

US Weekly Flash

Highlights

FOMC Minutes: Timely Communication Set at the Core of Successful Exit Strategy

- The release of the minutes from the April FOMC meeting unveiled lengthy discussions on topics related to Fed's policy normalization and what the Committee called "prudent planning." Careful to highlight that the discussion on Fed's exit strategy "did not imply that normalization would necessarily begin sometime soon," the Committee members plan to keep this conversation open and revisit it each subsequent meeting. At the same time, FOMC's main concern is to set the market expectation on the right path with timely and clear communication regarding its approaches to policy normalization stating that communication should start "well before the first steps in normalizing policy become appropriate," and "enhance the clarity and credibility of monetary policy."
- Overall, the Fed continues to make gradual progress towards its dual mandate. Downside risks to inflation are abating but once the transitory factors unwind it is still likely that the Fed will undershoot its inflation goal in near-term. The perception of sizeable labor market slack, uncertainty over the effectiveness of managing short-term interest rates with beta tools, and the fact that the minutes reemphasized that economic conditions may warrant keeping short-term rates low for longer than normal suggests the Fed will remain cautious of tightening too soon. Thus, our expectations for future path of the fed funds rate are unchanged and that first rate increase will occur in mid-2015.

Existing Home Sales Uptick Slightly in April

- Existing home sales rose 1.3% MoM in April, jumping to 4.65 million on a seasonally-adjusted annualized basis. However, sales are down 6.8% on a YoY basis. Now that weather has improved nationwide and sales are still sluggish, it has become apparent that elevated mortgage rates continue to exert substantial downward pressure on home sales. 30-year mortgage rates have risen from 3.6% in May 2013 to 4.3% in April, while the pace of sales was down 9.7% over the same time period. Additionally, median sales prices advanced for the third consecutive month, jumping 7.3% since January, further hurting affordability and driving some potential homebuyers out of the market. On a brighter note, despite the pickup in existing home sales, the supply for existing home sales jumped from 5.1 to 5.9 months, which should point to a bump in future sales as more houses are made available in the market.
- After falling for seven of the previous eight months, the slight uptick in existing home sales is certainly welcome. Despite the pickup in consumer demand over the past year, the sales rate is still significantly below the 2013 rate, a sign that consumers are sensitive to mortgage rate movements and overall affordability. However, the conforming 30-year mortgage rate has steadily begun to decline, falling below 4.2% today. Additionally, summer months have been traditionally positive for the housing market. Furthermore, the labor market continues to show stark improvement, and as workers become more confident in the security of their jobs, they will be more willing to purchase a home. Thus, looking ahead, we remain cautiously optimistic about the housing sector and believe the market will regain strength in the coming months.

Graph 1

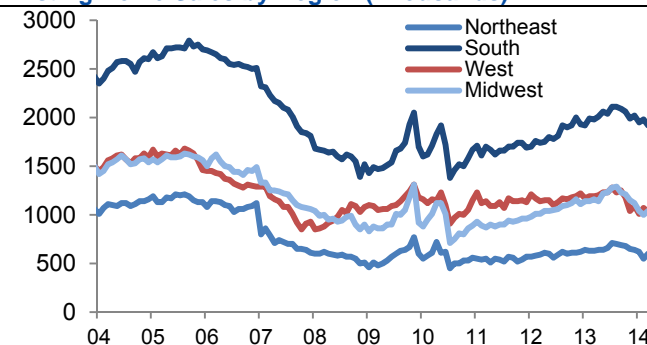
Inflation Expectations (%)



Source: FRB & BBVA Research

Graph 2

Existing Home Sales by Region (Thousands)



Source: Bureau of Economic Analysis & BBVA Research

Week Ahead

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

Forecast: 0.1%, 0.4%

Consensus: -0.7%, -0.1%

Previous: 2.5%, 2.1%

Durable goods orders are expected to rise for April, though we expect it to decelerate from the previous month. New orders have risen by well over 2% for two consecutive months, likely due to a rebound coming off the seasonal factors faced in the winter; thus, a slowdown in growth is expected and should leave the component relatively unchanged in April. With regards to the transportation component, aircraft parts posted growth of 13.5% and 5.1% in February and March, respectively, so we look for a pullback in that component this month. Still, motor vehicles and parts should provide an upward boost to new orders in anticipation of future demand, as auto sales have gained strength over the past couple of months. Overall, we do not expect to see significant change in durable goods orders for April.

