. November saw new orders for durable goods increase by 3.45% over October, and inventories have increased for every month since June, a sign that companies are expecting increased demand in the future. Typically, the increase in durable goods orders (most notably, the capital goods component) is a strong sign of economic confidence and activity, particularly for businesses. As we enter 2014, the manufacturing sector will no doubt be a crucial component as economic activity steadily accelerates. Despite the usual volatility in the indicator, we expect another healthy gain in December for both the headline and ex-transportation figures.

GDP, Advanced (4Q13, Thursday 8:30 ET)

Forecast: 2.8%

Consensus: 3.3%

Previous: 4.1%

Upward revisions to 3Q13 data showed that the economy expanded at an annualized rate of 4.1%, the highest growth rate in nearly two years; now, all eyes will be on the 4Q GDP report to see if the economy sustained this growth through the end of the year. The 3Q growth figure was led in part by steady gains in consumer spending, much of which has carried over into the fourth quarter, leading us to believe the advance GDP report will receive a tailwind from the holiday season. In regards to other contributors, exports should provide an upward bias to the advance estimate; data thus far for 4Q13 suggest relatively strong export growth, coming off of three straight months of declines in the third quarter. Much of the 3Q GDP figure was inflated by inventories, which does not necessarily reflect true growth in the economy if the inventory is not being moved or sold. Despite expectations for a slowdown in inventory growth towards the end of the year, stockpiles have continued to increase at a steady pace. Thus, we expect inventories to again have significant influence on growth for the final quarter of 2013. Overall, economic activity has been better-than-expected throughout 4Q and we expect to see another strong estimate for GDP, albeit at a slightly slower pace compared to 3Q.

Personal Income and Outlays (December, Friday 8:30 ET)

Forecast: 0.2%, 0.3%

Consensus: 0.2%, 0.2%

Previous: 0.2%, 0.5%

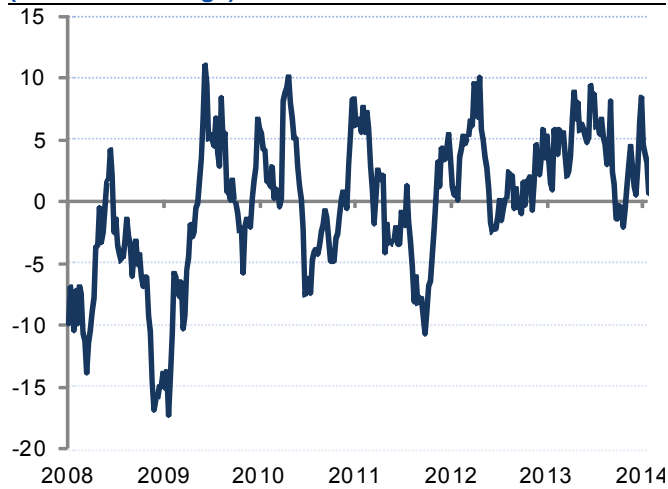
Personal income growth was mostly positive throughout 2013, particularly in real terms as inflation remained surprisingly low. Consequently, consumers saw an overall gain in purchasing power, simultaneously helping to boost consumption during the year. For December, we expect similar trends to continue as both income and spending growth hold relatively steady. Various economic indicators have noted rising consumer confidence on the back of improvements in job availability and income prospects, and we expect these sentiments to carry over into 2014. In the wake of the holiday season, we expect personal income and outlays to finish the year with modest increases for December. With personal consumption making up roughly two-thirds of GDP, it is crucial that personal income and outlays continue to accelerate as the economy moves forward with the recovery.

Market Impact

After the sell-off at the end of last week, this week will be crucial for markets with many influential indicators being released across several days. No doubt, investors will have the majority of their attention focused on the 4Q13 advanced GDP report released on Thursday to provide an update on the pulse of the economy for the last three months of the year. Also, the FOMC will be releasing another meeting statement on Wednesday, so investors will certainly pay attention to any monetary policy updates regarding the pace of tapering.

