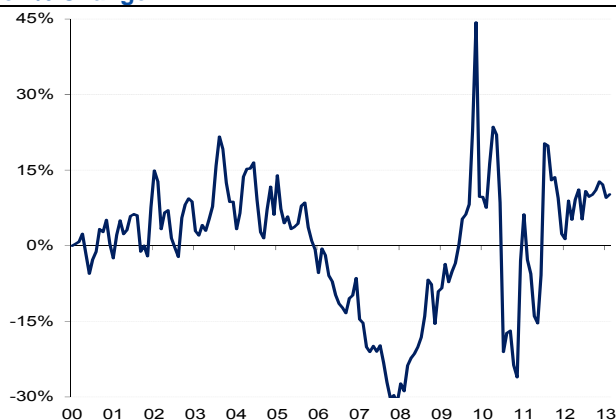


US Weekly Flash

Highlights

- Housing starts and home sales point toward continued recovery amidst low supply**
 - Housing starts for February were 917K which was a modest improvement from January's decline. Building permits rose 4.6% from January which should translate into growth in housing starts and eventually new home sales in the coming months. With a very limited supply of homes, the FHFA housing price index has also seen a recovery in the price of homes, rising for the year through January by 6.5% and up 0.6% since December. As the supply remains constrained due to tight credit and available plots, prices will continue to climb as faith in the housing market is returning and demand rises.
 - Existing home sales continued to rise in February, climbing to 4.98M. According to the National Association of Realtors, inventories typically rise in spring which is considered to be the more profitable time to put a house on the market. This helps to explain the 9.6% rise in the supply of existing homes fueling the growth in home sales. The supply of homes remains very low however, at only a 4.7 month supply from 6.4 months a year ago. The median home price has continued its rise reaching a 12 month consecutive rise, up 12.9% from a year ago as demand continues to swell.
- FOMC watching the economy for sustained improvement but no policy change for now**
 - The FOMC statement released on Wednesday confirmed our belief that open-ended asset purchases will continue into 2h13 although the tone within the statement improved slightly from January. For example, the Fed highlighted the recent increase in employment and continued housing market growth as bright spots for the beginning of the year. Reflecting this, the FOMC projections for the unemployment rate are slightly lower for 2013 and 2014. Given limited revisions to the committee's projections there is little evidence to suggest that policy-firming will occur before 2015. Moreover, the fact that the committee's forecast for the unemployment reaches 6.5% in 2015 reinforces our baseline of no policy-firming before 2015. Overall the situation has remained unchanged since January despite improved economic conditions, signalling that the recovery has gained momentum. Ultimately, the FOMC needs to see more sustained improvements before they reassess or adjusts their guidance.
 - In regard to the committee's forecasts, their outlook on the economy remains mostly unchanged, from December. The FOMC expects growth to pick-up in 2013 albeit at a slower pace than forecasted in December. In addition, the projections anticipate that growth will gain momentum in 2014 and 2015 and converge to long run growth rates of 2.3%-2.5%. The committee also revised down their 2014 forecast for the unemployment rate.

Graph 1
Existing Home Sales
YoY% Change



Source: National Association of Realtors

Graph 2
FOMC Projections
High & Low Central Tendencies

	March 2013 FOMC Projections			
	2013	2014	2015	long-term
GDP, 4Q yoy % change				
Low	2.3	2.9	2.9	2.3
High	2.8	3.4	3.7	2.5
Unemployment rate, 4Q %				
Low	7.3	6.7	6.0	5.2
High	7.5	7.0	6.5	6.0
Core PCE, 4Q yoy % change				
Low	1.3	1.5	1.7	2.0
High	1.7	2.0	2.0	2.0

Source: Federal Reserve

Week Ahead

Durable Goods Orders, ex transportation (February, Tuesday 8:30ET)

Forecast: 3.2%, 0.7%

Consensus: 3.9%, 0.8%

Previous: -5.2%, 1.9%

Although the headline durable goods figure last month was markedly negative, new orders excluding transportation grew by 3.2% which should evolve into growth for February. In terms of data already released for the manufacturing and industrial sectors, the outlook is positive. ISM data showed continued growth in manufacturing throughout the index with new orders surging to 57.8, the highest since April 2011. Industrial production also points toward better growth in the industrial and manufacturing sector for February as continued demand for durable goods may result in longer term growth for capital goods. The Empire State Manufacturing survey also showed signs of growth in orders as its new orders component jumped 13.3% in February.

