

U.S.

Weekly Watch

September 27, 2010

Highlights

Economic Analysis

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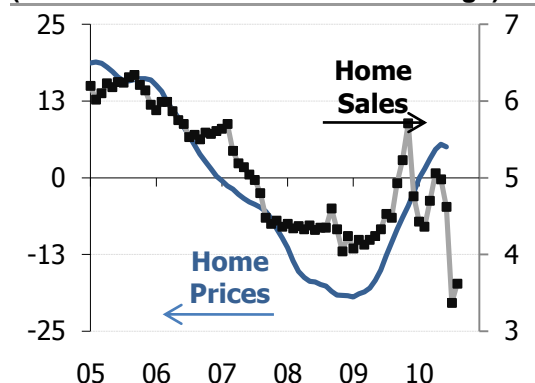
Housing Markets

Sales of existing homes rose in August to a 4.13 million annual pace, a 7.8% increase from July. Housing demand remains low after the fiscal stimulus. In addition, tight mortgage credit standards and weak employment conditions are also limiting the pace of the recovery. However, improved affordability ratios, record-low mortgage rates and low prices, will bring back buyers to the market, providing some support to existing home prices as they are clearly driven by demand. As a result of weak demand, home builders' confidence is cooling down. However, inventories of new homes are at historical low levels, which provide a short term incentive for builders to increase supply. In fact, in August, housing starts were 598 thousand, implying a 10.5% monthly gain.

FOMC Meeting (Sept. 21)

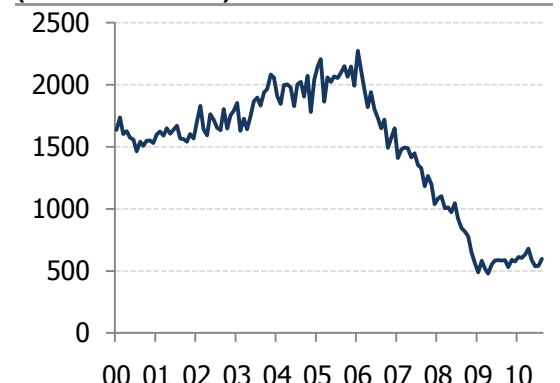
The FOMC members gathered last week for their scheduled meeting. Although there were speculations about whether the Fed would announce a second round of quantitative easing and/or change its policy on interest paid on excess reserves, the FOMC left monetary policy unchanged as we expected. The statement indicated that the Fed recognized slower growth and higher deflationary risks. We expect members to revise down their forecasts which will be released on the next meeting in November 2-3. In addition, members became more concerned on deflationary risks and think that current inflation levels are not "consistent, over the longer run, with its mandate to promote maximum employment and price stability." The statement, in general, aimed to assure market participants that FOMC is considering policy options including a second round of quantitative easing (QE2), to avoid deflation but delayed any potential decision on QE2 until next two-day meeting so that members can have more information on the pace of economic recovery and inflation trends. We believe that while the probability of QE2 has increased, future actions depend on incoming economic data until next FOMC meeting. In the meantime, speeches and the minutes will provide more details on the course of monetary policy in coming months.

Graph 1
Existing Home Sales and Prices
(Million Units and 12-month % change)



Source: S&P and NAR

Graph 2
Housing Starts
(Thousand units)



Source: Census Bureau

Week Ahead

Consumer Confidence (September, Tuesday 10:00 ET)

Forecast: 53.5	Consensus: 52.3	Previous: 53.5
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Consumer confidence has been subdued since the start of the financial crisis. The index decreased from 111.2 in February 2007 to its historical low of 25.3 in February 2009. The index is currently at 53.5 which is still significantly lower than its historical average due to high unemployment, weak labor market and high uncertainty in business conditions. We expect consumer confidence to remain flat in September.

Gross Domestic Product (2Q10 Final, Thursday 08:30 ET)

Forecast: 1.6%	Consensus: 1.6%	Previous: 1.6%
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Bureau of Economic Analysis (BEA) will release its final estimate of GDP for 2Q10. BEA had estimated 1.6% annualized growth for 2Q10 and we expect no further revision. Based on the latest data, in 2Q10 PCE increased by 2.0% which is the highest growth rate since 1Q07. However, we keep our baseline scenario of low PCE growth due to ongoing household deleveraging process, increased uncertainty in the economy and high unemployment rates. The market will be waiting for the BEA's preliminary estimate for 3Q10 which will be released on October 29.

