

US Weekly Flash

Highlights

• FOMC Maintains a Highly Accommodative Stance

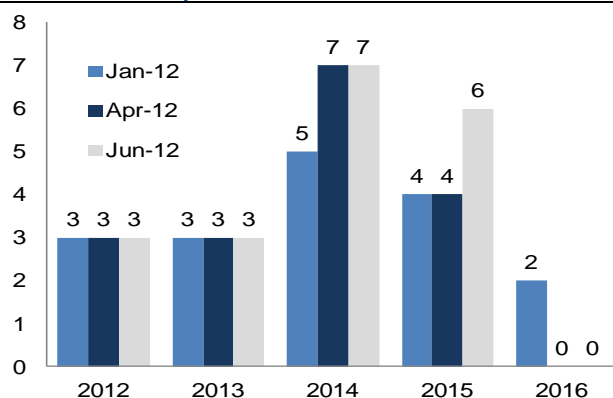
- As expected, the pace of reduction in the unemployment rate is progressing insufficiently quickly for the FOMC and they extended Operation Twist until the end of the year by \$267bn to continue a highly accommodative stance of monetary policy. One main benefit of extending this program is to buy time for the FOMC. According to the policy guidance released by the FOMC, all members are expecting the Fed Funds rate to be at or below 0.75% by the end of the year. This is a significant change compared to the previous FOMC meeting, where two participants were expecting the Fed Funds rate to be at or above 1.0% by the end of the year.
- The Fed also downgraded their GDP forecast for the next three years, with the bulk of the revision in the short-term. This downgrade of the forecast is somewhat stronger than expected, but it does bring the FOMC's forecasts closer to reality; we have often commented that their central tendency forecast was overly optimistic. Economic indicators released since April have been lackluster but hardly disastrous. As such, we believe that the FOMC is becoming increasingly concerned as to the effect of Europe on investment and employment in the US.
- Over the next six months, we will have a better idea of the outcome of elections, fiscal consolidation negotiations, and also a definitive read on the extent of employment creation. Thus, the latest action leaves the FOMC ready to implement more stimulus if needed, even before the elections. Given that the US economy has already experienced a number of unorthodox monetary policies and flight to safety has resulted in low long-term lending rates, the FOMC may have to become increasingly more creative, possibly focusing on mortgage rates.

• Homebuilder Confidence at Recovery High, Other Data Less Convincing

- The homebuilder confidence index increased to 29 in June, suggesting that housing activity is near the best level of the recovery. Confidence related to current sales of new homes and traffic of prospective buyers reached the highest level since April 2007. The 6-month outlook is similar to levels earlier in 2012.
- Other housing data did not fully reflect the positive homebuilder sentiments. Housing starts were unchanged in May at 708K following a downward revision to April. Furthermore, existing home sales declined to the lowest level since December. On the bright side, median home prices have increased for four consecutive months which suggests that the impact of foreclosed homes on the market is becoming less severe. Building permits jumped significantly to the highest level of the recovery, hopefully pointing to increased activity in the coming months.

Graph 1

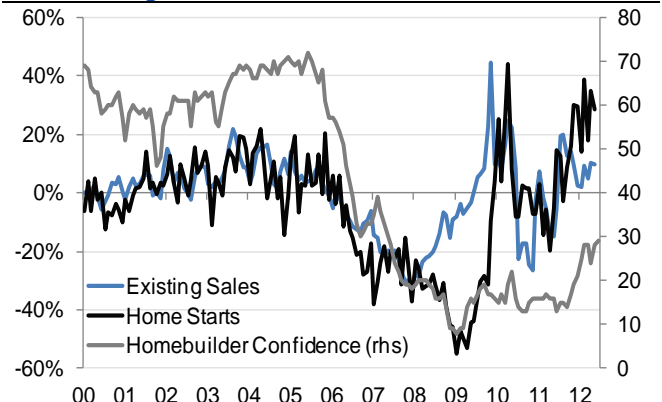
Appropriate Timing of Policy Firming Number of Participants



