

Banking Watch

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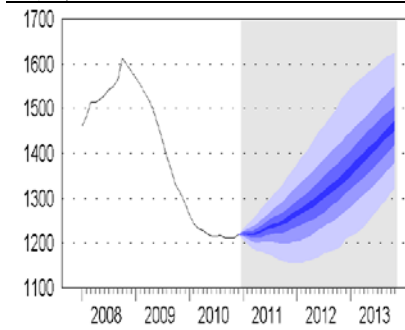
Bank Credit and Deposits: Monthly Situation Report

- Outside of major changes to the consumer credit series, loan and deposit categories are aligned with our expectations
- Federal Reserve implements new seasonal adjustment methods, commercial banks divest \$25bn in consumer loans
- Data still suggestive of a return to positive YoY total credit growth in mid-2011; total deposit growth edging back towards trend rates

Commercial and Industrial (C&I)

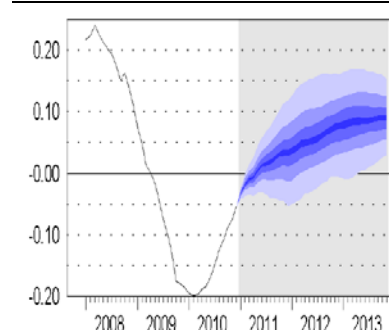
Corporate lending's evolution in the past several months has been consistent with our outlook, but in the past month it increased \$7.7bn over the previous month, a substantial MoM rise considering the flatness of the past several months. Although C&I has the potential to surprise to the upside, we maintain a slow outlook for the next 12 months based on a sluggish economy, weak hiring, and morose business sentiment. Loan standards continue to move in favor of C&I lending expansion, though heightened activity is essential to generate invigorated growth in lending.

Chart 1
Commercial & Industrial
In \$bn, Nominal



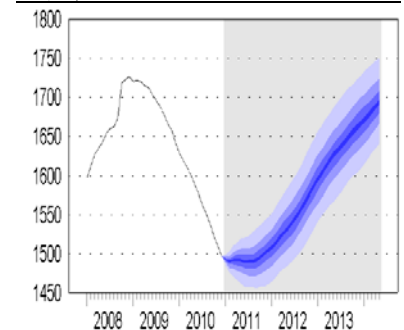
Source: BBVA Research

Chart 2
Commercial and Industrial
YoY %



Source: BBVA Research

Chart 3
Commercial Real Estate
In \$bn, Nominal

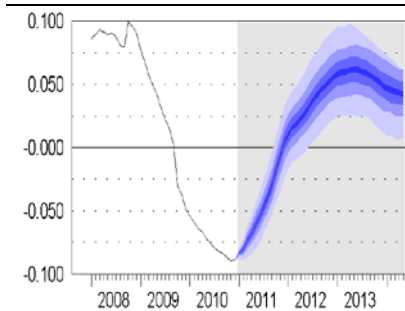


Source: BBVA Research

Commercial Real Estate (CRE)

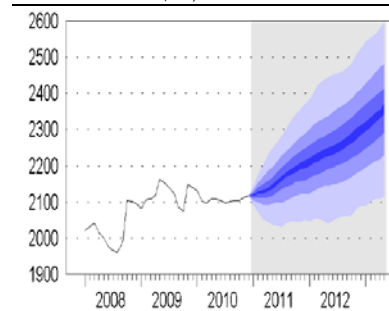
Commercial real estate is another loan category which has, over the past several months, unfolded consistent with our conjectures. We maintain an outlook over the next several months of a relatively quick recovery – relatively, since we do not foresee a return to positive YoY growth until 2012. Given high charge-offs, surplus inventory, and sluggish service sector hiring, CRE maintains the potential to surprise to the downside of our forecasts moving forward. CMBS have declined on a quarterly basis since the end of 2007.

