

US Weekly Flash

Highlights

- **Beige Book signals modest growth with little change to employment**

- The Federal Reserve's Beige Book for September shows signs of optimism while employment and manufacturing are still slow to pick up the pace. The Fed's report from the 12 Districts highlights improving real estate conditions, a welcoming sign that lagging sectors might be making a turn. As economic activity increases, housing and employment have been under close scrutiny as indicators that remain stagnant or moving at a crawling pace. However, existing home sales increased significantly for the third month in a row while prices also rose and inventories shrank. Residential sales led the increase and in some areas by a large margin while commercial came back mixed with 2013 forecasting better levels. This news was balanced by a lack of activity in employment, the other indicator we are waiting to see show legitimate signs of improving. Reasons cited for this lack of business hiring in most Districts were the upcoming elections, the fiscal cliff, and the European Crisis. Although looming, two of the three will be resolved by year's end – hopefully pumping some much needed security into the economy
- Consumer spending reports were mixed but digging deeper, retail sales grew modestly for most of the Districts. Many reported that the aforementioned fears were holding back some consumers from spending loosely, indicated by better sales at discount stores than department. Tied to spending, vehicle sales were at "favorable" levels and running ahead of the figures from 2011. Used vehicle sales were mixed as a handful of Districts cited robust growing offset by others noting flat sales. Spending also attributed to higher levels of tourism in most Districts from the domestic side, but international visitors have declined since the last report.
- Industrials showed some mixed signs but overall positive, manufacturing had improved since the last report and by a modest amount, coinciding with surveys released over the past weeks. The automotive industry showed the most gain, light vehicles and trucks, with regard to industry as did transportation itself. However, metals and machinery levels were not as strong and growth in high-tech was sluggish. The non-financials came back at levels better than the last report led by technical and energy businesses

- **The U.S. trade deficit widens as exports disappoint once again**

- For the second consecutive month, the international trade balance widened, increasing to -\$44.2B in August. Although roughly on par with the analyst estimate, the latest figure is still troublingly high and is not expected to improve in the coming months. The third quarter thus far has seen ailing trade balance figures as demand from Europe and emerging economies slows. We have seen a slowdown in Chinese demand along with OPEC and smaller nations, evidencing slower growth themselves and fewer imports. In August, exports were the leading cause of decline, falling over a percent for the third time this year. Within exports, goods lead the decline as petroleum deficits rose to \$23.5B and exports of industrial supplies contracted. Coupled with the low industrial exports were foods, feeds, and beverages, which fell sharply by 8.3%. Imports also moved slightly lower, led by declines in automotive and consumer goods, reflecting businesses' fears of lower consumer demand.
- Over the coming quarters, businesses hope to see a higher demand from foreign nations as Europe finds itself back on its feet and Asian demand for US goods rises to earlier levels. This optimism will be short lived, however, if a continuous stream of data like Spain's credit score reduction and China's lower forecasted GDP puts onerous pressure on global growth. The other ailing concern is oil prices but with the past few months holding steady, businesses may have a better chance to focus on longer term action and expanding their capital in hopes of feeding higher demand. Given September's employment figures, we would hope to see a gradual building of confidence from the consumer and some growth in consumer spending to entice businesses to supply the growing demand both foreign and domestic.

Week Ahead

Retail Sales (September, Monday 8:30 ET)

Forecast: 0.5%, 0.4%

Consensus: 0.8%, 0.6%

Previous: 0.9%, 0.8%

Retail sales are expected to climb for the third straight month due to the seasonal retail push, though at a slower pace compared to August. September should prove to be a relatively positive month as fears from abroad lessen and consumers begin their holiday shopping agenda. The weekly surveys are not encouraging either way and lack any strong movement in positive or negative territory, but the trending holiday movement from retailers themselves should entice shoppers. Unit auto sales increased in September for the second consecutive month and could translate into a gain for nominal vehicle sales, but the two indicators do not always move hand in hand. Energy and food prices will not pose much of a catalyst as oil prices have stayed roughly the same since August and food prices are mostly consistent with the previous month.