Source: Federal Reserve & BBVA Research

Graph 2

Existing Home Sales, Starts, & Homebuilder Confidence YoY % Change & Index



Source: US Census Bureau, NAR, NAHB, & BBVA Research

Week Ahead

S&P Case-Shiller Home Price Index (April, Tuesday 9:00 ET)

Forecast: -2.30%

Consensus: -2.65%

Previous: -2.57%

The S&P Case Shiller HPI is expected to show moderating price declines in April. Various other price indicators suggest gains in home prices for the month, including the median prices of new and existing homes which increased 0.7% and 5.4%, respectively. The FHFA and Core Logic indices also increased on a MoM basis in April, even when including distressed properties. Still, we expect that home prices will continue to decline on a YoY basis at least through the end of 2012, if not longer.

Durable Goods Orders, Ex Transportation (May, Wednesday 8:30 ET)

Forecast: 0.5%, 1.0%

Consensus: 0.5%, 0.7%

Previous: 0.2%, -0.6%

Manufacturing data has been mixed so far in 2Q12, hinting at slowing activity in some areas. However, most manufacturing reports suggest increasing new orders for May. Thus, we expect that durable goods orders will increase slightly for the month following two prior months of weak data. Transportation has been the strongest component in recent months, but the usual volatility in aircraft orders may limit the headline figure in May. Capital goods orders have declined for two consecutive months, which is a downbeat sign for business confidence. Increasing economic uncertainty suggests that they are likely to remain relatively weak in the coming months.

GDP, Final Estimate (1Q12, Thursday 8:30 ET)

Forecast: 1.8%

Consensus: 1.9%

Previous: 1.9%

Real GDP growth was revised down from the first estimate of 2.2% to 1.9%, and we expect that the final figure will be slightly lower. Although much of the 1Q12 data was already released and accounted for in the second estimate, some indicators were revised slightly. In particular, personal consumption expenditures (PCE) were revised down from 0.3% to 0.2% for March, with real PCE dropping from 0.1% to 0.0%. Also, the trade balance for March was worse than previously reported, with the deficit increasing to -\$52.6bn from -\$51.8bn on account of weaker export growth. Inventories data was unchanged for March, though we expect that the PCE and trade components will have a small impact on the final GDP estimate.

Personal Income and Outlays (May, Friday 8:30 ET)

Forecast: 0.1%, 0.1%

Consensus: 0.2%, 0.0%

Previous: 0.2%, 0.3%

Personal income and outlays have been growing at a healthy pace throughout the past five months, though we expect that the pace of growth may be slower in May. Weak employment conditions have likely taken a toll on consumers, with average earnings increasing only slightly in May and confidence levels declining in the past three months. Retail sales dropped in May for the second consecutive month, mostly on account of lower gas prices. However, real retail sales were positive and suggest modest growth in personal outlays. In real terms, both income and spending are in line with first quarter averages.

Market Impact

This week, varied economic news in the US will provide markets with a better understanding of housing and manufacturing trends as well as the latest updates in consumer activity. Data on personal income and outlays, in addition to confidence indicators, may point to the severity of weak labor market conditions on consumers and will also provide more details for the 2Q12 consumption component of GDP. The final GDP estimate for 1Q12 should have little impact on markets, but a downward revision will surely not go unnoticed.

