

Weekly Watch

U.S.

Highlights

27 June 2011
Economic Analysis

U.S.

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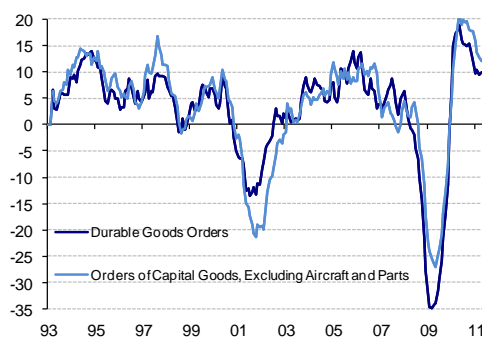
Liquid Easing in Oil Markets

In a puzzling move on Thursday, the International Energy Agency (IEA) announced, for only the third time in its 35-year history, it would release 60Mb of oil onto the world market. The drawdown of reserves will include 30Mb of domestic crude that will be taken from the Strategic Petroleum Reserve (SPR). As reported by the IEA, the drawdown is intended to supplement supply disruptions stemming from the ongoing civil war in Libya. Moreover, Saudi Arabia announced earlier that it would go against the guidance of OPEC members and boost crude production by 1.4Mbbpd. However, an increase of 60Mb of oil would fail to satisfy the daily global demand of -85Mbbpd. Brent oil prices declined \$7pb from last week, but the slowdown in the U.S. and global economies have pushed prices down since April. We expect oil prices to gradually drop to \$100 at the end of 2011.

Durable goods orders jumped 1.9% in May

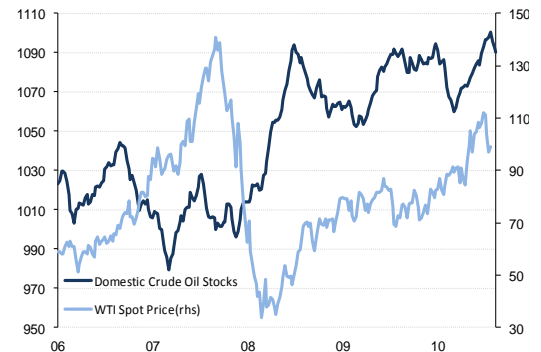
The May advanced durable goods orders release indicated that durable goods orders were up 1.9% MoM, a rebound from a significant decline in April of 2.7% MoM. Excluding transportation, which is highly volatile, last month's durable goods orders were down 0.4% MoM. In contrast, the advance May report posits a 0.6% MoM increase. Much of the decline in last month's report was influenced by supply chain disruptions and their affect on auto manufacturer's new orders. After a 5.3% MoM decline in April, new orders of motor vehicles and parts bounced back, increasing 0.6% MoM. Continued auto sector growth will positively impact durable goods orders in 2H11. The Bureau of Economic Analysis also released its third estimate for 1Q11 real GDP. The report revised the previous two estimates of 1.8% seasonally-adjusted first quarter annualized growth to 1.9%. The main reasons for the upward revision to 1Q11 real GDP growth are a downward revision to imports and an upward revision to inventory investment, which were partially offset by downward revisions to exports, nonresidential fixed investment, and state and local government spending. In general, durable goods orders and final 1Q11 GDP estimates were better than market expectations and, therefore, they were welcome by the financial markets. However, recent macroeconomic indicators continue to indicate weakness in economic activity in 2Q11.

Graph 1
Durable Goods Orders (3mma yoy % change)



Source: US Census Bureau

Graph 2
Domestic Reserves & WTI Spot (Mb, \$)



Source: E.I.A

Week Ahead

Personal Income and Spending (May, Monday 8:30 ET)

Forecast: 0.4%, 0.2%	Consensus: 0.4%, 0.1%	Previous: 0.4%, 0.4%
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Preliminary estimates for April indicate personal income, disposable personal income (DPI), and personal consumption expenditures increased 0.4%, 0.3%, and 0.4% MoM, respectively. In real terms, DPI was unchanged while personal consumption expenditures (PCE) increased only 0.1% MoM. The revised March estimates were comparable to the preliminary April release, but with no real DPI growth and only slight real MoM personal consumption growth. We expect both DPI and PCE to maintain their current low growth trajectory and also stable price growth in next month's release.

