

Economic Analysis

The trade gap narrowed more than expected

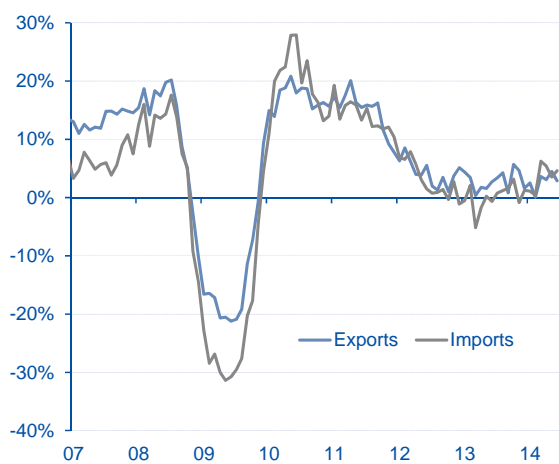
Kim Fraser Chase and Marcial Nava

The U.S. trade deficit narrowed more than expected in June (\$41.5bn vs. \$44.6bn in May). The contraction was driven by a 1.2% decline in imports, the sharpest since 2Q13. Imports of automobiles and nonfood consumer goods dropped, contradicting the latest data that shows a pickup in personal consumption expenditures in June. Nevertheless, relative to the previous year, imports increased by a robust 4.6%. Exports, on the other hand, exhibited a modest growth of 0.1%, led by exports of autos and other consumer goods. Year-over-year, exports grew by 2.9% as better conditions in the global economy continued to support demand for U.S. goods and services. In fact, relative to the previous year, exports to the Euro Area continued to rebound as the region stabilizes and resumes a growth path; meanwhile, exports to China, Mexico and Canada –the top trading partners- continued to exhibit sustained growth. June’s trade readings are likely to have a positive impact on second quarter GDP figures. However, the drastic decline in imports adds some uncertainty to the outlook for consumer spending.

ISM Non-Manufacturing Index Jumps to Recovery High in July

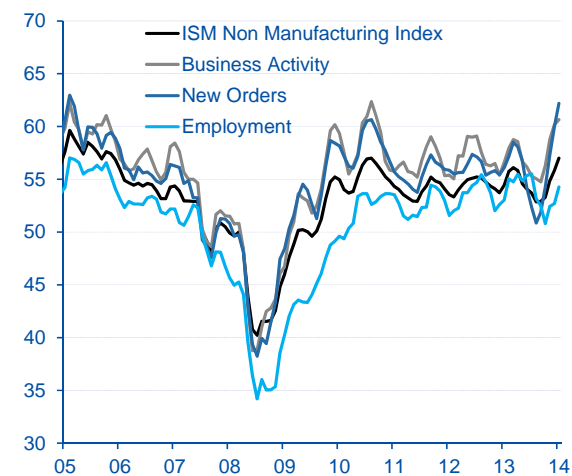
The ISM Non-Manufacturing Index accelerated in July following a brief downturn in June, increasing to 58.7 and reaching the highest level of the recovery period thus far. Most major components showed signs of strength for activity in the services sector, with the business activity index leading the way with an 8.5% rise to 62.4 for the month. New orders increased for the seventh consecutive month, surging to the highest level seen since August 2003. Employment in the sector has also been strong, with hiring in July accelerating for the third straight month to 56.0. Overall, non-manufacturing activity has certainly recovered from a weak first quarter and supports our baseline assumptions for healthier economic growth throughout the rest of the year. Services activity should continue to increase at a steady pace as its manufacturing counterpart gradually gains momentum.

Graph 1
U.S. Export and Import Growth
YoY % Change



Source: U.S. Census Bureau & BBVA Research

Graph 2
ISM Non-Manufacturing Index
SA, 50+=Economic Expansion



Source: ISM & BBVA Research

Week Ahead

Retail Sales, Ex Auto (July, Wednesday 8:30 ET)

Forecast: 0.4%, 0.3%

Consensus: 0.2%, 0.3%

Previous: 0.2%, 0.4%

Retail sales growth has decelerated in recent months but is expected to tick back up again in July as consumers shift over to summer spending habits. Leading indicators for consumer confidence and consumption are mostly positive, hinting at another monthly gain for both headline and core retail sales. Auto sales were a surprising disappointment in June, with the Autodata and Census Bureau reports delivering opposing views on total vehicle sales. Although unit auto sales declined in July, we expect to see somewhat a recovery in the retail sales report for motor vehicle sales that will help boost the headline figure. Excluding autos, we are likely to see a slower pace of growth, particularly given the potential impact of a decline in gas prices on nominal gasoline sales.