New Home Sales (February, Tuesday 10:00 ET)

Forecast: 428K

Consensus: 424K

Previous: 437K

We expect new home sales to rise in February as low interest rates, employment growth and better economic outlook point to continued growth in the housing market. Housing starts for the past 6 months have risen at a strong pace but the supply of new homes remains well below the 6 month level considered to be a healthy rate of supply. Reaching 4.1 months in January, the lowest level since March 2005, the supply of homes continues to be hindered by tight credit and the lack of available construction area. The increasing cost of building materials is also a factor and continues to rise while demand surges from new and existing construction companies trying to complete projects in time for the spring season. However, with the buying season a foot, there is likely to be an increase in sales for the coming months as more units come online after the surge in housing starts.

GDP Final (4Q13, Thursday 8:30 ET)

Forecast: 0.4%

Consensus: 0.5%

Previous: 0.1%

We expect the final GDP figure for 4Q12 to increase slightly due to upward revisions and weaker than expected headwinds. International trade was likely the most important revision since the last GDP estimate. The trade deficit was less negative than previously specified, falling from \$-38.5bn to \$-38.1bn. This revision is likely to have a positive impact on the final GDP figure. We expect that the \$400M upward revision will reduce the trade balance burden on GDP and shift the final GDP growth rate marginally higher. There is also room for additional upward growth as headwinds seem to have been less impactful than previously expected from the fiscal debates toward year end. Most data from December from both manufacturing and the private sector pointed to growth rather than the anticipated slow down expected from the looming fiscal uncertainty.

Personal Income and Spending (February, Friday 8:30 ET)

Forecast: 0.7%, 0.6%

Consensus: 0.8%, 0.6%

Previous: -3.6%, 0.2%

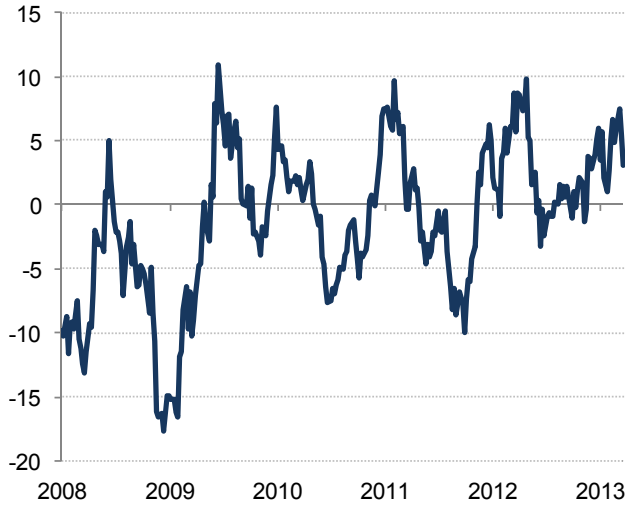
With a majority of the payroll tax accounted for in the last report, we expect personal income to recover from its sharp decline as the employment situation continues to improve along with businesses' outlook. February's surge in non-farm payrolls points toward firms' increasing willingness to part with their accrued cash and hire now that the economic outlook has, for the time being, shed a vast amount of uncertainty. However, after an augmented dividend payout in December resulting from fiscal fears, it is unlikely that income will see a similar prolific shift in income as over the past two months. Personal spending is also likely to increase as consumers seemed to have weathered the payroll tax with far more resilience than expected. Retail sales for February rose by 1.1%, double Bloomberg's consensus, as consumer activity thwarted much of the expected decline. It is therefore evident that, although the 2% rise in payroll tax has had an effect on consumers' income, February's data evidences some resilience in spending activity.

Market Impact

As the market continues to digest the situation in Europe, market moving data next week will inevitably come from pertinent figures like final GDP growth for 4Q12 along with housing market data and personal income. Markets stand poised to shift if home sales fall short of the consensus as the housing market remains a strong indicator of the health of the economy. Personal income will also be important to watch despite its one month lag as it sheds light on how the consumer weathered the payroll tax increase in terms of wage increases or spending changes.