Case-Shiller HPI (April, Tuesday 10:00 ET)

Forecast: -3.9%	Consensus: -4.0%	Previous: -3.6%
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The bifurcated housing market pulled nearly all of the twenty reporting Metropolitan Statistical Areas price indices below the 4Q10 levels. Foreclosed properties continue to drag down prices and absent the housing tax credit of 2009 and 2010, demand continues to weaken. Although we expect a small MoM increase in home prices in April, we expect the S&P Case Shiller home price index to decline 3.9% YoY in April.

ISM Manufacturing Index (June, Friday 10:00 ET)

Forecast: 52.5	Consensus: 51.8	Previous: 53.5
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The ISM Manufacturing index shows expansion in manufacturing activity for the twenty-second consecutive month, with 14 out of 18 manufacturing sectors reporting growth in May. The diffusion survey registered 53.5, which is above the 50 point benchmark indicator of manufacturing growth. However, new orders dropped 17.3% MoM to 51.0, sliding below the 52.1 threshold (consistent with an increase in the Census Bureau's series on manufacturing orders), indicating a possible slowdown. Alternatively, prices were down 9pp MoM. Overall, respondents indicated that activity remains strong, but some respondents noted the possibility of a softening in 2H11.

Construction Spending (May, Friday 10:00 ET)

Forecast: 0.0%	Consensus: 0.1%	Previous: 0.4%
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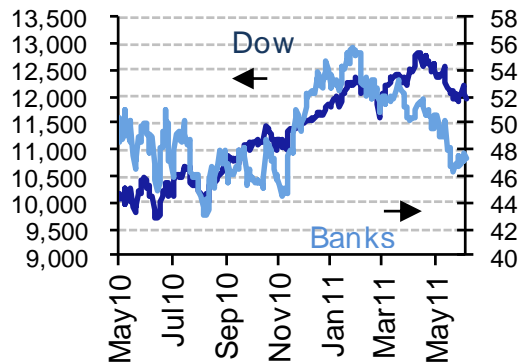
In April, construction spending was \$765bn on an annualized seasonally-adjusted basis. While it is up by 0.4% MoM from the revised March estimate, YoY annualized growth is 8.4% below the 2010 April figure. Private construction accounted for 63.1% of the total construction spending with \$232bn coming from residential construction. Due to weak housing starts, frozen commercial real estate lending, and sharp declines in public spending, we expect no change in construction spending in May.

Market Impact

Consistently weak housing indicators continue to erode market confidence. While housing starts are down, some positive indicators from the housing market imply that declines could be decelerating. Positive MoM manufacturing growth and increasing housing prices could brighten market expectations. However, a significant decline in construction spending could temper future outlooks and impede any positive momentum.

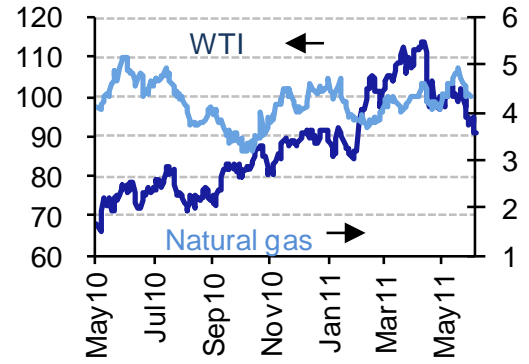
Financial Markets

Graph 3
Stocks (Index, KBW)



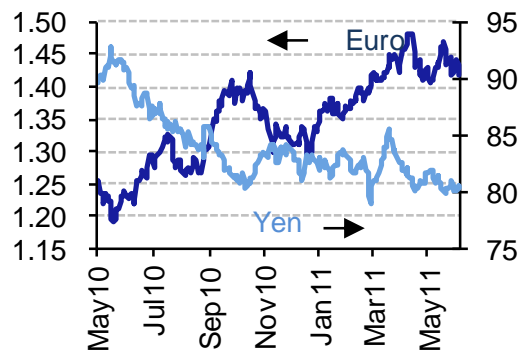
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



