

US Weekly Flash

Highlights

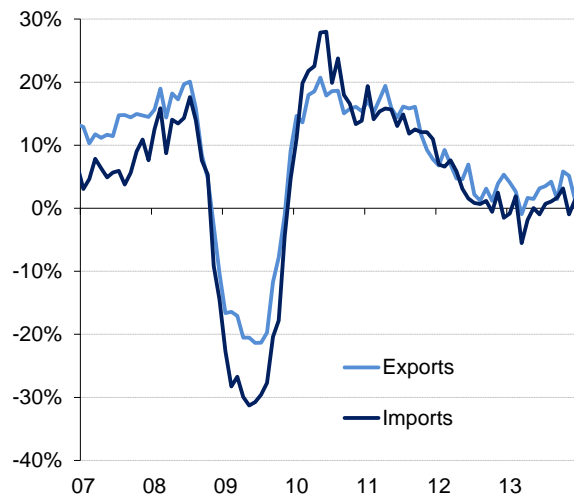
U.S. Trade Gap Widens in December as Exports Dip

- The U.S. international trade deficit widened more than forecasted in December after shrinking dramatically the month prior. After reaching the smallest deficit of the year in November, the trade balance moved in the opposite direction as total exports declined 1.8% in December and imports nudged up 0.3% for the month. This unexpected drop in exports may influence a downward revision of GDP growth for 4Q13, which initially was forecasted at 3.2% QoQ SAAR. However, looking at the big picture, the improving trade balance continues to be a bright spot for the U.S. economy. Even with the dip, exports of goods and services rose 1.4% on a YoY basis, propelled by the domestic energy boom which has led to an increase in domestic energy production and subsequently an increase in national petroleum exports.
- A continued improvement in the United States trade balance would have an upward impact on the 2014 GDP figure. One threat to an increasing export figure is economic slowdown abroad, specifically in China, which has started to show signs of tempered growth from previous years. However, if GDP growth abroad remains relatively robust, we expect that U.S. exports will play a considerable role in a domestic recovery. Although net exports only compose about 12% of total GDP, the energy boom is likely to still have a positive effect on GDP, not only because the U.S. continues to increase exports, but also because cheaper domestic energy should help boost growth for companies operating in the country.

Another Surprising Jobs Report, but Lack of Clarity Still Stands

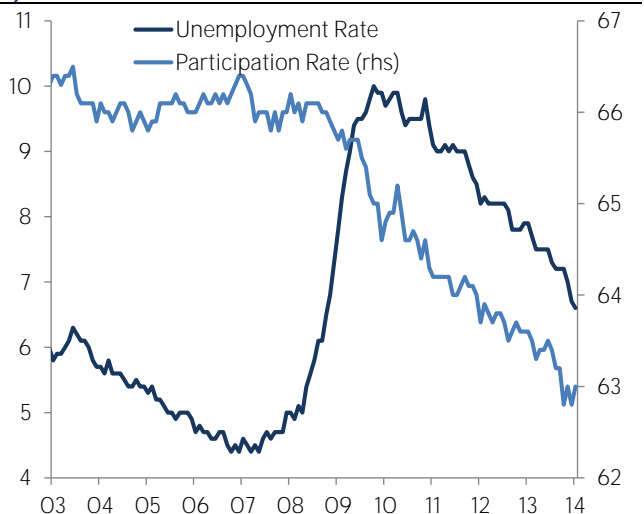
- Employment reports have been somewhat surprising in recent months, lacking any clear direction for where the labor market is heading. January's figures are no different, with payrolls surprising to the downside but the unemployment rate dropping for the third consecutive month to 6.6%. Even more surprising, the participation rate ticked back up again to 63.0%, unlike recent trends where falling labor force participation has played a key role in subsequent declines in the unemployment rate.
- January's report also included historical revisions to nonfarm payrolls. Net revisions were approximately 59M for the entire series dating back to 1939, though much of this was frontloaded within the past decade. Throughout 2013, revisions boosted total payrolls by 5.2M, of which 1.5M occurred during 4Q13. In general, though, revisions had a very minor impact on overall employment trends, as YoY growth rates remain stable throughout the series.