Chart 4
Commercial Real Estate YoY %



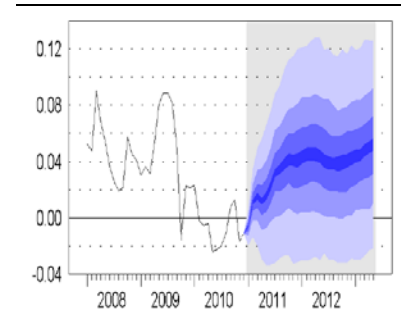
Source: BBVA Research

Chart 5
Residential In \$bn, Nominal



Source: BBVA Research

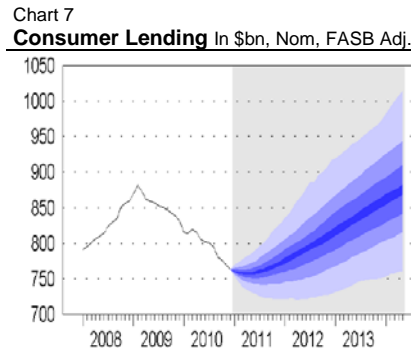
Chart 6
Residential YoY %



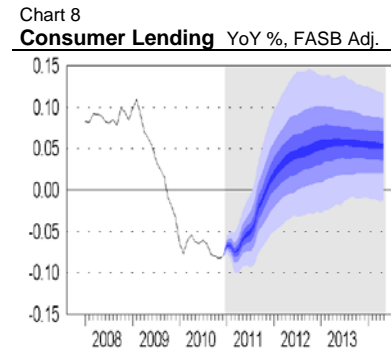
Source: BBVA Research

Residential

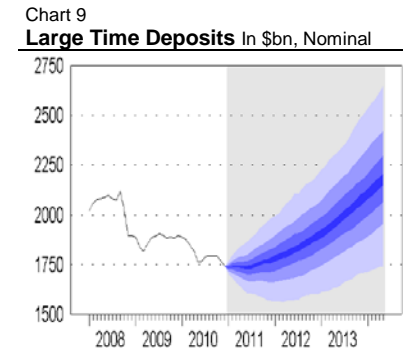
The past 12 months witnessed some dire housing indicators and reluctance to invest in housing still exists. One encouraging sign is that outstanding residential lending at commercial banks increased MoM for the past two months and has demonstrated an improving trend since August. Nonetheless, demand remains weak and supply is constrained by high foreclosures and delinquencies. We expect slow growth over the next 12 months, although spikes may occur if individuals react to anticipated mortgage rate rises, if any are to occur.



Source: BBVA Research



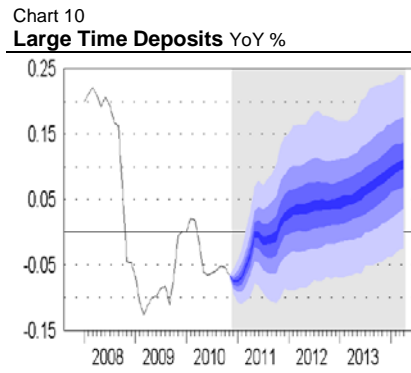
Source: BBVA Research



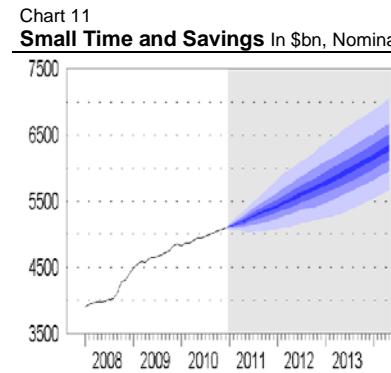
Source: BBVA Research

Consumer credit

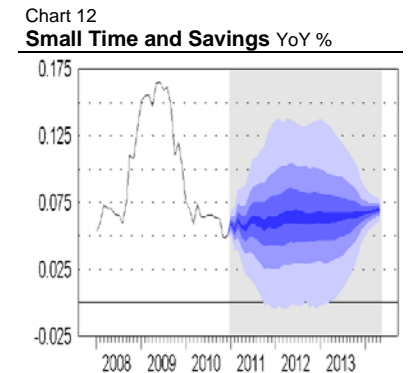
Once again we see major changes to the consumer credit data. In the last week, commercial banks divested \$25bn in consumer loans to nonbanks. The Federal Reserve also introduced new seasonal adjustment tweaks to the entire H8 release and re-benchmarked the consumer data to call report figures. The sum total of these efforts have shifted consumer credit around \$12-15bn each month for the past several months, which triggered a large deviation this month for our forecasts. The lower figures for consumer credit imply more deleveraging.



