

U.S. Weekly Watch

December 20, 2010

Highlights

Economic Analysis

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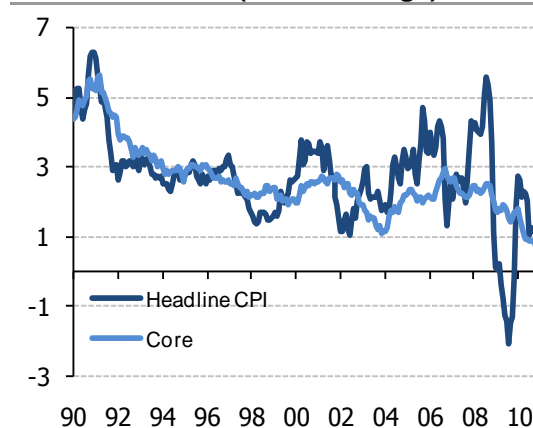
U.S. consumer prices increased by 0.1% in November

On Wednesday, the Bureau of Labor Statistics announced that both headline and core consumer price index increased by 0.1% in November on a seasonally adjusted basis. Headline consumer prices rose 1.1% in the last 12 months (a decline from 1.2%). In the last 6 months, the 12 month inflation was 1.1% on average. The report revealed that the food and energy indices also increased by 0.2% in November. The 12-month increase in the energy index is 3.92%. The gasoline index hiked 7.3%, while the household energy index dropped 0.2% in the same period. The index for housing increased by 0.03% in November. Shelter prices rose 0.11%, which is the second highest increase in the last 19 months. The shelter index rose 0.2% in the last 12 months. The rent index and the index for owners' equivalent rent also rose 0.2% and 0.1% in November, respectively. The medical care index jumped 3.2% while the index for used cars and trucks hiked 6.0% in the last 12 month. On the other hand, the indexes for household furnishings and operations, new vehicles, apparel, and recreation have fallen 2.5%, 0.4%, 0.8% and 0.9% over the last 12 months, respectively. Although the headline inflation in November is slightly lower than expectations, the inflation report is consistent with our baseline scenario of low but positive inflation in 2010 and 2011.

Federal Reserve purchased \$21.4bn of Treasuries since Dec 13th

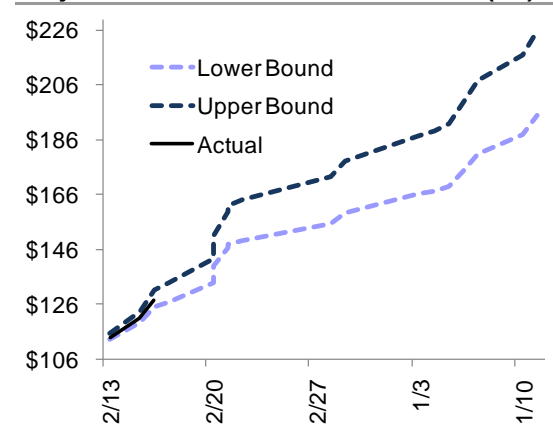
The Fed purchased \$106.3bn of Treasuries in the first month of QE2, slightly above the stated aim of \$105bn per month. As a result, so far this month the Fed's purchases have tended slightly towards the lower end of the purchase schedule. In the week ending Dec 15th, the maturity distribution of the Fed's holdings of Treasury securities strongly favored 5 to 10 year treasuries, with a decline in the 1 to 5 year treasuries. The Fed increased \$17.1bn and reduced \$1.3bn, respectively. It could be the case that the Fed focused more closely on longer-maturity treasuries given recent robust movements in the long end of the yield curve, which the Fed believes is a key metric in fostering long-term investment. The maturity distribution table for 1 to 5 years has not been negative since Oct 6.

Graph 1
Consumer Prices (YoY % change)



Source: BLS

Graph 2
Projected and Actual Fed Purchases (bn)



Source: Federal Reserve and BBVA Research

Week Ahead

Initial Jobless Claims (Dec-18, Thursday 08:30 ET)

Forecast: 420K	Consensus: 420K	Previous: 420K
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The labor market seems to be improving as suggested by recent trends in unemployment insurance claims. In fact, claims' 4-week moving average has declined continuously since the end of October, standing at 422.8K, the lowest level since August 2008. Although this is a positive sign, initial claims are still above pre-recession levels. Consistent with our expectation of a slow economic recovery, we expect initial claims to experience small changes in the following weeks, standing at 420K for the week ending December 18th.