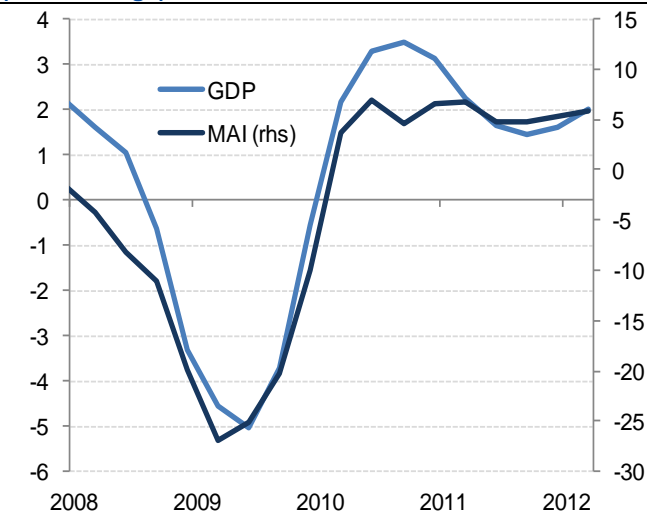
Economic Trends

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



Source: BBVA Research

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



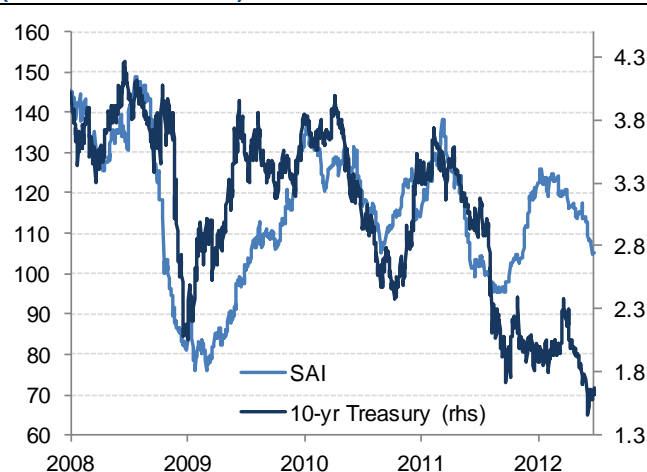
Source: BBVA Research & BEA

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



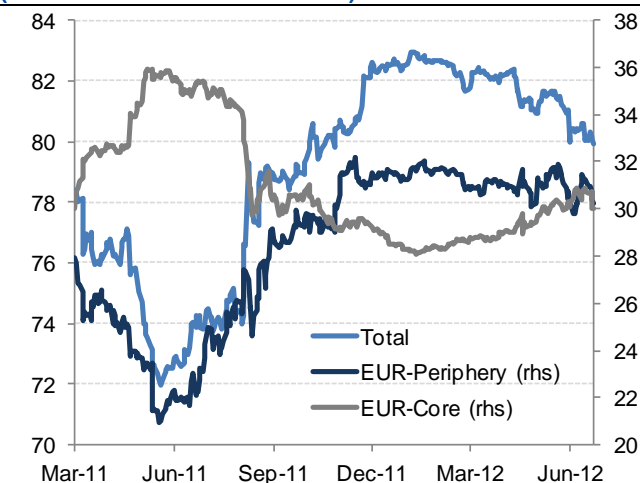
Source: BBVA Research

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



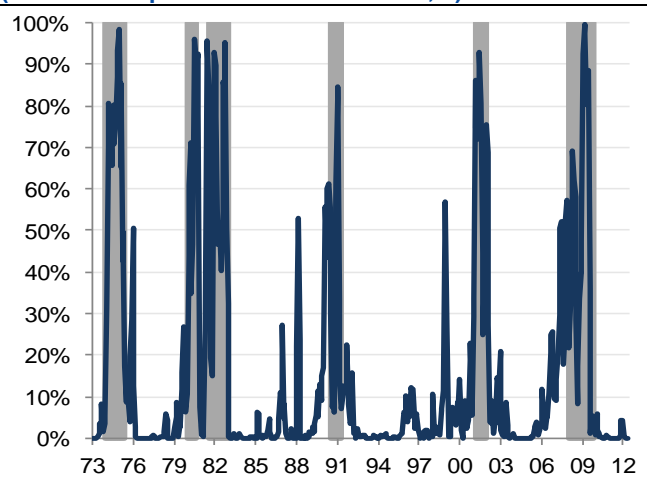
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

