

US Weekly Flash

Highlights

• Lower Energy Costs Limit Headline Inflation in April

- Headline consumer inflation was unchanged in April following three months of gains. The energy price index declined 1.7%, with gas prices down 2.6% after increasing 6.0% and 1.7% in February and March, respectively. Consequently, nominal retail sales in April increased only 0.1% and 0.2% excluding autos, in large part due to the decline in gasoline sales. Excluding food and energy, core prices increased 0.2% in April, with most pressure stemming from transportation, apparel, and medical care services.
- On a YoY basis, headline inflation dropped significantly, from 2.7% in March to 2.3% in April, while the core figure remained unchanged at 2.3%. Looking forward, the distribution of prices in the consumer price index suggests a decreasing central tendency, and the data are consistent with our outlook for the second quarter. However, further declines in energy prices would put downward bias on our baseline scenario.

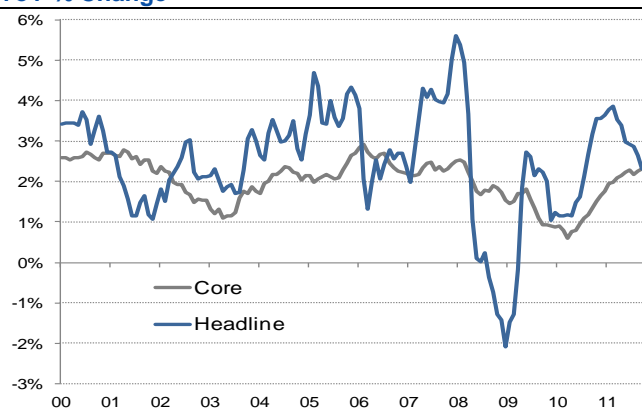
• Manufacturing Sector Recovering Slightly from Temporary Lapse in Activity

- Industrial production rebounded more than expected in April, up 1.1% following a downwardly revised 0.6% contraction in March. Manufacturing output increased 0.6%, mostly due to a jump in auto production, while mining and utilities output grew 1.6% and 4.5%, respectively.
- The Empire State Manufacturing survey noted expanding activity in the sector for May, with particular strength in shipments, new orders, and employment. Surprisingly, the Philly Fed index dropped significantly to indicate a contraction in the region's activity for the first time since September. Weakness here was centered in new orders and the number of employees.

• FOMC Meeting Minutes Reveal Little Additional Information

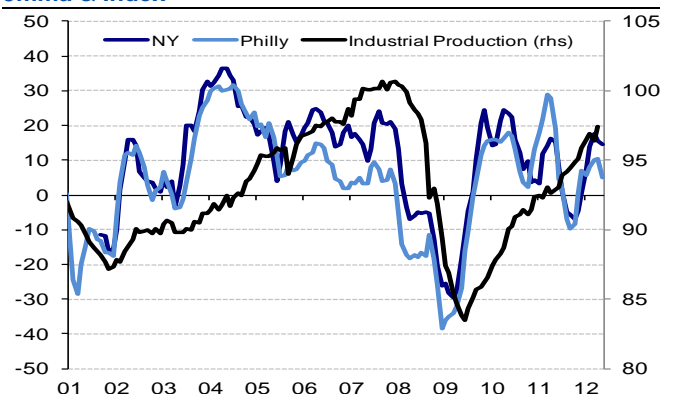
- The latest FOMC meeting minutes underscored the more centrist theme of the last FOMC statement. As already known, a majority of participants believe that moderate growth over the course of 2012 will eventually result in a gradual pickup of growth, with a slow decline in the unemployment rate and easing inflationary pressures. The text of the minutes also show that the Fed continues to discuss the weight of structural factors in the unemployment rate, the exact amount of time-varying changes in the calculation of potential growth, and the long-term ramifications of a large balance sheet on inflation expectations.
- Chairman Bernanke and other FOMC participants have continually stated that the Fed will act if economic conditions deteriorate. Thus, it is clear that the Federal Reserve is closely monitoring conditions in financial markets and developments in Europe to gauge if a risk scenario is coming to fruition, consistent with their sentiments from the last FOMC meeting.