Personal Income and Spending (November, Thursday 08:30 ET)

Forecast: 0.3%, 0.4%	Consensus: 0.2%, 0.5%	Previous: 0.5%, 0.4%
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U.S. retail sales in November increased by 0.8% and reached a level of 7.7% above its November 2009 level. Total sales in the last three months jumped 7.8% from the same period a year ago. Retail sales excluding autos also increased by 1.2%, above expectations of a 0.6% increase. Furthermore, the ICSC/UBS Retail Chain Store Sales Index rose 1.1% in November following a three consecutive month fall. Therefore, we expect personal income and spending to continue increasing in November.

Durable Goods Orders (November, Thursday 08:30 ET)

Forecast: -0.3%	Consensus: -0.7%	Previous: -3.3%
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Durable goods orders and new orders excluding transportation declined 3.3% and 2.7% in October, respectively and disappointed the market. Excluding defense, new orders were 2.1% lower than the previous month. Transportation equipment also dropped in two of the last three months. It decreased by 5.2% (\$2.9bn) due to a sharp 25% decline in defense aircraft and parts. Nondefense aircraft and parts (demand for commercial aircrafts) dropped 4.4% following a 112.6% increase in the previous month. This component has increased by 74% in the last 12 months. The current indicators point to a continuing contraction in the new orders for durable goods but at a slower pace.

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

Forecast: 305K	Consensus: 300K	Previous: 283K
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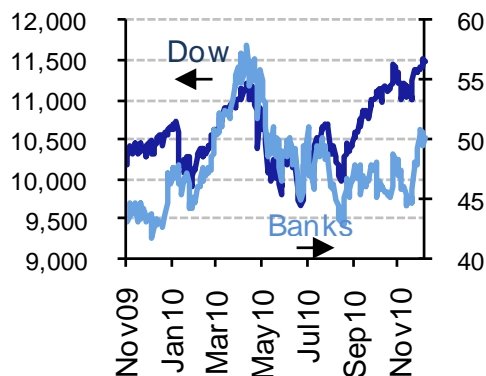
New home sales are expected to increase in November from its record-low levels. Although we expect a 7.8% jump in new home sales in November, it will still remain at a very low level compared to its historical average of 697K. Considering current inventories in the housing markets, we expect new home sales remain weak even in 2011.

Market Impact

While existing and new home sales are crucial to understanding the trends in the real estate industry, personal income and spending will help us forecast the contribution of consumption to the economic recovery in 4Q10. If the real PCE continues to increase at the same pace as in the last three months, it would imply a very strong PCE contribution to economic growth in 4Q10. Moreover, better-than-expected new orders might indicate better-than-expected economic activity in the coming months and would be welcome by the markets.

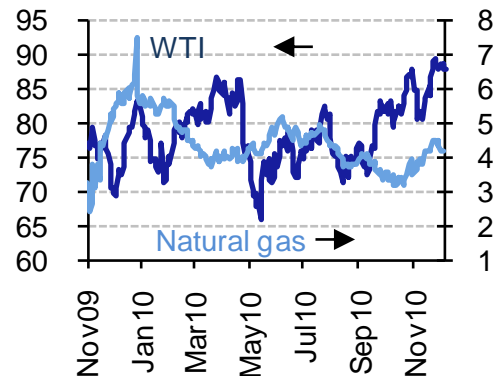
Financial Markets

Graph 3
Stocks (Index, KBW)



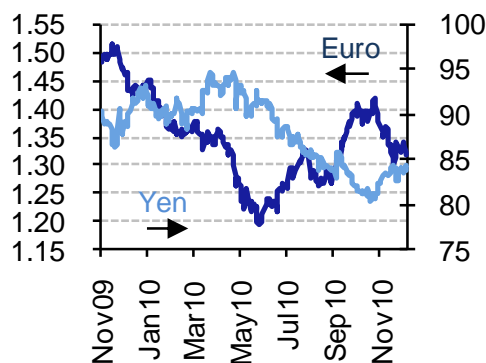
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