Consumer Price Index (September, Tuesday 8:30 ET)

Forecast: 0.4%, 0.2%

Consensus: 0.5%, 0.2%

Previous: 0.6%, 0.1%

Headline inflation is expected to increase in September but at a slightly slower pace than in the previous month. Rising oil prices drove the energy component in August but likely had less of an impact in September given that Brent crude prices declined and WTI increased only slightly. Natural gas and commodity prices also increased for the month but at a relatively modest pace. Other upward pressures include food inflation, which we expect to continue at a steady pace throughout the coming months until the effects of the Midwest drought subside. Pass-through to core has been limited thus far and pressures from shelter and medical care services have not increased significantly.

Philadelphia Fed Survey (October, Thursday 10:00 ET)

Forecast: -0.2

Consensus: 0.0

Previous: -1.9

Although still in negative territory, the Philadelphia manufacturing survey is expected to be slightly less discouraging and is in good shape to break into positive territory by November. With the Beige Book released for September, the District's manufacturing sector had mixed signals as growth was lackluster but new orders climbed, hopefully nudging up the production component in the coming months. ISM figures for September also showed signs of recovery as it rose above 50 for the first time since May, a hint that maybe demand is improving. We will have to see whether the Philadelphia region can capitalize on the growth in ISM national figures, but the outlook for the area is brighter.

Existing Home Sales (September, Friday 10:00 ET)

Forecast: 4.65M

Consensus: 4.75M

Previous: 4.82M

Existing home sales are estimated to reach 4.65M for September following a sharp increase in the previous month. Figures in August reached levels untouched since May 2010 but with little grounding in data, it is unlikely the same peak will be hit for September. A brief relief from gains in housing prices may help to price homebuyers back into the market, but it is difficult to presume that consumers are ready and willing to fill the vacancies left by the recession. However, if employment data is accurate, a more invigorated and hopefully optimistic population may in fact be looking to purchase a home in the coming months.

Market Impact

This week is packed with vital data for the markets, with CPI and other important indicators critical to the week's movements. Estimates are gloomy for a majority of the larger releases but housing and employment could be injections of optimism leading up to the election next month. Markets will be awaiting Thursday's jobless claims data to validate the prior employment data, while the housing market index could keep steam into the final weeks of October. Various manufacturing surveys will give us a first look at the sector's activity for October, with markets keeping a close eye on business inventories and industrial production as well. Finally, trade data will give markets a better indication of how GDP may be impacted for the third quarter.

