

U.S. Weekly Watch

June 14, 2010

The Week Ahead

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Empire State Manufacturing Index (June, Tuesday 8:30 ET)

Forecast: 23.1 Consensus: 20.0 Previous: 19.1

The Empire State Manufacturing Index is expected to be the first glimpse of strong manufacturing activity in June. The index is expected to remain high and improve slightly from the previous month's levels. This result would indicate that the manufacturing industry continues to be the driver of economic growth. As a result, we could expect to see subsequent improvement in the ISM, Industrial Production and manufacturing payrolls.

Housing Starts (May, Wednesday 8:30 ET)

Forecast: 660K Consensus: 648K Previous: 672K

While housing starts will remain well above last year's levels, they are expected to slow in May following two months of substantial growth. Inventories of new homes are at historically low levels and builders' confidence has improved, but the excess supply of existing homes and less than robust demand will keep many builders' tools in the tool shed. The recent pick-up in housing starts in recent months points to recovery. Nevertheless, economic conditions indicate that the recovery will be slow.

Industrial Production (May, Wednesday 9:15 ET)

Forecast: 0.6% Consensus: 0.8% Previous: 0.8%

May's strong growth in the manufacturing industry, as illustrated by the ISM Manufacturing Index, is expected to translate into a significant improvement in industrial production (IP). IP will continue to benefit from the inventory adjustment process, but also from businesses' more solid financial footing, greater financing opportunities and improved confidence. A positive surprise in Wednesday's data would be a signal that business investment is picking up and that private demand is firming outside of fiscal stimulus.

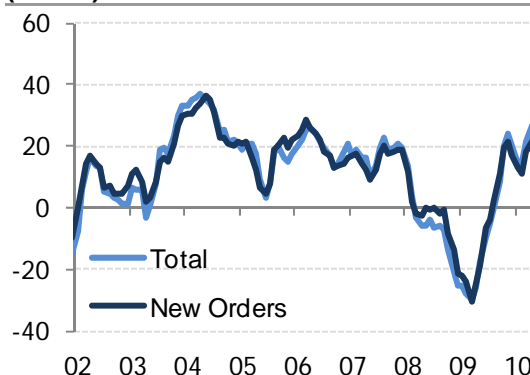
Consumer Price Index (May, Thursday 8:30 ET)

Forecast: 0.0%, 0.1% Consensus: -0.2%, 0.1% Previous: -0.1%, 0.0%

Inflationary pressures are forecasted to remain subdued in May. Headline inflation is not expected to experience significant pressure from energy prices, while shelter prices and relatively weak demand will keep core inflation in check. Furthermore, economic slack remains, supply side price pressures are minimal and inflation expectations are well anchored. Thursday's CPI data are expected to further substantiate the Fed's expectation of subdued inflation in 2010 and low rates for a prolonged period.

Graph 1

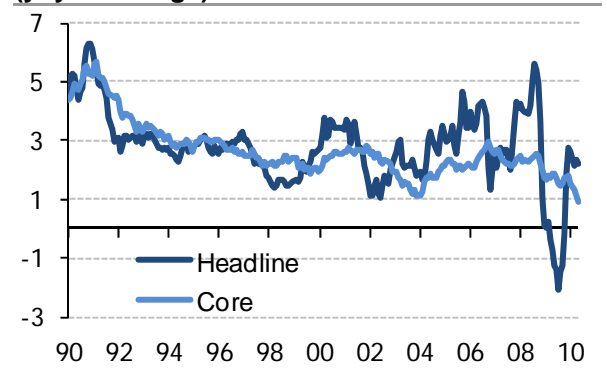
Empire State Manufacturing Index (Index)



Source: Federal Reserve Bank of New York

Graph 2

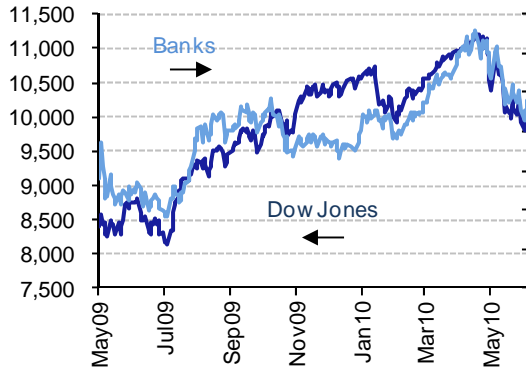
Consumer Price Index (yoy % change)