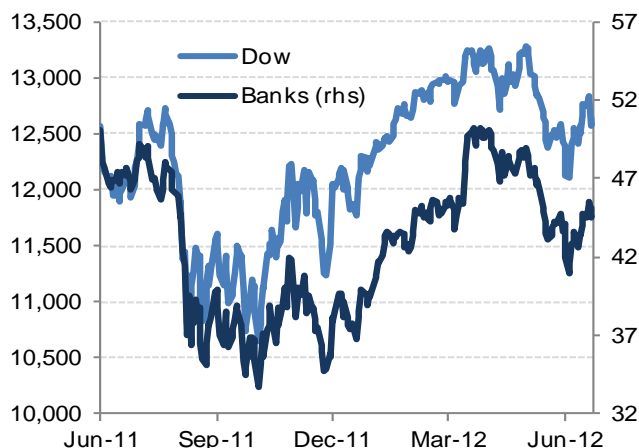
Graph 8
**BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)**



Source: BBVA Research

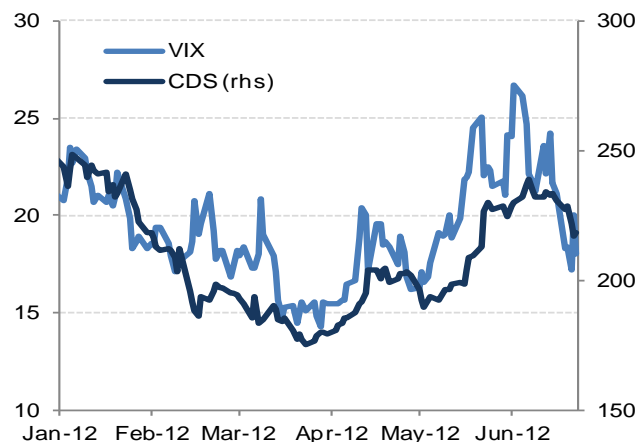
Financial Markets

Graph 9
Stocks
(Index, KBW)



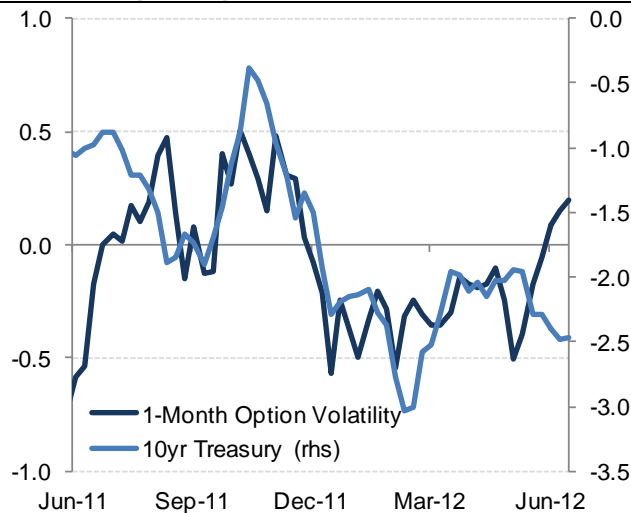
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



