

U.S.

Fed Watch

January 27, 2011

Economic Analysis

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LSAP Scorecard: Week 11

Data supports Fed decision to continue with LSAP

- Latest inflation data demonstrates effect of commodities on headline numbers, but core inflation still suggests disinflationary pressures
- Risk appetite grows in both domestic and foreign equities, but municipal bonds witness sharp outflows with the most recent data
- Inflation expectations markers have declined slightly since the Week 9 scorecard, but financial stability indicators – corporate spread, VIX – show improvement
- The 10-year Treasury remains within a tight range since the government announced Fiscal Stimulus 3.0 in December; this largely explains the high slope of the yield curve now compared to the average post-QE2 period

Table 1

Large Scale Asset Purchases (LSAP) Scorecard

	Latest available	Post QE2 11/3/10-present	Recovery- preQE2 7/09-10/10	Crisis 12/07-6/09	Pre-Crisis 3/03-11/07
10yr Treasury (%)	3.45	2.98	3.34	3.49	4.41
3mo Treasury (%)	0.16	0.14	0.13	1.06	3.02
Slope (bp)	329	284	321	243	139
10yr Inflation Indexed (%)	1.16	0.82	1.34	1.77	2.06
Implicit 10yr Inflation exp. (%)	2.29	2.17	2.00	1.72	2.35
5yr Breakeven inflation expectations (%)	2.62	2.66	2.38	2.15	2.41
VIX (Index)	16.6	18.9	23.7	33.6	15.8
S&P500 (Index)*	1300	1221	1093	1109	1462
Real effective exchange rate (\$, Index)	98.4	99.3	102.3	102.9	111.2
Corporate Spreads (BAA bp)	268	297	287	409	201
30yr Mortgage sprd (bp)	17	22	57	155	115
3M Libor-Treasury (bp)	14	15	22	128	36
Monetary aggregate M2 (yoy %)	4.8	3.5	3.8	7.8	5.4
Mutual Fund Flows Domestic (\$M)	2971	-954	-1884	-	-
Mutual Fund Flows Foreign (\$M)	1651	2058	919	-	-
Mutual Fund Flows Taxable (\$M)	3584	1175	6393	-	-
Mutual Fund Flows Muni (\$M)	-5748	-2535	1105	-	-
Commercial Paper issuance (\$bn)	86.5	78.1	88.3	134.2	173.8
Initial Claims (4wk avg)	423	440	492	478	341
Unemployment rate (%)	9.4	9.6	9.7	6.8	5.2
Private Payrolls (K monthly)	113	128	12	-389	119
Consumer confidence (Index)*	53	53	53	53	98
Retail sales ex bldg, autos & gas (yoy %)	6.2	6.1	2.1	-0.1	5.3
Industrial production (yoy %)	5.9	5.8	1.3	-6.1	2.3
Capacity Utilization (%)	76	76	73	75	79
ISM Survey (Index)	58.5	57.9	55.7	44.0	54.0
Consumer Prices (12m %)*	1.5	1.3	1.0	2.2	2.9
Core Consumer Prices (12m %)*	0.8	0.7	1.2	2.1	2.0
Bank Mortgage loans (\$bn)*	2136	2116	2106	2060	2014
Bank CRE loans (\$bn)*	1488	1502	1610	1676	1574
Bank C&I loans (\$bn)*	1232	1217	1270	1524	1416
Bank Consumer loans (\$bn)*	1071	1112	992	837	786

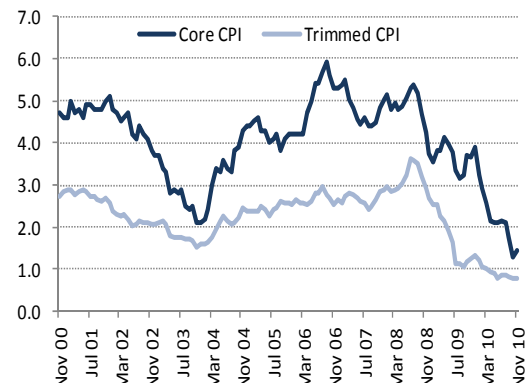
Source: BBVA Research & Haver Analytics. * Pre-Crisis = Nov 2007

