

Weekly Watch

U.S.

Highlights

26 December 2011
Economic Analysis

U.S.

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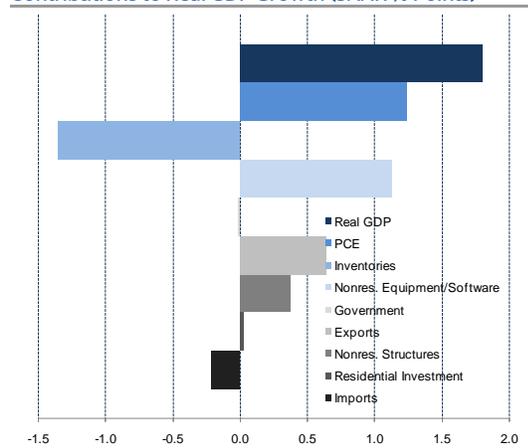
3Q11 GDP estimate revised down, housing market improvements continue

Housing indicators for 4Q11 have been better-than-expected and suggest continued improvement throughout the end of the year. New home starts and building permits both increased in November and reached the highest levels since early 2010. In general, gains are concentrated in the multifamily component as tight credit conditions and weak employment growth continue to weigh on demand for single-family homes. Moreover, the housing market index increased in December and points to building optimism in the market. Existing home sales also increased for the third consecutive month in November, although data for October were revised down significantly. Furthermore, National Association of Realtors revised down its estimate for the past 5 years by an average of 14% each month. The revised data indicate that the slowdown in the housing markets were worse than previously estimated. Although the Bureau of Economic Analysis (BEA) uses this data for its GDP estimate, the impact on the GDP estimate should be insignificant since the GDP estimate uses only the estimate for Brokers' commissions on existing home sales.

Initial jobless claims continued to show slight improvement in labor market conditions. In the week ending December 17, initial claims declined 4K to 364K. The 4-week moving average initial claims decreased to 380K, the lowest level since April 2008 while continuing claims also fell 79K to 3.55 million, standing at the lowest level since September 2008. We expect that the labor market conditions will continue to improve throughout 2012 but the unemployment rate will remain high in the near future.

BEA also released its final estimate for 3Q11 GDP, which surprised the markets. Growth was revised down to 1.8% QoQ annualized on a seasonally-adjusted basis following the second estimate of 2.0%. The downward revision primarily reflects a downward revision to health care spending within personal consumption expenditures. However, spending on durable goods was stronger than previously estimated. Current macroeconomic indicators continue to indicate stronger growth in 4Q11 when Europe is heading to a recession.

Graph 1
Contributions to Real GDP Growth (SAAR % Points)



Source: Bureau of Economic Analysis

Graph 2
Existing Home Sales & Housing Starts (K)



Source: NAR & US Census Bureau

Week Ahead

S&P Case-Shiller HPI (October, Tuesday 9:00 ET)

Forecast: -3.10%	Consensus: -3.20%	Previous: -3.59%
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The S&P home price index is expected to decline in October on a MoM basis but will likely indicate moderating YoY price contraction. Median home and other price indices have declined in prior months due in large part to downward pressures from an increasing supply of foreclosed homes. Excluding distressed sales, home prices have been improving gradually. Although lower prices appear to be boosting demand for new and existing homes, distressed properties continue to weigh on the market.

Consumer Confidence (December, Tuesday 10:00 ET)

Forecast: 60.0	Consensus: 58.5	Previous: 56.0
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Consumer confidence has rebounded to the highest level since before the debt ceiling and credit ratings cut in August. Expectations have improved dramatically in the past few months as the economic recovery gains momentum. Attitudes regarding job availability and future income should continue to improve as suggested by significant declines in jobless claims throughout December. Buying plans have also increased as we have approached the peak of the holiday shopping season. Although attitudes toward the present situation remain the weakest component, we should continue to see upward trends in the data.

Jobless Claims (December 24th, Thursday 8:30 ET)

Forecast: 380K	Consensus: ---	Previous: 364K
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Initial jobless claims have dropped sharply throughout December and are expected to follow similar trends for the week ending December 24th. The 4-week moving average, which has declined in 10 of the last 12 weeks, is close to 10K lower compared to one month ago. Although recent declines may be due to shortened weeks and other holiday-related special factors, the data continue to reflect increasing expectations for gradual improvements in the labor market.

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

Forecast: 1.5%	Consensus: 1.8%	Previous: 10.4%
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Pending home sales are expected to increase in November but at a much slower pace than in the previous month. The index increased significantly in October following three consecutive months of declines, pointing to strength in final sales of existing homes in the coming months. Data on present and future sales has improved, and a rise in the traffic of prospective buyers hints at increasing pending sales. Although tight credit conditions and low appraisals have impacted contract signing in recent months, we expect that general improvements in the housing market will continue.