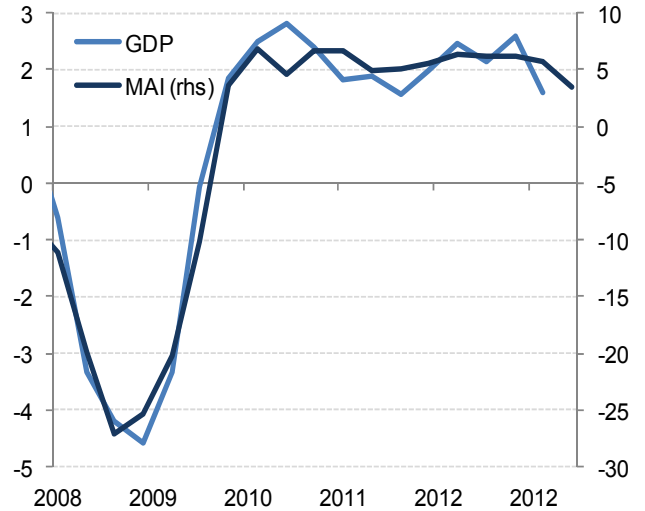
Economic Trends

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



Source: BBVA Research

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



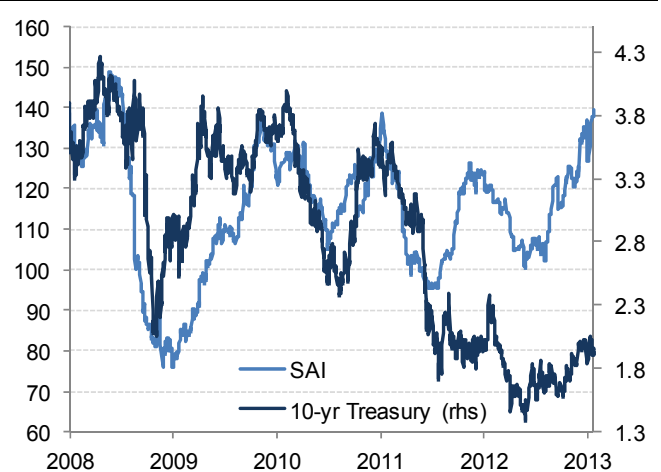
Source: BBVA Research & BEA

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



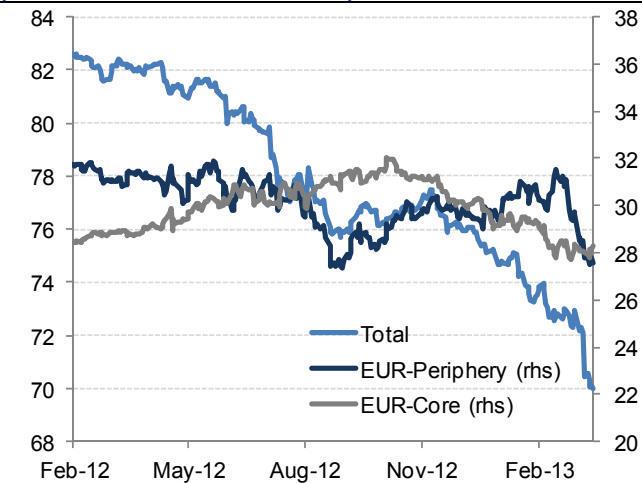
Source: BBVA Research

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



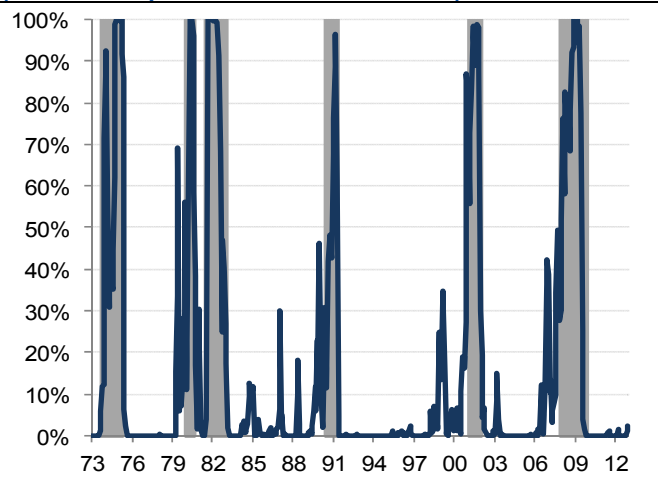
Source: Bloomberg & BBVA Research

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

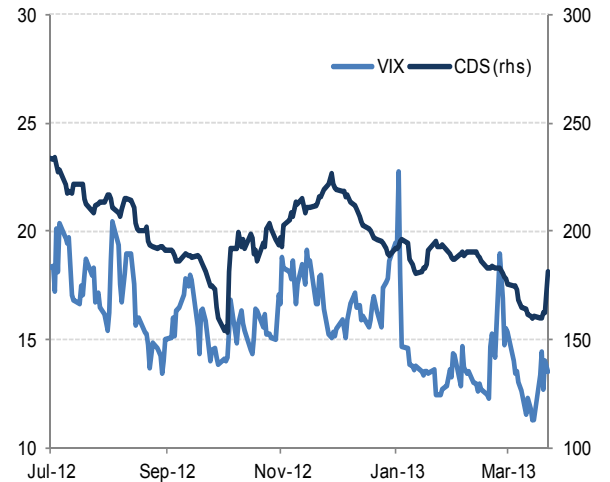
Financial Markets

Graph 9
Stocks
(Index, KBW)