Graph 1
Consumer Price Inflation
YoY % Change



Source: U.S. Census Bureau & BBVA Research

Graph 2
Fed Manufacturing Surveys & Industrial Production
3mma & Index



Source: Federal Reserve & BBVA Research

Week Ahead

Existing Home Sales (April, Tuesday 10:00 ET)

Forecast: 4.55M	Consensus: 4.62M	Previous: 4.48M
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Existing home sales are expected to increase only slightly in April as tight credit and weak employment conditions continue to weigh on homebuyer demand. Housing affordability is near an all-time high as a result of the large supply of distressed properties, yet the volume of mortgage applications was relatively unchanged in April. Foreclosures still account for more than 7% of total homes, down from a peak of 10.8% for the recovery period. In general, sales of existing homes have been moderating on a YoY basis since mid-2011, and we expect this trend to accelerate as the year progresses.

New Homes Sales (April, Wednesday 10:00 ET)

Forecast: 330K	Consensus: 335K	Previous: 328K
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New home sales have been weaker than the existing homes counterpart, and we do not expect that this trend will change in the near term. National homebuilder confidence dropped briefly in April, noting particular weakness in current homebuyer traffic. However, increasing pending home sales in the beginning of the year likely translated into sales throughout the ensuing months. Although levels of new home sales remain near recovery lows, we still expect that activity is improving gradually and that the floor was reached last year.

Durable Goods Orders, Ex Transportation (April, Thursday 8:30 ET)

Forecast: 2.0%, 1.0%	Consensus: 0.5%, 0.8%	Previous: -4.0%, -0.8%
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Durable goods orders declined significantly in March but are expected to rebound in April with a boost from the auto sector. Despite initial estimates for flat output throughout most of the first quarter, the latest industrial production data reflected upward revisions to some months as well as a jump in April's data, with auto production a primary driver. Various manufacturing reports have indicated continued growth in new orders but at a slightly slower pace compared to the previous months. Given the usual monthly volatility in the data, we expect that durable goods orders will recover from weakness in March.

Consumer Sentiment (May, Friday 9:55 ET)

Forecast: 77.5	Consensus: 77.8	Previous: 77.8
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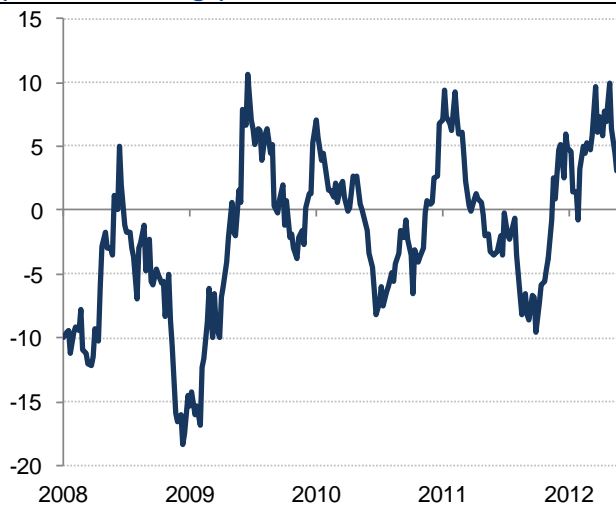
Consumer sentiment has recovered slightly from a brief deterioration earlier in the year despite the latest indications of weakening employment conditions. The index jumped significantly in the beginning of May to the highest level of the recovery, and we do not expect much change in the figure towards the end of the month. Initial jobless claims are trending downward again after increasing throughout April, and gas prices continue to fall. While these data improvements indicate that consumers may be more optimistic about current conditions, uncertainties continue to weigh on the expectations component.

Market Impact

A relatively quiet week in the U.S. will no doubt force market attention again toward developments in Europe. The expected monthly swing in durable goods orders is common and thus should not incite much market reaction. Better-than-expected data from the housing sector will help ease concerns over domestic activity, but not enough to offset volatility driven heavily by uncertainty regarding activity in Europe.