Market Impact

The markets will be relatively quiet given the light economic calendar and the upcoming shortened holiday weeks. Continued declines in jobless claims will lift expectations regarding the December employment report, while improvements in housing data should warrant a positive reaction from markets. In addition, further increases in consumer confidence could point to a brighter outlook for consumer activity as the year comes to a close.

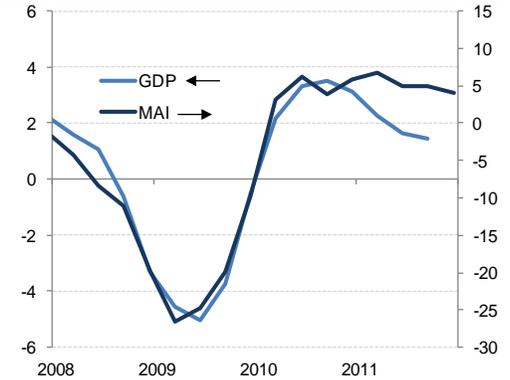
Economic Trends

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



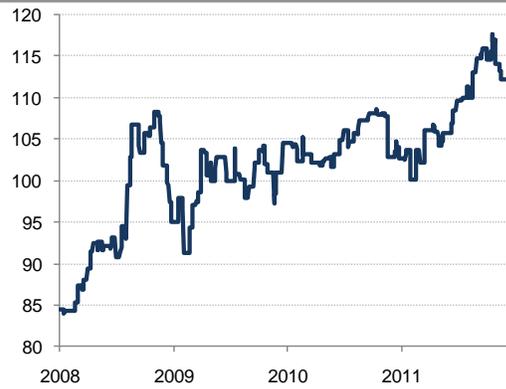
Source: BBVA Research

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



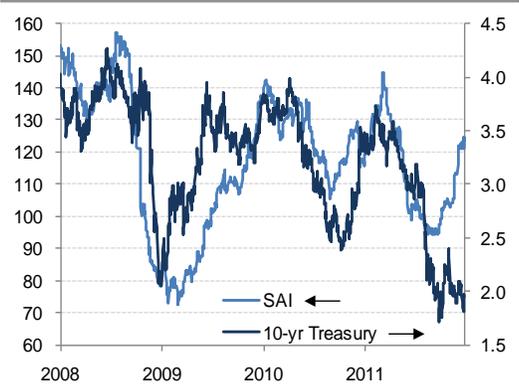
Source: BBVA Research & BEA

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



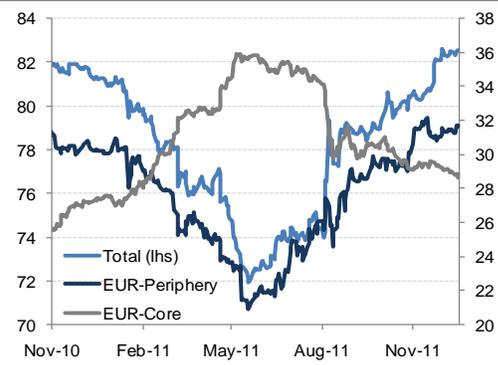
Source: BBVA Research

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



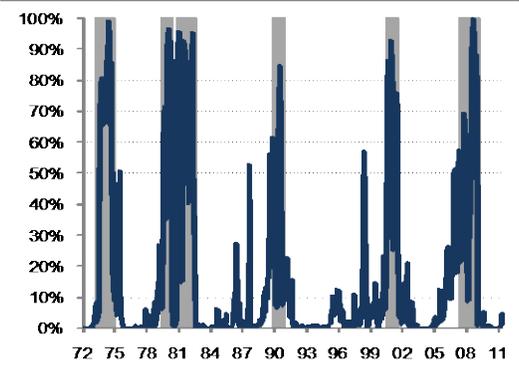
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

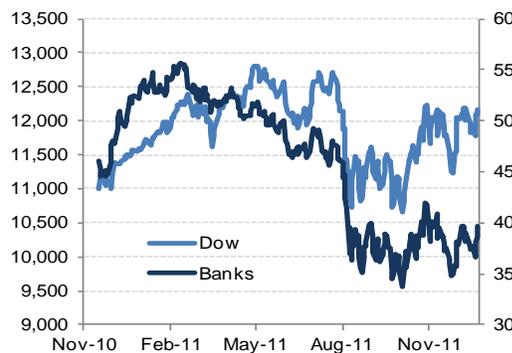
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas,%)