Empire State Manufacturing Survey (August, Friday 8:30 ET)

Forecast: 23.5

Consensus: 20.0

Previous: 25.6

The Empire State Survey has been a strong leading indicator of manufacturing activity throughout the past three months, with the index holding steady at double-digit levels for the first time in almost two years. New orders and shipments have been the strongest components of the survey, and the steady acceleration in demand suggests that production will continue along at a healthy pace throughout the coming months. Employment has also gained significant momentum as the year has progressed, and we expect this trend to continue. For August, we are likely to see a positive report for the region but at a slightly lower level compared to July's four-year high.

Industrial Production (July, Friday 9:15 ET)

Forecast: 0.4%

Consensus: 0.3%

Previous: 0.2%

Industrial production is expected to increase in July for the third consecutive month, slightly outpacing June's monthly growth rate. Manufacturing activity has been rebounding strongly in various pockets across the country, with many regional Federal Reserve surveys noting very encouraging demand and production. At the national level, the ISM Manufacturing Index increased to the highest level seen since March 2011. Outside of manufacturing, mining should continue to contribute positively to the industrial production index. However, utilities output has declined for five consecutive months and is unlikely to post a significant recovery in July.

Consumer Sentiment (August, Friday 9:55 ET)

Forecast: 83.0

Consensus: 82.5

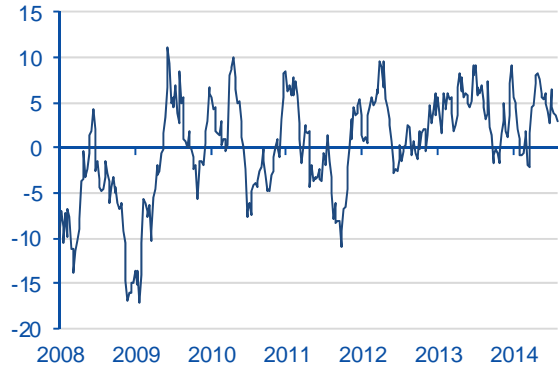
Previous: 81.8

The advance consumer sentiment report for August is expected to reflect ongoing improvement in views on both expectations and current economic conditions. July's final report was somewhat disappointing, falling to the lowest level since March due to a drop in consumer expectations. However, we expect that another positive employment report will boost consumer expectations regarding future income growth. Furthermore, falling gas prices throughout the past month will surely help to encourage more consumption and keep consumers in a better mood regarding the current economic conditions. Therefore, we expect that the overall consumer sentiment index will increase in August and fully recoup the losses from July's report.

Market Impact: Markets should remain relatively quiet again this week, at least in terms of any reaction to the economic calendar. Retail sales and industrial production are likely to warrant the most attention, but certainly not enough to send markets on a major rollercoaster ride.