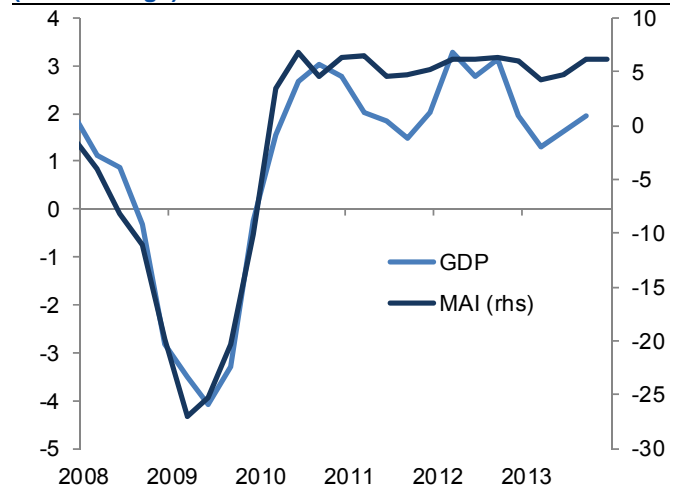
Economic Trends

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



Source: BBVA Research

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



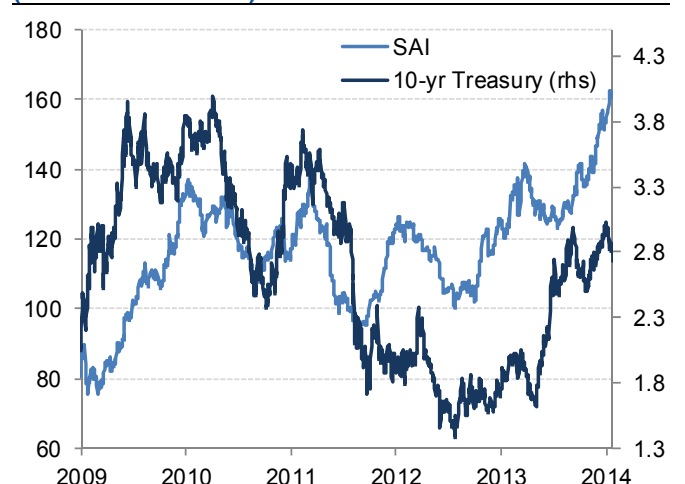
Source: BBVA Research & BEA

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



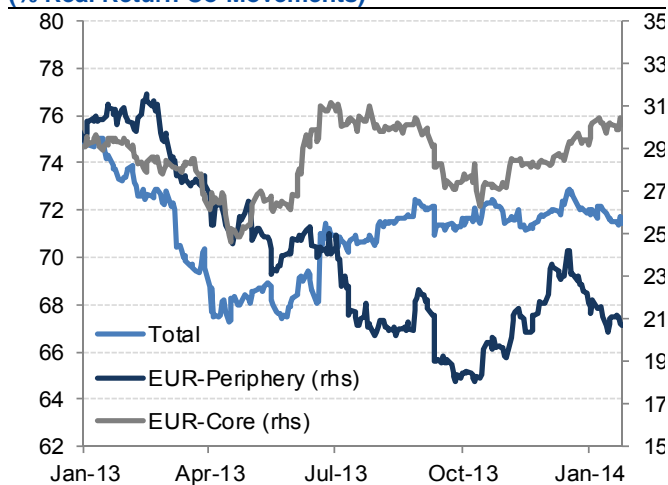
Source: BBVA Research

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



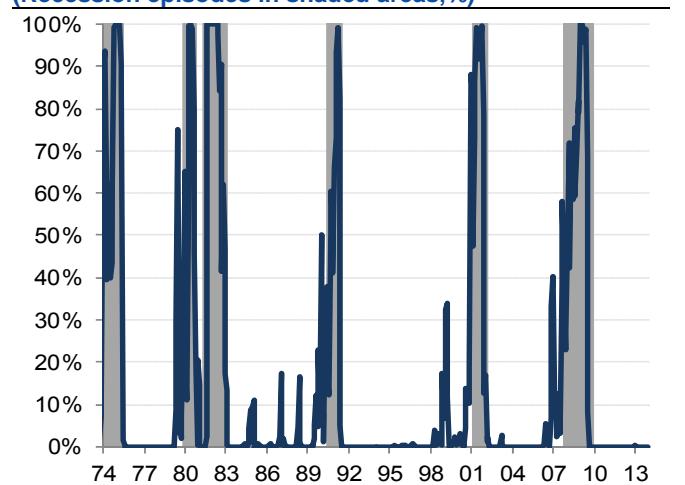
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