Source: BBVA Research

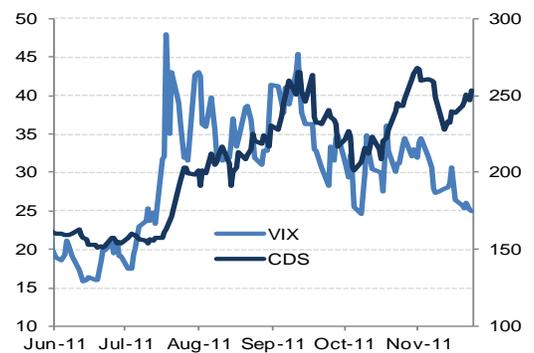
Financial Markets

Graph 9
Stocks (Index, KBW)



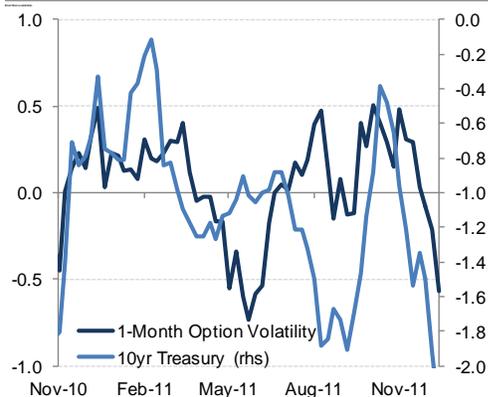
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS (Indices)



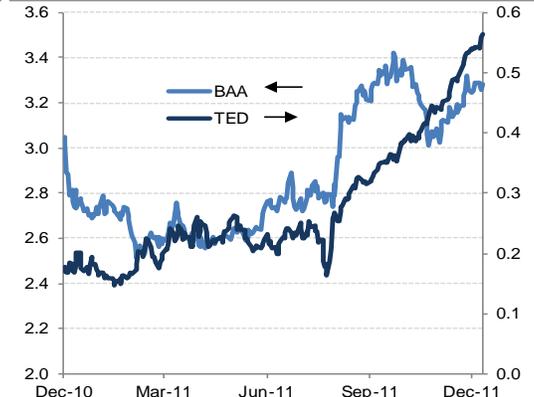
Source: Bloomberg & BBVA Research

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



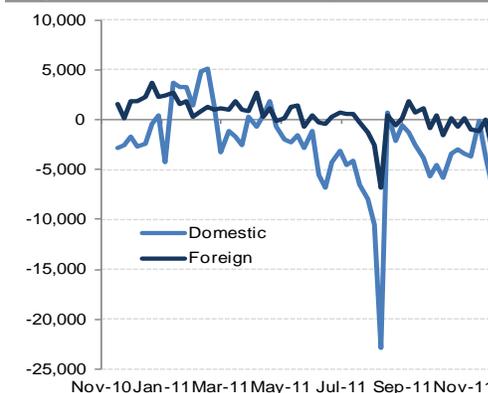
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads (%)



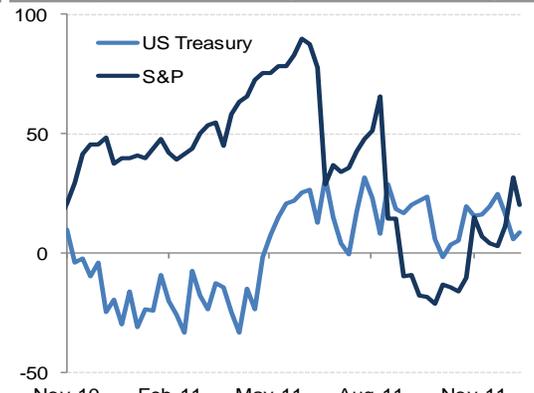
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

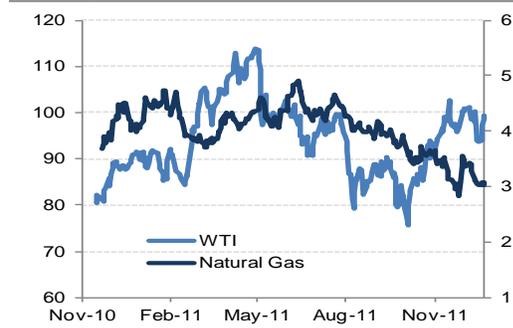
Graph 14
Total Reportable Short & Long Positions (Short-Long, K)



Source: Bloomberg & BBVA Research

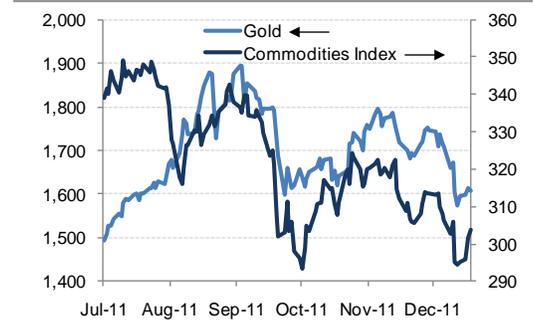
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