Graph 1
U.S. Exports and Imports
Annual % Change



Source: ISM & BBVA Research

Graph 2
Unemployment and Participation Rates
(%)



Source: Conference Board & BBVA Research

Week Ahead

JOLTS (December, Tuesday 10:00 ET)

Forecast: 3.9M	Consensus: --	Previous: 4.0M
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The recent trends from the latest JOLTS reports suggest that job openings are increasing at a faster rate than hiring, which is cause for concern with regards to structural unemployment. In November's JOLTS report, job openings increased 70K, reaching the highest level since March 2008. However, hiring remained mostly unchanged, and private hiring fell by 6K. It is a good sign that businesses are more inclined to hire, but it's discouraging that they are finding it difficult to find workers with the necessary skillsets for a position. As the economy continues to show signs of robust growth, we will be watching the ratio of job openings to hiring very carefully. After December's disappointing job's report, our expectations for job openings and hires are not quite tilted to the upside.

Retail Sales, Ex Autos (January, Thursday 8:30 ET)

Forecast: -0.1%, 0.1%	Consensus: 0.0%, 0.1%	Previous: 0.2%, 0.7%
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Retail sales surprised to the upside in December as last-minute shoppers made purchases just in time for the holiday season. Excluding auto sales, which slowed down towards the end of the year, retail sales were a bright spot for the economy in 2013. High sales numbers are typically a reflection of increased consumer spending, which is essential for an economy still recovering from the aftershocks of the Great Recession. Furthermore, the large retail sales improvements seen in recent months are a reflection that consumers are more freely spending and are steadily becoming more confident in the recovery. After the jump last month, we expect retail sales to drop slightly from December as consumers take a breath following the holidays and the unusually cold weather has an impact nationwide. However, we still forecast an upward trend in spending throughout 2014.

Business Inventories (December, Thursday 10:00 ET)

Forecast: 0.3%	Consensus: 0.4%	Previous: 0.4%
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Business inventories have posted MoM increases for six consecutive months in mid-to-late 2013, a sign that companies are optimistic about future consumer demand and spending. Encouragingly, sales have kept up with inventories, so the increase in inventories is not due to a lack of sales, and instead appears to be attributed to an increase in the demand for goods. For December, we expect overall business inventories to remain positive, in line with the trend set for manufacturing inventory growth during the month. For 2014, we expect that business inventories and sales will remain strong, as consumer spending continues to propels GDP upward throughout the year.

Industrial Production (January, Friday 9:15 ET)

Forecast: 0.4%	Consensus: 0.2%	Previous: 0.3%
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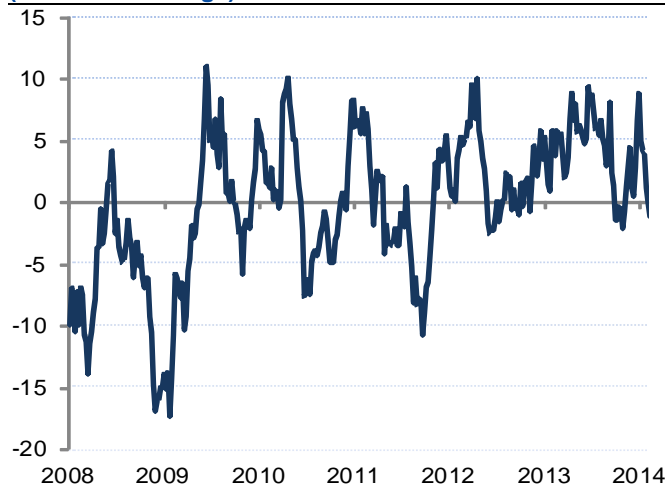
The industrial production index has posted five consecutive months of positive MoM gains and began experiencing the biggest YoY gains since mid-2012 during the latter portion of 2013. It is further encouraging that all sectors of industrial production have contributed to overall gains, as manufacturing, mining, and utilities have all witnessed healthy YoY growth. Market participants will want to keep an eye on the industrial production figure, because fluctuations in GDP are often linked to changes in the index. Specifically, investors will be keeping an eye out on the manufacturing component of the report, as concerns for the sector have resurfaced after a recent wave of data pointed to a slowdown. For January, we expect a healthy boost in industrial production, driven primarily by utilities, as the polar-like weather experienced over the last month has people cranking up their heaters and using more power than usual. However, manufacturing indicators have pointed to somewhat of a slowdown in growth to start the new year, and we could see this reflected in the industrial production index as well.