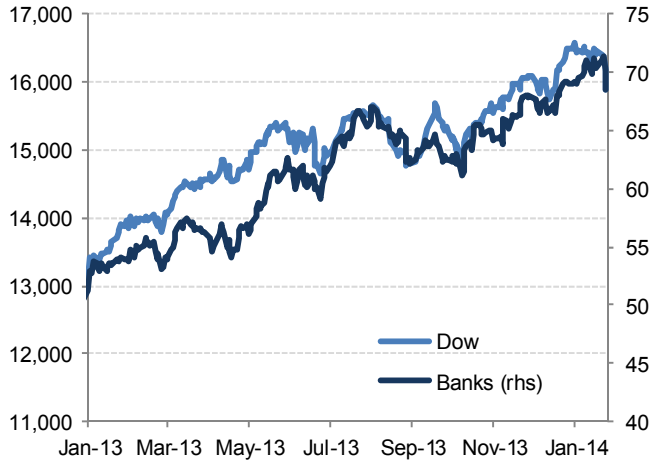
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

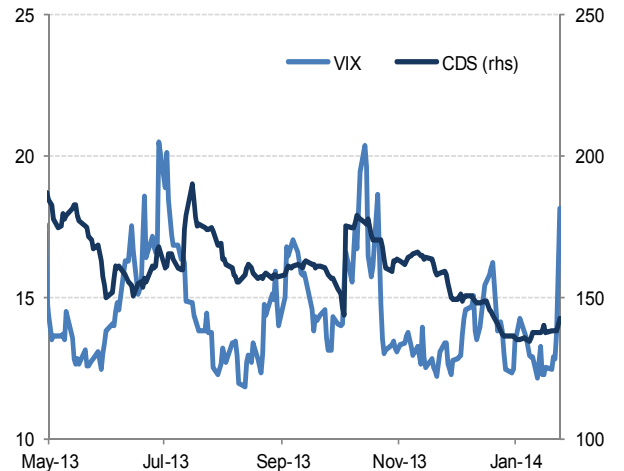
Financial Markets

Graph 9
Stocks
(Index, KBW)



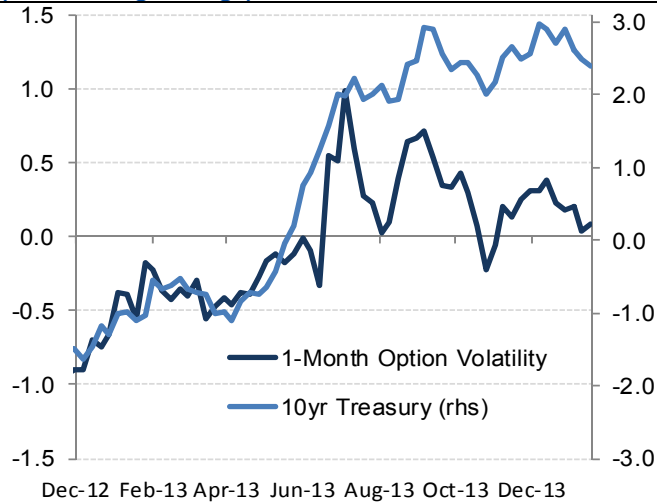
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