GDP, Preliminary (1Q14, Thursday 8:30 ET)

Forecast: 0.7%

Consensus: -0.5%

Previous: 0.1%

Despite some calls for a downward revision to 1Q14 GDP growth, we expect to see a slight upward shift for the second estimate. Most data released since the initial GDP figure hint at better-than-expected activity for the quarter, though still relatively weak due to the impact from severe winter weather across the nation. Important indicators for 1Q14 were revised up, including industrial production in March as well as business inventories and personal consumption in February. Personal consumption expenditures were also stronger than expected in March, rising at the fastest monthly pace of the recovery thus far. Residential investment did not fare so well, with construction spending revised lower for February but fortunately offsetting these losses in March. Although trade data was not so encouraging for March, exports did rebound enough to more than offset February's decline, so we don't expect this to put much downward pressure on the GDP revision. Thus, we expect to see a modest improvement to GDP growth for the first quarter but still holding near the lowest QoQ SAAR rate in more than a year.

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

Forecast: 0.2%, 0.1%

Consensus: 0.3%, 0.2%

Previous: 0.5%, 0.9%

Personal income and outlays are expected to increase again in April as the winter weather effects subside moving into the second quarter. Both indicators were surprisingly healthy in 1Q14 despite the fact that growth for the quarter was extremely slow. For April, various indicators point to another month of relatively healthy activity for the consumer, though likely at a slower pace compared to March. With the employment situation improving gradually, we could start to see some upward pressures on wage growth, though still very minimal for the time being. Similarly, consumers are continuing to take advantage of the low inflationary environment when it comes to spending. Therefore, we expect consumer activity to remain supportive of the economic recovery as overall growth accelerates throughout the rest of the year.

Consumer Sentiment (May, Friday 9:55 ET)

Forecast: 82.2

Consensus: 82.5

Previous: 81.8

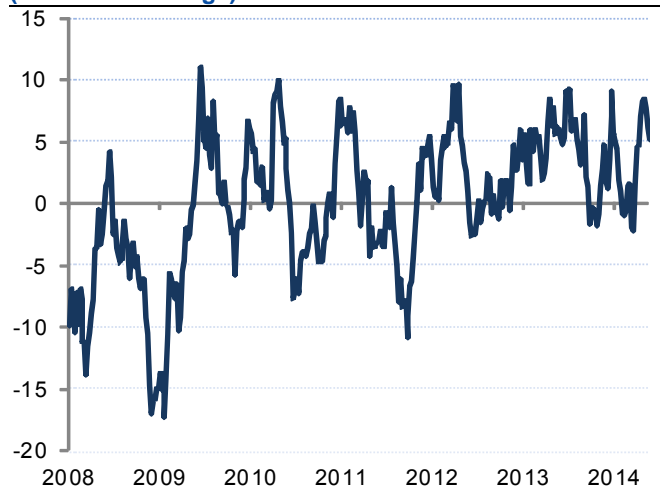
We look for consumer sentiment to increase marginally for May. Jobless claims did rise to 326K last week, but overall the 4-week average for jobless claims is still hovering just above 320K, close to post-recession lows; therefore, jobless claims should continue to exert a slight upward bias on consumer sentiment. Gas prices should not have much sway, as average prices at the pump have averaged around \$3.60 for the month and remain stable. Additionally, the major stock indices have held at all-time highs over the last month, but have shown little movement up or down in recent weeks. Thus, we look for consumer sentiment to bump up only slightly from the preliminary report.

Market Impact

This week will be a short one for the market, and we do not expect significant movement as investors finish digesting earnings data released over the past several weeks. Market spectators want to keep an eye on the preliminary GDP report for 1Q14 released Thursday in case there is a major revision from the advance estimate.