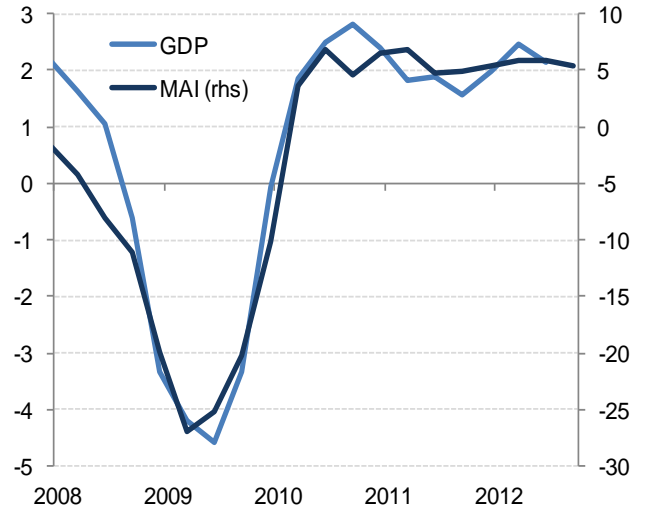
Economic Trends

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



Source: BBVA Research

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



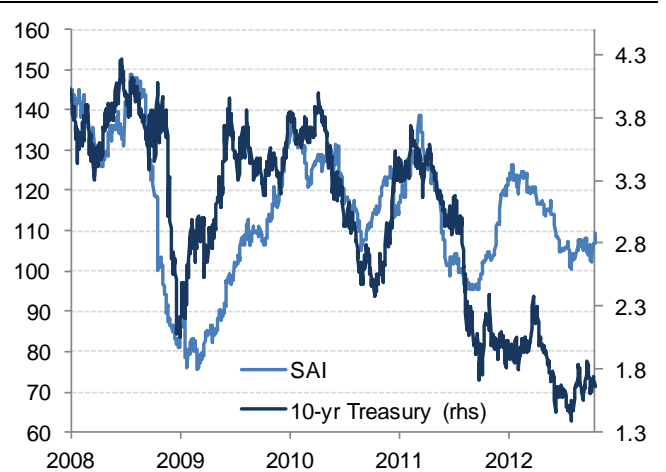
Source: BBVA Research & BEA

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



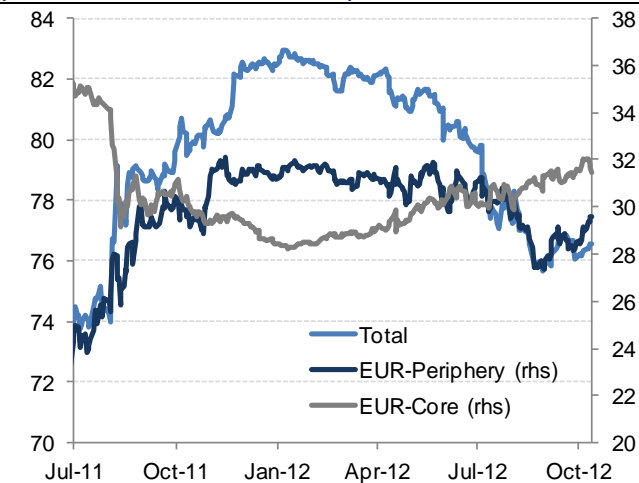
Source: BBVA Research

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



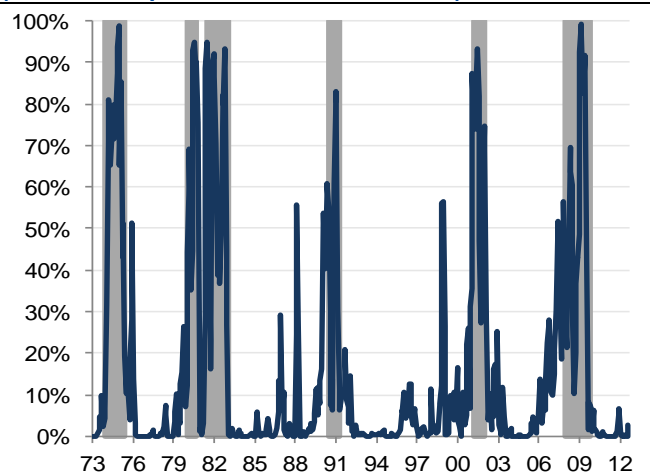
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

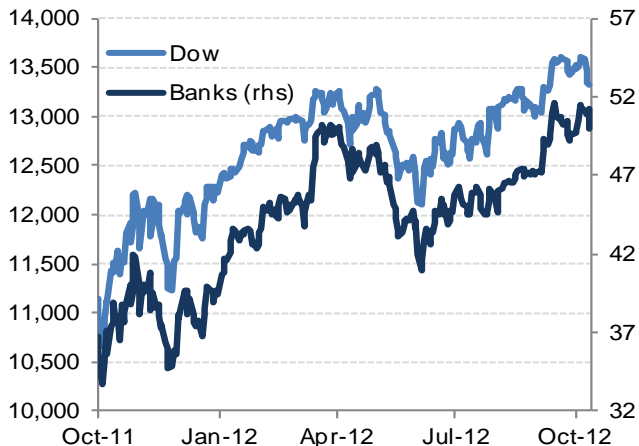
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