Market Impact

After pulling back nearly 7%, the stock market quietly posted a healthy overall gain for this past week, despite a dull jobs report that did not see any revisions to December's employment figure. Looking ahead, investors should be taking a good look at the JOLTS report to help make sense of the recent cloudy employment data. Thursday's retail sales report will also provide investors with the pulse of consumers with regards to spending now that we are over the holiday season.

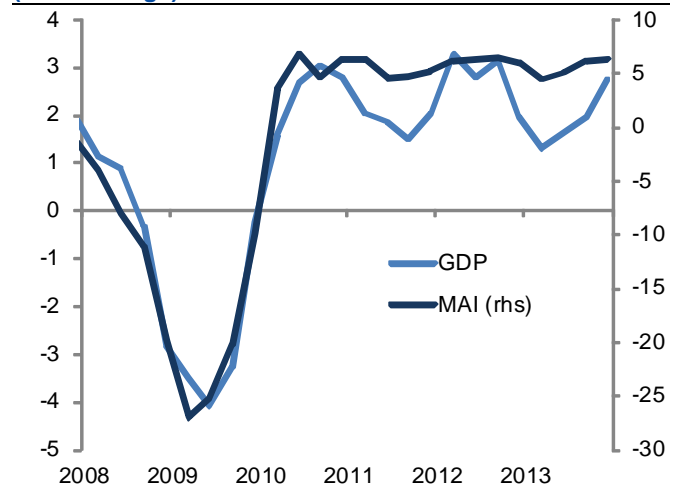
Economic Trends

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



Source: BBVA Research