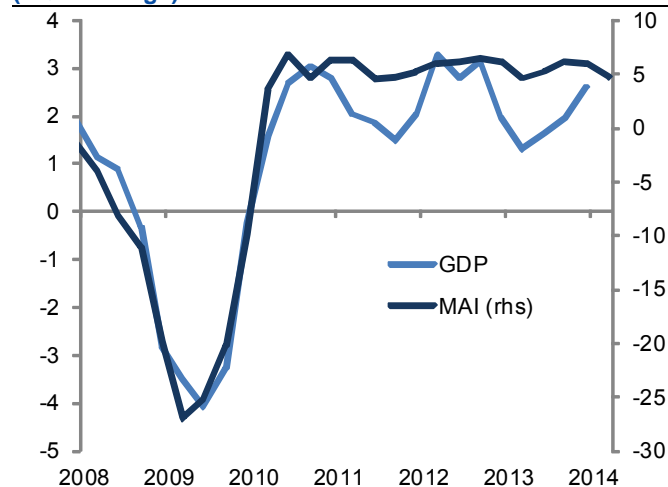
Economic Trends

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



Source: BBVA Research

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



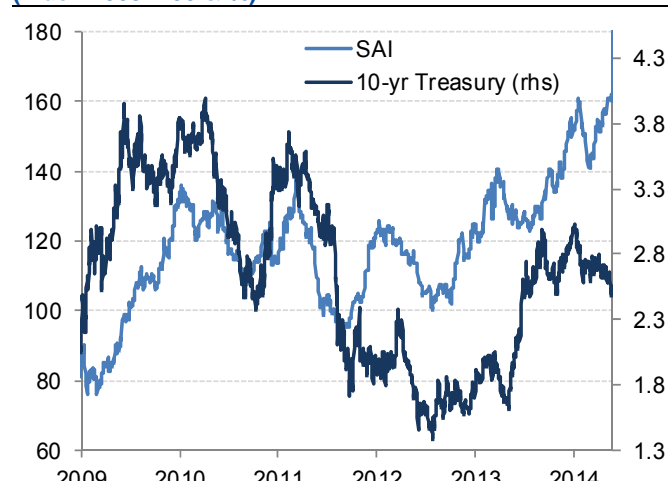
Source: BBVA Research & BEA

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



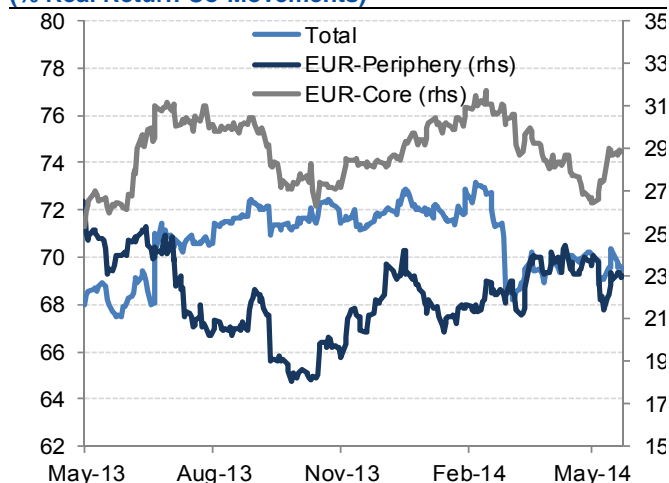
Source: BBVA Research

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



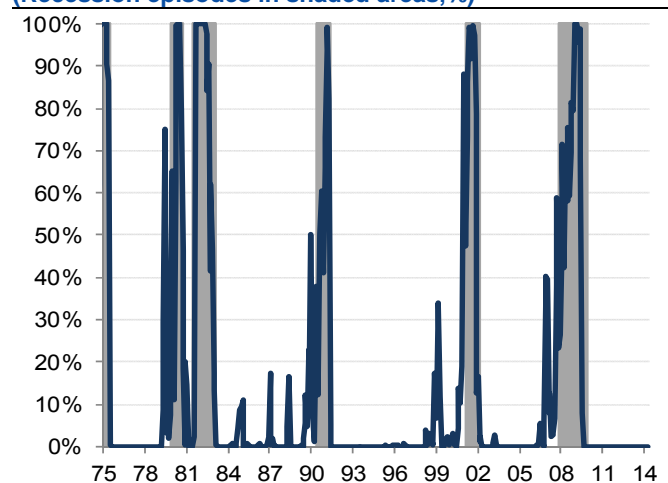
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