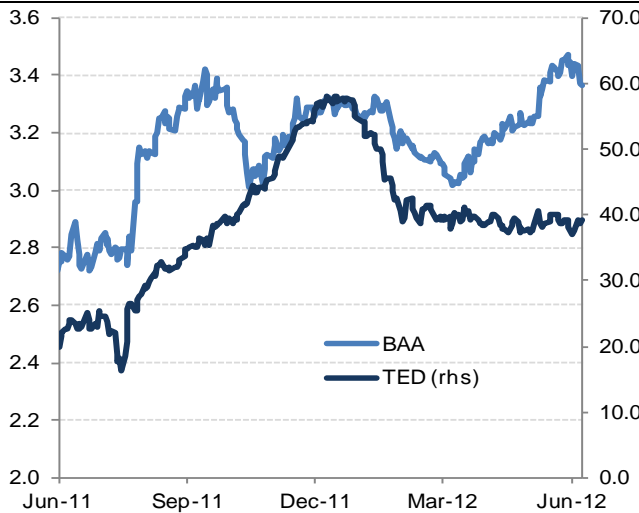
Source: Bloomberg & BBVA Research

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



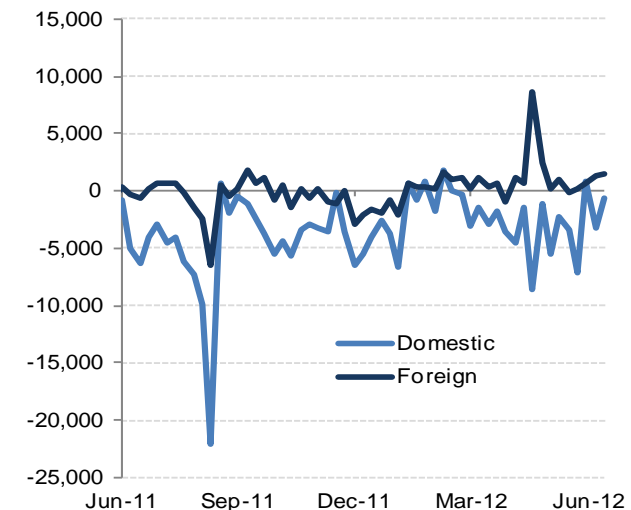
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



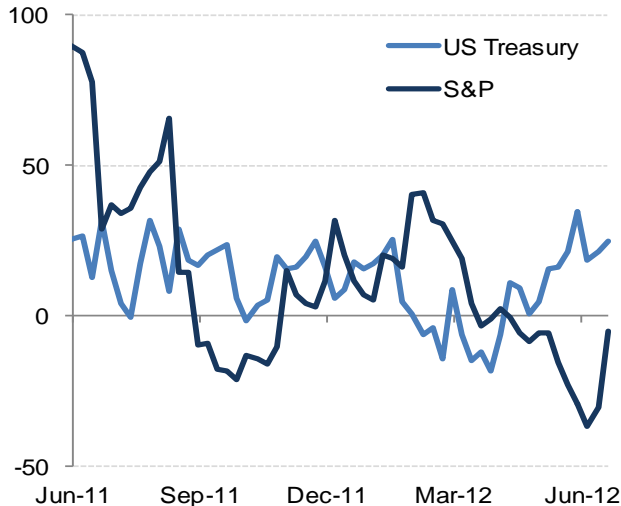
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

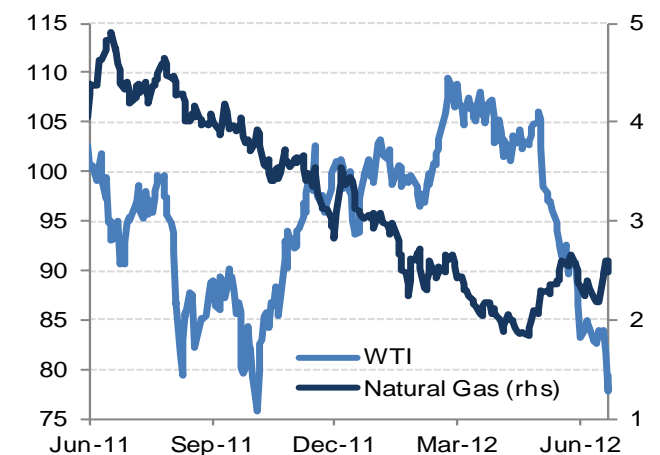
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

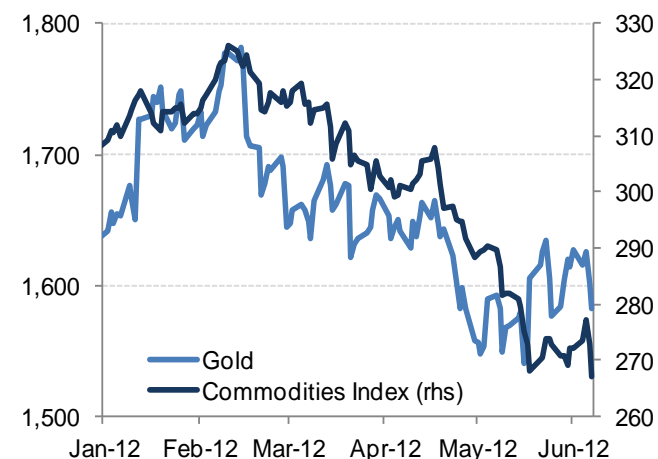
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



