

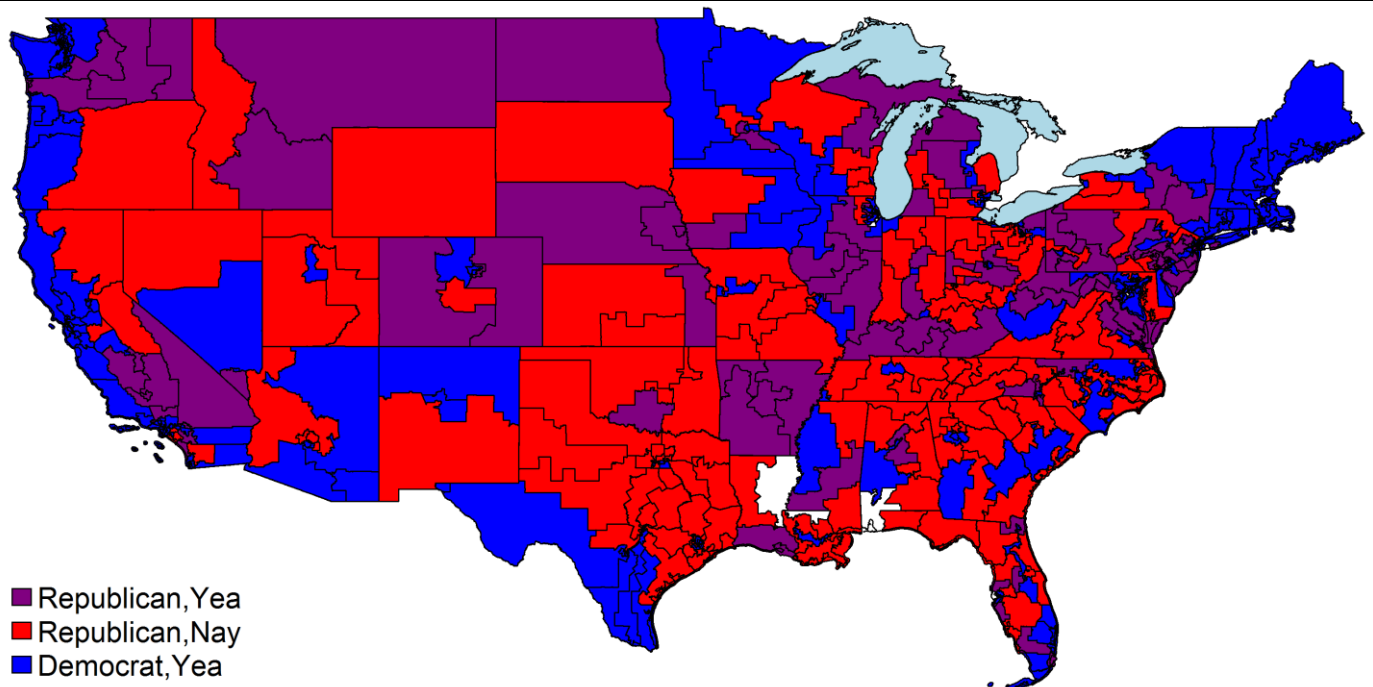
US Weekly Flash

Highlights

- **Congress Agrees to End Government Shutdown and Increase Debt Ceiling, For Now...**
 - As expected, policymakers in Washington finally came to a last-minute agreement to end the government shutdown and increase the debt ceiling. The deal, however, was simply another round of kicking the can down the road yet again. This temporary fix will fund the government through January 15, 2014 and allow for an increase in the debt ceiling through February 7th. Consequently, we will see another round of debt ceiling negotiations in the near future, with a new deadline around mid-March. The formal budget committee established in the deal will attempt to reach a longer term agreement by December 13th.
 - Given that the shutdown lasted only 16 days and most furloughed workers will be paid retroactively, the impact to 4Q13 should be minimal. Our estimates suggest a modest 0.2% hit to real GDP growth for the quarter, mostly due to activity that could not be recouped during the shutdown (i.e. tourism). Compared to the debt ceiling debacle in 2011 and the fiscal cliff in 2012, the economic impact from political uncertainty has been limited. Furthermore, despite this intense budget and debt ceiling debate, the U.S. is moving toward short-term fiscal stability. Still, we have a long way to go before achieving a longer-term solution.
 - With all this commotion, it has become apparent that the political brinkmanship and constant berating in Congress has become much more severe over time. Regardless of which party is right or wrong when it comes to appropriate fiscal strategy, it seems that the staunch stance of Republicans finally got the best of them. Public polls put most of the blame on Republicans, with public feeling toward President Obama holding positive throughout this whole ordeal. Although both sides were unwilling to concede fully on their requests, the GOP strategy failed to shift public opinion and ultimately forced them to compromise. In the end, Republican House Speaker John Boehner conceded: "We fought the good fight. We just didn't win." His choice to vote against the party majority heightened the ongoing internal struggle within the GOP and created a much more uncertain outlook for the future of the Republican party.