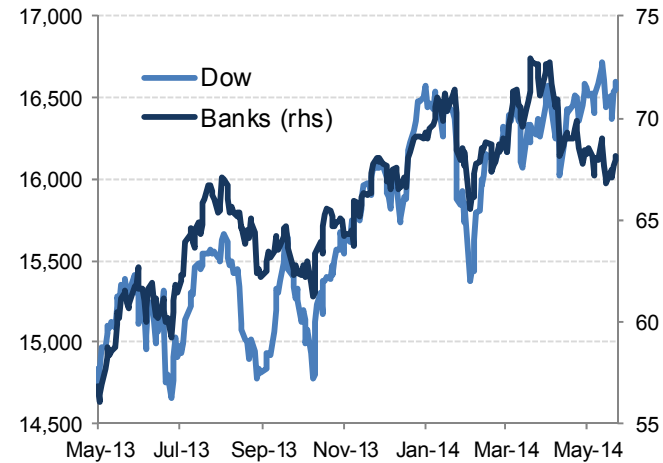
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)



Source: BBVA Research

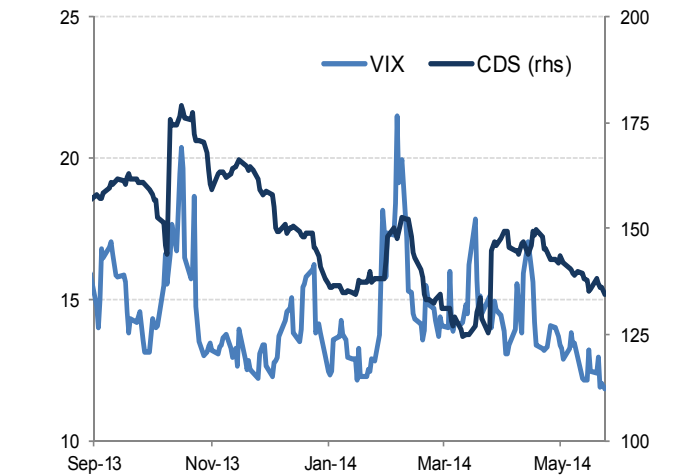
Financial Markets

Graph 9
Stocks
(Index, KBW)



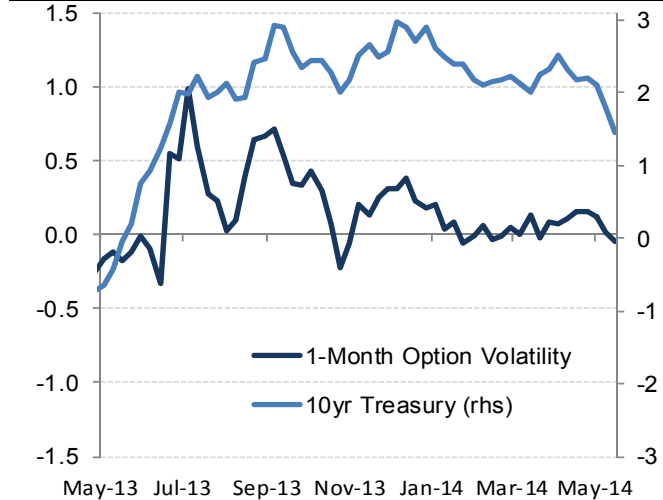
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



