

US Weekly Flash

Highlights

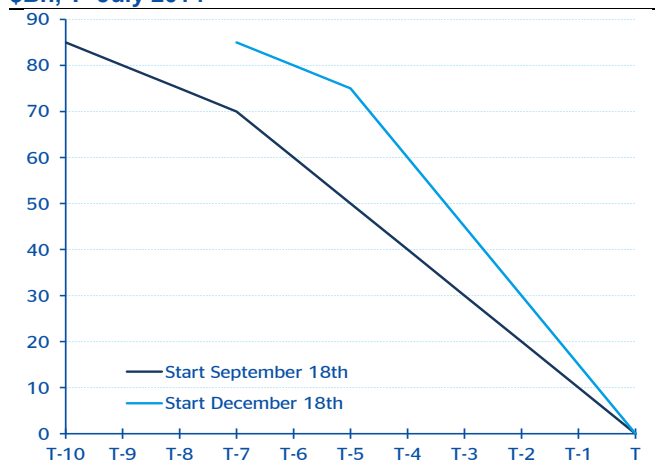
• Retail Sales Increase in August at Slowest Monthly Pace Since April

- The consumer showed some signs of slowing in August, with retail sales up only 0.2% for the month. This is the slowest pace of growth since April, when consumption was still recovering from the expiring payroll tax cut. On the bright side, retail sales growth in July was revised up from 0.2% to 0.4%, which suggests a slightly more optimistic picture for 3Q13 GDP. Much of the headline gain in August was due to a 0.9% jump in auto sales, as gasoline sales were unchanged for the month.
- Excluding autos and gas, retail sales increased 0.1% after a 0.6% gain in July (revised up from 0.4%). The underlying details were mixed, with strength in furniture and electronics sales offsetting declines in building materials and apparel. The good news is that core retail sales growth is, on average, much stronger so far in 3Q13 than in 2Q13. This is somewhat of a relief given that initial readings for personal consumption expenditures were sub-par. Regardless, we continue to expect that growth in 2H13 will be stronger than in 1H13 so long as consumption does not falter and the upcoming fiscal and monetary proceedings do not cause any further disturbance.

• Start of QE3 Tapering to be Announced on September 18th

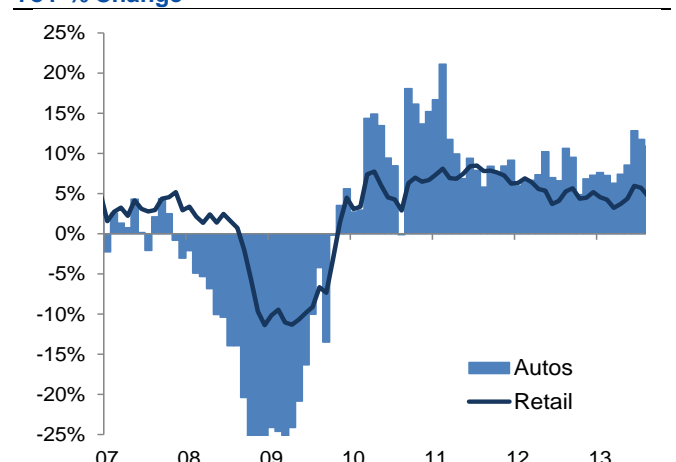
- Inflation has overtaken labor market conditions as center stage in Fed speak prior to the pre-meeting blackout period, and will become the single dividing factor among FOMC members when deciding on when to start scaling down QE3 purchases. The speeches of Evans (Federal Reserve Bank of Chicago), Kocherlakota (Federal Reserve Bank of Minneapolis) and Williams (Federal Reserve Bank of San Francisco) emphasized that inflation has been missing the FOMC target by more than 0.5% for the last 6 months and that they were equally worried about an inflation rate that is either too low or too high relative to the 2% objective. In contrast, the cumulative improvement in the unemployment rate since the start of QE3 in September 2012 is already factored into the decision to taper in September.
- Nowadays, FOMC forward guidance has evolved from forming market expectations on the federal funds rate to additionally guiding market expectations on LSAP, which directly affects the current term premium of long term interest rates. The delay of a tapering announcement by the FOMC would increase uncertainty and continue putting upward pressure on long-term interest rates. Furthermore, it would surely incite more volatility in equity and bond markets, given that investors' expectations are mostly settled on a September tapering announcement. Thus, we maintain our projection that the FOMC will announce QE3 tapering in its September 18th meeting statement, marking a timely start to prepare for further policy normalization in 2015.