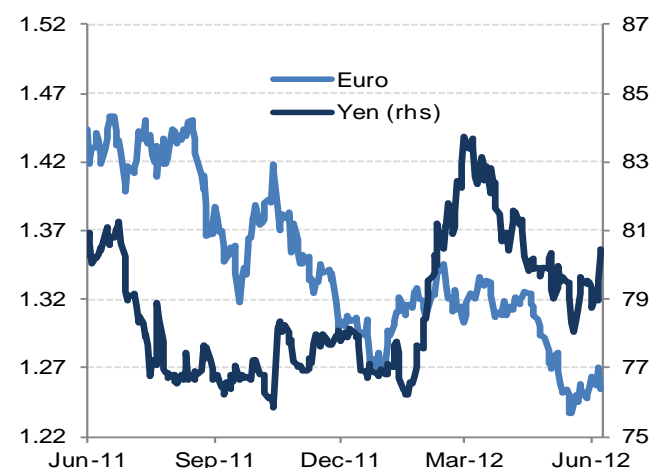
Source: Bloomberg & BBVA Research

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



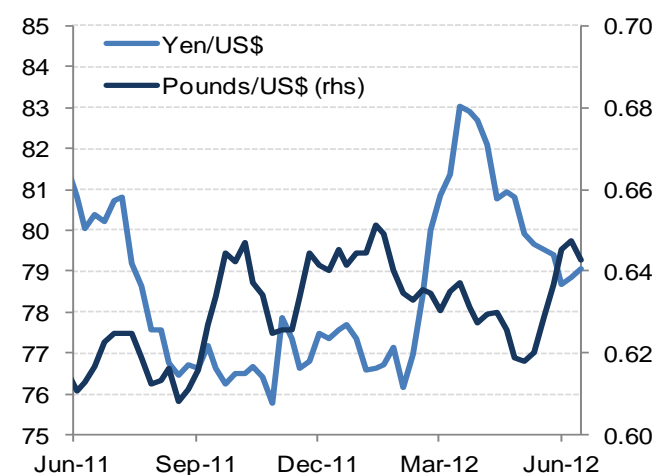
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



