

U.S. Weekly Watch

May 24, 2010

The Week Ahead

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Existing Home Sales (April, Monday 10:00 ET)
Forecast: 5.57M Consensus: 5.65M Previous: 5.35M

Existing home sales are expected to rise in April as home buyers rush to finalize sales prior to the expiration of the home buyers tax credit on April 30th. Even though home sales may have received a boost from the tax credit, the market fundamentals favor demand: mortgage rates are attractive and home prices are low and relatively stable. Looking forward, existing home sales may slip in the next few months as they adjust to the natural, ex-stimulus level, but they will continue to improve throughout the year.

Consumer Confidence (May, Tuesday 10:00 ET)
Forecast: 59.7 Consensus: 58.7 Previous: 57.9

After remaining essentially flat since May 2009, consumer confidence is expected to rise for the third consecutive month due to April's better than expected employment report, which would mark what could be the beginning of an upward trend. This result would contribute to further gains in spending and support our expectation that consumer demand will be an essential driver of GDP growth in 2Q10. A negative surprise in the index could bring to light doubts about the sustainability of a private led recovery.

Durable Goods Orders (April, Wednesday 8:30 ET)
Forecast: 1.7% Consensus: 1.5% Previous: -1.3%

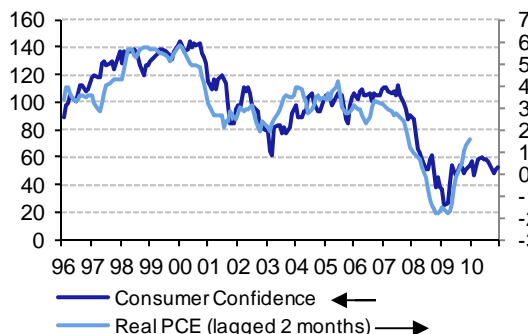
Orders for durable goods have been improving steadily since the beginning of the year. In support of our expectation of private demand growth, new orders are forecasted to rise in April. This result would point to further improvement in the manufacturing component of industrial production. Moreover, strength in orders of capital goods excluding aircraft and parts could imply growth in business investment in equipment and software and demand for exports.

Personal Income and Outlays (April, Friday 8:30 ET)
Forecast: 0.2%, 0.3% Consensus: 0.5%, 0.3% Previous: 0.6%, 0.1%

April's retail sales and consumer confidence reports point to growth in personal spending, albeit at a slower pace than the previous month. Furthermore, April's positive employment report is expected to boost the wages and salary component of personal income, which is essential for sustained growth in consumer spending. Like consumer confidence, a negative surprise in either of these indicators would point to slower than expected GDP growth in 2Q10 and raise concerns about the strength of private demand.

Graph 1

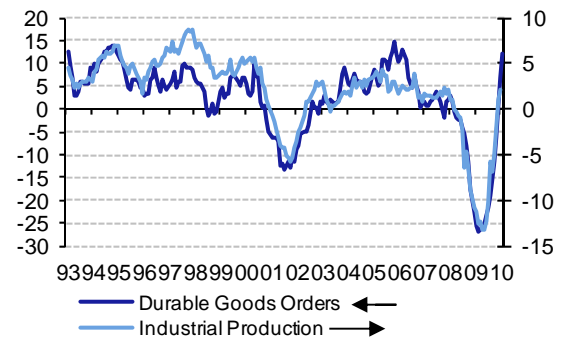
Consumer Confidence and Real PCE (Index, 3mma yoy % change)



Source: The Conference Board and BEA

Graph 2

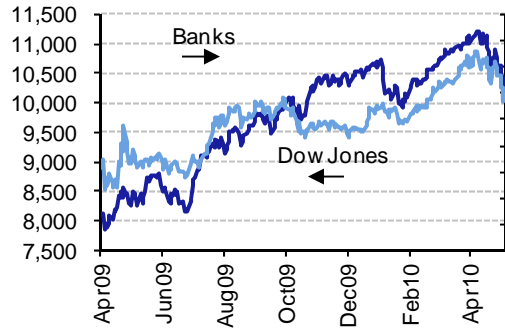
Industrial Production & Durable Goods Orders (3mma yoy % change)