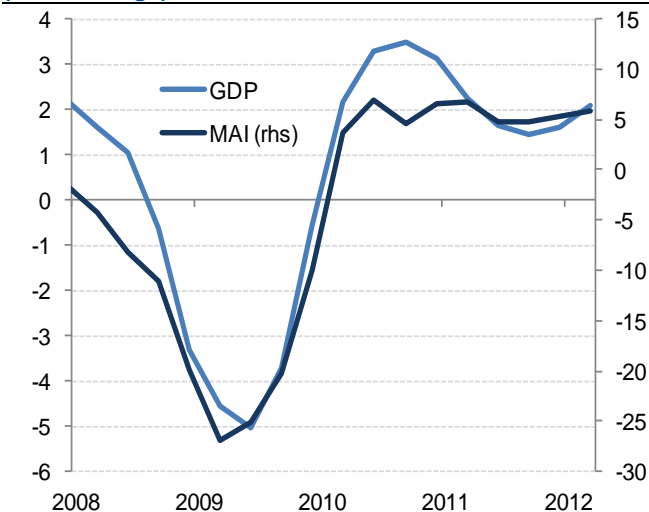
Economic Trends

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



Source: BBVA Research

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



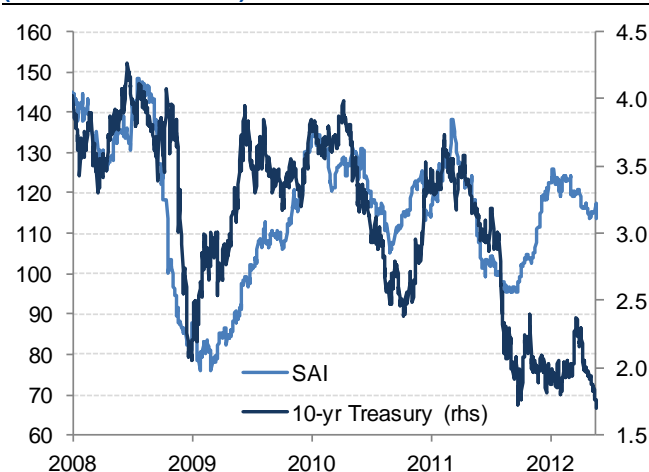
Source: BBVA Research & BEA

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



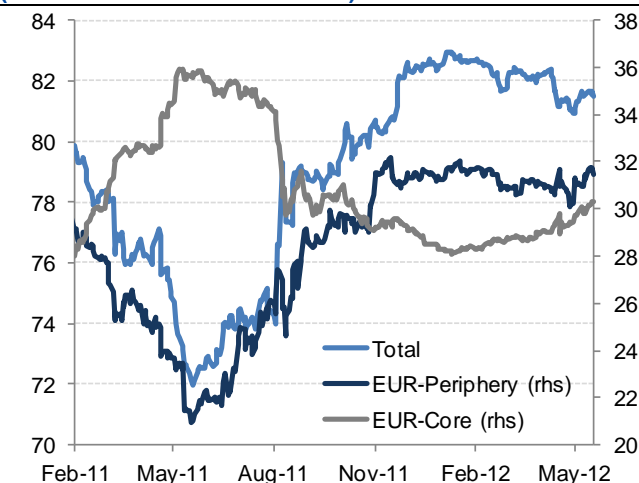
Source: BBVA Research

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



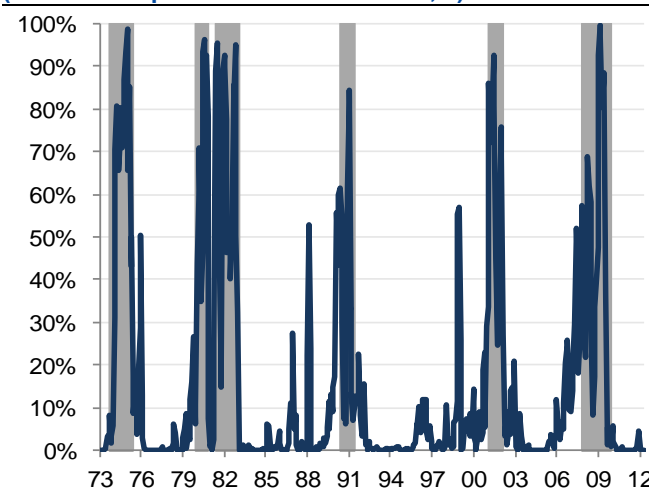
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