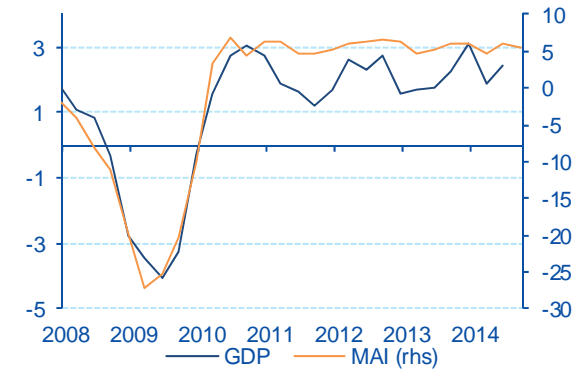
Economic Trends

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



Source: BBVA Research

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



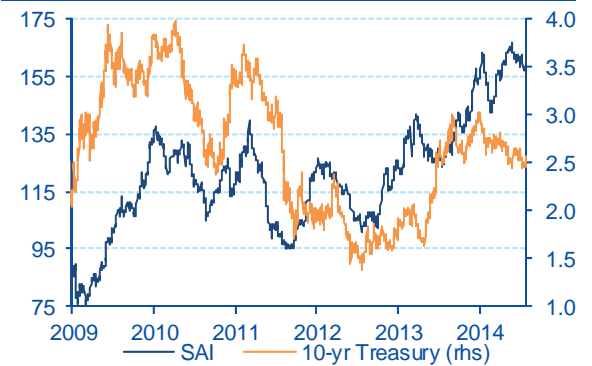
Source: BBVA Research & BEA

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



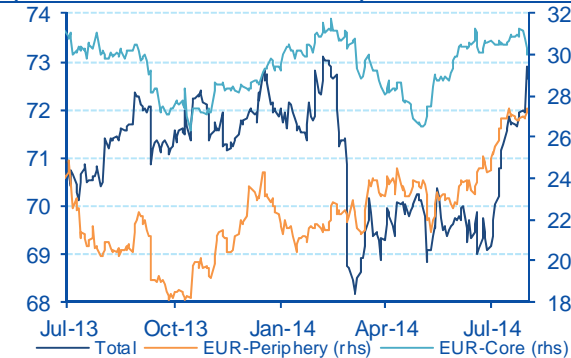
Source: BBVA Research

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



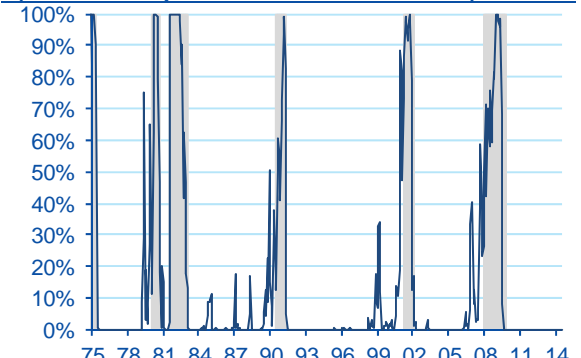
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

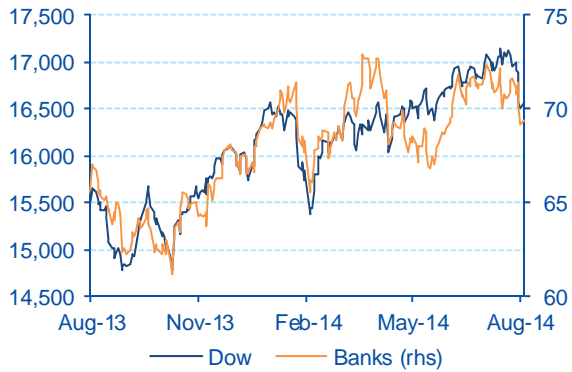
Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas, %)



Source: BBVA Research

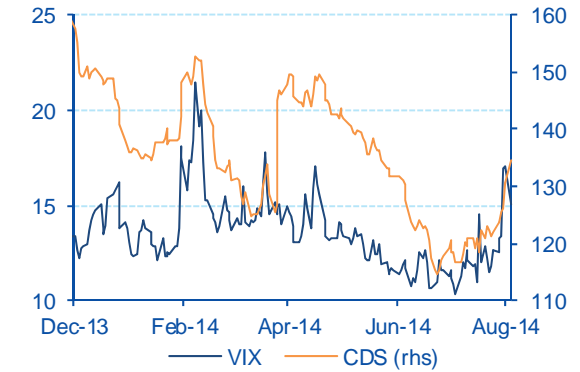
Financial Markets

Graph 9
Stocks
(Index, KBW)



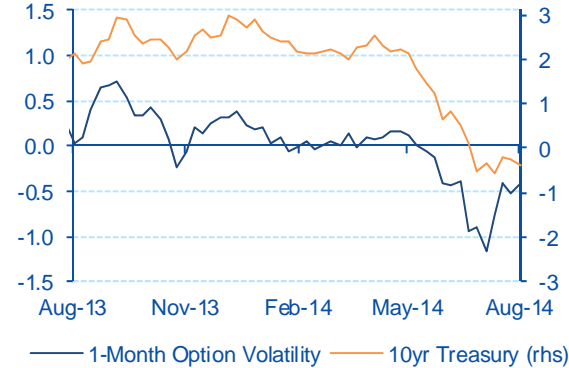
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



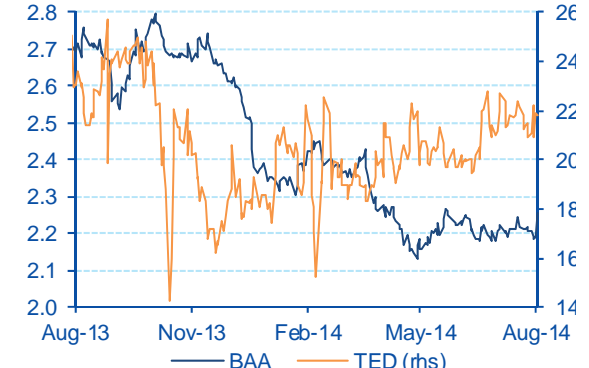
Source: Bloomberg & BBVA Research

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



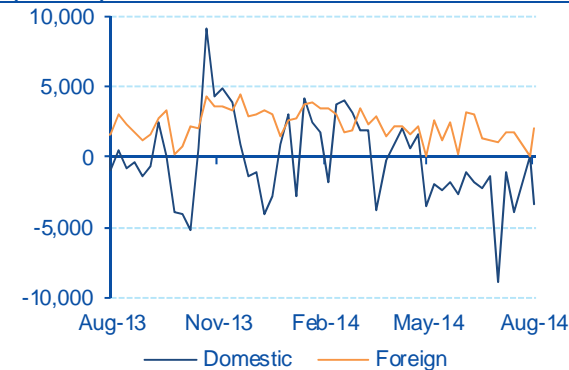
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