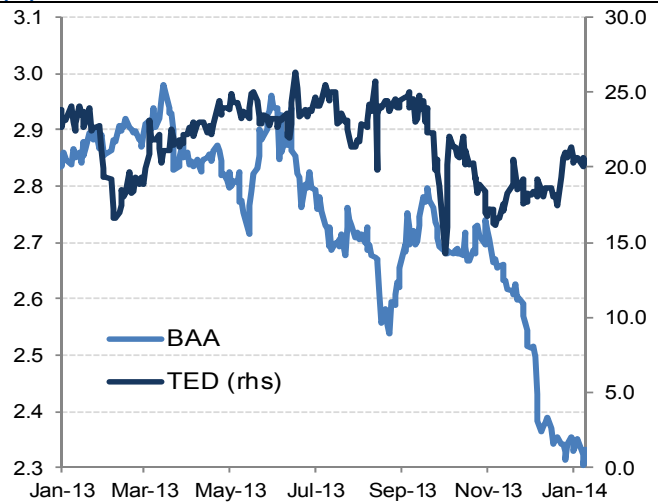
Source: Bloomberg & BBVA Research

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



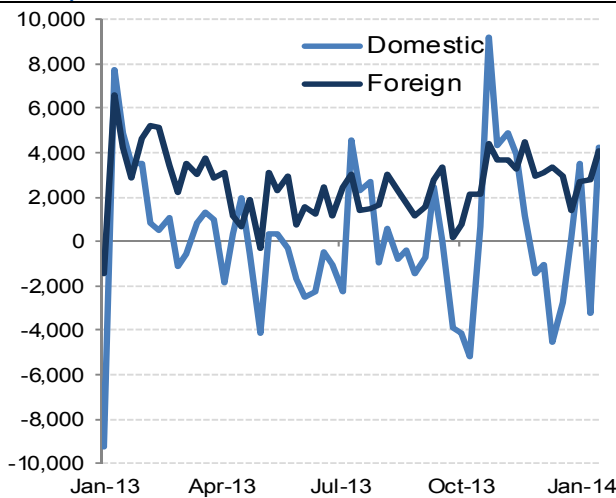
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



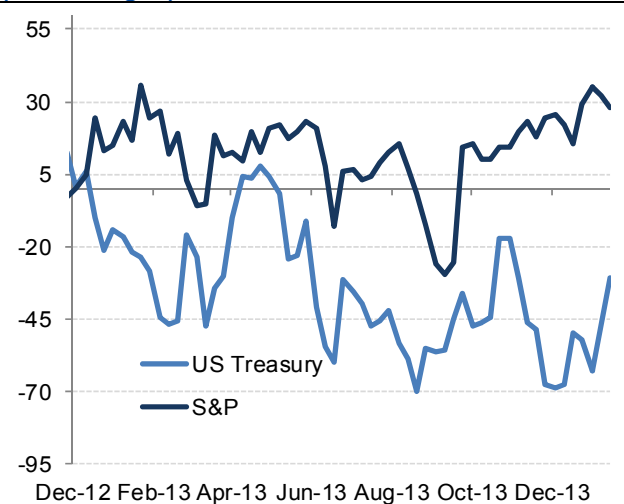
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

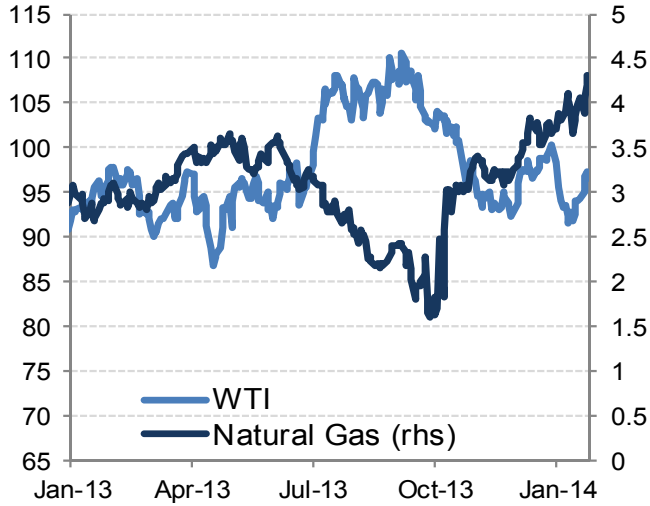
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