Graph 1
Implied Pace for LSAP Taper
\$Bn, T=July 2014



Source: BBVA Research

Graph 2
Total Retail and Auto Sales
YoY % Change



Source: U.S. Census Bureau & BBVA Research

Week Ahead

Empire State Manufacturing Survey (September, Monday 8:30 ET)

Forecast: 10.00

Consensus: 9.00

Previous: 8.24

Manufacturing activity has been sub-par moving into 3Q13, though the Empire State Survey has been telling a more optimistic story for the sector than other indicators may suggest. The index has been positive for three consecutive months, with most of the strength in August coming from a significant jump in the number of employees reported. New orders and production have been average at best, and we do not expect that this trend will change too much over the coming months. Although we do project that these three major subcomponents will remain positive in September, slow global growth and uncertainty regarding fiscal and monetary policy in the U.S. will likely limit any large gains in the short-term.

Industrial Production (August, Monday 9:15 ET)

Forecast: 0.3%

Consensus: 0.4%

Previous: 0.0%

Industrial production is expected to accelerate in August after a disappointing flat reading in July. Mining has recently been the strongest component of the industrial production index, with utilities in the negative for four consecutive months. Manufacturing had been improving since some weakness seen in early 2Q13, although the sector's output did decline slightly in July. Various manufacturing indices, such as the ISM and regional Federal Reserve Surveys, suggest modest improvement in August, although the progress appears to be gradual at best. Slow global demand continues to have a lingering impact on production in the U.S. While we continue to expect the second half of the year to be stronger than the first, fiscal and monetary concerns could create temporary headwinds that would curb domestic demand, putting further downward pressure on industrial production.

Consumer Price Index, Core (August, Tuesday 8:30 ET)

Forecast: 0.2%, 0.2%

Consensus: 0.2%, 0.2%

Previous: 0.2%, 0.2%

Oil prices are again expected to be a key driver of inflation in August, though it is unlikely that the consumer price index will accelerate much from July's rate. Both Brent and WTI crude oil prices increased for the month but at a slower pace compared to July. On the other hand, natural gas prices have declined for four consecutive months, offsetting oil's influence in the energy inflation index. Aside from energy, we do not see any signs of extreme food prices increases, with food inflation holding steady below 0.2% for the past few months. Excluding food and energy, shelter and medical care services continue to put the most upward pressure on the index. Although deflationary concerns have mostly subsided, core CPI is still just 1.7% on a YoY basis, while core PCE has held below 1.2% for the past four months, well below the Fed's 2.0% target.

Housing Starts & Building Permits (August, Wednesday 8:30 ET)

Forecast: 930K, 940K

Consensus: 920K, 950K

Previous: 896K, 954K

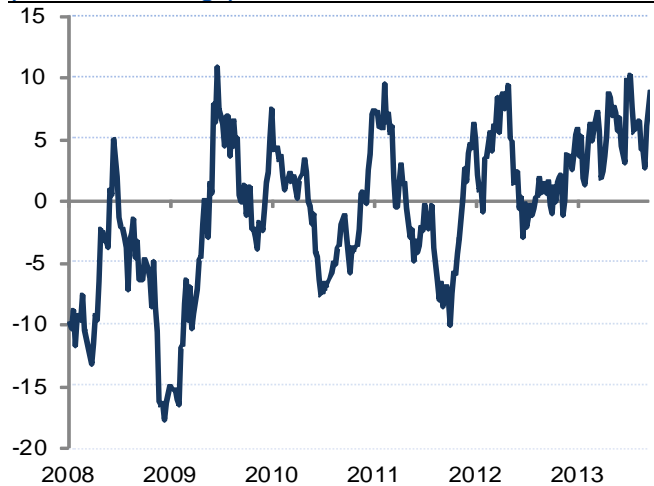
Housing activity is expected to continue gaining momentum in August as pent-up demand and still-limited supply help fuel new home construction. While rising prices and higher mortgage rates seem to be taking a hit on affordability for the time being, we are still seeing a strong push from multifamily units. For August, we expect that single family housing starts will at least partially recover from its decline in July, while multifamily starts should continue to increase at a healthy rate. Building permits appear to be a bit more volatile month-to-month, rising in July after two prior months of declines, and we do not expect August's data to show any significant gains.