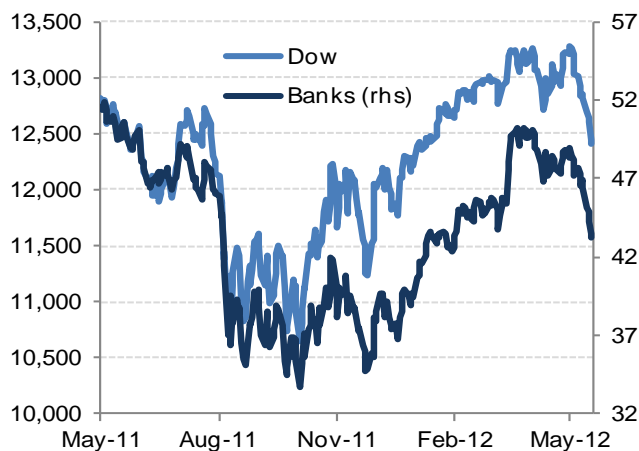
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)



Source: BBVA Research

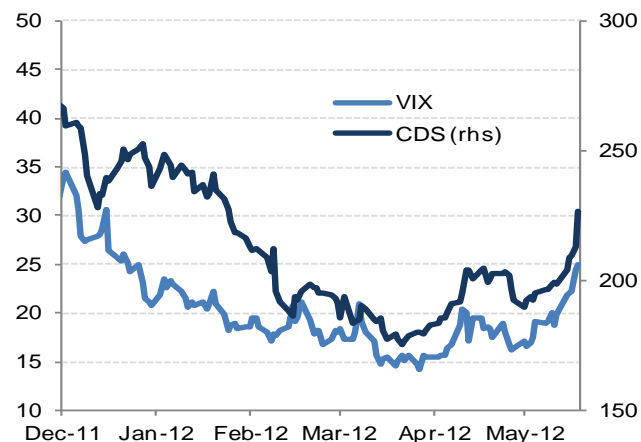
Financial Markets

Graph 9
Stocks
(Index, KBW)



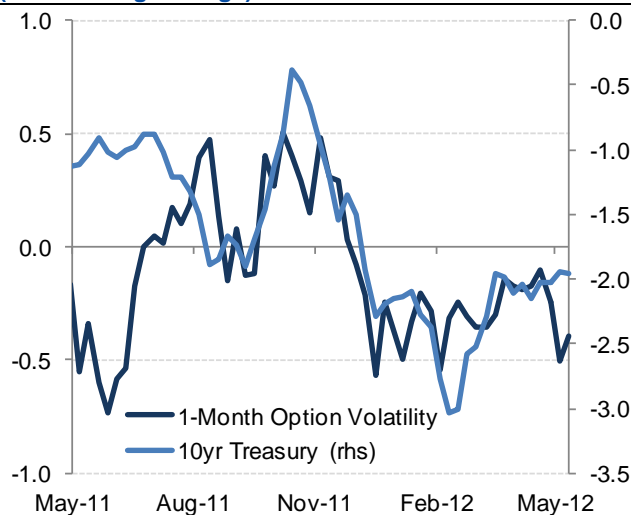
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