Chart 1
Unemployment rate, %



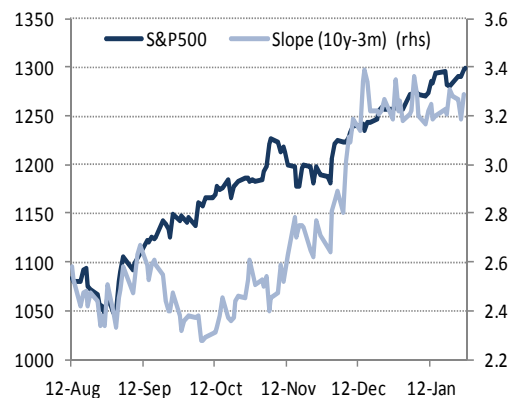
Source: Haver Analytics & BBVA Research

Chart 2
Inflation, 12m % change



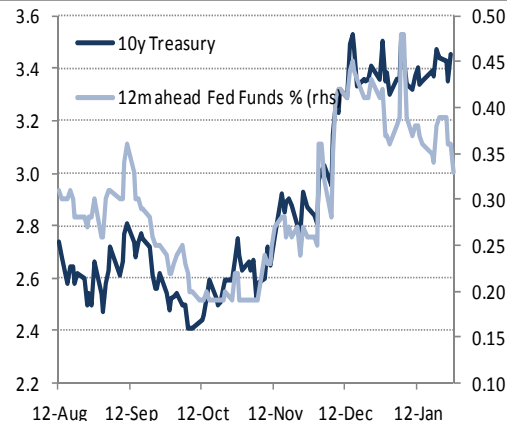
Source: Haver Analytics & BBVA Research

Chart 3
S&P500 & Yield curve slope, (index & %)



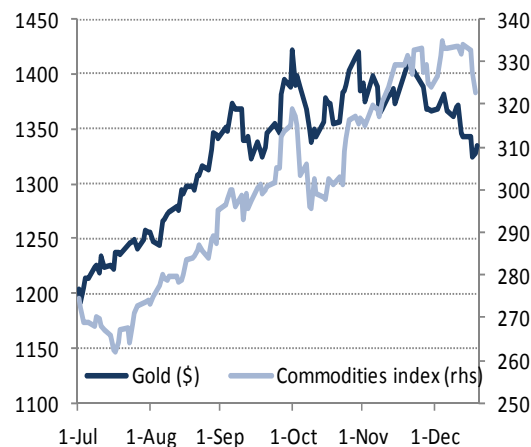
Source: Haver Analytics & BBVA Research

Chart 4
10 year Treasury & Fed funds futures, %



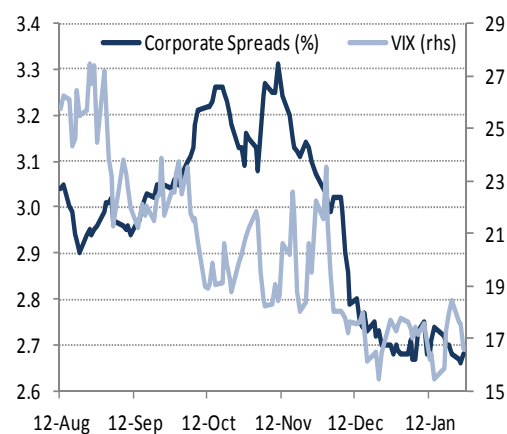
Source: Haver Analytics & BBVA Research

Chart 5
Gold & Commodities



Source: Haver Analytics & BBVA Research

Chart 6
BAA spread & Implied volatility



Source: Haver Analytics & BBVA Research

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