Source: Bloomberg & BBVA Research

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



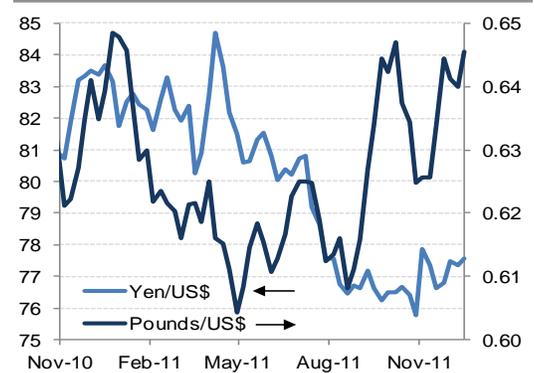
Source: BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



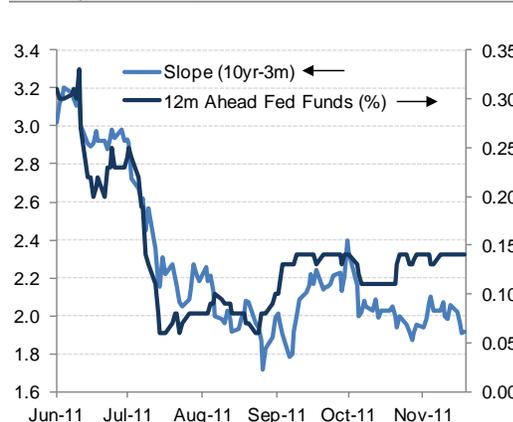
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

Graph 19
Fed Futures & Yield Curve Slope
(% & 10year-3month)



Source: BBVA Research

Graph 20
Inflation Expectations
(%)



Source: Bloomberg & BBVA Research

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)	13.94	13.94	13.96	13.68
New Auto (36-months)	3.75	3.78	4.10	5.35
Heloc Loan 30K	5.55	5.54	5.51	5.49
5/1 ARM*	2.85	2.86	2.91	3.75
15-year Fixed Mortgage*	3.21	3.21	3.30	4.15
30-year Fixed Mortgage*	3.91	3.94	3.98	4.81
Money Market	0.49	0.51	0.52	0.71
2-year CD	0.94	0.95	0.95	1.23

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

 Table 2
Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
1M Fed	0.07	0.07	0.07	0.19
3M Libor	0.57	0.56	0.52	0.30
6M Libor	0.80	0.78	0.73	0.46
12M Libor	1.12	1.11	1.05	0.78
2yr Sw ap	0.75	0.71	0.82	0.91
5yr Sw ap	1.29	1.26	1.36	2.26
10Yr Sw ap	2.12	2.06	2.16	3.48
30yr Sw ap	2.69	2.64	2.63	4.20
7day CP	0.81	0.83	0.54	0.20
30day CP	0.60	0.60	0.40	0.28
60day CP	0.50	0.49	0.36	0.30
90day CP	0.53	0.51	0.43	0.34

Source: Bloomberg & BBVA Research

Quote of the Week

Hillary Clinton, U.S. Secretary of State
 U.S., Japan urge calm on North Korea, seek nuclear progress
 20 December 2011

"We both share a common interest in a peaceful and stable transition in North Korea. We reiterate our hope for improved relations with the people of North Korea and remain deeply concerned about their well-being."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
27-Dec	S&P Case-Shiller HPI (YoY)	OCT	-3.10%	-3.20%	-3.59%
27-Dec	Consumer Confidence	DEC	60.00	58.50	56.00
29-Dec	Initial Jobless Claims	24-Dec	380K	---	364K
29-Dec	Continuing Claims	17-Dec	3625K	---	3546K
29-Dec	Pending Home Sales (MoM)	NOV	1.50%	1.80%	10.40%
30-Dec	Chicago Purchasing Manager Index	DEC	63.00	60.20	62.60

Forecasts

	2011	2012	2013	2014
Real GDP (% SAAR)	1.60	2.30	2.20	2.50
CPI (YoY %)	2.90	2.20	2.30	2.40
CPI Core (YoY %)	1.60	1.70	1.80	1.90
Unemployment Rate (%)	9.00	8.90	8.40	7.90
Fed Target Rate, EOP (%)	0.25	0.25	1.00	2.00
10Yr Treasury (% Yield)	2.21	2.64	3.17	3.60
US Dollar/ Euro	1.37	1.33	1.36	1.34

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