Source: US Census Bureau & Federal Reserve

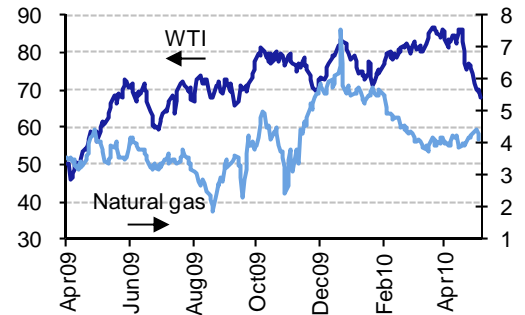
Financial Markets

Graph 3
Stocks (Index, KBW)



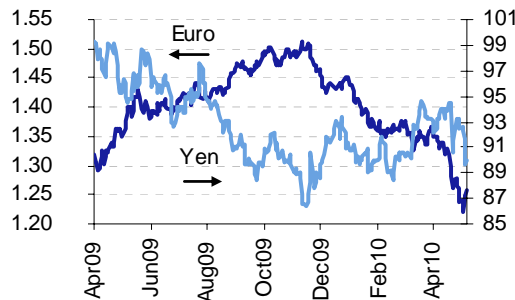
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



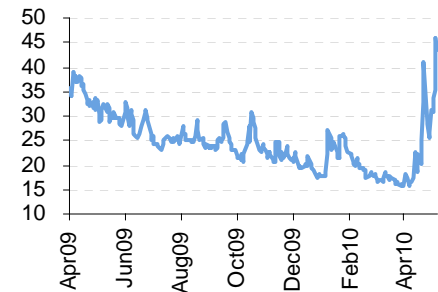
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



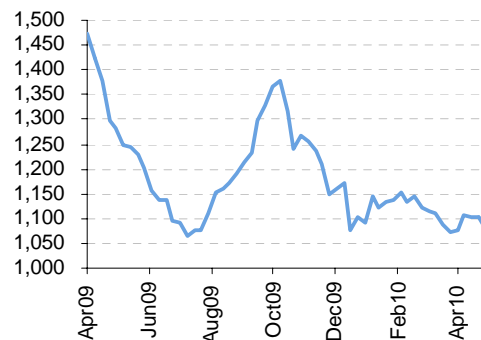
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



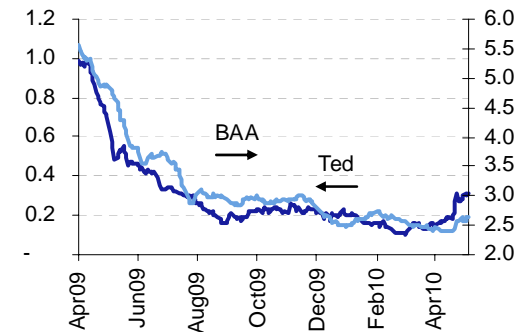
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

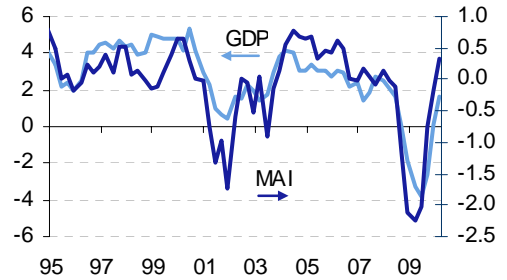
Economic Trends

Graph 9
**BBVA US Weekly Activity Index
 (3 month % change)**



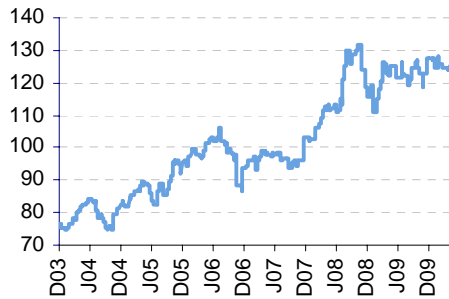
Source: BBVA Research

Graph 10
**BBVA US Monthly Activity Index & Real
 Gross Domestic Product
 (4-Q % change)**