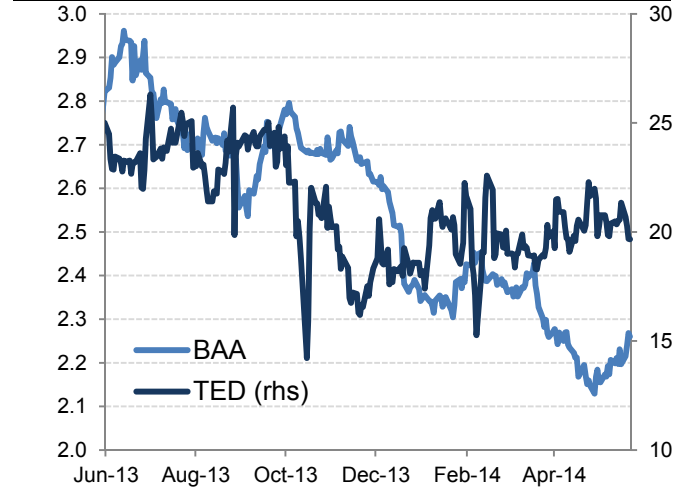
Source: Bloomberg & BBVA Research

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



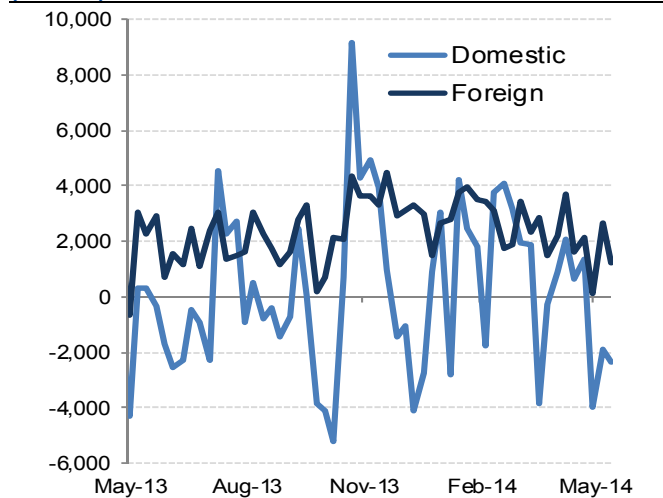
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



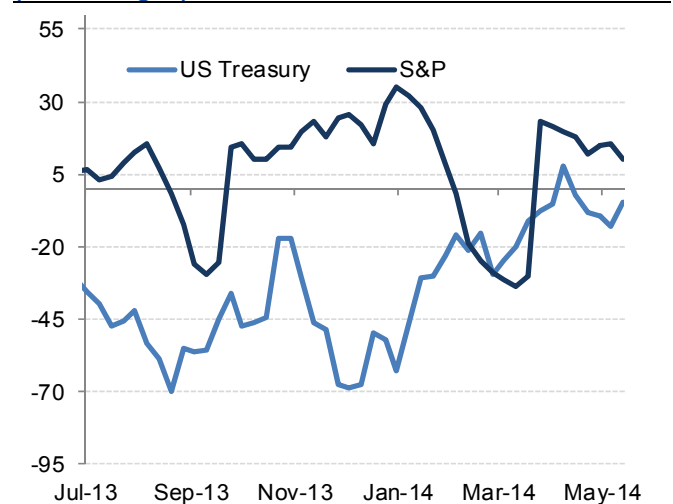
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

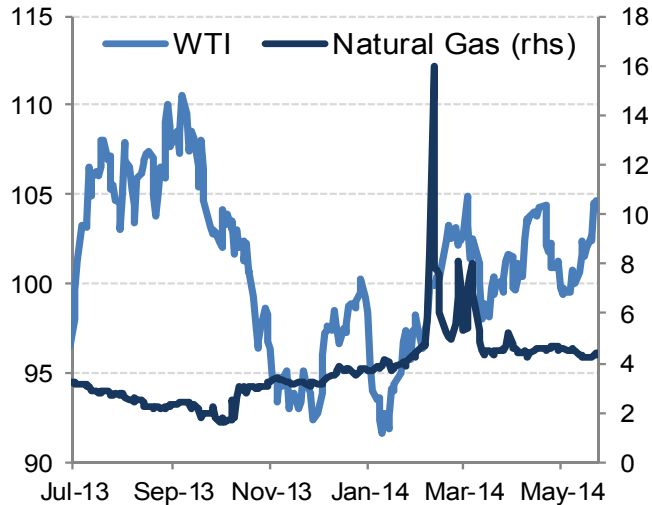
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

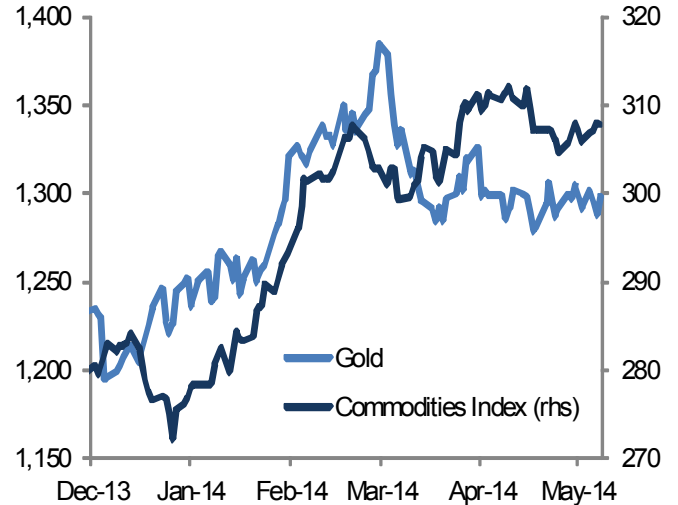
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