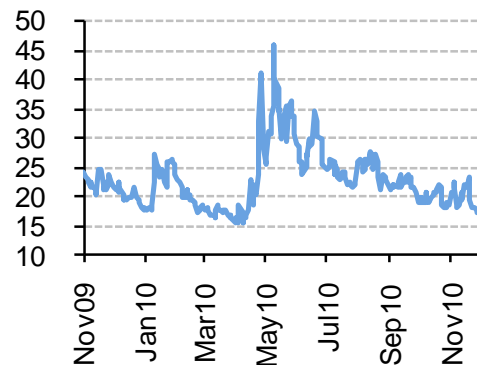
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



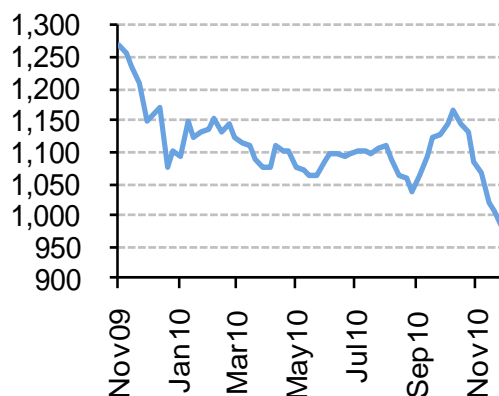
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



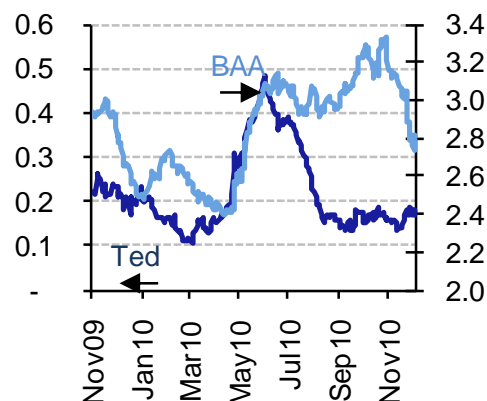
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

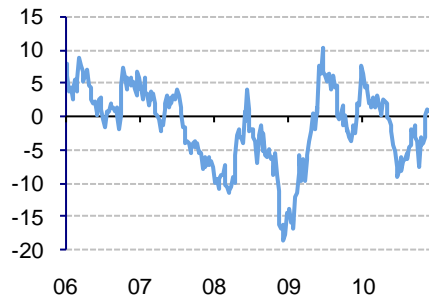
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

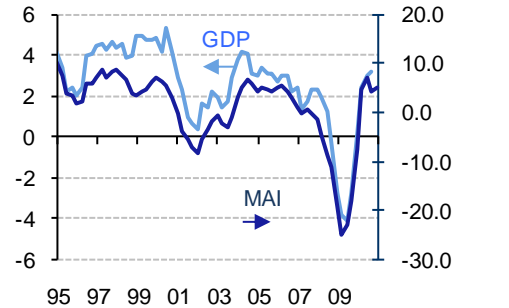
Economic Trends

Graph 9
BBVA US Weekly Activity Index (3 month % change)



Source: BBVA Research

Graph 10
BBVA US Monthly Activity Index & Real Gross Domestic Product (4Q % change)



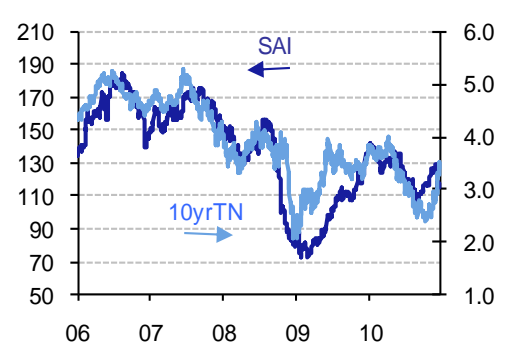
Source: BBVA Research & BEA

Graph 11
BBVA US Surprise Inflation Index (Index 2009=100)



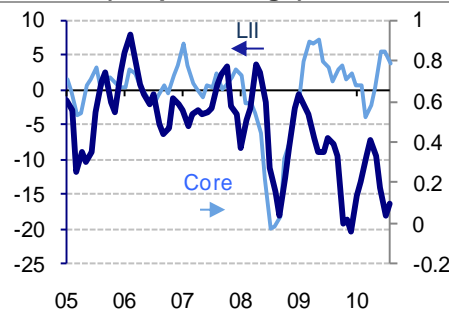
Source: BBVA Research

Graph 12
BBVA US Surprise Activity Index & 10-yr Treasury (Index 2009=100 & %)