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



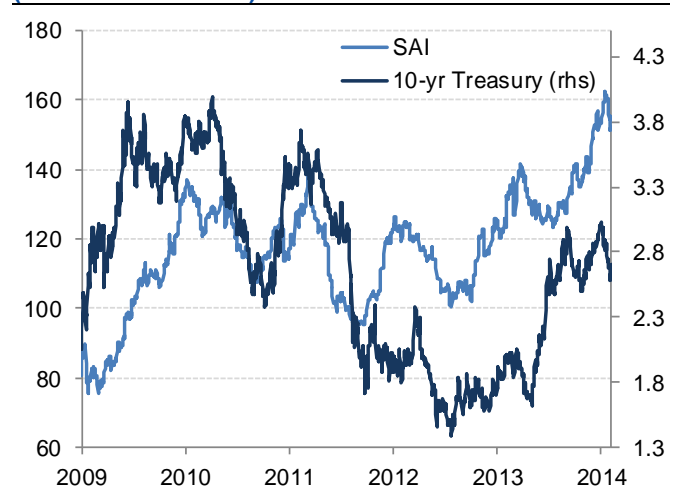
Source: BBVA Research & BEA

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



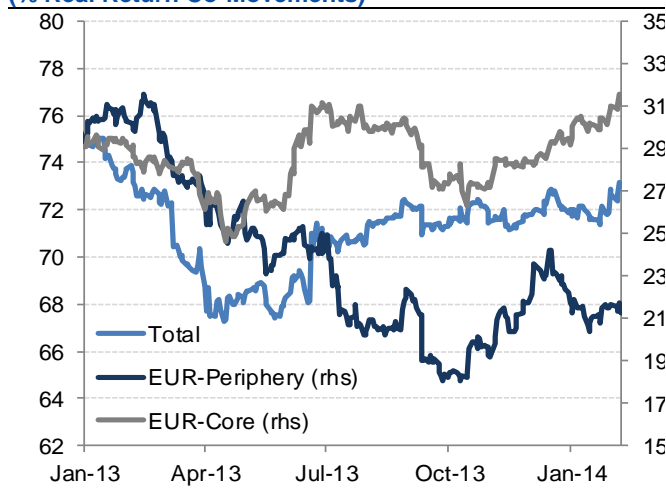
Source: BBVA Research

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



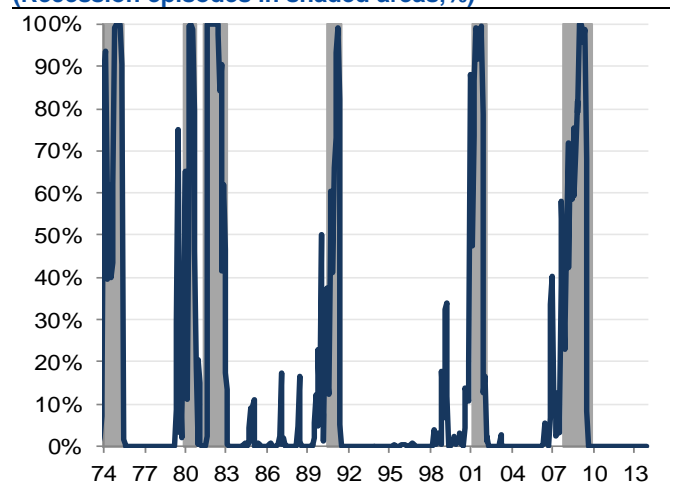
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

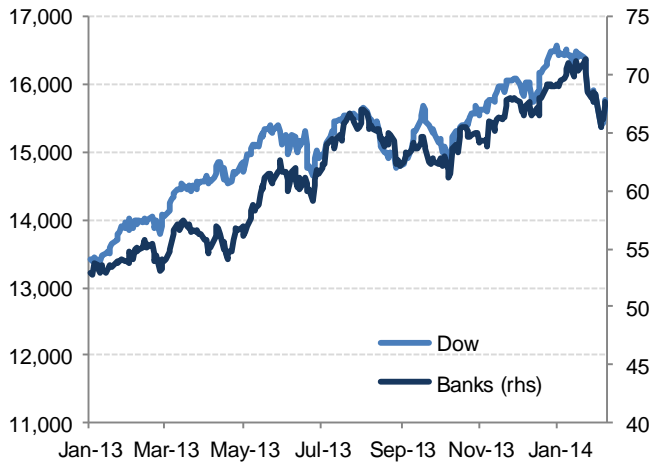
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

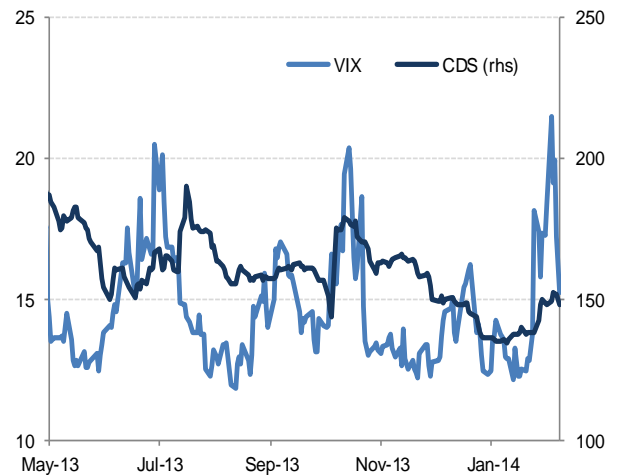
Financial Markets

Graph 9
Stocks
(Index, KBW)



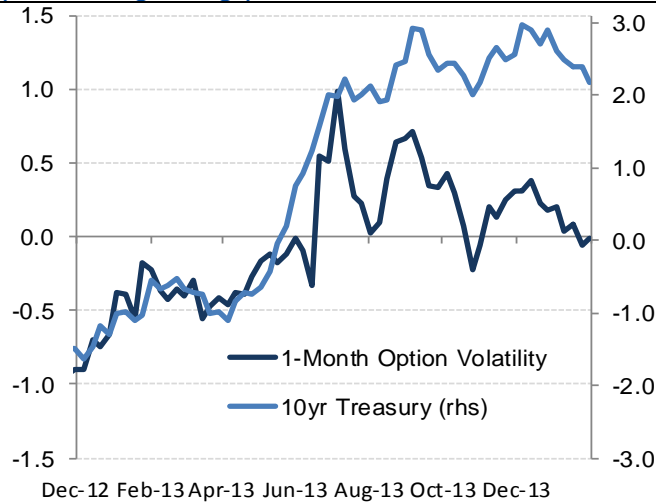
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