Graph 1

October 16th House Vote, Shaded by Congressional District



Source: BBVA Research

Week Ahead

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

Forecast: 5.51M

Consensus: 5.30M

Previous: 5.48M

Existing home sales have finally reached a recovery high for the first time since the government tax credit caused a brief spike in demand in late 2009. As is the usual trend, sales in July and August of this year were relatively strong despite the fact that rising prices and mortgage rates are hurting affordability for potential homebuyers. Most recently, however, mortgage rates have stabilized in line with the Fed's commitment to QE3 which should help boost home sales for the time being. While there are still some lingering concerns regarding the housing market, it appears that activity is moving in the right direction, albeit very gradually. On an annual basis, sales of existing homes have been growing at double digits rates through most of 2013, and we expect this to continue throughout the second half of the year, pending any further damage to the outlook from fiscal uncertainty.

Jobless Claims (October, Thursday 8:30 ET)

Forecast: 341K

Consensus: 340K

Previous: 358K

Jobless claims reports have been holding down the fort for the economic calendar this month as most other indicators were delayed due to the partial government shutdown. Unfortunately, initial claims data have not been impressive in October, clearly noting an abundance of furloughed government workers. The 4-week moving average has jumped to 337K, the highest level since July, and has offset some of September's employment optimism. Since the employment report for last month has not yet been released, it is unclear whether the drop in initial claims actually translated into higher nonfarm payroll growth for September. Still, the outlook for October does not look great. While we do not expect to see much improvement for the rest of October, figures should progress as we try to move past the government issues.

New Home Sales (September, Thursday 10:00 ET)

Forecast: 430K

Consensus: 425K

Previous: 421K

New home sales have basically been flat since the midst of the recession in early 2009, overshadowed by the cheaper and more available supply of existing homes on the market. Unfortunately, we don't see this trend turning around quickly in the near future. In September, the home builder confidence index held near recovery highs, noting consistent strength in current and future single family sales, as well as prospective buyer traffic. Furthermore, mortgage rates remain low and attractive for new home construction. Despite the increasing uncertainty due to the latest fiscal pressures, we expect to see very gradual gains in new home sales over the coming months.

Consumer Sentiment (October, Friday 9:55 ET)

Forecast: 74.5

Consensus: 75.0

Previous: 75.2

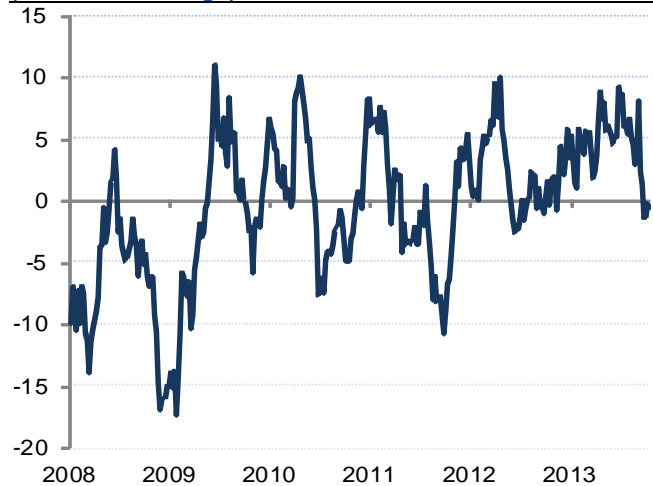
The initial reading for consumer sentiment in October was somewhat discouraging, with the index hitting the lowest level since January. Expectations have been a big drag lately, having declined throughout the past four months as underlying sentiments from recent Fed announcements and fiscal issues put a damper on the economic outlook. Consumer views on current conditions have held up so far, but we expect that sentiment will remain subdued given the government shutdown and threat of default. On the other hand, falling gas prices and low inflation expectations provide consumers a little boost with added purchasing power. With this in mind, we expect the final consumer sentiment reading for October to decline slightly, remaining below levels seen since the start of this year.