Personal Income and Outlays (August, Friday 08:30 ET)

Forecast: 0.3%, 0.3%	Consensus: 0.3%, 0.3%	Previous: 0.2%, 0.4%
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In July, personal income increased by 0.2% while personal consumption expenditures (PCE) jumped 0.4%. Even after removing price level changes PCE increased by 0.2% compared to a 0.1% increase in the previous month. We expect that both nominal personal income and spending will grow 0.3% in August and personal saving, as a percentage of disposable personal income, will remain around 5.9%.

ISM Manufacturing (September, Friday 10:00 ET)

Forecast: 55.0	Consensus: 54.5	Previous: 56.3
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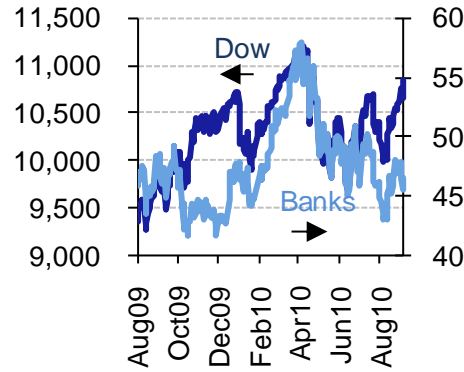
The Institute of Supply Management Purchasing Managers' Index (ISM PMI) is expected to remain above 50 in September. The index increased 0.8 point in August after dropping three consecutive months. The market was expecting a drop due to disappointing results of regional Fed manufacturing surveys. The index has been above 50 since August 2009 indicating an expansion in economic activity. Nevertheless, we expect the index will decline in September given the fact that regional Fed surveys continue to indicate a slowdown in manufacturing activity and moderate economic recovery.

Market Impact

Another busy week is waiting for the markets. BEA's final estimate of GDP is the most important release of the week and we expect no significant revision. However, any significant downward revision to GDP data would increase doubts over sustainability of economic recovery and incite double-dip fears. On the other hand, better than expected data in ISM manufacturing index would give positive signals to the market and help dispel some of the pessimism in the market.

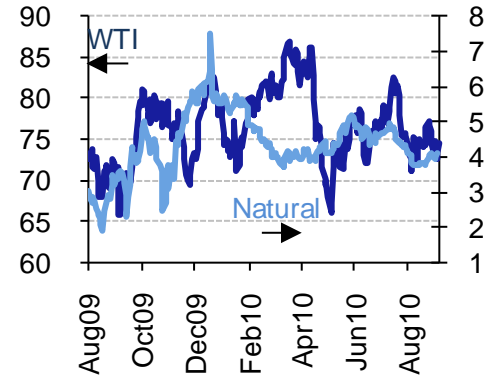
Financial Markets

Graph 3
Stocks (Index, KBW)



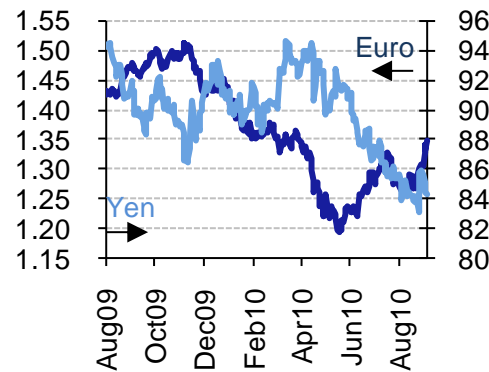
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



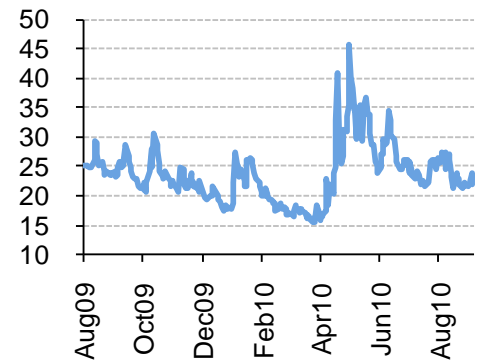
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