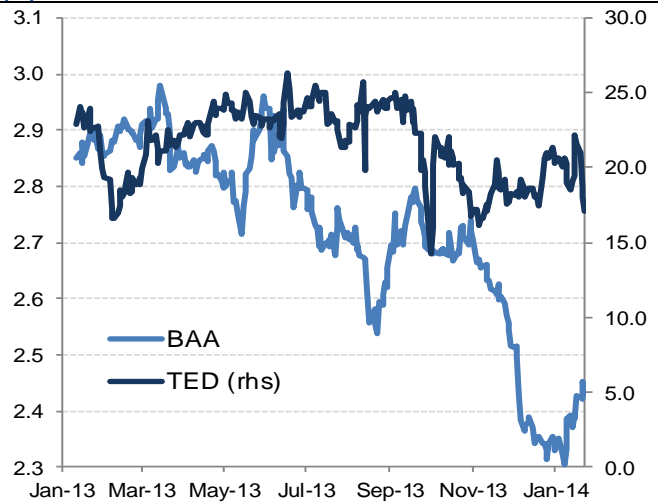
Source: Bloomberg & BBVA Research

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



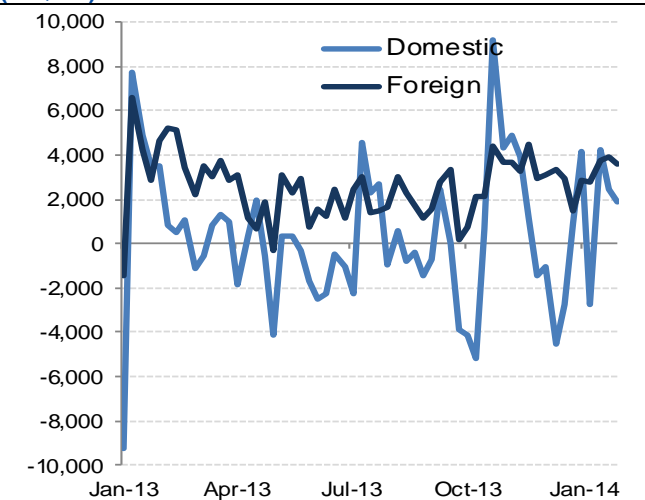
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



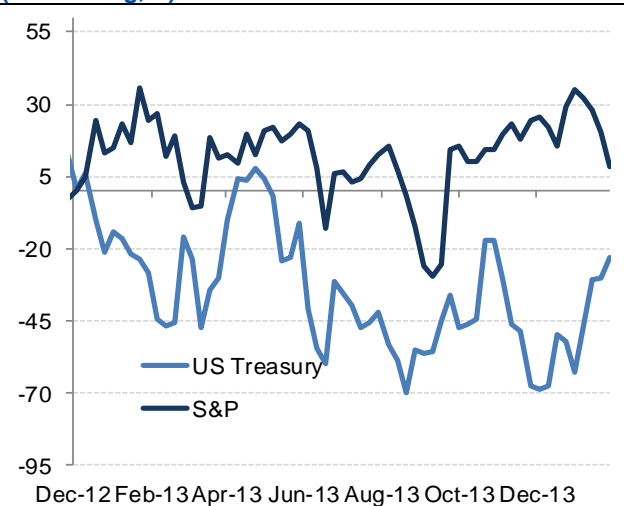
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

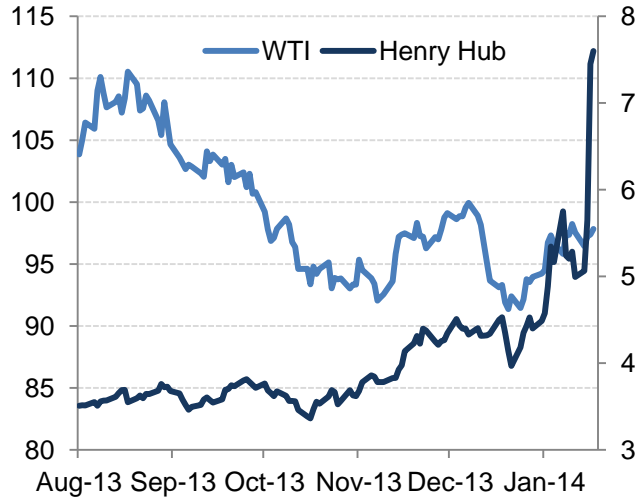
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