Market Impact

Economic data this week will most likely not be enough to overshadow the FOMC announcement and Chairman press conference on Wednesday afternoon. The CPI report for August (released on the first day of the meeting) could turn discussion away from tapering if the numbers hint again at deflation, though prices would need to fall dramatically in order to change many FOMC members' minds last minute. Outside of the FOMC meeting, housing and manufacturing data are not expected to move markets much in either direction.

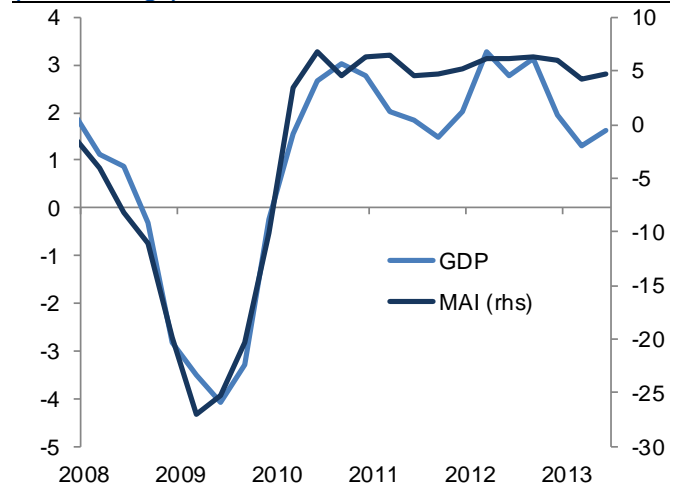
Economic Trends

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



Source: BBVA Research