Source: BLS

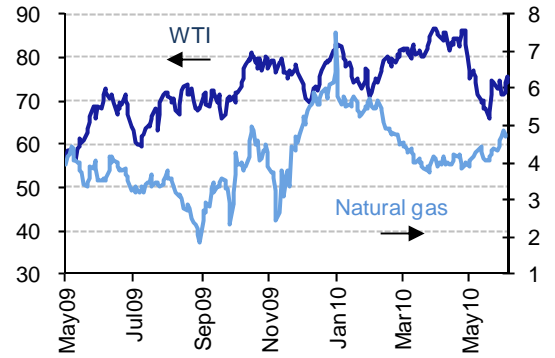
Financial Markets

Graph 3
Stocks (Index, KBW)



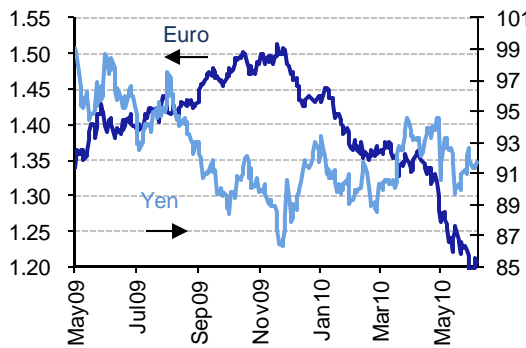
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



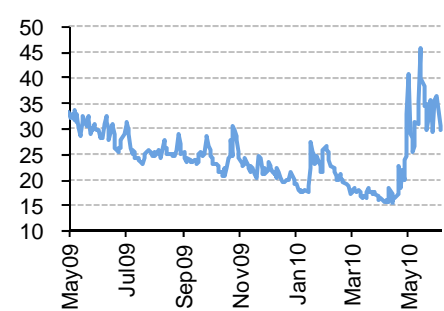
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



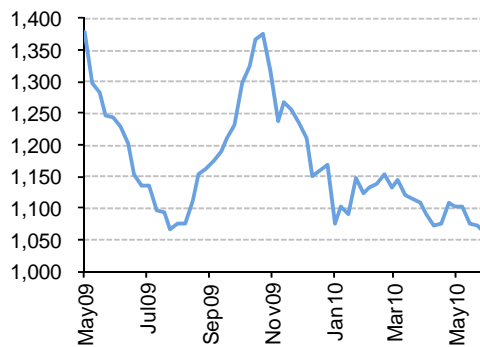
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



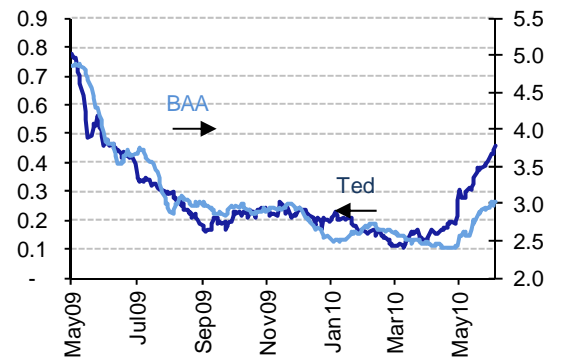
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

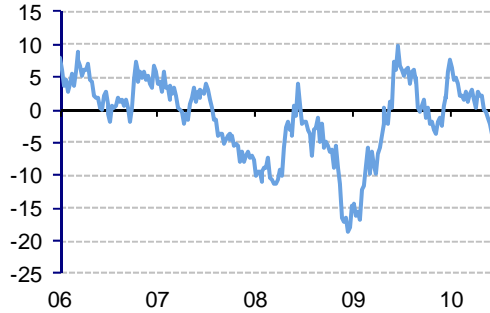
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

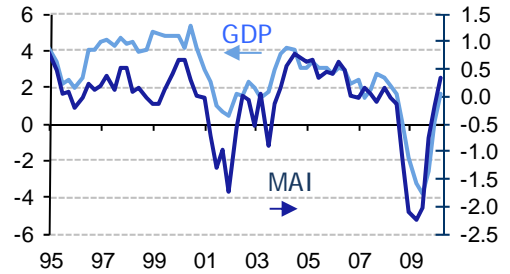
Economic Trends

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



Source: BBVA Research

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



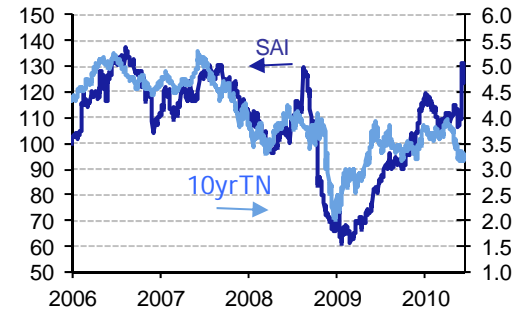
Source: BBVA Research & BEA

Graph 11
BBVA US Surprise Inflation Index (Index 2004-09=100)