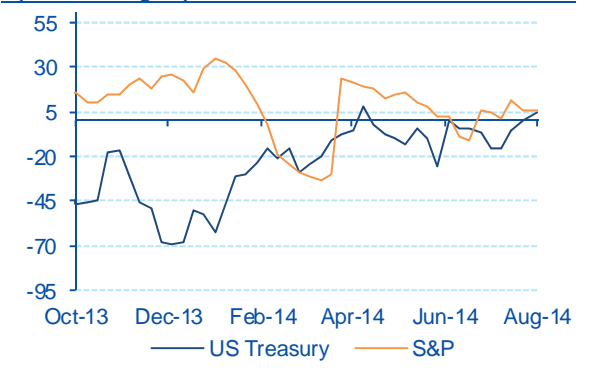
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

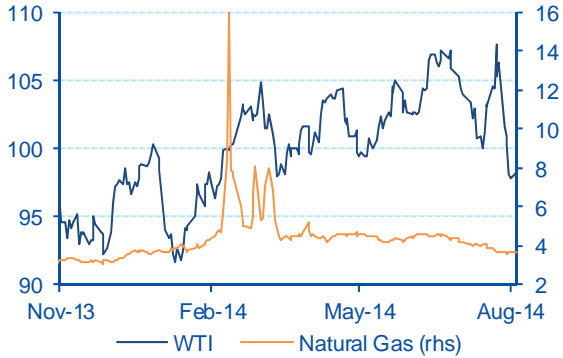
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

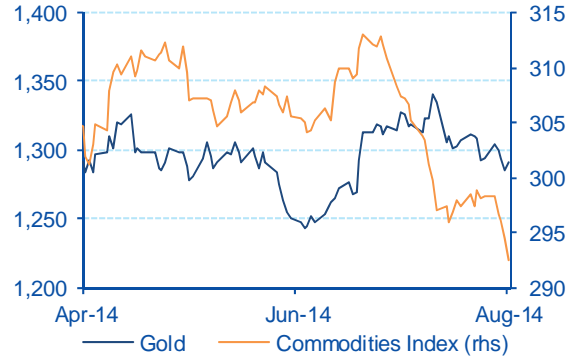
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



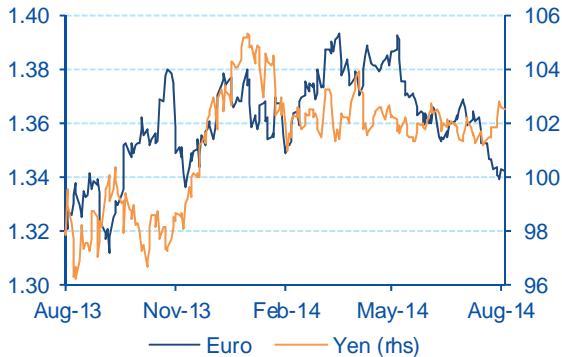
Source: Bloomberg & BBVA Research

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



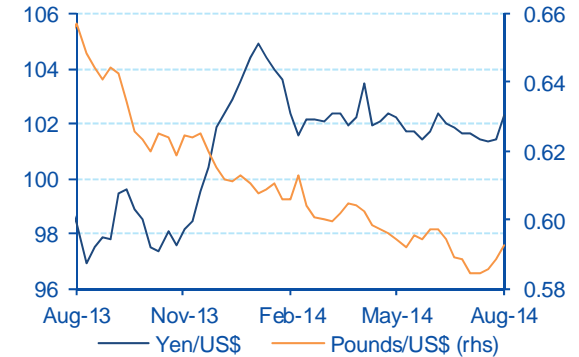
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