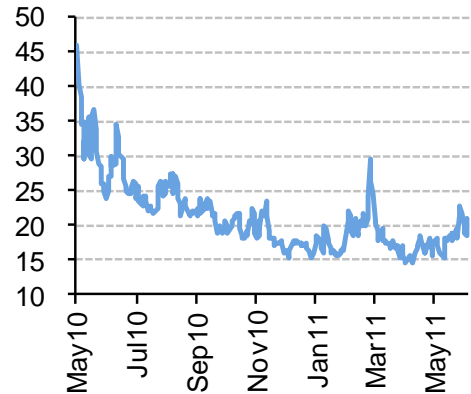
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



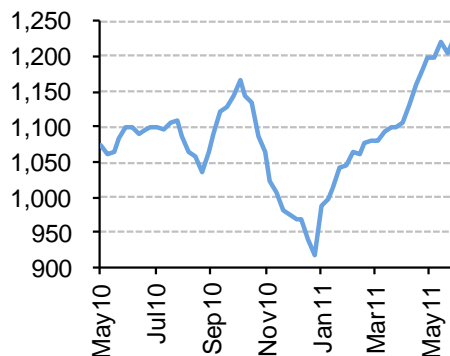
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



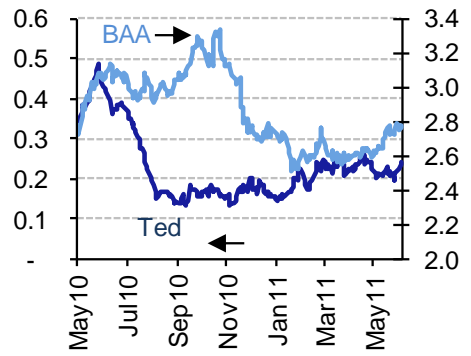
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

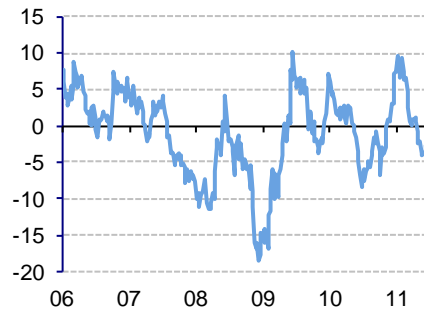
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

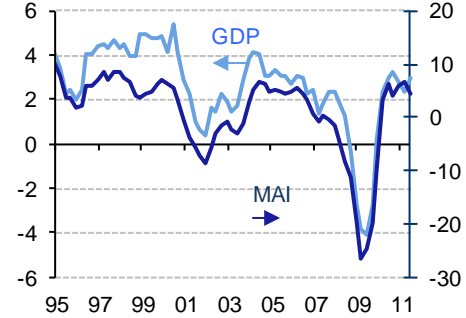
Economic Trends

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)