Market Impact

Finally the government is up and running again, but the economic calendar may not yet be back to normal. With nearly three weeks of delayed releases, it could take some time to sort everything out. The few scheduled economic indicators for this week shouldn't make much noise in the markets. However, if coupled with previously delayed data (such as September's employment report), then we could see more mixed market emotions. In general though, we don't expect that much of the news will knock markets down from near historical highs.

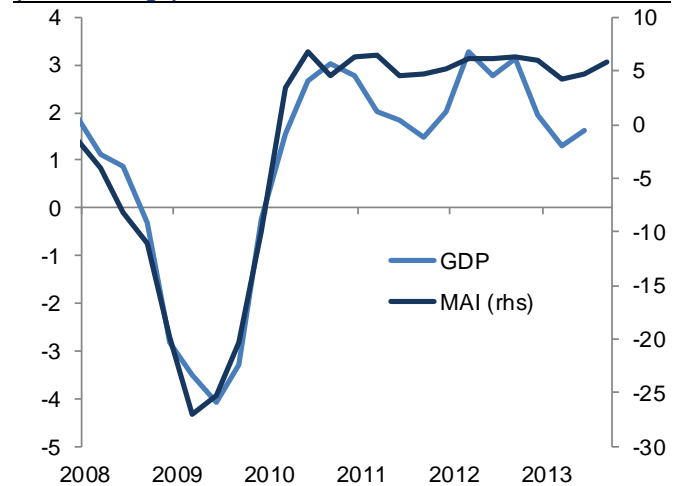
Economic Trends

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



Source: BBVA Research