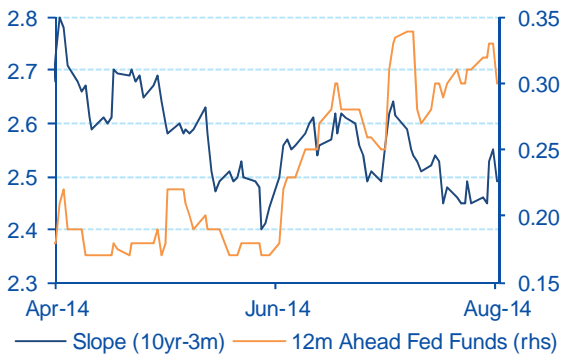
Source: Bloomberg & BBVA Research

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



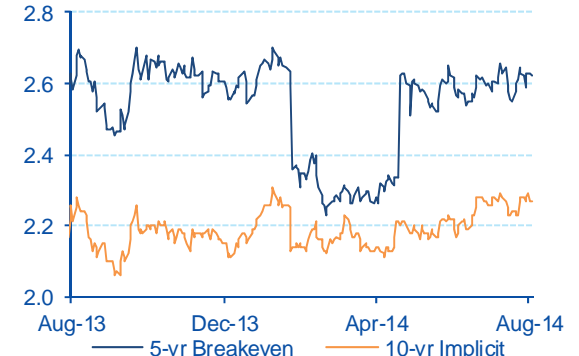
Source: Haver Analytics & BBVA Research

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)	14.86	14.86	14.86	14.10
New Auto (36-months)	2.90	2.90	2.90	2.49
Heloc Loan 30K	4.95	4.96	5.00	5.30
5/1 ARM *	3.01	3.01	2.99	2.90
15-year Fixed Mortgage *	3.23	3.23	3.24	3.23
30-year Fixed Mortgage *	4.12	4.12	4.15	3.99
Money Market	0.40	0.40	0.40	0.44
2-year CD	0.82	0.82	0.82	0.73

*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	0.10	0.08
3M Libor	0.24	0.23	0.23	0.26
6M Libor	0.33	0.33	0.32	0.39
12M Libor	0.58	0.56	0.55	0.66
2yr Sw ap	0.68	0.71	0.66	0.47
5yr Sw ap	1.80	1.83	1.81	1.53
10Yr Sw ap	2.63	2.61	2.71	2.75
30yr Sw ap	3.27	3.22	3.40	3.62
30day CP	0.10	0.12	0.11	0.12
60day CP	0.12	0.11	0.11	0.15
90day CP	0.13	0.13	0.13	0.15

Source: Bloomberg & BBVA Research

Quote of the Week

Dennis Lockhart, President and CEO of the Federal Reserve Bank of Atlanta.

Interview with The Wall Street Journal

07 August 2014

"I'm not convinced our policy stance has been or is creating broad systemic risks... I view markets as having a self-adjusting capacity, and I think we have seen that in the last few days."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
12-Aug	NFIB Small Business Optimism Index	JUL	97	95.80	95
12-Aug	US Job Openings By Industry Total SA	JUN	4675	-	4635
13-Aug	Adjusted Retail & Food Services Sales SA Total Monthly % Change	JUL	0.40	0.20	0.20
13-Aug	Adjusted Retail Sales Less Autos and Gas Stations SA MoM Percent Change	JUL	0.30	0.30	0.40
13-Aug	US Manufacturing & Trade Inventories Total MoM SA	JUN	0.40	0.40	0.50
14-Aug	US Initial Jobless Claims SA	9-Aug	305	295	289
14-Aug	US Continuing Jobless Claims SA	2-Aug	2520	2500	2539
14-Aug	US Import Price Index by End Use All MoM NSA	JUL	0.20	-0.40	0.10
15-Aug	US Empire State Manufacturing Survey General Business Conditions SA	AUG	23.50	20.00	25.60
15-Aug	US PPI Final Demand MoM SA	JUL	0.30	0.10	0.40
15-Aug	US PPI Final Demand Less Foods and Energy MoM SA	JUL	0.20	0.20	0.20
15-Aug	US Industrial Production MoM 2007=100 SA	JUL	0.40	0.30	0.22
15-Aug	US Capacity Utilization % of Total Capacity SA	JUL	79.20	79.20	79.10
15-Aug	US Industrial Production Industry Groups Manufacturing MoM SA	JUL	0.30	0.50	0.10
15-Aug	University of Michigan Survey of Consumer Confidence Sentiment	AUG P	83.00	82.50	81.80

Forecasts

	2011	2012	2013	2014	2015	2016	2017
Real GDP (% SAAR)	1.8	2.8	1.9	2.0	2.5	2.8	2.8
CPI (YoY %)	3.1	2.1	1.5	1.9	2.2	2.3	2.4
CPI Core (YoY %)	1.7	2.1	1.8	2.0	2.1	2.3	2.4
Unemployment Rate (%)	8.9	8.1	7.4	6.3	5.9	5.8	5.5
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	3.00	3.50	3.75	4.00
US Dollar/ Euro (eop)	1.31	1.31	1.37	1.31	1.29	1.36	1.36

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