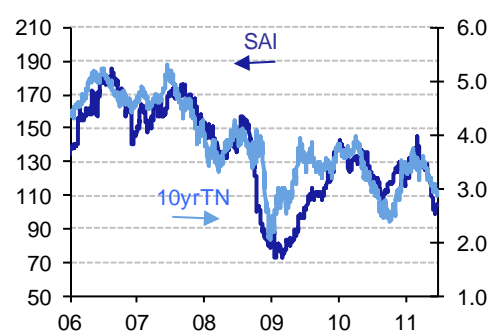
Source: BBVA Research & BEA

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



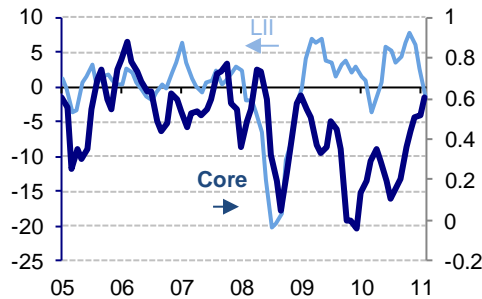
Source: BBVA Research

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



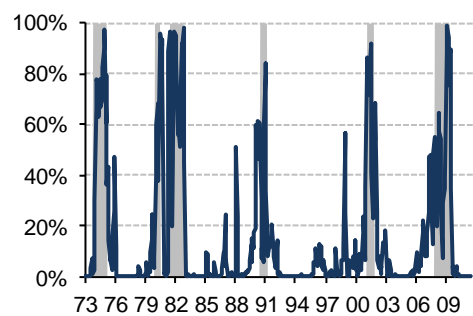
Source: Bloomberg & BBVA Research

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

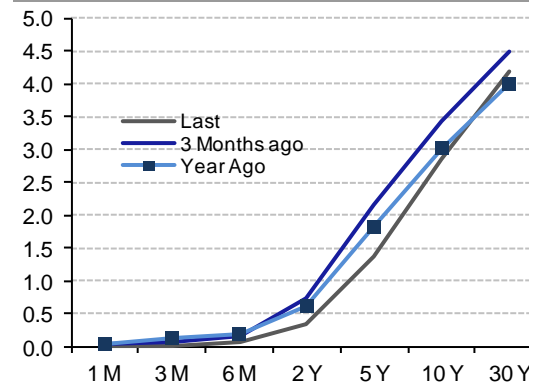
Yield Curve and Interest Rates

Table 1
Key Interest Rates, %

Key Interest Rates	Last	Week ago	4-Weeks ago	Year ago
	Prime Rate	3.25	3.25	3.25
Credit Card (variable)	13.73	13.73	13.73	13.44
New Auto (36-months)	3.91	3.71	3.82	6.26
Heloc Loan 30K	5.52	5.52	5.47	5.57
30-year Fixed Mortgage *	4.50	4.50	4.60	4.69
Money Market	0.62	0.62	0.62	0.78
2-year CD	1.05	1.08	1.12	1.57
5-year CD	2.05	2.05	2.12	2.56

* 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

Chairman of the ESRB Jean-Claude Trichet
ESRB General Board Meeting
22 June 2011 Frankfurt, Germany

"A key objective for macro-prudential policy at this juncture is to contribute to ensuring that the EU financial system - in all its components including banks, insurance companies, occupational pensions, securities markets and infrastructure - can continue to recover towards a self-sustaining position countercyclical buffers that could be imposed, but would also limit the number of instruments at the ESRB's disposal"

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
27-Jun	Personal Income	MAY	0.4%	0.4%	0.4%
27-Jun	Personal Spending	MAY	0.2%	0.1%	0.4%
27-Jun	PCE Deflator (YoY)	MAY	2.5%	2.5%	2.2%
27-Jun	PCE Core (MoM)	MAY	0.2%	0.2%	0.2%
27-Jun	PCE Core (YoY)	MAY	1.1%	1.1%	1.0%
28-Jun	S&P/CS Composite-20 YoY	APR	-3.9%	-4%	-3.6%
28-Jun	Consumer Confidence	JUN	60.8	61.0	60.8
29-Jun	Pending Home Sales MoM	MAY	2.5%	2.5%	-11.6%
30-Jun	Initial Jobless Claims	24-Jun	427K	420K	429K
30-Jun	Continuing Claims	18-Jun	3698k	3690K	3697K
30-Jun	Chicago Purchasing Manager	JUN	54.7	54.0	56.6
1-Jul	U. of Michigan Confidence	JUN F	71.5	72.0	71.8
1-Jul	Construction Spending MoM	MAY	0.0%	0.1%	0.4%
1-Jul	ISM Manufacturing	JUN	52.5	51.8	53.5
1-Jul	ISM Prices Paid	JUN	72.0	70.5	76.5
1-Jul	Domestic Vehicle Sales	JUN	12.4M	12M	11.7M
1-Jul	Total Vehicle Sales	JUN	9.7M	9.4M	9.2M

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