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



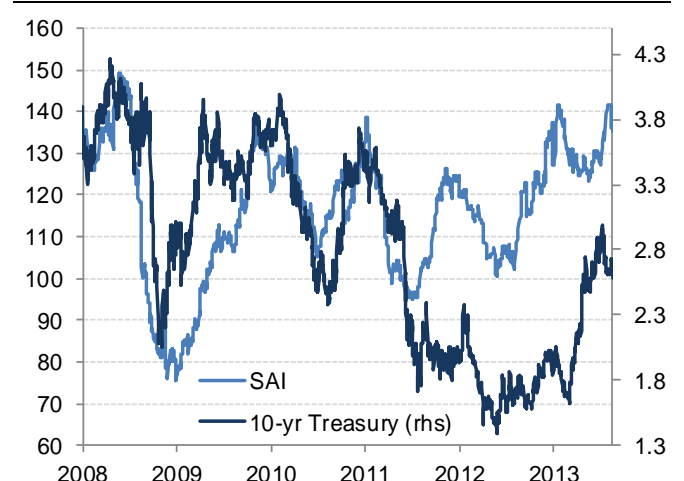
Source: BBVA Research & BEA

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



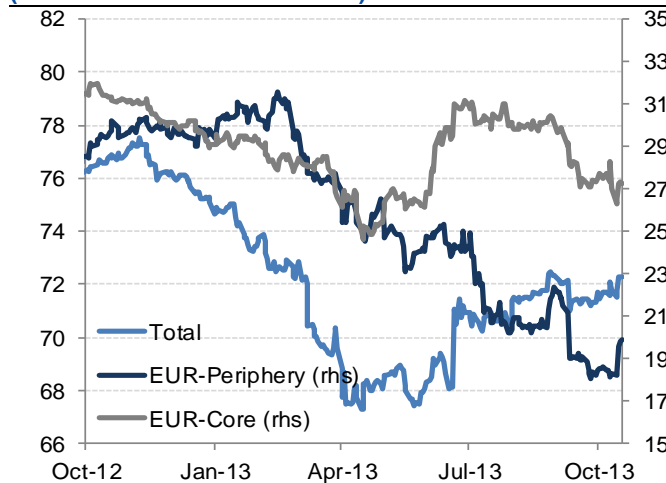
Source: BBVA Research

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



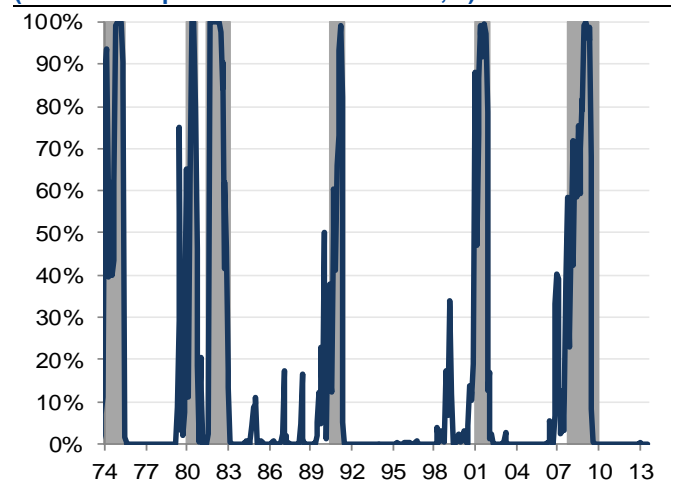
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

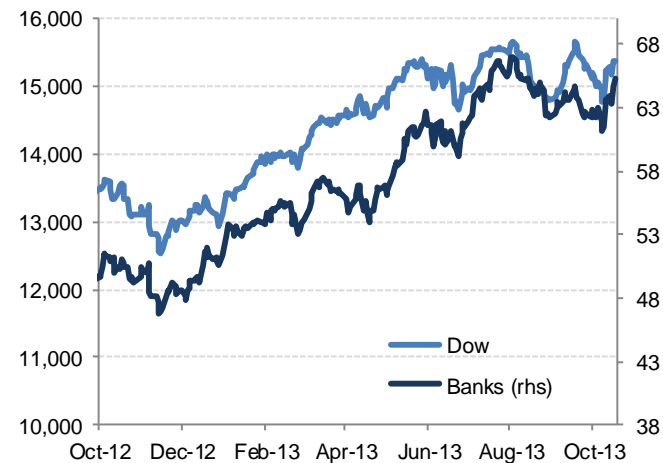
Graph 8
**BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)**



Source: BBVA Research

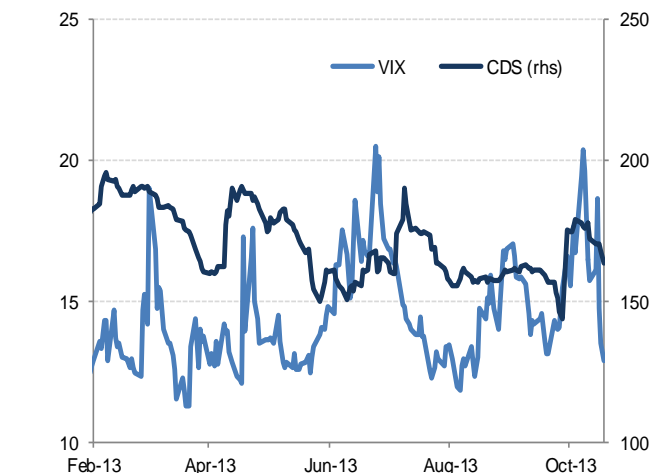
Financial Markets

Graph 9
Stocks
(Index, KBW)



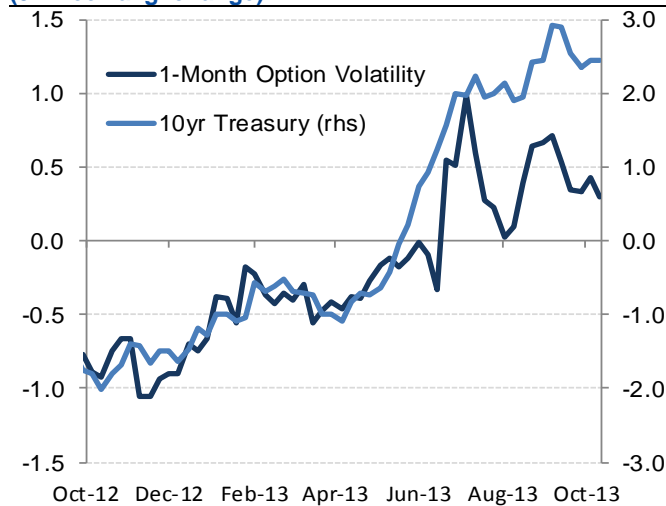
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