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



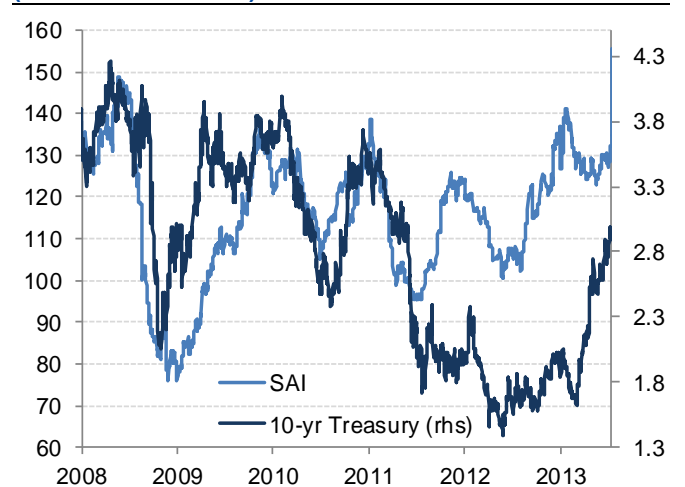
Source: BBVA Research & BEA

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



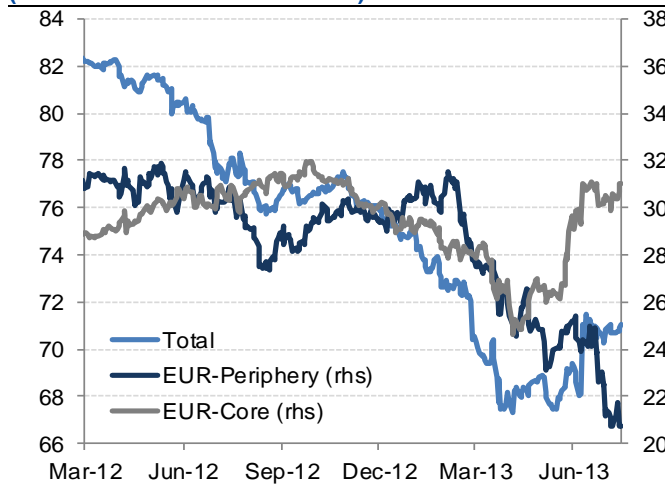
Source: BBVA Research

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



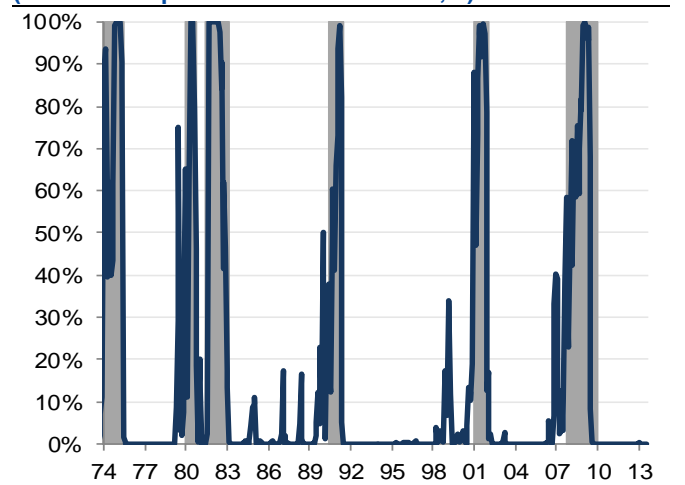
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

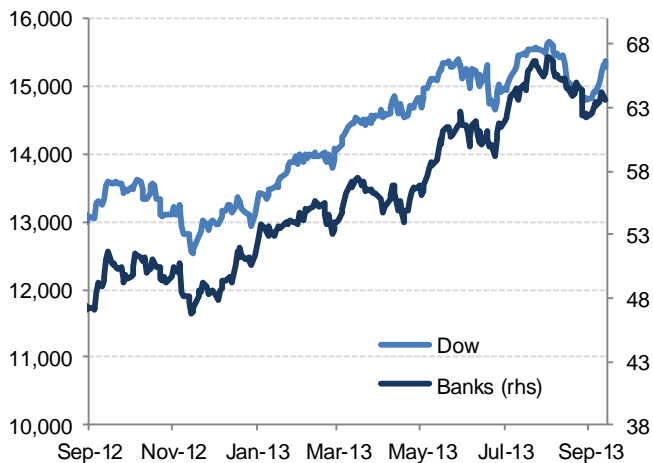
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

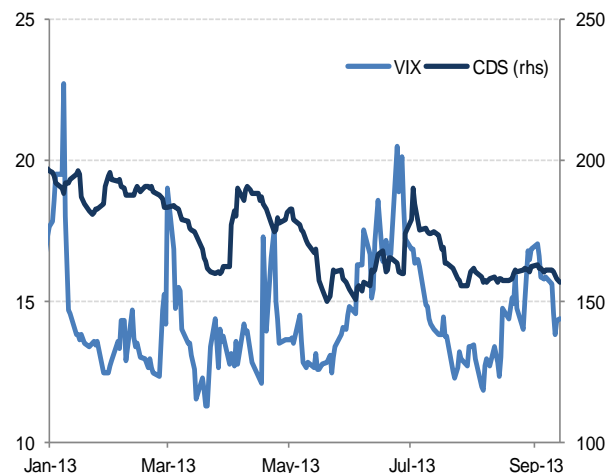
Financial Markets

Graph 9
Stocks
(Index, KBW)



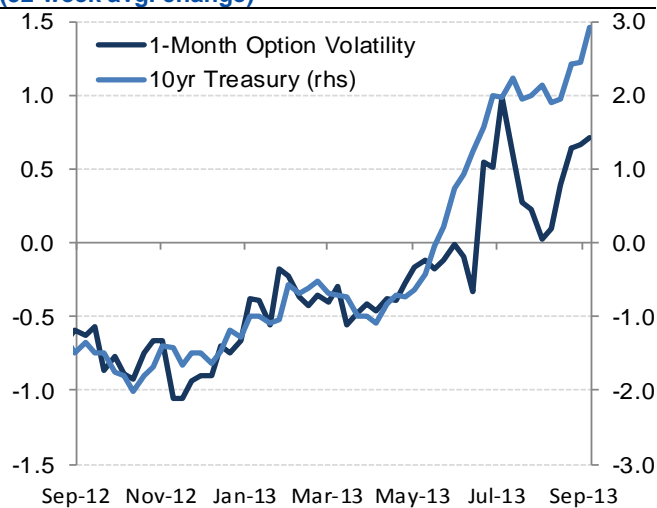
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