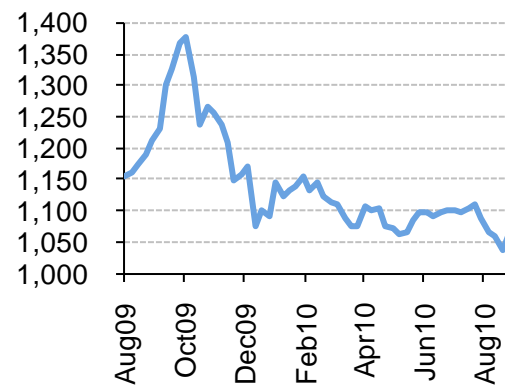
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



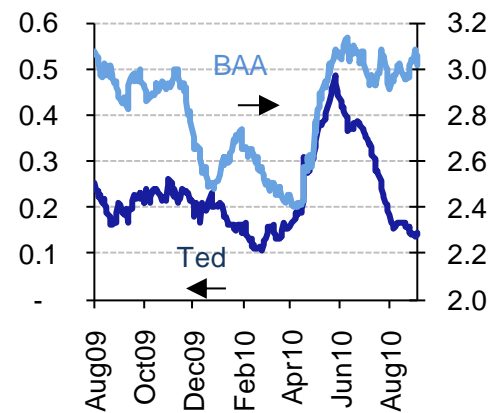
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

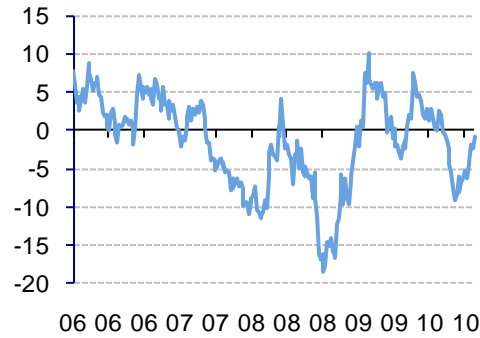
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

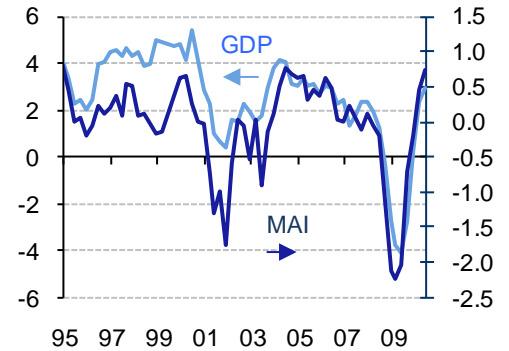
Economic Trends

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



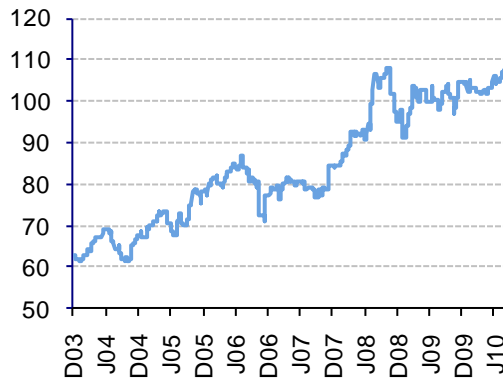
Source: BBVA Research

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



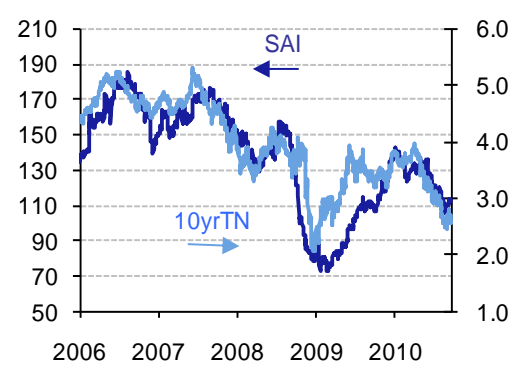
Source: BBVA Research & BEA

Graph 11
BBVA US Surprise Inflation Index (Index 2009=100)



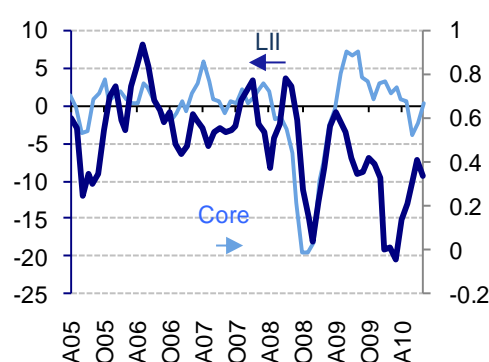
Source: BBVA Research

Graph 12
BBVA US Surprise Activity Index & 10-yr Treasury (Index 2009=100 & %)