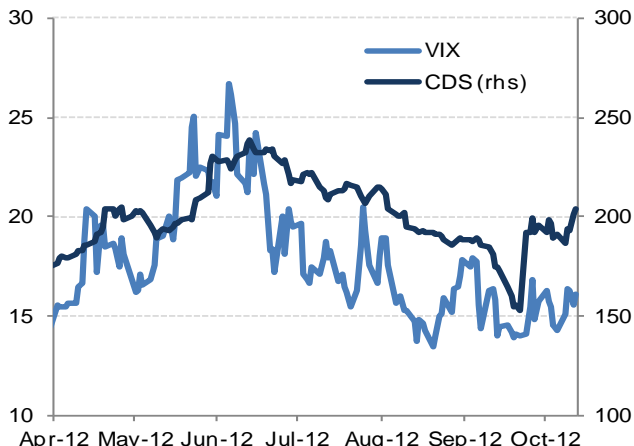
Financial Markets

Graph 9
Stocks
(Index, KBW)



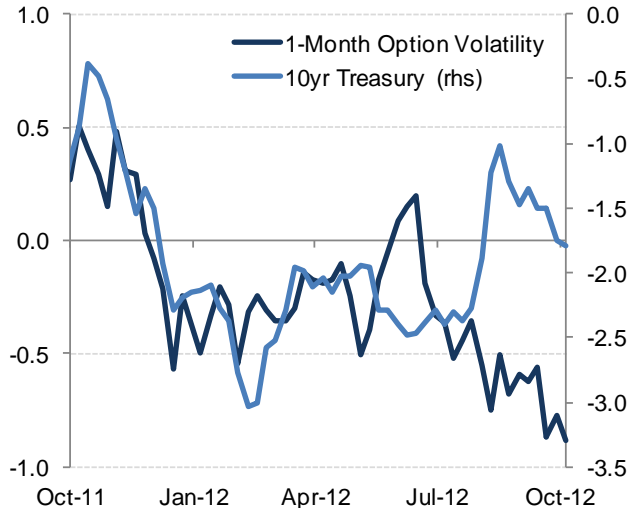
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



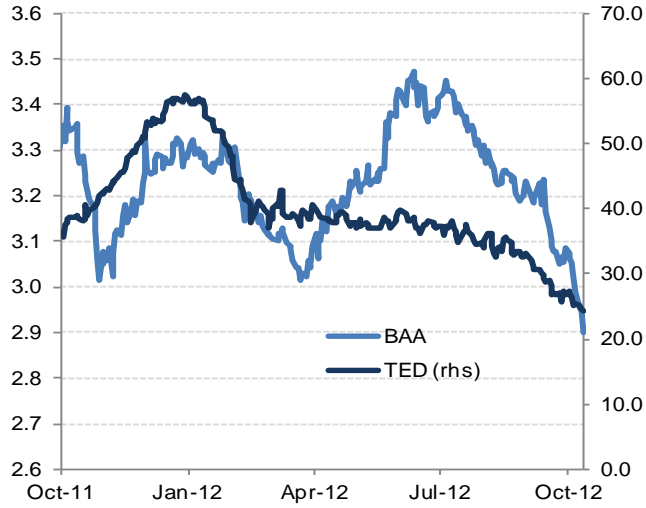
Source: Bloomberg & BBVA Research

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



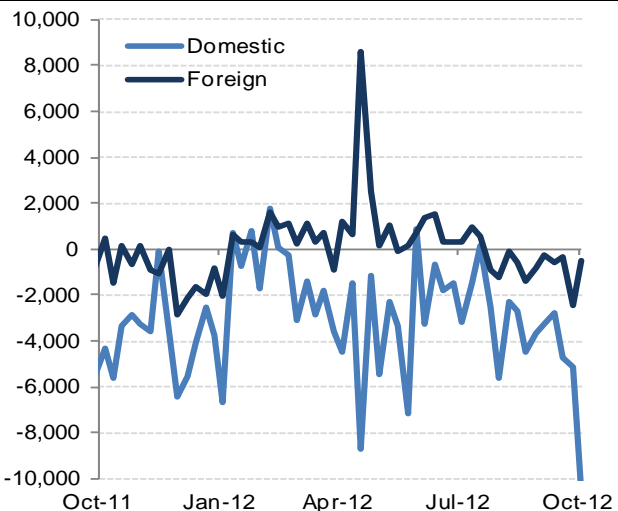
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