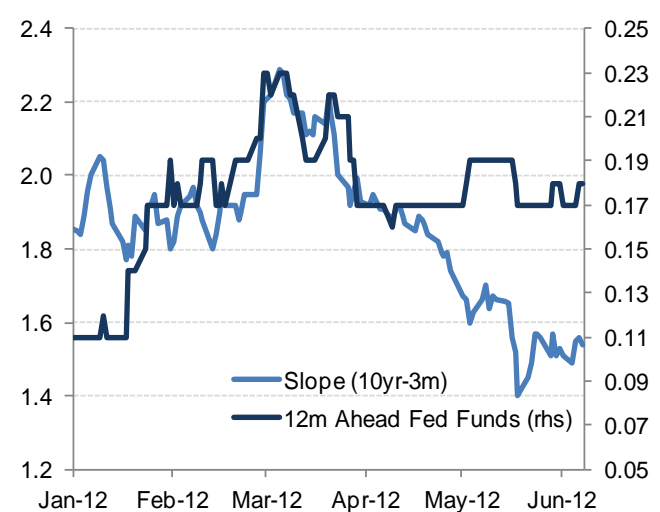
Source: Bloomberg & BBVA Research

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



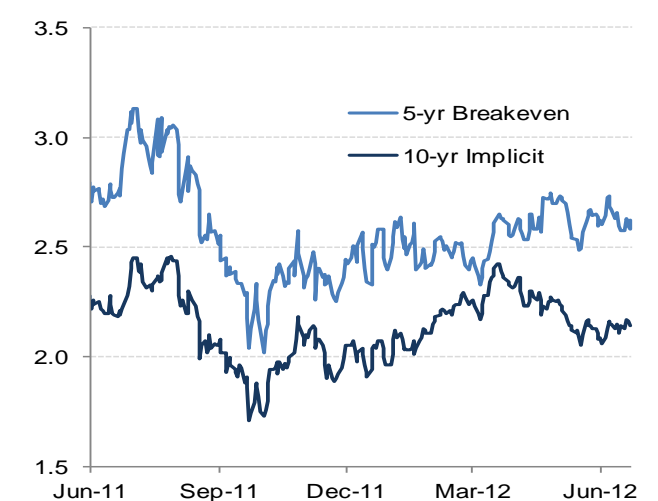
Source: Haver Analytics & BBVA Research

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)	3.08	3.43	3.11	3.91
Heloc Loan 30K	5.53	5.56	5.53	5.51
5/1 ARM*	2.77	2.80	2.83	3.25
15-year Fixed Mortgage *	2.95	2.98	3.04	3.69
30-year Fixed Mortgage *	3.66	3.71	3.78	4.50
Money Market	0.72	0.72	0.72	0.62
2-year CD	0.90	0.90	0.90	1.05

*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	0.17	0.18	0.15	0.08
3M Libor	0.46	0.47	0.47	0.25
6M Libor	0.73	0.74	0.74	0.40
12M Libor	1.07	1.07	1.07	0.73
2yr Sw ap	0.54	0.54	0.64	0.64
5yr Sw ap	1.00	0.95	1.09	1.75
10Yr Sw ap	1.80	1.73	1.89	3.01
30yr Sw ap	2.49	2.42	2.57	3.87
7day CP	0.27	0.29	0.20	0.16
30day CP	0.28	0.33	0.35	0.19
60day CP	0.33	0.40	0.44	0.25
90day CP	0.41	0.46	0.48	0.27

Source: Bloomberg & BBVA Research

Quote of the Week

James Bullard, St. Louis Federal Reserve Bank President
'Pretty High Hurdle' Before Easing: Fed's Bullard
22 June 2012

"QE3 I think is viewed as still having a pretty high hurdle. We can do that, and I think it would be effective, but we would be taking a lot more risk on our balance sheet and we'd be going further into uncharted territory. I am worried that you get three and a half years at zero rates and promises to keep it at zero for this much longer, that you're starting to distort the economy in ways that we're not used to in the past. This is getting outside of normal business cycle adjustments."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
25-Jun	Chicago Fed National Activity Index	MAY	-0.10	-0.40	0.11
25-Jun	New Home Sales	MAY	350K	346K	343K
25-Jun	New Home Sales (MoM)	MAY	2.00%	0.90%	3.30%
25-Jun	Dallas Fed Manufacturing Survey	JUNE	1.00	-1.00	-5.10
26-Jun	S&P Case-Shiller HPI (YoY)	APR	-2.30%	-2.65%	-2.57%
26-Jun	Consumer Confidence	JUNE	64.00	63.50	64.90
27-Jun	Durable Goods Orders	MAY	0.50%	0.50%	0.20%
27-Jun	Durable Goods Orders Ex Transportation	MAY	1.00%	0.70%	-0.60%
27-Jun	Pending Home Sales (MoM)	MAY	0.50%	1.30%	-5.50%
28-Jun	GDP QoQ Annualized	1Q12 F	1.80%	1.90%	1.90%
28-Jun	Personal Consumption	1Q12 F	2.70%	2.70%	2.70%
28-Jun	GDP Price Index	1Q12 F	1.70%	1.70%	1.70%
28-Jun	Core PCE QoQ	1Q12 F	2.10%	2.10%	2.10%
28-Jun	Initial Jobless Claims	23-Jun	385K	385K	387K
28-Jun	Continuing Claims	16-Jun	3290K	3278K	3299K
29-Jun	Personal Income (MoM)	MAY	0.10%	0.20%	0.20%
29-Jun	Personal Spending (MoM)	MAY	0.10%	0.00%	0.30%
29-Jun	Chicago PMI	JUNE	52.00	52.50	52.70
29-Jun	U. of Michigan Consumer Sentiment	JUNE	74.00	74.10	74.10

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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