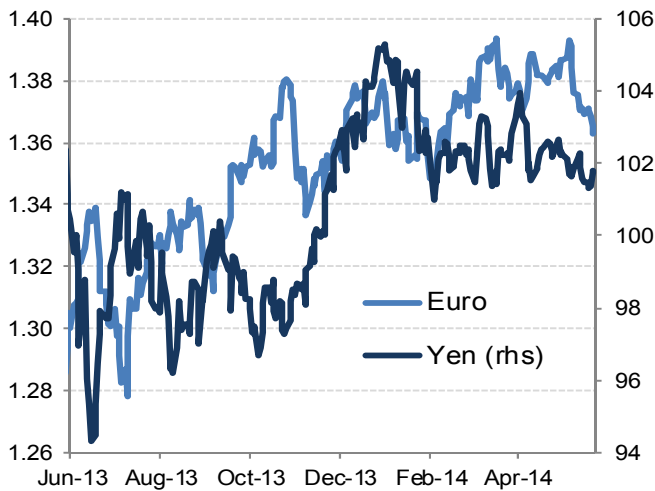
Source: Bloomberg & BBVA Research

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



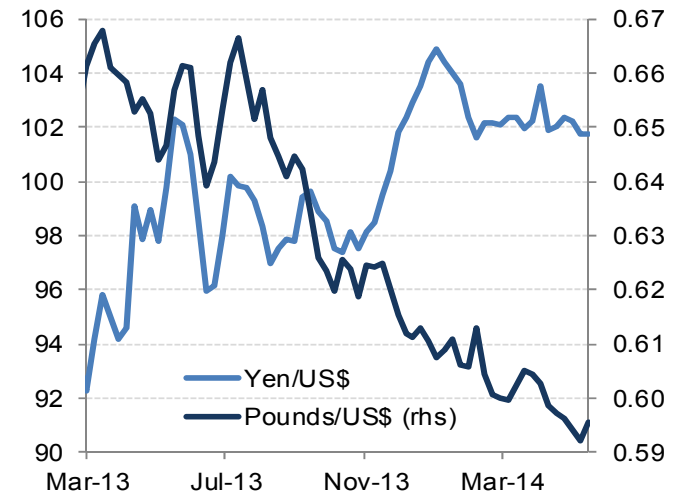
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



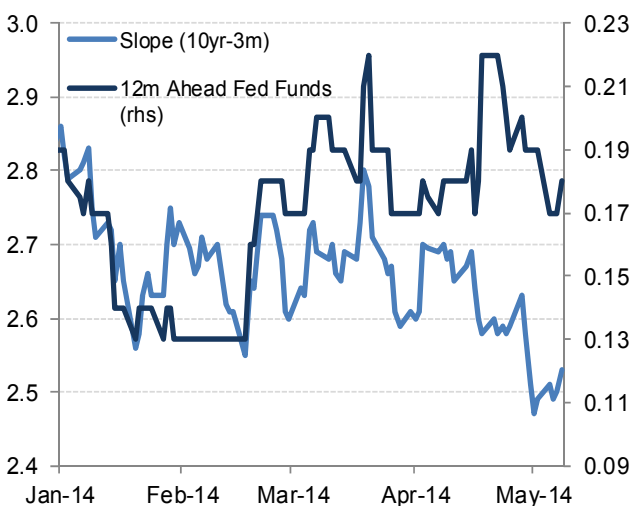
Source: Bloomberg & BBVA Research

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



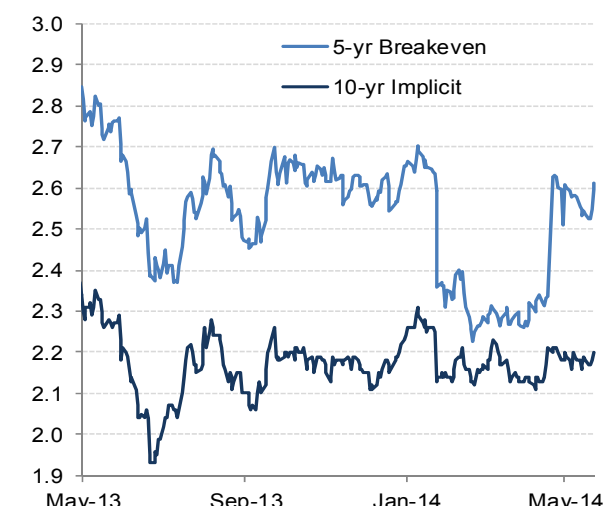
Source: Haver Analytics & BBVA Research

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)	14.82	14.82	14.82	14.10
New Auto (36-months)	2.79	2.58	2.56	2.29
Heloc Loan 30K	5.25	5.20	5.16	5.34
5/1 ARM*	2.96	3.01	3.03	2.90
15-year Fixed Mortgage*	3.25	3.29	3.39	3.23
30-year Fixed Mortgage*	4.14	4.20	4.33	3.99
Money Market	0.40	0.40	0.41	0.46
2-year CD	0.81	0.80	0.79	0.70