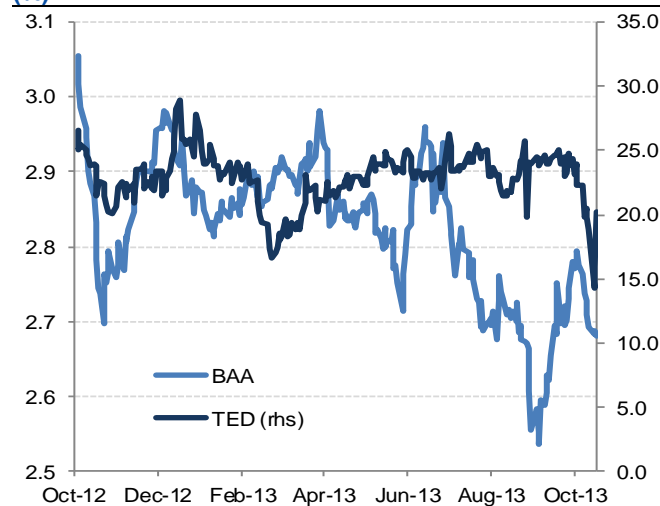
Source: Bloomberg & BBVA Research

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



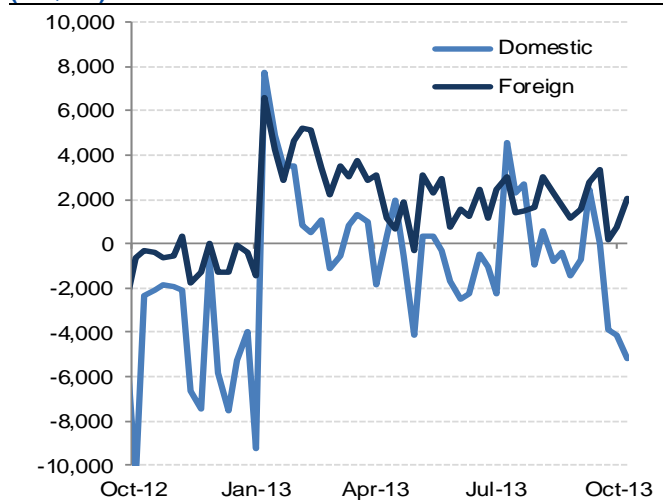
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



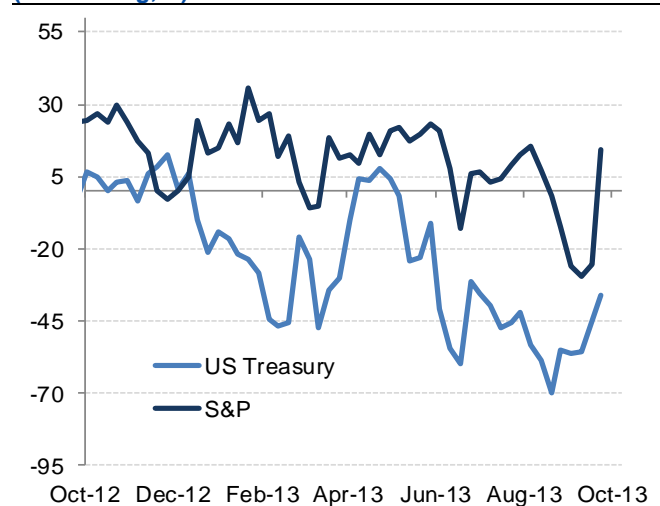
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

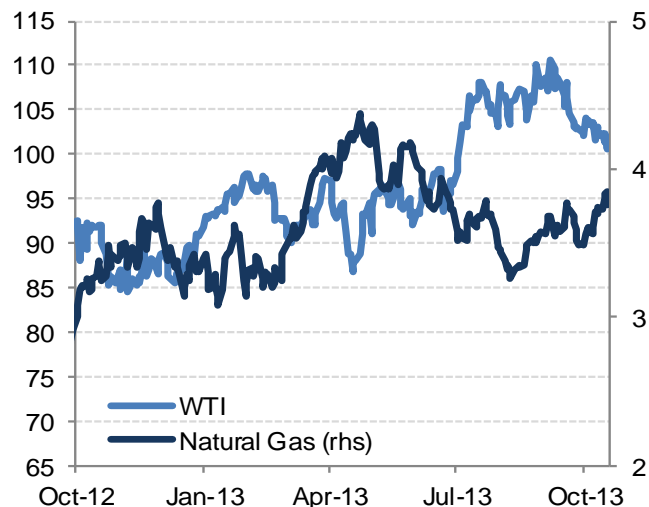
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