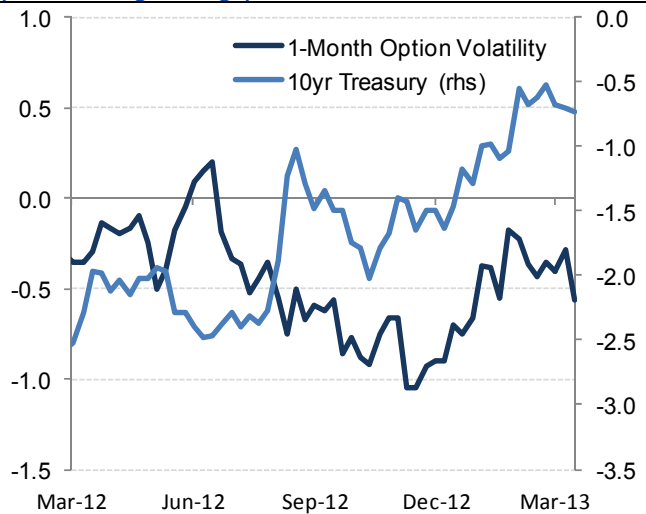
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



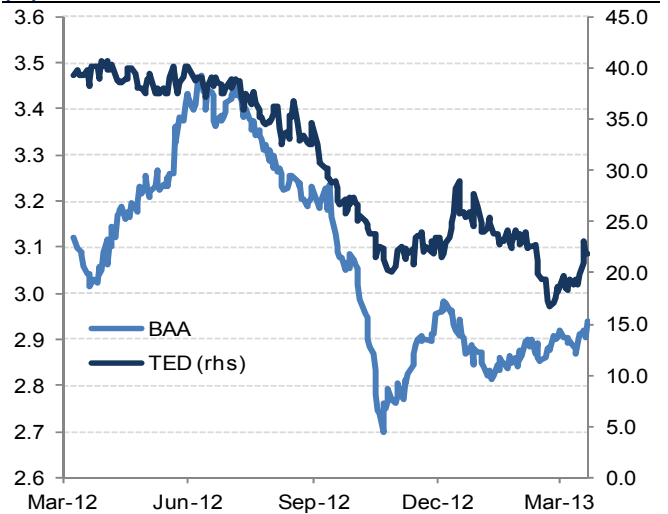
Source: Bloomberg & BBVA Research

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



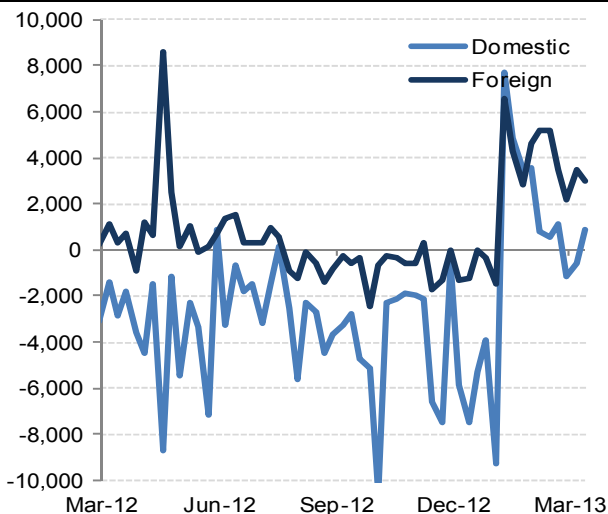
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



