

# US Weekly Flash

## Highlights

- **FOMC Meeting Minutes: Action Plan for Taper and Effective Forward Guidance**

- The FOMC minutes from the October 29th – 30th meeting reflect the Fed taking preparatory steps and putting in place an action plan for a possible reduction in QE3 in “one of its next few meetings.” Aside from the usual review of the economic outlook, wherein the set of data available to review was limited due to the delays associated with the October government shutdown, the Committee’s main focus was mid-term policy planning. The Committee discussed strategic and communication issues related to the asset purchase program as well as the forward guidance policy.
- The range of policy planning issues discussed in the October meeting encompassed two scenarios when tapering might be initiated: 1) a reduction in purchases when the economic data “would prove consistent with the Committee’s outlook” for improvement and 2) a possible wind-down “before an unambiguous further improvement in the outlook was apparent,” thus driven by the concerns about the efficacy or costs of further asset purchases. While only a couple of participants considered the latter case of wind-down as a premature discussion, the overall agreement among participants was to enhance communications regarding all the criteria of the asset purchase program. Overall, Committee members were doubtful regarding the reliability of a simple mechanical rule to guide the path of the asset purchases. At the same time the participants recognized that a “calendar-based” wind-down could be easy to communicate but would be in disaccord with the “state-contingent nature” of the program.
- Only a couple participants favored a reduction in the 6.5 percent unemployment threshold, since concerns were raised regarding the “durability of the Committee’s commitment to the thresholds.” The Committee members debated several possible language modifications to the forward guidance, to communicate a low trajectory for the federal funds rate, such as the intention to keep the federal funds rate below its long-run equilibrium after the unemployment threshold is reached. Few participants were inclined to add a lower bound inflation rate threshold to the forward guidance. At the same time, several participants would prefer to provide a wide range of additional qualitative information that the Committee would evaluate in relation to the policy rate. While no modifications to the forward guidance were made in the October statement, they are likely to be implemented in the near future, especially in conjunction with the decision to taper “as part of a rebalancing of the Committee’s tools.”

- **Retail Sales on the Rise as we Head into 4Q13**

- Headline retail sales increased 0.4% in October, beating consensus expectations for a flat reading. Sales in the prior month were revised up slightly to 0.0% from a decline of 0.1%. The good news here is that real sales were up 0.5% in October, with inflation running extremely low throughout the past few months. On an annual basis, total retail sales are up 3.9%, slightly lower than the 4.4% rate seen this time last year.
- Excluding autos, retail sales increased only 0.2%, a slight deceleration from September’s 0.3% monthly gain. Gas prices clearly weighed on the nominal figure, with sales at gasoline stations down 0.6% in October. The normal holiday-related sectors were strong for the month, including electronics and appliances, sporting goods, clothing, and food services. Looking ahead to the coming months, we do expect to see similar strengths in sales as the shopping season heats up. We expect that sales will remain positive throughout the holiday season, but our forecast does not call for significant acceleration over last year.

## Week Ahead

### Housing Starts and Building Permits (September & October, Tuesday 8:30 ET)

Forecast: 915K, 930K

Consensus: 920K, 930K

Previous: 891K, 926K

It has been a few months since we last saw a report on housing starts and building permits, thanks to delays related to the government shutdown in October. Consequently, the Census Bureau has decided to simultaneously release data for both September and October. From what we saw in August, trends were mostly flat for both housing indicators and we don't expect the story to be much different moving forward. Homebuyer demand has cooled off somewhat now that rates and prices are on the rise, so it is unlikely that starts and permits surged in the past few months. Furthermore, the government shutdown weighed on consumer confidence and most likely discouraged any major purchases to start off the fourth quarter. Therefore, we do not expect to see much improvement from August.