Source: BBVA Research



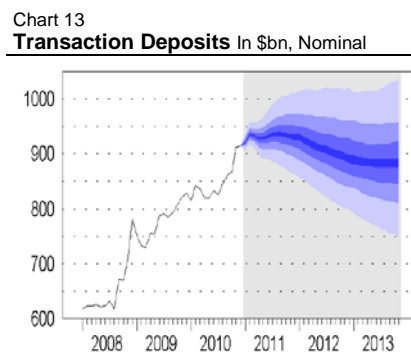
Source: BBVA Research



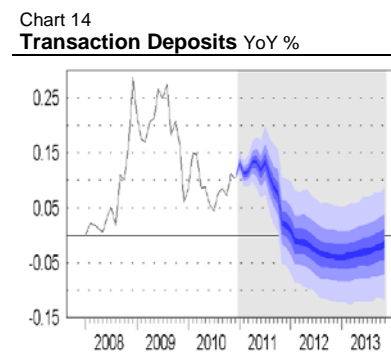
Source: BBVA Research

Deposits

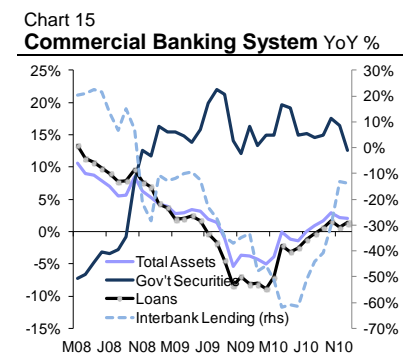
Deposits are slightly above their previous lows and are probably forging a return to trend over the course of 2011H1. Transaction deposits remain the unknown quantity and eventually we expect normalization in this category. Large time deposits would benefit from higher interest rates, although in the near term this is unlikely to be the case, spurring continued YoY declines. Small time deposits are comfortably growing at trend YoY rates. Higher inflation would naturally increase our nominal figures for deposit growth.



Source: BBVA Research



Source: BBVA Research



Source: Federal Reserve

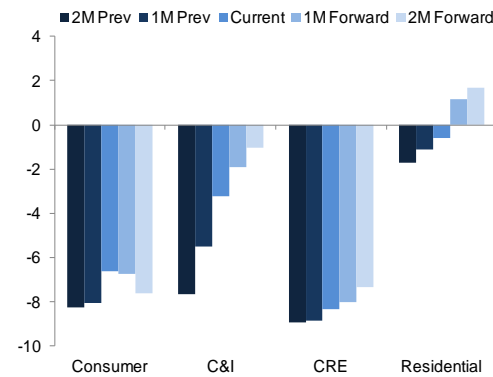
Table 1

Banking System Update YoY % Change

	Consumer	C&I	CRE	Residential	Small Time / Savings	Large Time	Transactions
Deviation	-1.8	-0.1	0.1	0.3	0.4	-0.6	0.4
2M Prev	-8.0	-8.8	-8.7	1.3	6.3	-5.1	7.3
1M Prev	-8.3	-7.7	-9.0	-1.7	4.9	-6.2	11.2
Actual	-8.1	-5.5	-8.8	-0.8	4.9	-8.2	10.3
Predicted	-6.2	-5.4	-9.0	-1.1	4.5	-7.6	9.9
Next Month	-6.6	-3.2	-8.3	-0.6	6.0	-8.2	13.1
2M Forward	-6.8	-1.9	-8.0	1.2	5.5	-7.4	11.2
3M Forward	-7.6	-1.0	-7.3	1.7	6.1	-5.9	11.6

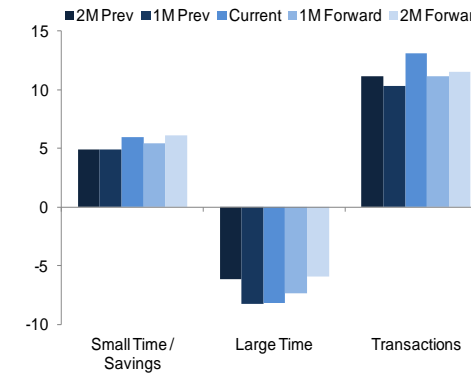
Source: BBVA Research

Chart 16
Credit Growth Snapshot YoY %



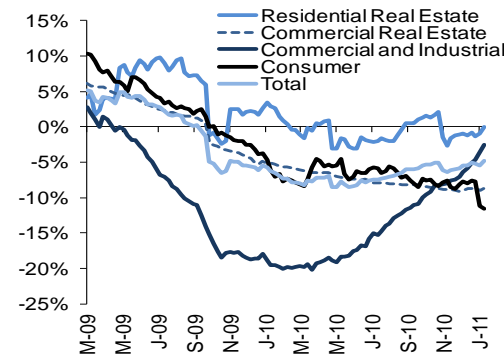
Source: BBVA Research

Chart 17
Deposit Growth Snapshot YoY %



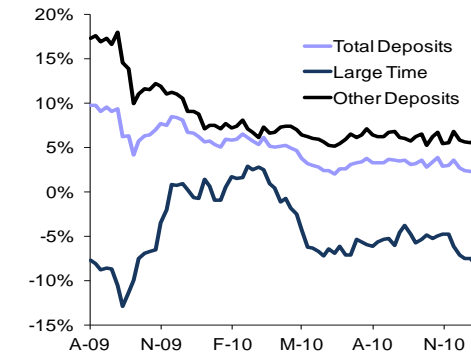
Source: BBVA Research

Chart 18
Commercial Bank Loans YoY %, Consumer Adj.



Source: Federal Reserve

Chart 19
Commercial Bank Deposits YoY %



Source: Federal Reserve

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