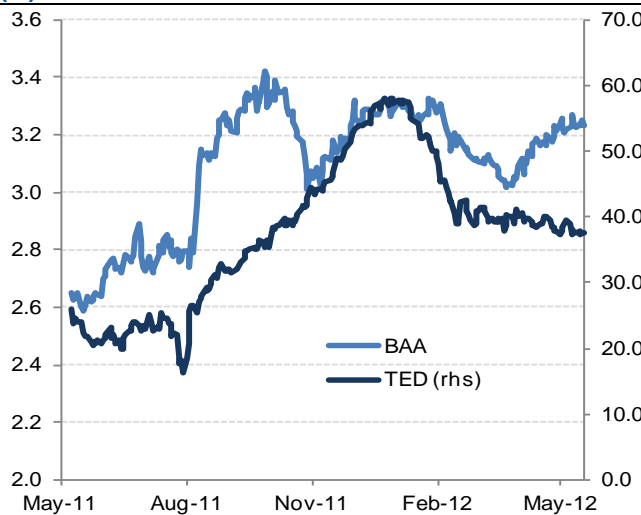
Source: Bloomberg & BBVA Research

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



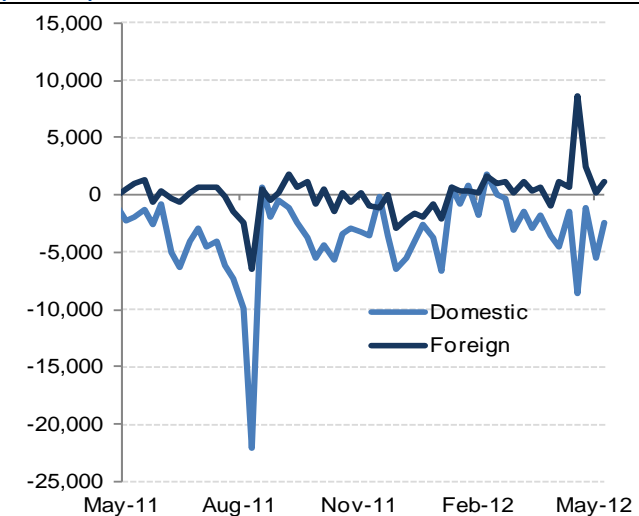
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



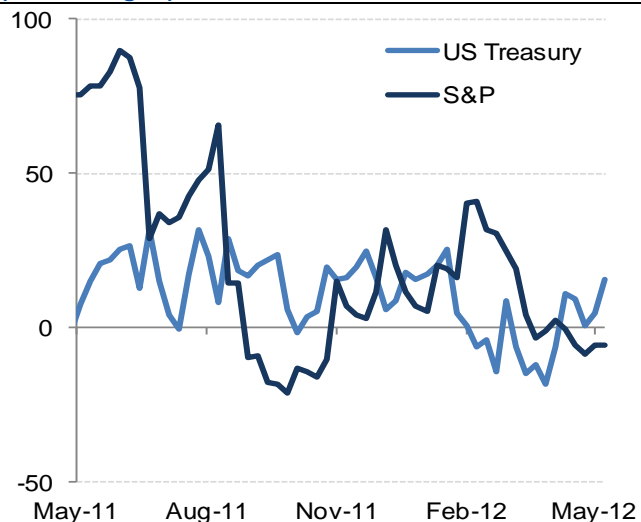
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

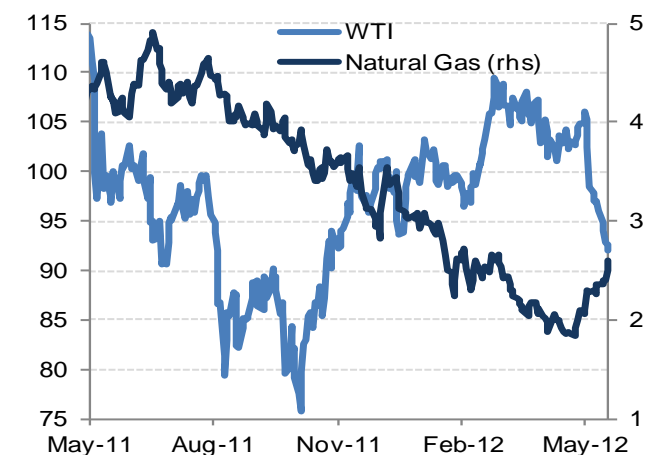
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