### S&P Case-Shiller HPI (September, Tuesday 9:00 ET)

Forecast: 12.90%

Consensus: 13.00%

Previous: 12.82%

Home prices have been on the rise very steadily since early 2012, with annual growth rates hitting double-digits in 2013. The S&P Case-Shiller HPI is most likely close to reaching its cyclical peak near 13.0% on a YoY basis, and therefore we expect the pace to level off in the coming quarters. Other home price indices, such as FHFA and Core Logic, are reporting similar trends with a modest increase for the month of September. Homebuyer demand is definitely slowing as interest rates rise and affordability drops, so it is only a matter of time before prices adjust yet again. In general though, we expect to see continued monthly gains for home prices as supply remains tight and buyers look to snatch up the good deals before mortgage rates get too high.

### Consumer Confidence (November, Tuesday 10:00 ET)

Forecast: 75.1

Consensus: 72.4

Previous: 71.2

Consumer confidence is running low but should start to turn around now that the holiday season is underway. October's government shutdown took a toll on consumers, with confidence dropping to the lowest level since April. Most of the decline stemmed from the expectations component, although views on the present situation were also weaker than in September. For November, we don't see many signs of significant improvement when it comes to the job market outlook, and this will continue to weigh on consumer confidence for the time being. On the other hand, prices remain very low and have helped boost consumers' purchasing power, a fact that is particularly important during the holiday shopping season.

### Durable Goods Orders, Ex Transportation (October, Wednesday 8:30 ET)

Forecast: -1.0%, 0.7%

Consensus: -1.9%, 0.5%

Previous: 3.8%, -0.2%

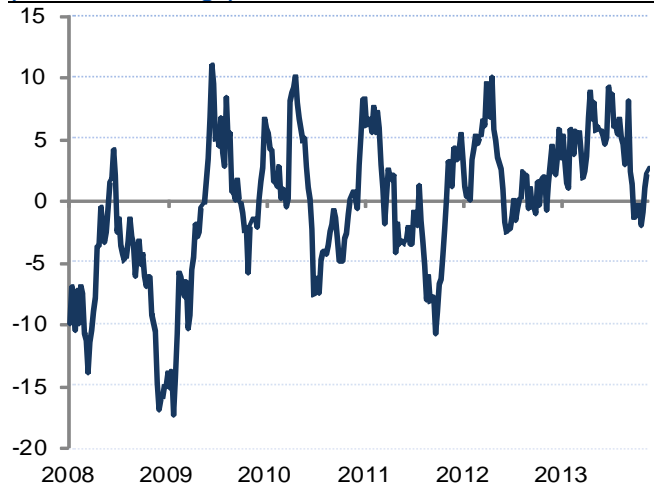
Transportation continues to be the main driver of durable goods orders, resulting in very volatile swings throughout the past few months. Back in July, durable goods orders dropped 8.1% but only recovered about half of that moving into September. Capital goods excluding aircraft have not been as strong as we had originally expected for the second half of 2013 thus far as businesses remain hesitant regarding both foreign and domestic demand. For October, we have seen relatively encouraging signs for the manufacturing sector despite the government shutdown weighing on consumer activity. Still, given the usual volatility in durable goods orders, we expect to see a minor decline in the headline figure and a slight recovery in the ex-transportation component.

### Market Impact

The holiday-shortened week should keep markets quiet, with Thanksgiving shutting things down for Thursday and Friday. We are finally getting the last of the shutdown-related delayed economic reports which should help bring markets up-to-date with current trends, particularly in housing. Still, we don't expect much surprise in either direction as we prepare ourselves for a busy economic calendar in the following week.