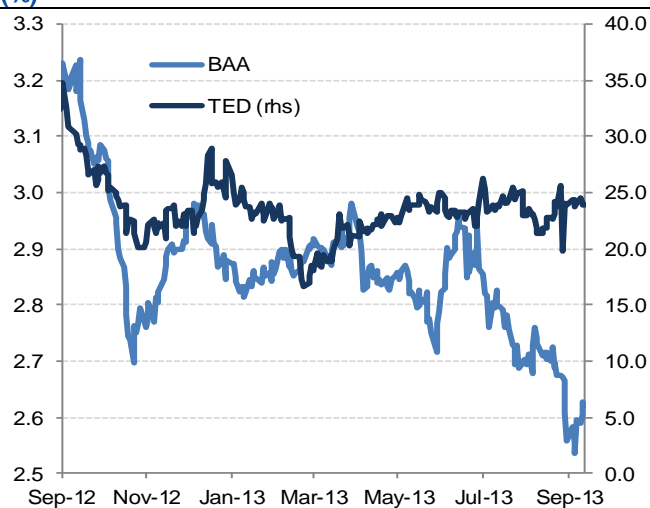
Source: Bloomberg & BBVA Research

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



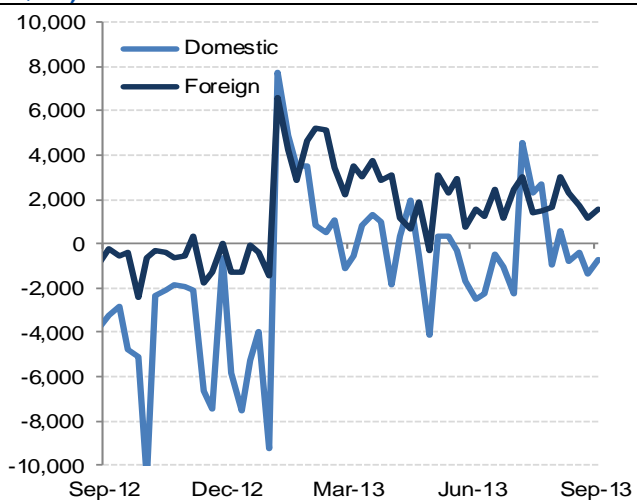
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



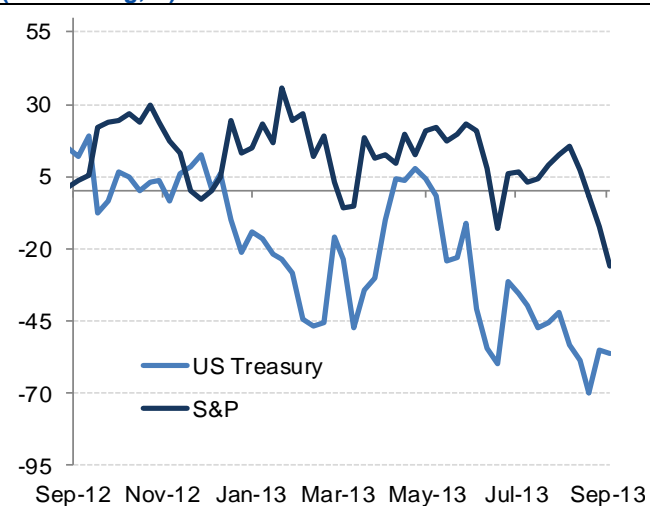
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

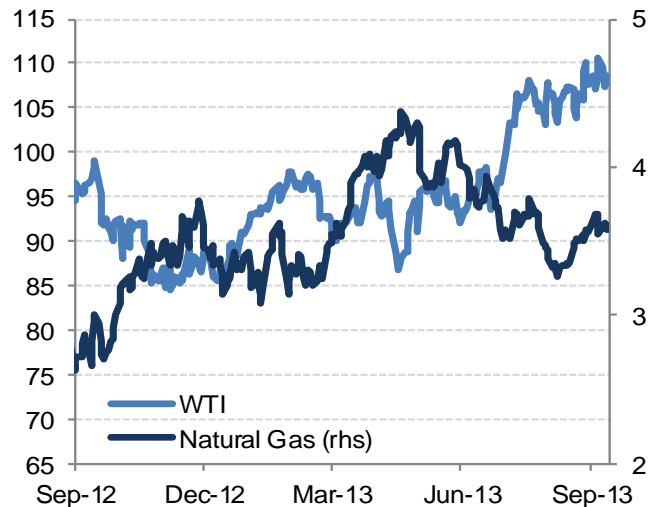
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