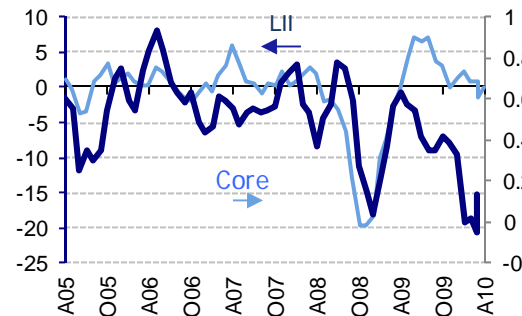
Source: BBVA Research

Graph 12
BBVA US Surprise Activity Index & 10-yr Treasury (Index 2004-09=100 & %)



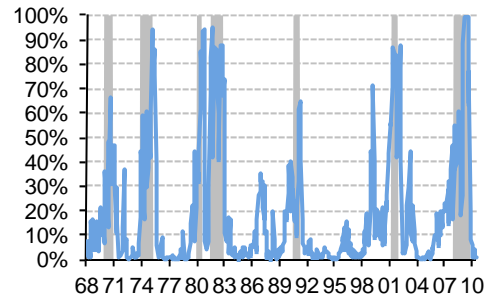
Source: Bloomberg & BBVA Research

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, %)



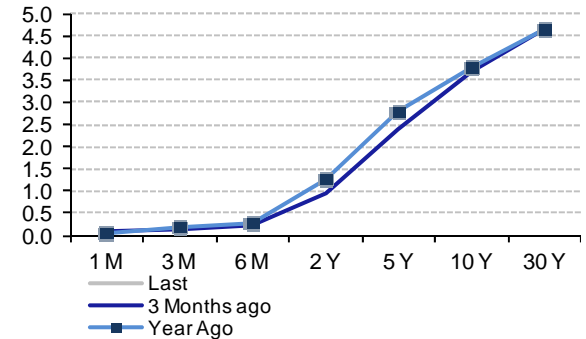
Source: BBVA Research

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)	13.44	13.44	13.00	10.80
New Auto (36-months)	6.33	6.35	6.43	7.26
Heloc Loan 30K	5.56	5.56	5.59	5.28
30-year Fixed Mortgage *	4.72	4.79	4.93	5.59
Money Market	0.78	0.78	0.74	1.31
2-year CD	1.59	1.60	1.60	1.99
5-year CD	2.58	2.58	2.63	2.60

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

Federal Reserve Chairman Ben Bernanke
Economic and Financial Conditions and the Federal Budget
June 9, 2010

If markets continue to stabilize, then the effects of the crisis on economic growth in the United States seem likely to be modest. Although the recent fall in equity prices and weaker economic prospects in Europe will leave some imprint on the U.S. economy, offsetting factors include declines in interest rates on Treasury bonds and home mortgages as well as lower prices for oil and some other globally traded commodities.

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
15-Jun	Import Price Index (MoM)	MAY	-1.20%	-1.30%	0.90%
15-Jun	Empire Manufacturing	JUN	23.1	20	19.11
15-Jun	NAHB Housing Market Index	JUN	22	21	22
16-Jun	Producer Price Index (MoM)	MAY	-0.70%	-0.50%	-0.10%
16-Jun	PPI Ex Food & Energy (MoM)	MAY	0.10%	0.10%	0.20%
16-Jun	Housing Starts	MAY	660K	648K	672K
16-Jun	Building Permits	MAY	632K	625K	606K
16-Jun	Industrial Production	MAY	0.60%	0.80%	0.80%
16-Jun	Capacity Utilization	MAY	74.00%	74.50%	73.70%
17-Jun	Consumer Price Index (MoM)	MAY	0.00%	-0.20%	-0.10%
17-Jun	CPI Ex Food & Energy (MoM)	MAY	0.10%	0.10%	0.00%
17-Jun	Initial Jobless Claims	12-Jun	447K	450K	456K
17-Jun	Continuing Claims	5-Jun	4426K	4560K	4462K
17-Jun	Current Account Balance	1Q	-\$133.7B	-\$121.8B	-\$115.6B
17-Jun	Philadelphia Fed.	JUN	20.8	20	21.4
17-Jun	Leading Indicators	MAY	0.20%	0.40%	-0.10%

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