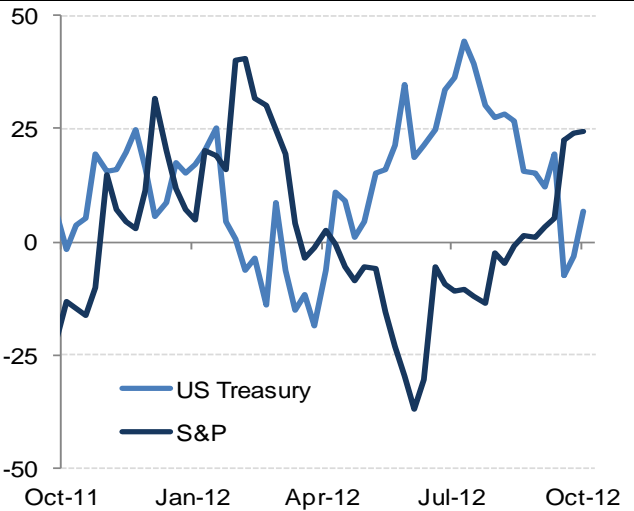
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

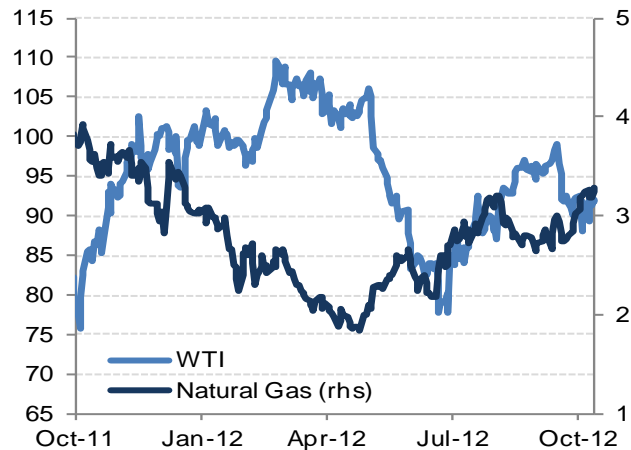
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

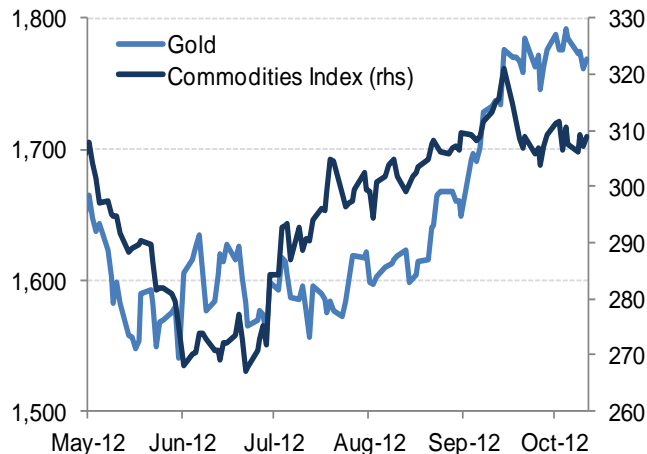
Financial Markets

Graph 15
Commodities
 (Dpb & DpMMBtu)