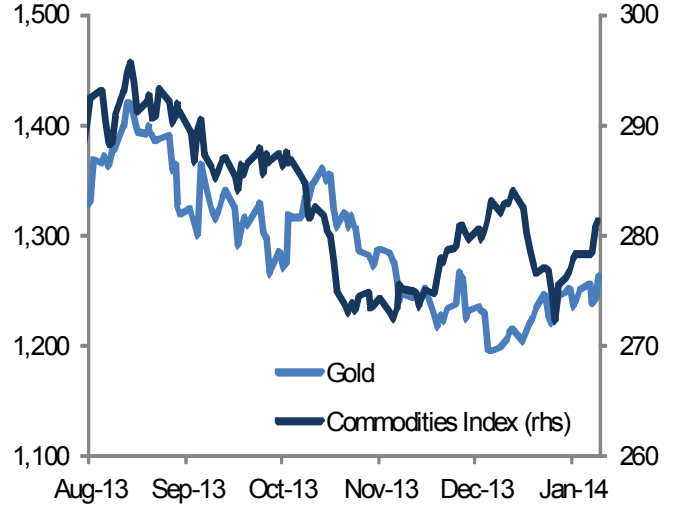
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



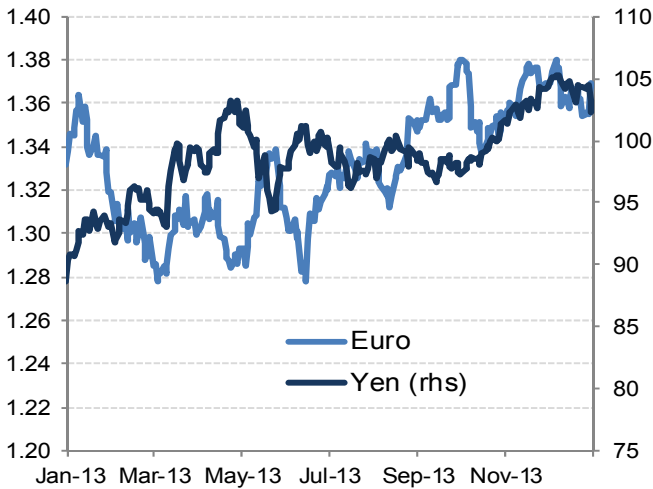
Source: Bloomberg & BBVA Research

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



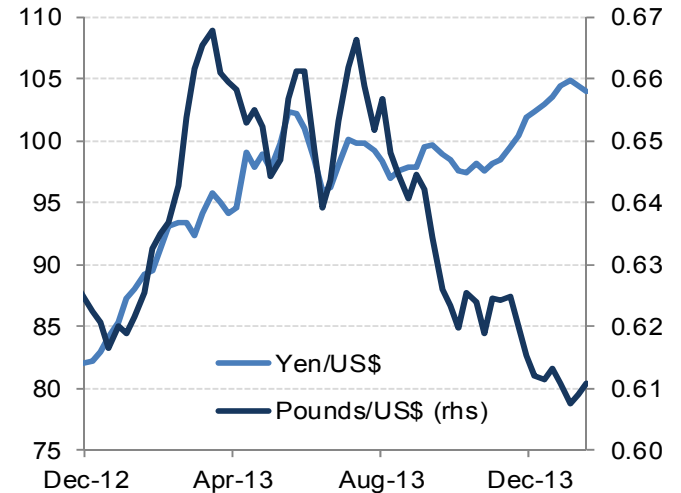
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