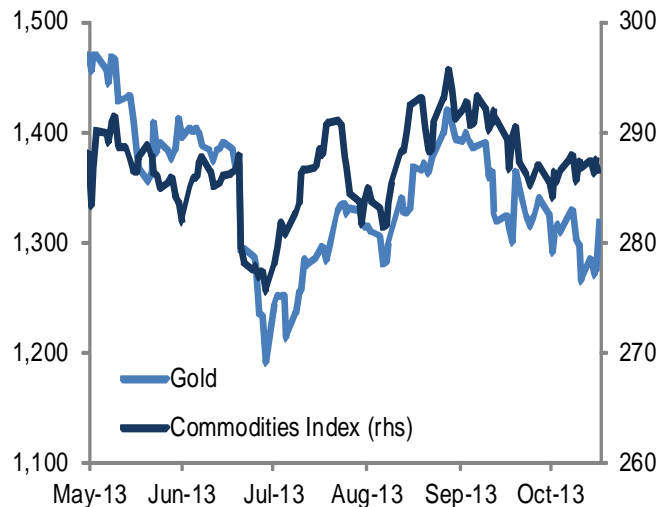
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



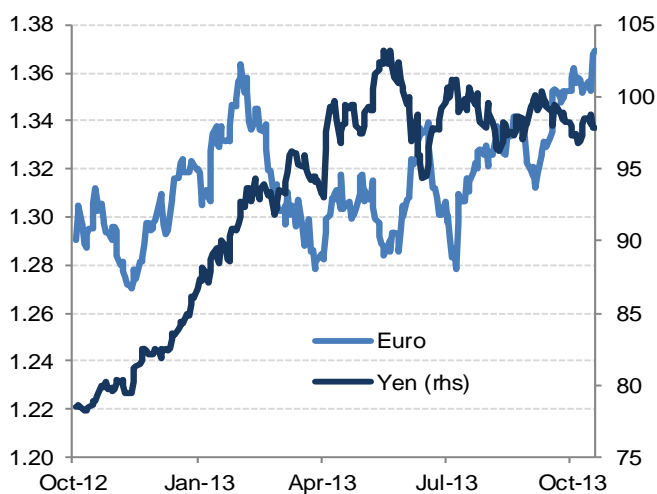
Source: Bloomberg & BBVA Research

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



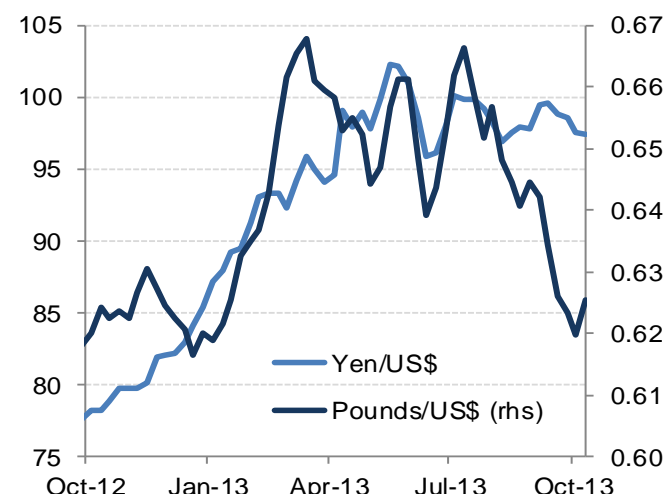
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