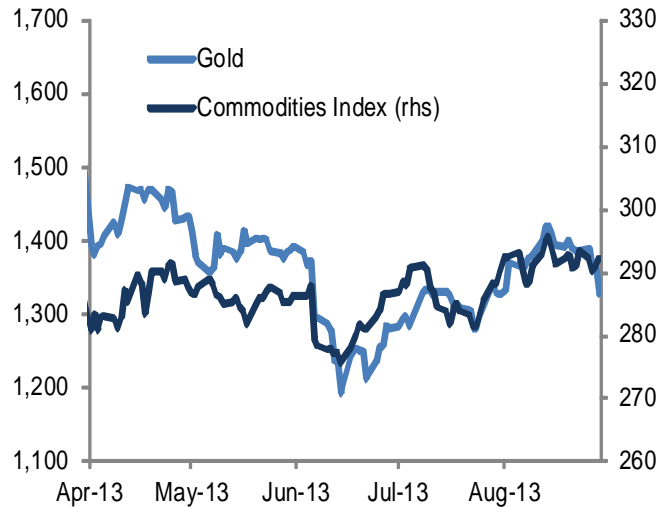
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



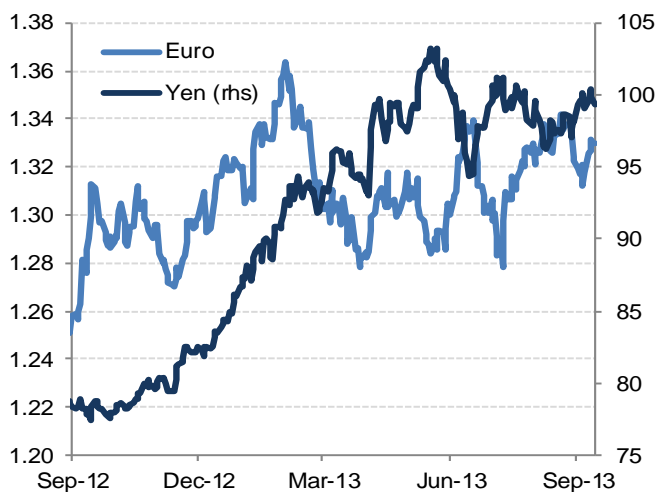
Source: Bloomberg & BBVA Research

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



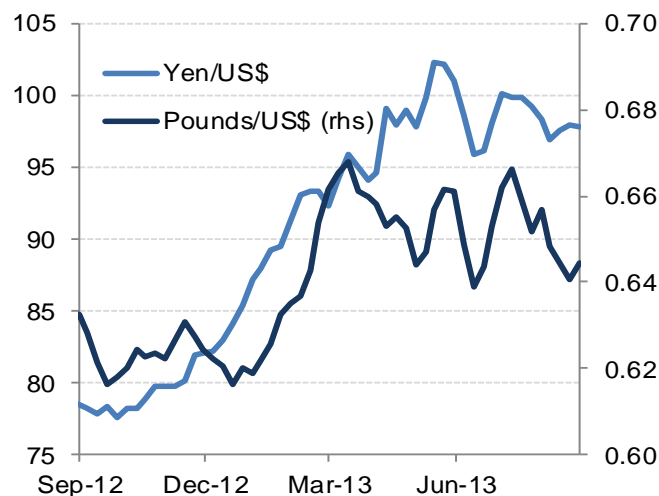
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