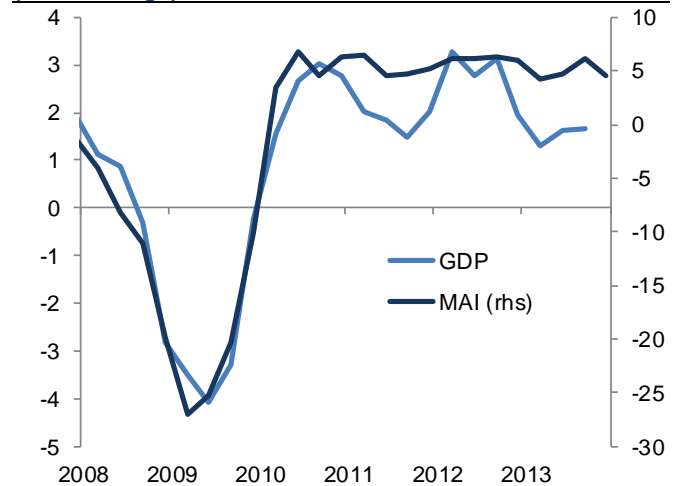
# Economic Trends

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



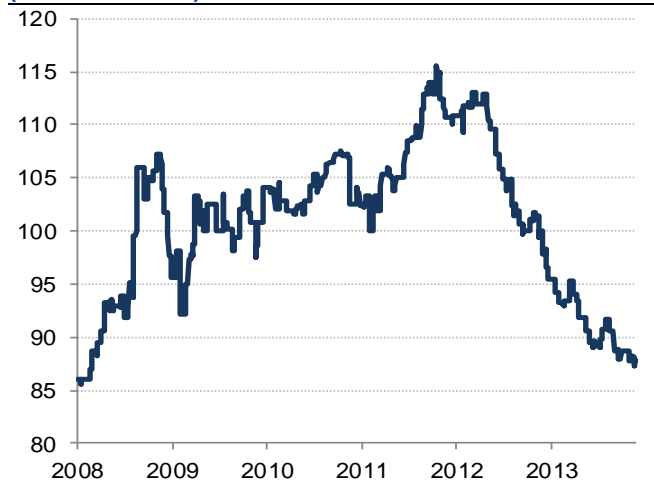
Source: BBVA Research

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



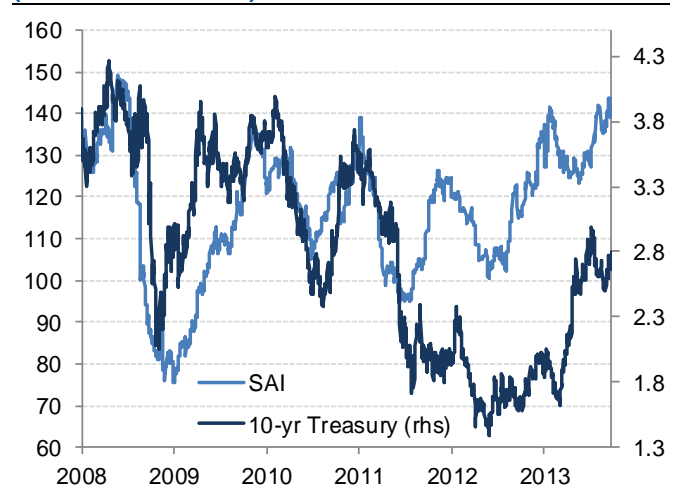
Source: BBVA Research & BEA

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