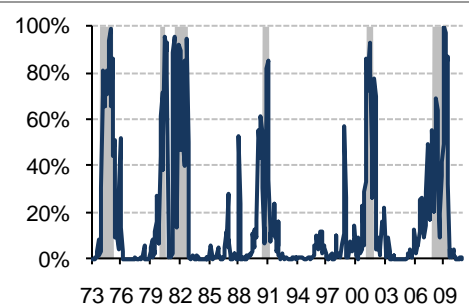
Source: Bloomberg & BBVA Research

Graph 13
BBVA US Leading Inflation Index & Core Inflation (QoQ % change)



Source: BLS & BBVA Research

Graph 14
BBVA US Recession Probability Model (Recession episodes in shaded areas, %)



Source: BBVA Research

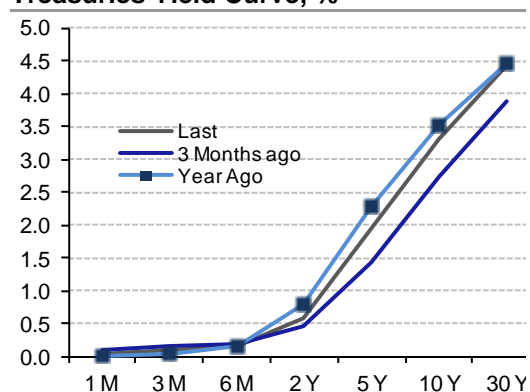
Yield Curve and Interest Rates

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)	13.68	13.68	13.83	11.48
New Auto (36-months)	5.33	5.34	5.54	6.70
Heloc Loan 30K	5.49	5.51	5.46	5.66
30-year Fixed Mortgage *	4.83	4.61	4.39	4.94
Money Market	0.71	0.71	0.71	0.87
2-year CD	1.23	1.23	1.24	1.81
5-year CD	2.03	2.03	2.03	2.57

* Freddie Mac National Mortgage Homeowner Commitment 30 Year US
Source: Bloomberg and BBVA Research

Graph 15
Treasury's Yield Curve, %



Source: Bloomberg

Quote of the Week

Rep. Ron Paul (R., Texas)

December 17, 2010

C-SPAN (The Wall Street Journal)

"I don't think we need regulators. We need law and order. We need people to fulfill their contracts... The market is a great regulator, and we've lost understanding and confidence that the market is probably a much stricter regulator."

Economic Calendar

Date	Event		Forecast	Survey	Previous
20-Dec	Chicago Fed Nat Activity Index	NOV	0.1	0.0	-0.3
22-Dec	GDP QoQ (Annualized)	3Q T	2.7%	2.8%	2.5%
22-Dec	Personal Consumption	3Q T	2.8%	2.8%	2.8%
22-Dec	GDP Price Index	3Q T	2.3%	2.3%	2.3%
22-Dec	Core PCE QoQ	3Q T	0.8%	0.8%	0.8%
22-Dec	Existing Home Sales	NOV	4.78M	4.75M	4.43M
22-Dec	Existing Home Sales MoM	NOV	7.9%	7.2%	-2.2%
22-Dec	House Price Index MoM	OCT	0.0%	-0.2%	-0.7%
23-Dec	Durable Goods Orders	NOV	-0.3%	-0.7%	-3.4%
23-Dec	Durables Ex Transportation	NOV	1.8%	2.0%	-2.7%
23-Dec	Personal Income	NOV	0.3%	0.2%	0.5%
23-Dec	Personal Spending	NOV	0.4%	0.5%	0.4%
23-Dec	PCE Deflator (YoY)	NOV	1.1%	1.1%	1.3%
23-Dec	PCE Core (MoM)	NOV	0.1%	0.1%	0.0%
23-Dec	PCE Core (YoY)	NOV	0.9%	0.9%	0.9%
23-Dec	Initial Jobless Claims	18-Dec	420K	420K	420K
23-Dec	Continuing Claims	11-Dec	4120K	4106K	4135K
23-Dec	U. of Michigan Confidence	DEC F	74.5	74.5	74.2
23-Dec	New Home Sales	NOV	305K	300K	283K
23-Dec	New Home Sales MoM	NOV	7.8%	6.0%	-8.1%

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