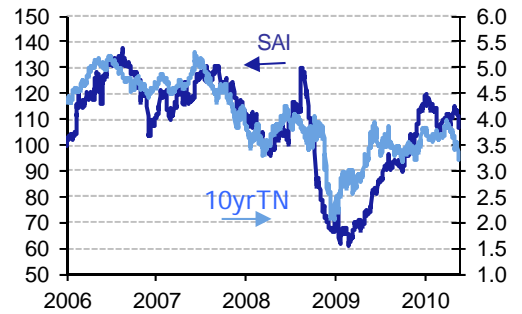
Source: BBVA Research & BEA

Graph 11
**BBVA US Surprise Inflation Index
 (Index 2004-7=100)**



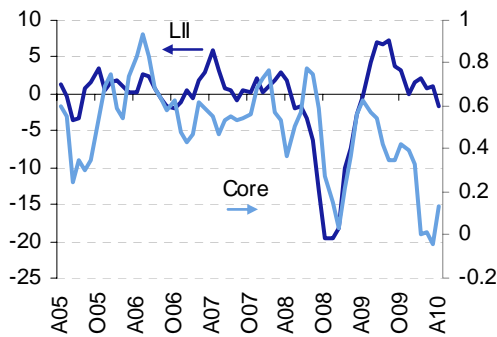
Source: BBVA Research

Graph 12
**BBVA US Surprise Activity Index & 10-yr
 Treasury (Index 2004-7=100 & %)**



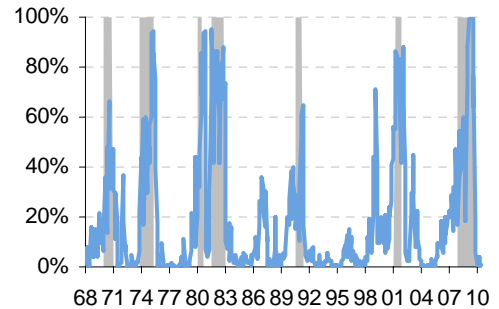
Source: Bloomberg & BBVA Research

Graph 13
**BBVA US Leading Inflation Index & Core
 Inflation (QoQ % change)**



Source: BLS & BBVA Research

Graph 14
**BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)**



Source: BBVA Research

Yield Curve and 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)	13.00	13.00	13.00	10.76
New Auto (36-months)	6.27	6.43	6.51	7.19
Heloc Loan 30K	5.55	5.59	5.62	5.24
30-year Fixed Mortgage *	4.84	4.93	6.37	4.82
Money Market	0.78	0.74	0.78	1.35
2-year CD	1.67	1.68	1.64	2.19
5-year CD	2.62	2.63	2.60	2.80

Graph 15
Treasury's Yield Curve, %



* Freddie Mac National Mortgage Homeowner Commitment 30 Year US
Source: Bloomberg and BBVA Research

Source: Bloomberg

Quote of the Week

House Financial Services Committee Chairman Barney Frank on the proposed Consumer Financial Protection Agency's placement within the Federal Reserve
May 21, 2010.

"The Fed feels [the agency] is like, you know, having your ex-wife's brother living in the house after you got a divorce."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
24-May	Existing Home Sales	APR	5.57M	5.65M	5.35M
25-May	S&P/CS Composite-20 YoY	MAR	3.30%	2.40%	0.60%
25-May	Consumer Confidence	MAY	59.7	58.7	57.9
26-May	Durable Goods Orders	APR	1.70%	1.50%	-1.30%
26-May	Durables Ex Transportation	APR	0.70%	0.40%	2.80%
26-May	New Home Sales	APR	417K	423K	411K
27-May	GDP QoQ (Annualized)	1Q S	3.20%	3.40%	3.20%
27-May	Personal Consumption	1Q S	3.60%	3.70%	3.60%
27-May	GDP Price Index	1Q S	0.90%	0.90%	0.90%
27-May	Core PCE QoQ	1Q S	0.60%	0.60%	0.60%
27-May	Initial Jobless Claims	22-May	458K	455K	471K
27-May	Continuing Claims	15-May	4613K	4610K	4625K
28-May	Personal Income	APR	0.20%	0.50%	0.30%
28-May	Personal Spending	APR	0.30%	0.30%	0.60%
28-May	PCE Core (MoM)	APR	0.10%	0.10%	0.10%
28-May	Chicago Purchasing Manager	MAY	64.2	61.5	63.8
28-May	U. of Michigan Confidence	MAY F	73.8	73.4	73.3

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