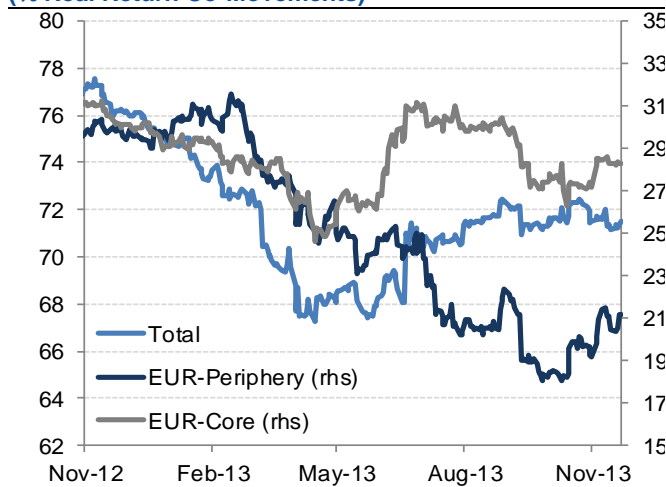
Source: BBVA Research

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



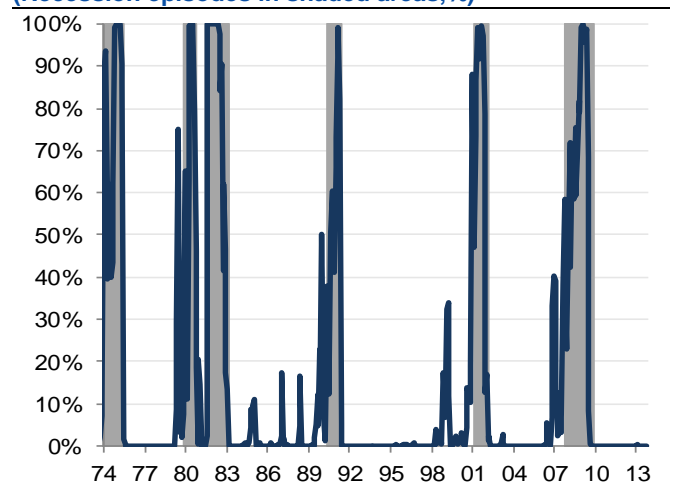
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

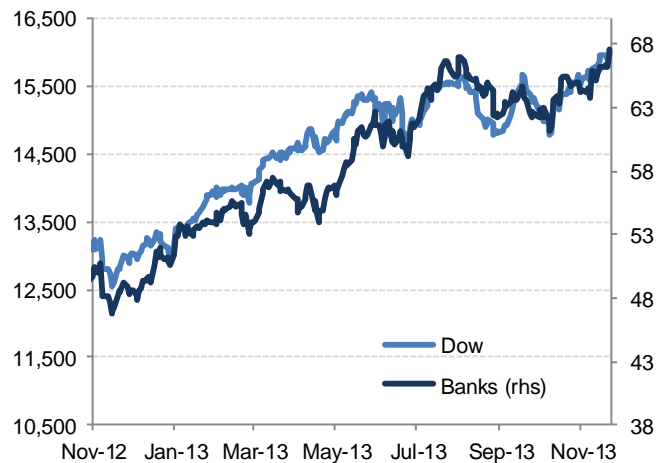
Graph 8  
**BBVA US Recession Probability Model**  
 (Recession episodes in shaded areas, %)