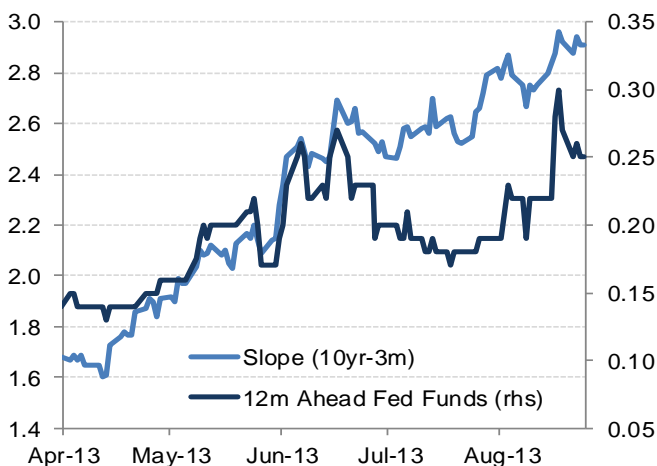
Source: Bloomberg & BBVA Research

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



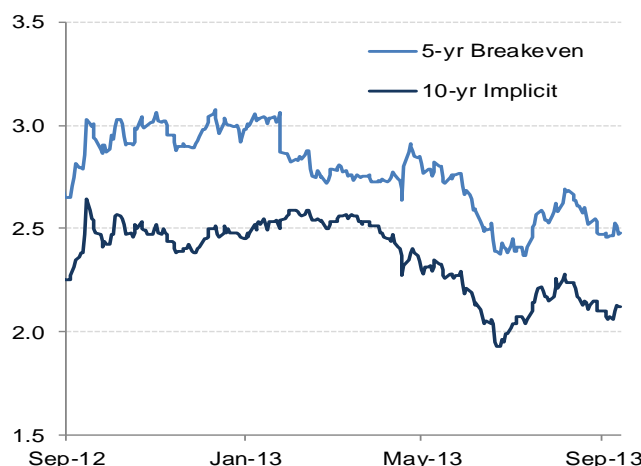
Source: Haver Analytics & BBVA Research

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	4-Weeks		
		Week ago	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)	2.43	2.43	2.40	3.15
Heloc Loan 30K	5.23	5.38	5.34	5.46
5/1 ARM*	3.22	3.28	3.23	2.90
15-year Fixed Mortgage*	3.59	3.59	3.44	3.23
30-year Fixed Mortgage*	4.57	4.57	4.40	3.99
Money Market	0.41	0.44	0.44	0.51
2-year CD	0.78	0.78	0.73	0.87

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

Table 1
Key Interest Rates (%)

	Last	4-Weeks		
		Week ago	ago	Year ago
1M Fed	0.08	0.08	0.09	0.16
3M Libor	0.25	0.26	0.26	0.39
6M Libor	0.38	0.39	0.39	0.68
12M Libor	0.66	0.67	0.67	1.00
2yr Sw ap	0.60	0.62	0.53	0.37
5yr Sw ap	1.87	1.91	1.75	0.80
10Yr Sw ap	3.06	3.12	3.00	1.79
30yr Sw ap	3.85	3.89	3.81	2.70
30day CP	0.11	0.11	0.11	0.43
60day CP	0.13	0.14	0.14	0.58
90day CP	0.15	0.17	0.17	0.62

Source: Bloomberg & BBVA Research

Quote of the Week

President Barack Obama
Remarks by the President in Address to the Nation on Syria
10 September 2013

"America is not the world's policeman. Terrible things happen across the globe, and it is beyond our means to right every wrong, but when with modest effort and risk we can stop children from being gassed to death and thereby make our own children safer over the long run, I believe we should act."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
16-Sep	Empire State Manufacturing Survey	SEPT	10.00	9.00	8.24
16-Sep	Industrial Production (MoM)	AUG	0.3%	0.4%	0.0%
17-Sep	Consumer Price Index	AUG	0.2%	0.2%	0.2%
17-Sep	Core CPI	AUG	0.2%	0.2%	0.2%
17-Sep	Housing Market Index	SEPT	60.0	58.0	59.0
18-Sep	Housing Starts (K)	AUG	930K	920K	896K
18-Sep	Housing Starts (MoM)	AUG	3.8%	2.7%	5.9%
18-Sep	Building Permits (K)	AUG	940K	950K	954K
18-Sep	Building Permits (MoM)	AUG	-1.5%	-0.4%	3.9%
18-Sep	FOMC Rate Announcement	SEPT	0.25%	0.25%	0.25%
19-Sep	Initial Jobless Claims	14-Sep	315K	330K	292K
19-Sep	Continuing Claims	7-Sep	2810K	2900K	2871K
19-Sep	Existing Home Sales (M)	AUG	5.30M	5.25M	5.39M
19-Sep	Existing Home Sales (MoM)	AUG	-1.7%	-2.6%	6.5%
19-Sep	Philadelphia Fed Survey	SEPT	13.9	10.5	9.3
19-Sep	Leading Indicators	AUG	0.3%	0.6%	0.6%

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	3.00	3.35	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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