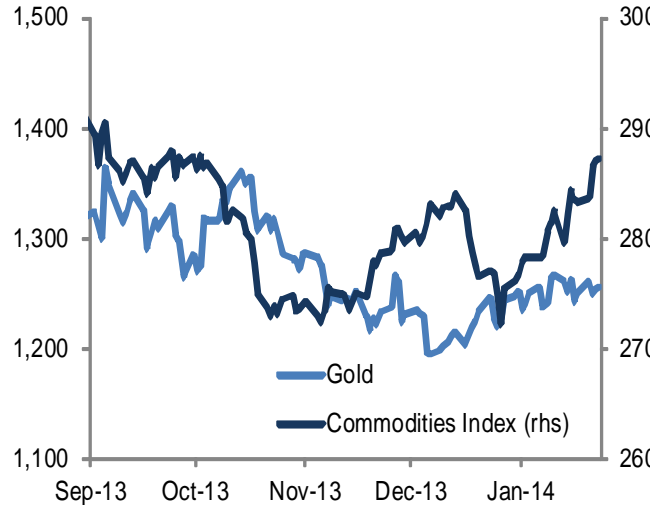
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



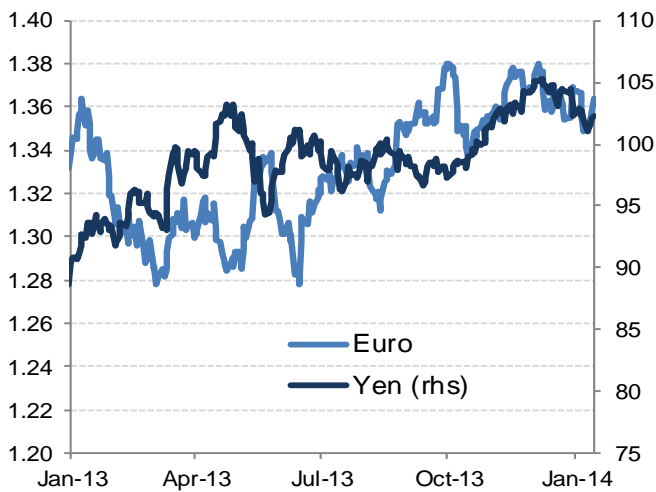
Source: Bloomberg & BBVA Research

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



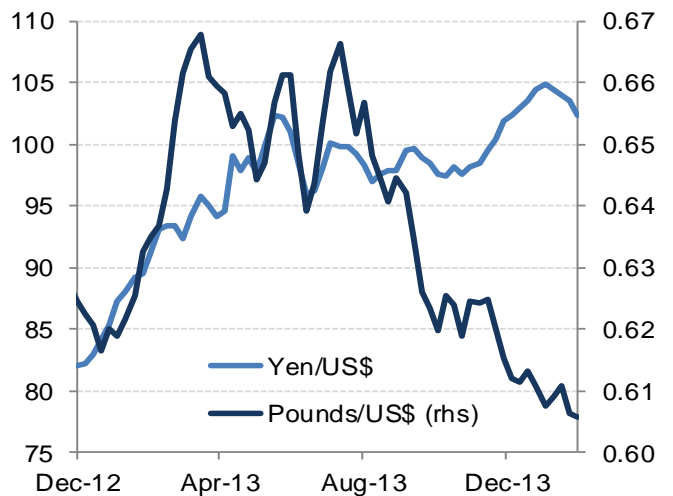
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