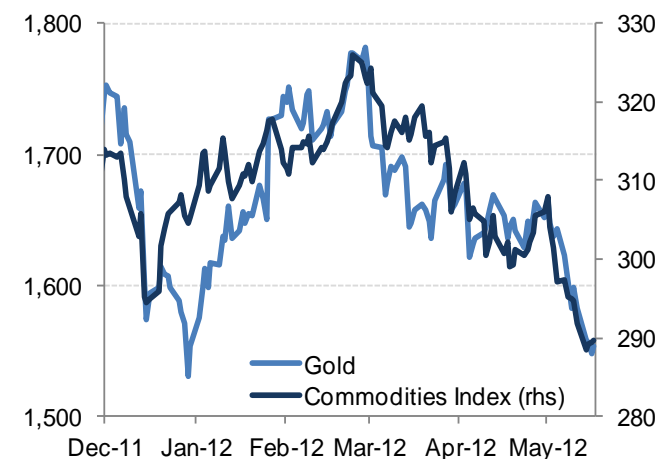
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



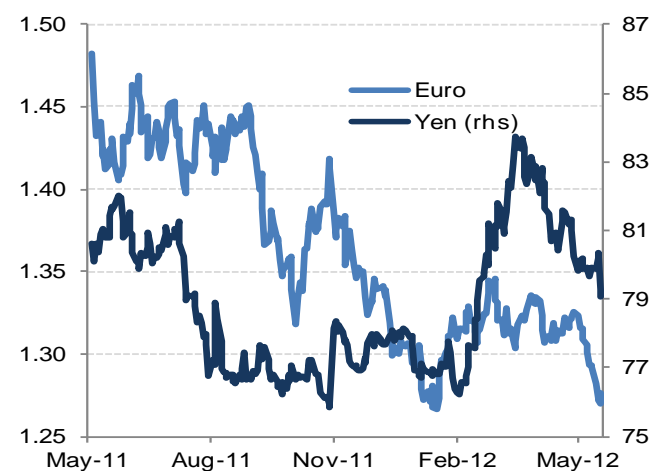
Source: Bloomberg & BBVA Research

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



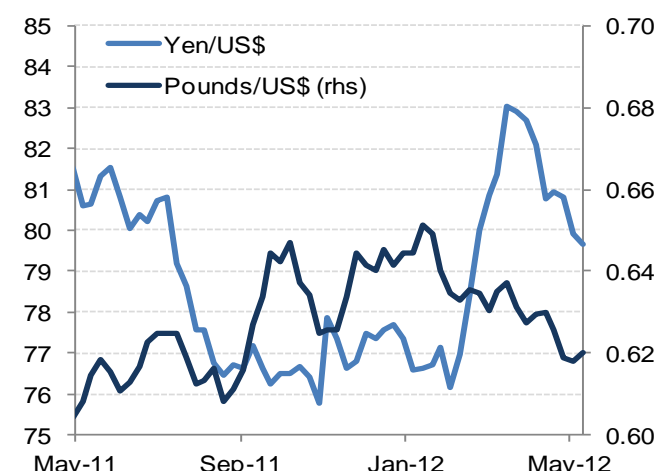
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