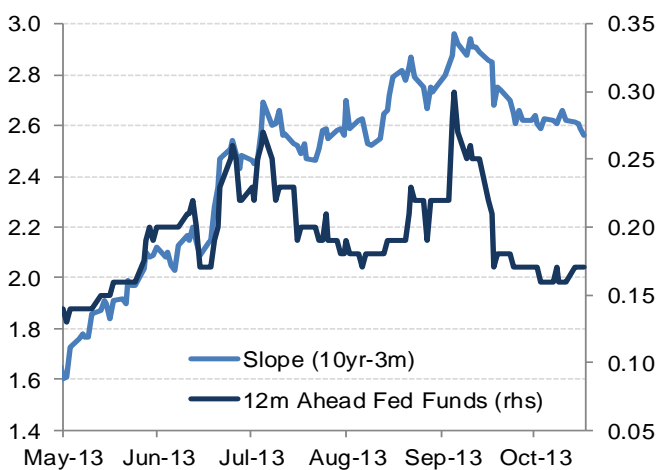
Source: Bloomberg & BBVA Research

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



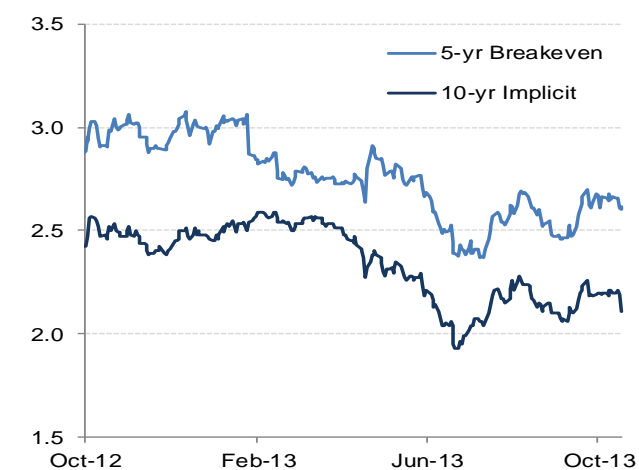
Source: Haver Analytics & BBVA Research

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)	14.16	14.16	14.16	14.10
New Auto (36-months)	2.63	2.51	2.51	3.14
Heloc Loan 30K	5.28	5.28	5.23	5.46
5/1 ARM*	3.07	3.05	3.11	2.90
15-year Fixed Mortgage *	3.33	3.31	3.54	3.23
30-year Fixed Mortgage *	4.28	4.23	4.50	3.99
Money Market	0.41	0.41	0.41	0.51
2-year CD	0.81	0.80	0.77	0.86

*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	0.10	0.10	0.08	0.16
3M Libor	0.24	0.24	0.25	0.32
6M Libor	0.36	0.37	0.37	0.57
12M Libor	0.61	0.63	0.64	0.90
2yr Sw ap	0.45	0.48	0.49	0.40
5yr Sw ap	1.50	1.57	1.66	0.91
10Yr Sw ap	2.73	2.82	2.89	1.87
30yr Sw ap	3.63	3.71	3.74	2.77
30day CP	0.14	0.14	0.13	0.27
60day CP	0.15	0.15	0.13	0.31
90day CP	0.15	0.16	0.14	0.39

Source: Bloomberg & BBVA Research

Quote of the Week

Richard W. Fisher, President of the Federal Reserve Bank of Dallas
Annus Horribilis or Annus Mirabilis?
17 October 2013

“Kicking the can down the road for a few months will not solve the pathology of fiscal misfeasance that undermines our economy and threatens our future...unless the fiscal authorities get their act together, looking to the Fed to solve the nation's economic ills through ever-expansive monetary policy might well make the situation worse.”

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
21-Oct	Chicago Fed National Activity Index	SEPT	0.09	--	0.14
21-Oct	Existing Home Sales	SEPT	5.51M	5.30M	5.48M
21-Oct	Existing Home Sales (MoM)	SEPT	0.55%	-3.30%	1.70%
24-Oct	Initial Jobless Claims	19-Oct	341K	340K	358K
24-Oct	Continuing Claims	12-Oct	2820K	2865K	2859K
24-Oct	New Home Sales	SEPT	430K	425K	421K
24-Oct	New Home Sales (MoM)	SEPT	2.14%	1.00%	7.90%
25-Oct	Durable Goods Orders (MoM)	SEPT	1.00%	2.00%	0.10%
25-Oct	Durable Goods Orders, Ex Transportation	SEPT	1.70%	0.50%	-0.10%
25-Oct	Consumer Sentiment	OCT	74.50	75.00	75.20

Forecasts

	2011	2012	2013	2014	2015
Real GDP (% SAAR)	1.8	2.8	1.8	2.3	2.5
CPI (YoY %)	3.1	2.1	1.6	2.3	2.4
CPI Core (YoY %)	1.7	2.1	1.9	2.0	2.1
Unemployment Rate (%)	8.9	8.1	7.5	7.0	6.4
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25	0.50
10Yr Treasury (eop, % Yield)	1.98	1.72	2.90	3.37	3.64
US Dollar/ Euro (eop)	1.32	1.31	1.30	1.30	1.35

Note: Bold numbers reflect actual data



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