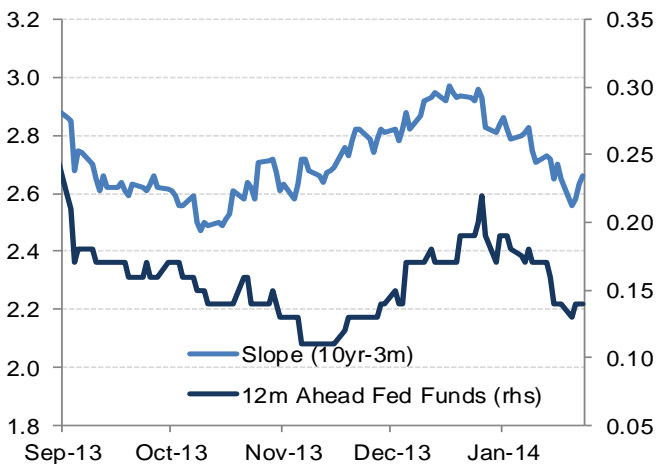
Source: Bloomberg & BBVA Research

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



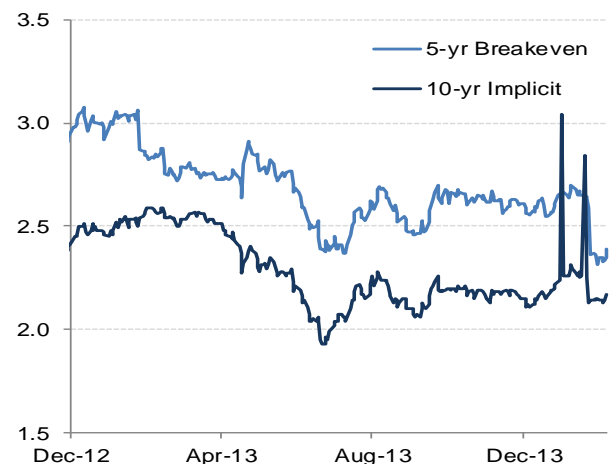
Source: Haver Analytics & BBVA Research

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)	14.23	14.23	14.23	14.10
New Auto (36-months)	2.57	2.36	2.44	2.46
Heloc Loan 30K	5.38	5.40	5.30	5.39
5/1 ARM*	3.08	3.12	3.15	2.90
15-year Fixed Mortgage *	3.33	3.40	3.56	3.23
30-year Fixed Mortgage *	4.23	4.32	4.51	3.99
Money Market	0.41	0.41	0.42	0.50
2-year CD	0.81	0.81	0.83	0.75

*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	0.07	0.07	0.07	0.14
3M Libor	0.23	0.24	0.24	0.29
6M Libor	0.33	0.33	0.34	0.47
12M Libor	0.56	0.57	0.58	0.76
2yr Sw ap	0.42	0.46	0.49	0.42
5yr Sw ap	1.58	1.61	1.71	1.02
10Yr Sw ap	2.81	2.79	2.95	2.07
30yr Sw ap	3.66	3.60	3.78	3.01
30day CP	0.12	0.12	0.11	0.13
60day CP	0.12	0.11	0.11	0.16
90day CP	0.12	0.13	0.13	0.17

Source: Bloomberg & BBVA Research

Quote of the Week

Barack Obama, President of the United States
Obama Announces Investment Push as he Signs Bill
7 February 2014

"Instead of wasting time creating crises that impede the economy, we're going to have a Congress that's ready to spend some time creating new jobs, new opportunities."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
11-Feb	Wholesale Inventories (MoM)	DEC	0.40%	0.50%	0.50%
11-Feb	JOLTS Job Openings	DEC	3.9M	--	4.0M
13-Feb	Retail Sales (MoM)	JAN	-0.10%	0.00%	0.20%
13-Feb	Retail Sales, Ex Auto (MoM)	JAN	0.10%	0.10%	0.70%
13-Feb	Retail Sales Control Group	JAN	0.10%	0.20%	0.70%
13-Feb	Initial Jobless Claims	8-Feb	335K	330K	331K
13-Feb	Continuing Claims	1-Feb	2970K	2968K	2964K
13-Feb	Business Inventories	DEC	0.30%	0.40%	0.40%
14-Feb	Import Price Index (MoM)	JAN	0.00%	-0.10%	0.00%
14-Feb	Industrial Production MoM	JAN	0.40%	0.20%	0.30%
14-Feb	Capacity Utilization	JAN	79.10%	79.30%	79.20%
14-Feb	University of Michigan Confidence	FEB	81.0	80.5	81.2

Forecasts

	2011	2012	2013	2014	2015	2016
Real GDP (% SAAR)	1.8	2.8	1.8	2.5	2.5	2.8
CPI (YoY %)	3.1	2.1	1.5	2.3	2.4	2.4
CPI Core (YoY %)	1.7	2.1	1.8	2.3	2.4	2.3
Unemployment Rate (%)	8.9	8.1	7.4	6.8	6.2	5.9
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25	0.50	1.50
10Yr Treasury (eop, % Yield)	1.98	1.72	3.03	3.37	3.64	4.05
US Dollar/ Euro (eop)	1.31	1.31	1.37	1.30	1.38	1.36

Note: Bold numbers reflect actual data. Forecast revisions pending.



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