Source: BBVA Research

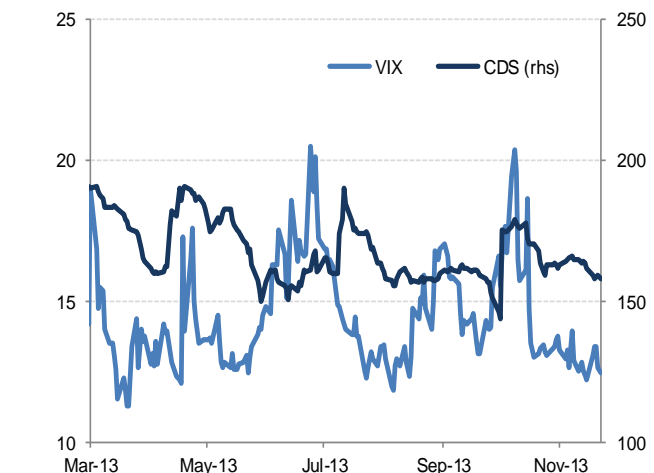
# Financial Markets

Graph 9  
**Stocks**  
**(Index, KBW)**



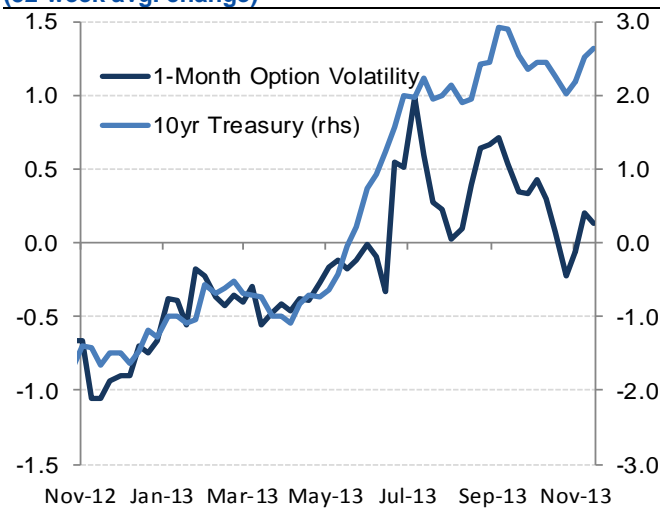
Source: Bloomberg & BBVA Research

Graph 10  
**Volatility & High-Volatility CDS**  
**(Indices)**



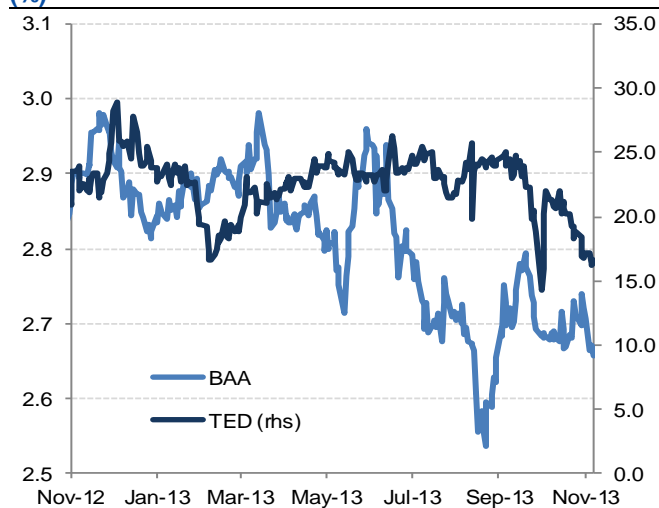
Source: Bloomberg & BBVA Research

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



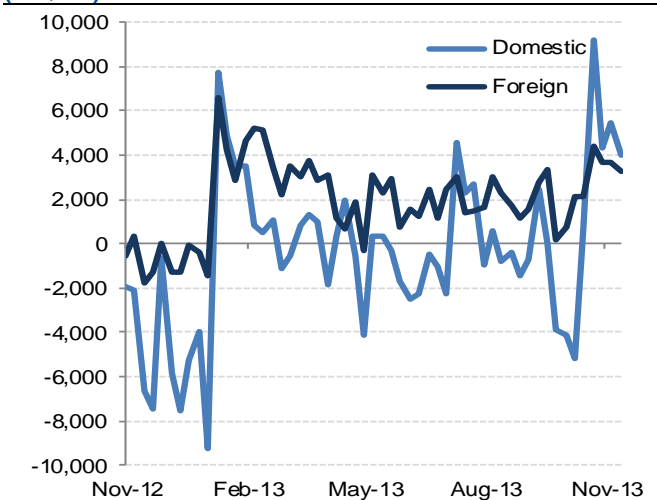
Source: Haver Analytics & BBVA Research

Graph 12  
**TED & BAA Spreads**  
**(%)**



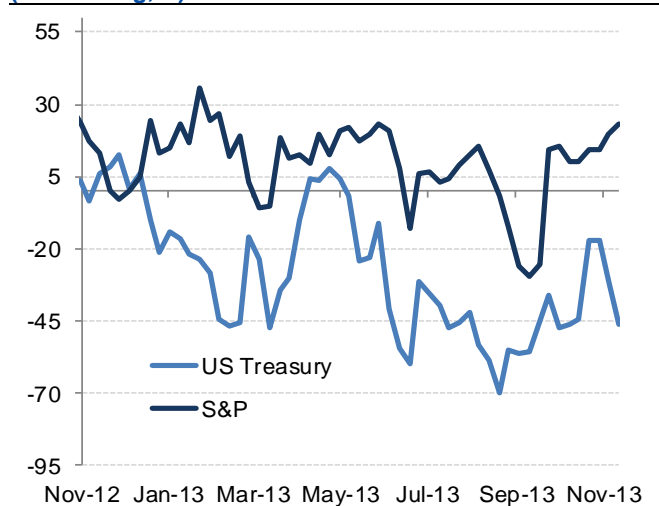
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