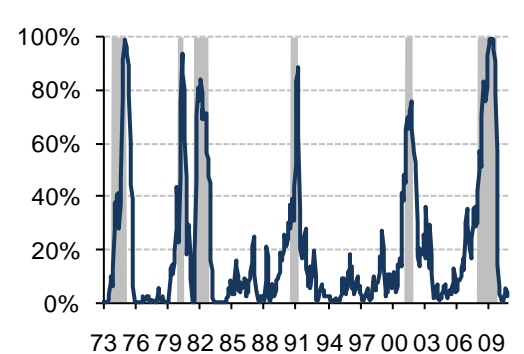
Source: Bloomberg & BBVA Research

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

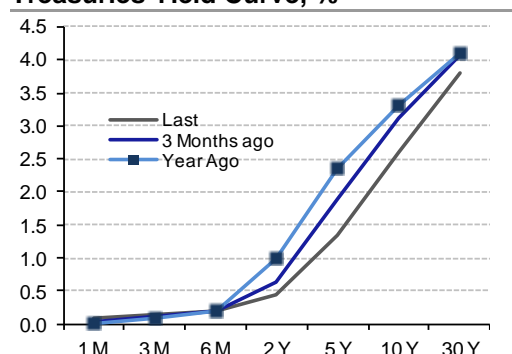
Yield Curve and Interest Rates

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)	13.58	13.58	13.44	11.41
New Auto (36-months)	5.91	5.90	6.08	7.21
Heloc Loan 30K	5.52	5.52	5.51	5.86
30-year Fixed Mortgage *	4.37	4.37	4.36	5.04
Money Market	0.69	0.98	0.73	1.10
2-year CD	1.40	1.40	1.45	1.94
5-year CD	2.29	2.33	2.36	2.68

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

Graph 15
Treasury Yield Curve, %



Source: Bloomberg

Quote of the Week

Chicago Federal Reserve Bank President Charles Evans
September 23, 2010
International Banking Conference
Chicago, IL

“As we have seen during the recent global crisis, the interconnectedness of financial markets goes beyond our domestic borders.... It is obvious that we need to do a better job of identifying cross-border linkages and their associated risks.”

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
28-Sep	S&P/CS 20 City MoM% SA	JUL	0.3%	-0.1%	0.3%
28-Sep	S&P/CS Composite-20 YoY	JUL	4.2%	3.1%	4.2%
28-Sep	Consumer Confidence	SEP	53.5	52.3	53.5
30-Sep	GDP QoQ (Annualized)	2Q T	1.6%	1.6%	1.6%
30-Sep	Personal Consumption	2Q T	2.0%	2.0%	2.0%
30-Sep	GDP Price Index	2Q T	1.9%	1.9%	1.9%
30-Sep	Core PCE QoQ	2Q T	1.1%	1.1%	1.1%
30-Sep	Initial Jobless Claims	25-Sep	463K	460K	465K
30-Sep	Continuing Claims	18-Sep	4460K	4473K	4489K
1-Oct	Personal Income	AUG	0.3%	0.3%	0.2%
1-Oct	Personal Spending	AUG	0.3%	0.3%	0.4%
1-Oct	PCE Deflator (YoY)	AUG	1.4%	1.5%	1.5%
1-Oct	PCE Core (MoM)	AUG	0.1%	0.1%	0.1%
1-Oct	PCE Core (YoY)	AUG	1.3%	1.4%	1.4%
1-Oct	U. of Michigan Confidence	SEP F	68.0	67.0	66.6
1-Oct	ISM Manufacturing	SEP	55.0	54.5	56.3
1-Oct	ISM Prices Paid	SEP	58.8	59.3	61.5
1-Oct	Construction Spending MoM	AUG	0.0%	-0.4%	-1.0%
1-Oct	Domestic Vehicle Sales	SEP	8.71M	8.60M	8.66M
1-Oct	Total Vehicle Sales	SEP	11.42M	11.50M	11.46M

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