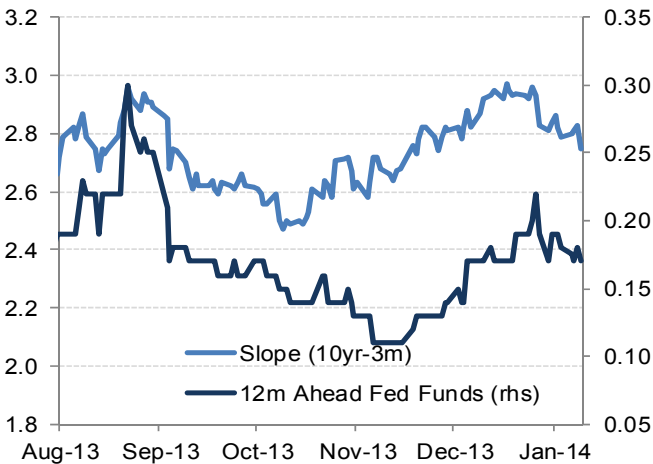
Source: Bloomberg & BBVA Research

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



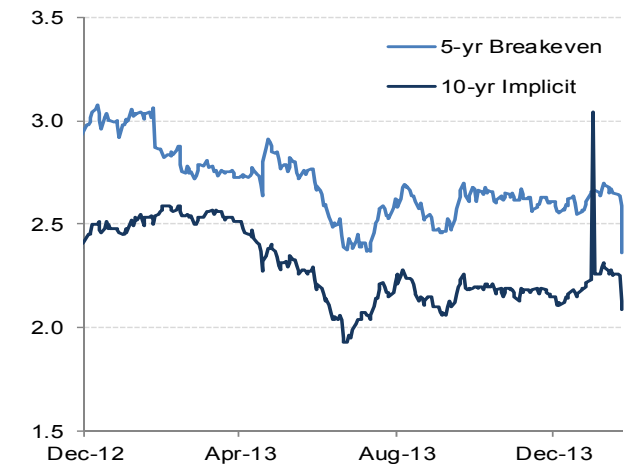
Source: Haver Analytics & BBVA Research

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	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)	2.33	2.42	2.66	2.59
Heloc Loan 30K	5.37	5.36	5.33	5.36
5/1 ARM*	3.15	3.10	3.00	2.90
15-year Fixed Mortgage*	3.44	3.45	3.52	3.23
30-year Fixed Mortgage*	4.39	4.41	4.48	3.99
Money Market	0.42	0.42	0.43	0.50
2-year CD	0.82	0.82	0.82	0.79

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

Table 2

Key Interest Rates (%)

	Last	4-Weeks		
		Week ago	ago	Year ago
1M Fed	0.07	0.07	0.08	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	0.57	0.58	0.80
2yr Sw ap	0.50	0.50	0.49	0.44
5yr Sw ap	1.68	1.73	1.78	1.03
10Yr Sw ap	2.85	2.93	3.06	2.06
30yr Sw ap	3.63	3.74	3.89	3.01
30day CP	0.13	0.12	0.11	0.16
60day CP	0.11	0.12	0.11	0.17
90day CP	0.12	0.13	0.13	0.19

Source: Bloomberg & BBVA Research

Quote of the Week

Christine Lagarde, International Monetary Fund
IMF Chief Christine Lagarde Says Inequality Gap is 'Widening Tremendously'
24 January 2014

"You have to use all the tools, all the tools. It is combining enough of a partnership between the educational system, the policy makers and the corporate sector so that training, including vocational training, can be targeted where it is going to leverage jobs and opportunities for young people."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
27-Jan	New Home Sales	DEC	463K	455K	464K
28-Jan	Durable Goods Orders	DEC	1.50%	1.80%	3.50%
28-Jan	Durables Ex Transportatoin	DEC	0.40%	0.60%	1.20%
28-Jan	S&P/CS Composite-20 (YoY)	NOV	13.60%	13.80%	13.61%
28-Jan	Consumer Confidence	JAN	78.1	78.0	78.1
30-Jan	GDP Annualized QoQ	4Q A	2.80%	3.20%	4.10%
30-Jan	Personal Consumption	4Q A	3.30%	3.70%	2.00%
30-Jan	GDP Price Index	4Q A	1.30%	1.20%	2.00%
30-Jan	Core PCE	4Q A	1.20%	1.10%	1.40%
30-Jan	Initial Jobless Claims	25-Jan	332K	330K	326K
30-Jan	Continuing Claims	18-Jan	3050K	3000K	3056K
31-Jan	Personal Income	DEC	0.20%	0.20%	0.20%
31-Jan	Personal Spending	DEC	0.30%	0.20%	0.50%
31-Jan	Employment Cost Index	4Q	0.40%	0.40%	0.40%
31-Jan	Chicago PMI	JAN	59.0	59.0	59.1
31-Jan	U. of Michigan Consumer Sentiment	JAN	80.8	81.0	80.4

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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