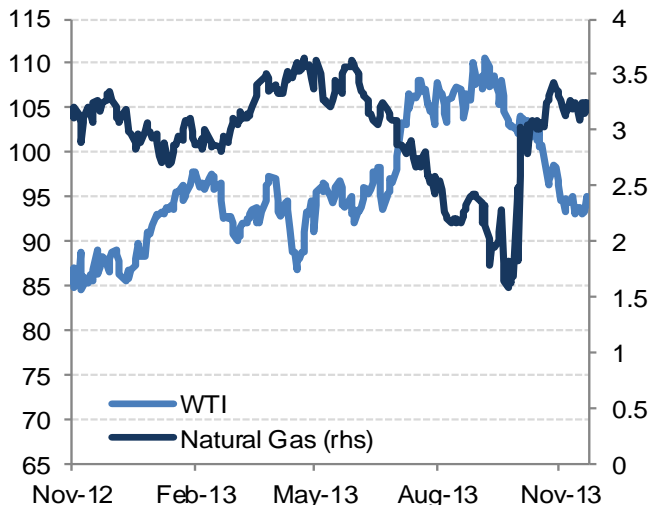
Graph 14  
**Total Reportable Short & Long Positions**  
**(Short-Long, K)**



Source: Haver Analytics & BBVA Research

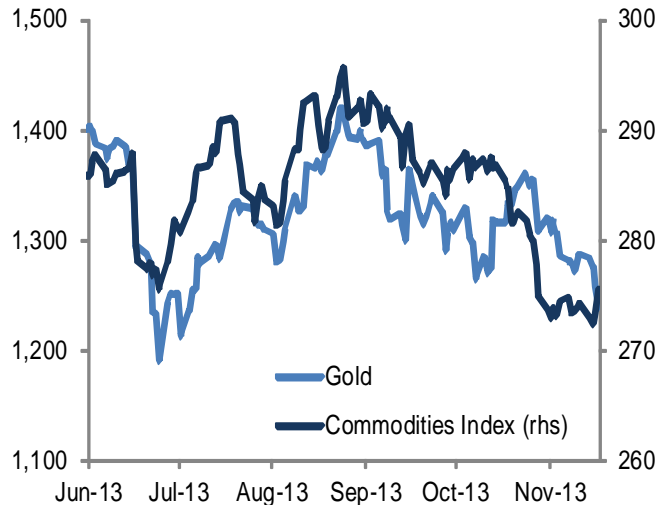
# Financial Markets

Graph 15  
**Commodities**  
(Dpb & DpMMBtu)