*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	0.09	0.09	0.09	0.09
3M Libor	0.23	0.22	0.23	0.27
6M Libor	0.32	0.32	0.32	0.42
12M Libor	0.54	0.54	0.55	0.68
2yr Sw ap	0.50	0.51	0.54	0.47
5yr Sw ap	1.62	1.65	1.80	1.23
10Yr Sw ap	2.61	2.62	2.77	2.33
30yr Sw ap	3.35	3.32	3.44	3.26
30day CP	0.12	0.12	0.11	0.12
60day CP	0.11	0.11	0.11	0.15
90day CP	0.12	0.13	0.13	0.17

Source: Bloomberg & BBVA Research

Quote of the Week

John Williams, Senior Vice President of Federal Reserve Bank of San Francisco
At the Bush Institute, Dallas, Texas
19 May 2014

"Everything depends on what happens, but I don't see it as appropriate given where inflation is, where the labor market is, given the various risks to the outlook, I don't think it's appropriate to start raising interest rates until the second half of next year."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
27-May	US Durable Goods New Orders Industries MoM SA	APR	0.1	-0.7	2.9
27-May	US Durable Goods New Orders Total ex Transportation MoM SA	APR	0.4	-0.1	2.4
27-May	S&P/Case-Shiller Composite-20 City Home Price Index SA MOM % Change	MAR	0.50	0.70	0.76
27-May	S&P/Case-Shiller Composite-20 City Home Price Index YoY	MAR	11.6	11.8	12.9
27-May	Conference Board Consumer Confidence SA 1985=100	MAY	82.6	83.0	82.3
27-May	Dallas Fed Manufacturing Outlook Level Of General Business Activity	MAY	10.6	9.2	11.7
29-May	US Initial Jobless Claims SA	MAY 24	320	318	326
29-May	US Continuing Jobless Claims SA	MAY 17	2650	2655	2653
29-May	GDP US Chained 2009 Dollars QoQ SAAR	1Q S	0.7	-0.5	0.1
29-May	GDP US Personal Consumption Chained 2009 Dirs % Change from Previous Period SAAR	1Q S	3.1	3.1	3.0
29-May	US GDP Price Index QoQ SAAR	1Q S	1.3	1.3	1.3
29-May	US GDP Personal Consumption Core Price Index QoQ % SAAR	1Q S	1.3	1.3	1.3
29-May	US Pending Home Sales Index MoM SA	APR	0.8	1.0	3.4
29-May	US Pending Home Sales Index YoY NSA	APR	-9.1	-8.9	-7.4
30-May	MNI Chicago Business Barometer (sa)	MAY	62.00	60.75	63.00
30-May	University of Michigan Survey of Consumer Confidence Sentiment	MAY F	82.2	82.5	81.8
30-May	US Personal Income MoM SA	APR	0.2	0.3	0.5
30-May	US Personal Consumption Expenditures Nominal Dollars MoM SA	APR	0.1	0.2	0.9

Forecasts

	2011	2012	2013	2014	2015	2016	2017
Real GDP (% SAAR)	1.8	2.8	1.9	2.5	2.5	2.8	2.8
CPI (YoY %)	3.1	2.1	1.5	1.8	2.2	2.3	2.4
CPI Core (YoY %)	1.7	2.1	1.8	1.9	2.1	2.3	2.4
Unemployment Rate (%)	8.9	8.1	7.4	6.6	5.9	5.6	5.2
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25	0.50	1.50	2.50
10Yr Treasury (eop, % Yield)	1.98	1.72	2.90	3.41	3.80	4.10	4.34
US Dollar/ Euro (eop)	1.31	1.31	1.37	1.35	1.32	1.37	1.36

Note: Non-bold numbers reflect actual data. Forecast revisions pending.

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