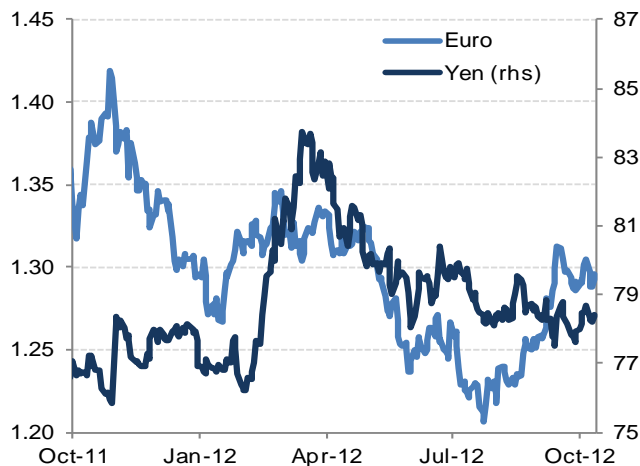
Source: Bloomberg & BBVA Research

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



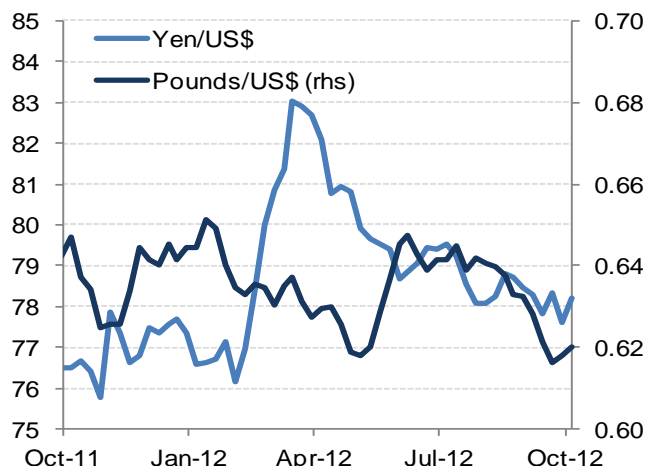
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
 (Dpe & Ypd)



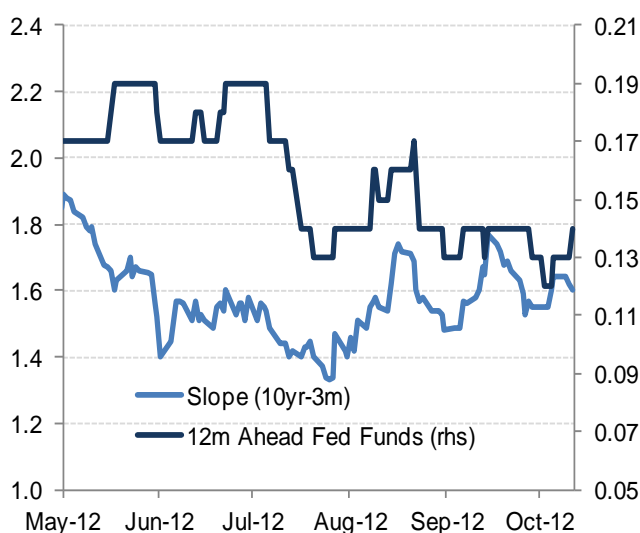
Source: Bloomberg & BBVA Research

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



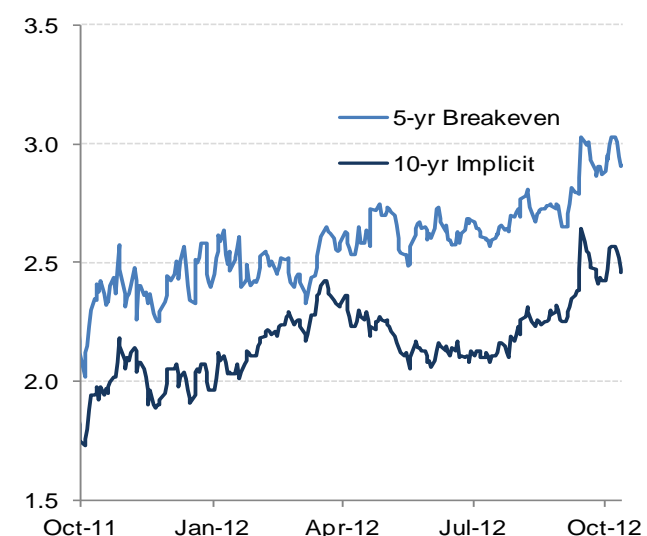
Source: Haver Analytics & BBVA Research

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)	14.12	14.12	14.10	13.95
New Auto (36-months)	3.66	3.14	3.15	4.08
Heloc Loan 30K	5.48	5.49	5.46	5.50
5/1 ARM*	2.73	2.72	2.72	3.06
15-year Fixed Mortgage*	2.70	2.69	2.85	3.37
30-year Fixed Mortgage*	3.39	3.36	3.55	4.12
Money Market	0.52	0.51	0.51	0.54
2-year CD	0.86	0.86	0.87	0.93