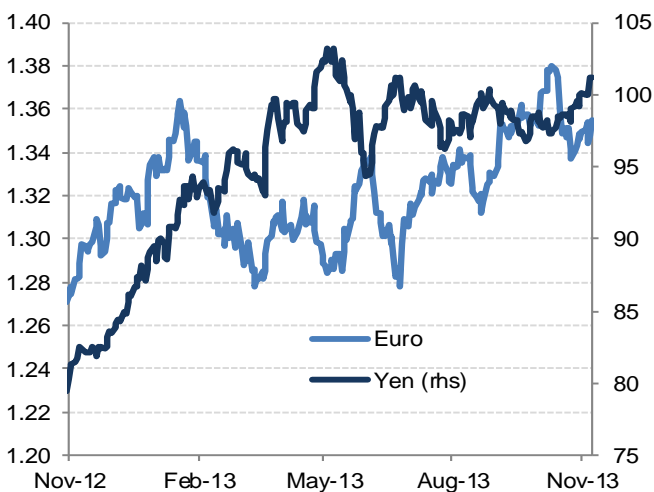
Source: Bloomberg & BBVA Research

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



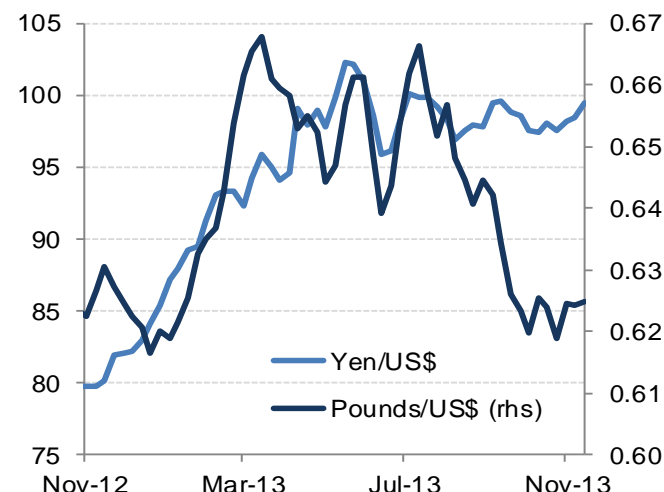
Source: Haver Analytics & BBVA Research

Graph 17  
**Currencies**  
(Dpe & Ypd)



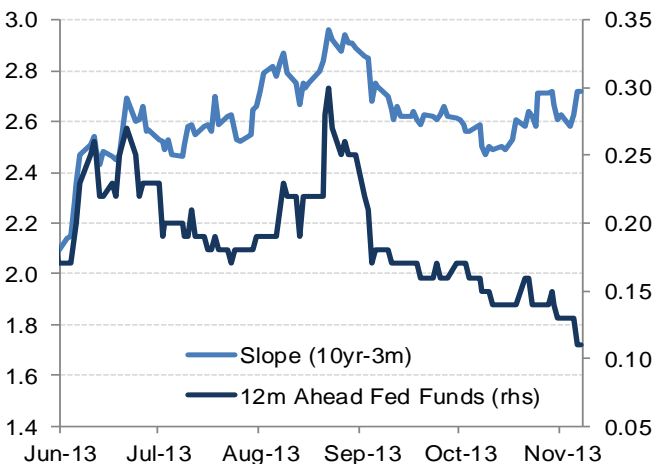
Source: Bloomberg & BBVA Research

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



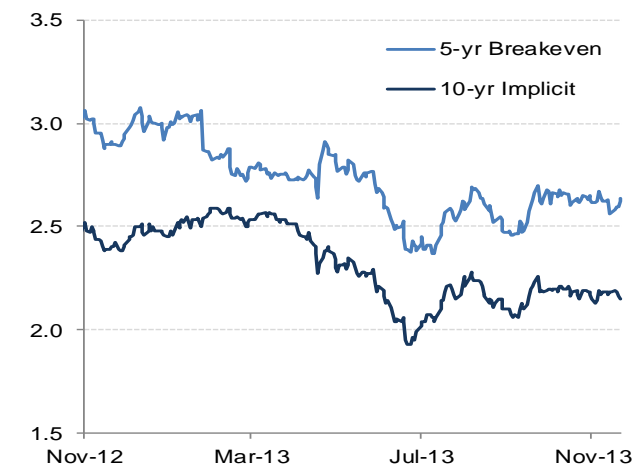
Source: Haver Analytics & BBVA Research

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 (%)