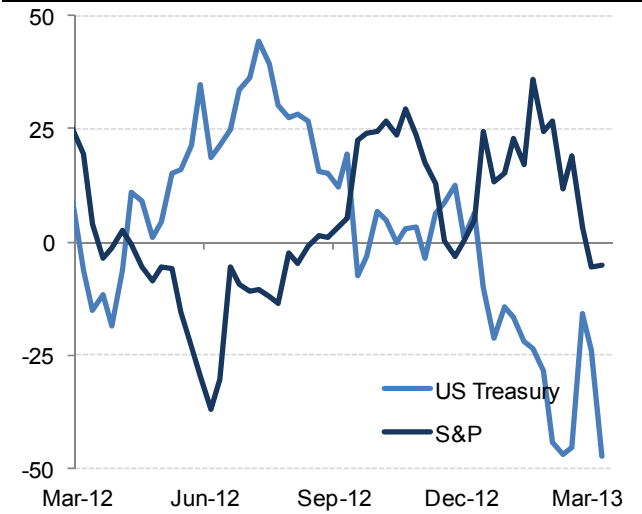
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

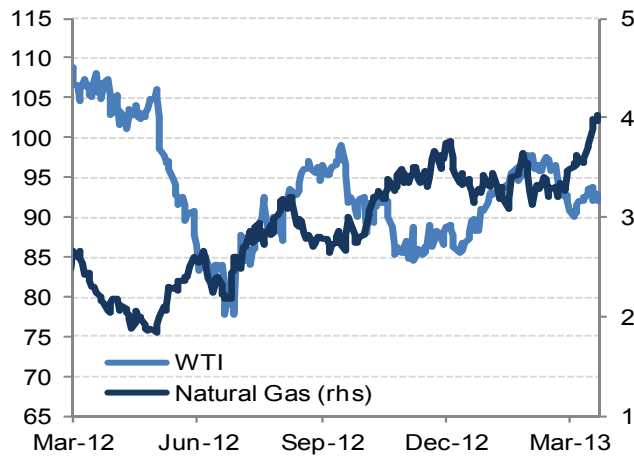
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

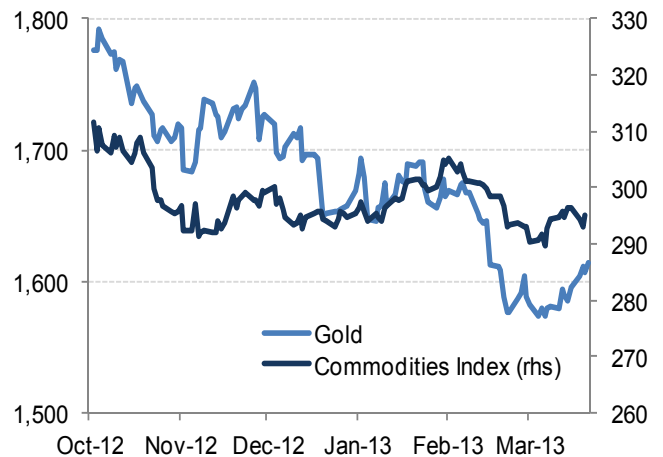
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



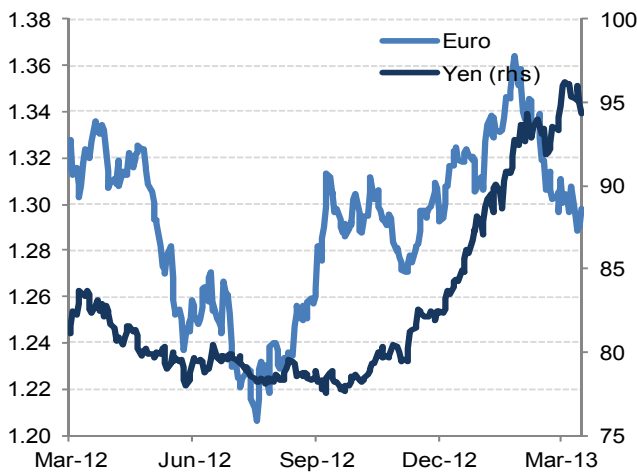
Source: Bloomberg & BBVA Research

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



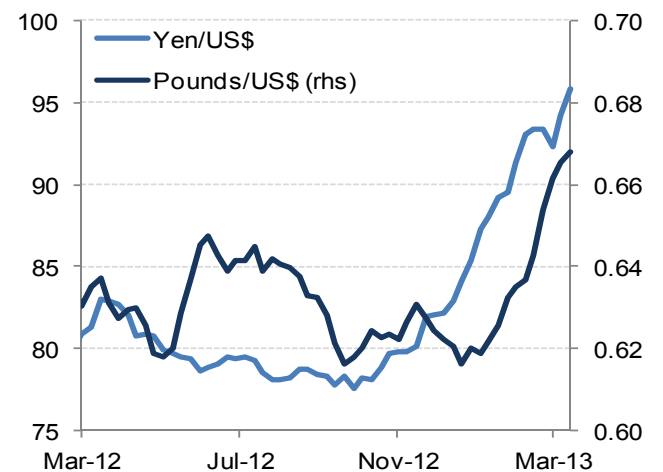
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