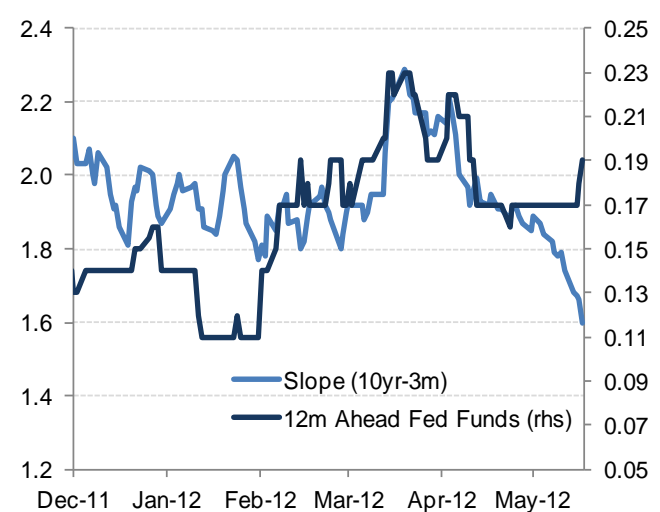
Source: Bloomberg & BBVA Research

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



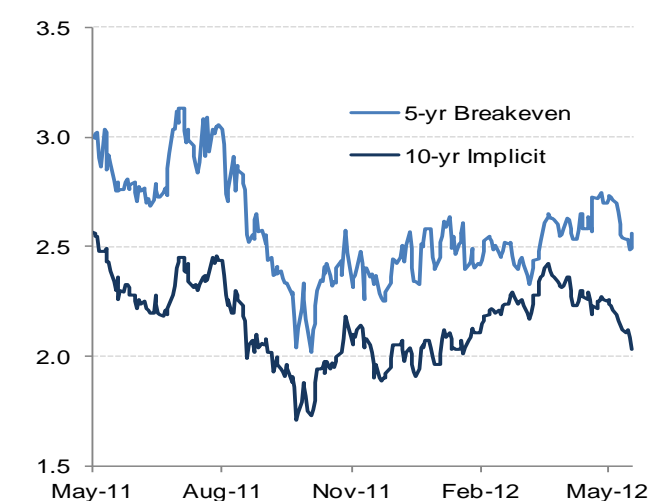
Source: Haver Analytics & BBVA Research

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



Source: Haver Analytics & 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)	14.10	14.10	14.10	13.73
New Auto (36-months)	3.13	3.13	3.16	3.82
Heloc Loan 30K	5.52	5.51	5.46	5.47
5/1 ARM*	2.83	2.81	2.78	3.48
15-year Fixed Mortgage*	3.04	3.05	3.13	3.80
30-year Fixed Mortgage*	3.79	3.83	3.90	4.61
Money Market	0.72	0.72	0.73	0.63
2-year CD	0.90	0.90	0.90	1.23

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

Table 1

Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
1M Fed	0.16	0.15	0.12	0.10
3M Libor	0.47	0.47	0.47	0.26
6M Libor	0.74	0.73	0.73	0.41
12M Libor	1.07	1.05	1.05	0.74
2yr Sw ap	0.66	0.61	0.57	0.71
5yr Sw ap	1.09	1.10	1.14	2.02
10Yr Sw ap	1.84	1.98	2.08	3.24
30yr Sw ap	2.49	2.73	2.83	4.06
7day CP	0.16	0.18	0.23	0.12
30day CP	0.34	0.31	0.27	0.15
60day CP	0.39	0.40	0.35	0.18
90day CP	0.41	0.44	0.44	0.22

Source: Bloomberg & BBVA Research

Quote of the Week

James Bullard, Federal Reserve Bank of St. Louis President
Break up JP Morgan, Big Banks
17 May 2012

"This is why you want these companies to have plenty of capital. I would back my colleague Richard Fisher in saying that we should split up the largest banks. We do not need these companies to be as big as they are. It would be simpler to have smaller institutions so that they could fail if they need to fail."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
21-May	Chicago Fed National Activity Index	APR	-0.10	--	-0.29
22-May	Existing Home Sales	APR	4.55M	4.62M	4.48M
22-May	Existing Home Sales (MoM)	APR	1.56%	3.10%	-2.60%
23-May	New Home Sales	APR	330K	335K	328K
23-May	New Home Sales (MoM)	APR	0.61%	2.10%	-7.10%
24-May	Durable Goods Orders	APR	2.00%	0.50%	-4.00%
24-May	Durable Goods Orders Ex Transportation	APR	1.00%	0.80%	-0.80%
24-May	Initial Jobless Claims	19-May	365K	370K	370K
24-May	Continuing Claims	12-May	3250K	3250K	3265K
25-May	U. of Michigan Consumer Sentiment	MAY	77.50	77.80	77.80

Forecasts

	2011	2012	2013	2014
Real GDP (% SAAR)	1.7	2.3	2.2	2.5
CPI (YoY %)	3.2	2.5	2.2	2.4
CPI Core (YoY %)	1.7	1.9	1.8	1.9
Unemployment Rate (%)	9.0	8.2	7.8	7.4
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.50
10Yr Treasury (eop, % Yield)	2.0	2.2	2.7	3.1
US Dollar/ Euro (eop)	1.31	1.25	1.31	1.31

Note: Bold numbers reflect actual data

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