*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	0.16	0.07
3M Libor	0.33	0.35	0.39	0.40
6M Libor	0.60	0.62	0.68	0.59
12M Libor	0.94	0.96	1.00	0.91
2yr Sw ap	0.38	0.40	0.38	0.65
5yr Sw ap	0.80	0.82	0.86	1.46
10Yr Sw ap	1.71	1.81	1.90	2.43
30yr Sw ap	2.61	2.76	2.84	3.01
7day CP	0.21	0.32	0.23	0.53
30day CP	0.25	0.31	0.40	0.36
60day CP	0.25	0.34	0.57	0.30
90day CP	0.23	0.38	0.50	0.34

Source: Bloomberg & BBVA Research

Quote of the Week

Governor Daniel K. Tarullo,
Jurist Lecture, University of Pennsylvania Law School, Philadelphia, Pennsylvania
10 October 2012

"The law [Dodd-Frank Act], explicitly in many provisions and implicitly in many others, directs the bank regulatory agencies to broaden their focus beyond the soundness of individual banking institutions, and the market regulatory agencies to move beyond their traditional focus on transaction-based investor protection."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
15-Oct	Advance Retail Sales	SEPT	0.5%	0.8%	0.9%
15-Oct	Retails Sales Ex Auto	SEPT	0.4%	0.6%	0.8%
15-Oct	Empire State Mfg Survey	OCT	-5.50	-3.95	-10.41
15-Oct	Business Inventories	AUG	0.5%	0.4%	0.8%
16-Oct	Consumer Price Index (MoM)	SEPT	0.40%	0.50%	0.60%
16-Oct	CPI Ex Food & Energy (MoM)	SEPT	0.20%	0.20%	0.10%
16-Oct	Industrial Production	SEPT	0.4%	0.2%	-1.2%
16-Oct	Capacity Utilization	SEPT	78.50%	78.30%	78.20%
16-Oct	Housing Market Index	OCT	42.0	41.0	40.0
17-Oct	Housing Starts	SEPT	780K	770K	750K
17-Oct	Housing Starts (MoM)	SEPT	4.00%	2.67%	2.30%
17-Oct	Building Permits	SEPT	815K	810K	803K
17-Oct	Building Permits (MoM)	SEPT	1.50%	1.10%	-1.00%
18-Oct	Initial Jobless Claims	13-Oct	350K	365K	367K
18-Oct	Continuing Claims	6-Oct	3276K	3275K	3273K
18-Oct	Philadelphia Fed Survey	OCT	-0.2	0.0	-1.9
18-Oct	Leading Indicators	SEPT	0.2%	0.1%	-0.1%
19-Oct	Existing Home Sales	SEPT	4.65M	4.75M	4.82M
19-Oct	Existing Home Sales (MoM)	SEPT	-3.52%	-1.50%	7.80%

Forecasts

	2011	2012	2013	2014
Real GDP (% SAAR)	1.8	2.1	1.8	2.3
CPI (YoY %)	3.2	2.0	1.9	2.3
CPI Core (YoY %)	1.7	2.1	1.8	1.9
Unemployment Rate (%)	9.0	8.2	8.1	7.6
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25
10Yr Treasury (eop, % Yield)	2.0	2.1	2.6	3.0
US Dollar/ Euro (eop)	1.31	1.23	1.31	1.31

Note: Bold numbers reflect actual data

Kim Fraser
Kim.Fraser@bbvacompass.com

Alejandro Vargas
Alejandro.Vargas@bbvacompass.com



| 2001 Kirby Drive, Suite 31, Houston, Texas 7701 | Tel.: +1 713 831 7345 | www.bbva.com

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.