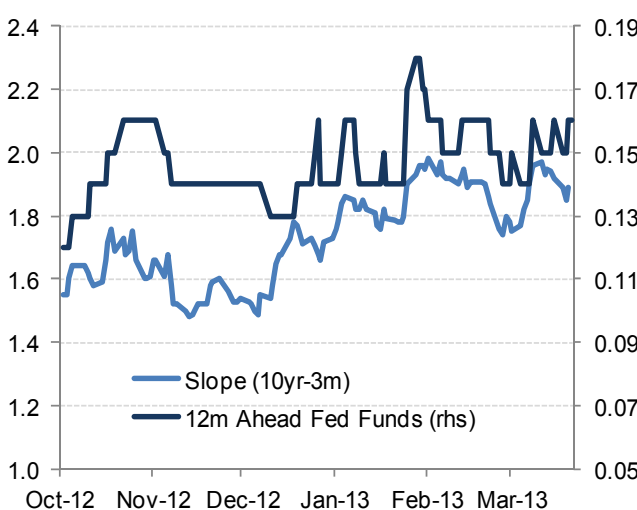
Source: Bloomberg & BBVA Research

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)	14.50	14.50	14.50	14.10
New Auto (36-months)	2.46	2.58	2.44	3.18
Heloc Loan 30K	5.24	5.24	5.38	5.52
5/1 ARM*	2.61	2.61	2.64	2.96
15-year Fixed Mortgage*	2.72	2.79	2.77	3.30
30-year Fixed Mortgage*	3.54	3.63	3.56	4.08
Money Market	0.50	0.48	0.48	0.47
2-year CD	0.66	0.70	0.74	0.82

*Freddie Mac National Mortgage Homeowner Commitment US
Source: Bloomberg & BBVA Research

Table 1
Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
1MFed	0.16	0.16	0.16	0.14
3MLibor	0.28	0.28	0.45	0.47
6MLibor	0.45	0.44	0.65	0.74
12MLibor	0.74	0.73	0.98	1.05
2yr Sw ap	0.43	0.39	0.40	0.61
5yr Sw ap	0.99	0.99	0.98	1.34
10Yr Sw ap	2.05	2.08	2.04	2.31
30yr Sw ap	3.02	3.08	3.01	3.01
30day CP	0.16	0.13	0.16	0.20
60day CP	0.17	0.16	0.18	0.25
90day CP	0.16	0.17	0.16	0.31

Source: Bloomberg & BBVA Research

Quote of the Week

Senator John McCain
Interview with Bloomberg
22 March 2013

"Why are we doing all these things that only benefit the special interests who still have enormous influence here. Republicans have betrayed our base by allowing this kind of pork-barrel and earmark spending to go on"

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
25-Mar	Dallas Fed Manufacturing Survey	MAR	3.0%	3.5%	2.2%
26-Mar	Durable Goods Order	FEB	3.2%	3.9%	-5.2%
26-Mar	Durable Goods ex transportation	FEB	0.7%	0.8%	1.9%
26-Mar	S&P Case-Shiller HPI	JAN	0.7%	0.7%	0.88%
26-Mar	New Home Sales	FEB	428K	424K	437K
26-Mar	Consumer Confidence	MAR	68.4	68	69.6
28-Mar	GDP Final	4Q12	0.4%	0.5%	0.1%
28-Mar	Jobless Claims	23-Mar	330K	340K	336K
28-Mar	Continued Claims	16-Mar	3030K	3042K	3053K
29-Mar	Personal Income	FEB	0.7%	0.8%	-3.6%
29-Mar	Personal Spending	FEB	0.6%	0.6%	0.2%
29-Mar	PCE Price Index	FEB	0.1%	0.1%	0.1%
29-Mar	Consumer Sentiment	MAR F	72.6	73	71.8

Forecasts

	2011	2012	2013	2014
Real GDP (% SAAR)	1.8	2.1	1.8	2.3
CPI (YoY %)	3.2	2.0	2.1	2.4
CPI Core (YoY %)	1.7	2.1	1.9	2.0
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	1.7	2.4	2.7
US Dollar/ Euro (eop)	1.32	1.25	1.31	1.31

Note: Bold numbers reflect actual data



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