	4-Weeks			
	Last	Week ago	ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	14.23	14.16	14.16	14.10
New Auto (36-months)	2.68	2.66	2.63	2.77
Heloc Loan 30K	5.18	5.23	5.26	5.40
5/1 ARM*	2.95	3.01	3.00	2.90
15-year Fixed Mortgage*	3.27	3.35	3.24	3.23
30-year Fixed Mortgage*	4.22	4.35	4.13	3.99
Money Market	0.42	0.42	0.42	0.51
2-year CD	0.83	0.83	0.81	0.87

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

Table 1  
Key Interest Rates (%)

	4-Weeks			
	Last	Week ago	ago	Year ago
1M Fed	0.09	0.09	0.08	0.16
3M Libor	0.24	0.24	0.24	0.31
6M Libor	0.35	0.35	0.35	0.53
12M Libor	0.57	0.58	0.61	0.86
2yr Swap	0.38	0.40	0.43	0.40
5yr Swap	1.46	1.45	1.44	0.81
10Yr Swap	2.81	2.77	2.66	1.72
30yr Swap	3.74	3.70	3.58	2.58
30day CP	0.13	0.12	0.12	0.16
60day CP	0.11	0.11	0.12	0.20
90day CP	0.12	0.12	0.15	0.20

Source: Bloomberg & BBVA Research

## Quote of the Week

James Bullard, President of the Federal Reserve Bank of St. Louis  
Fed's Bullard Says Lower Jobless Threshold Might be 'Dangerous'  
20 November 2013

"You have to take the inflation target seriously, defend the target from the low level. I continue to be concerned about this issue. We would have expected to see more inflation pressure at this point. We don't have a good story."

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
25-Nov	Pending Home Sales (MoM)	OCT	1.50%	1.50%	-5.60%
25-Nov	Dallas Fed Manufacturing Survey	NOV	5.50	3.80	3.60
26-Nov	Housing Starts (K)	SEPT	900K	--	891K
26-Nov	Housing Starts (K)	OCT	915K	920K	--
26-Nov	Building Permits (K)	SEPT	935K	--	926K
26-Nov	Building Permits (K)	OCT	930K	930K	--
26-Nov	S&P Case-Shiller HPI (YoY)	SEPT	12.90%	13.00%	12.82%
26-Nov	Consumer Confidence	NOV	75.1	72.4	71.2
27-Nov	Durable Goods Orders (MoM)	OCT	-1.00%	-1.90%	3.80%
27-Nov	Durable Goods Orders, Ex Transportation (MoM)	OCT	0.70%	0.50%	-0.20%
27-Nov	Initial Jobless Claims	23-Nov	320K	330K	323K
27-Nov	Continuing Claims	16-Nov	2855K	2858K	2876K
27-Nov	Chicago Fed National Activity Index	OCT	0.10	0.10	0.14
27-Nov	Chicago PMI	NOV	64.50	60.00	65.90
27-Nov	Consumer Sentiment	NOV	73.50	73.0	72.0
27-Nov	Leading Indicators	OCT	0.10%	0.00%	0.70%

## Forecasts

	2011	2012	2013	2014	2015	2016
Real GDP (% SAAR)	<b>1.8</b>	<b>2.8</b>	1.6	2.3	2.5	2.8
CPI (YoY %)	<b>3.1</b>	<b>2.1</b>	1.7	2.2	2.4	2.4
CPI Core (YoY %)	<b>1.7</b>	<b>2.1</b>	1.8	2.0	2.1	2.3
Unemployment Rate (%)	<b>8.9</b>	<b>8.1</b>	7.5	7.0	6.4	5.9
Fed Target Rate (eop, %)	<b>0.25</b>	<b>0.25</b>	0.25	0.25	0.50	1.50
10Yr Treasury (eop, % Yield)	<b>1.98</b>	<b>1.72</b>	2.75	3.37	3.64	4.05
US Dollar/ Euro (eop)	<b>1.31</b>	<b>1.31</b>	1.30	1.30	1.38	1.36

Note: Bold numbers reflect actual data



## DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

**Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report.** Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

**The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.**

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

**"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: [www.bbva.com](http://www.bbva.com) / Corporate Governance".**

**BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.**