

U.S.

# Fed Watch

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## Economic Analysis

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## LSAP Scorecard: Week 9

### Not enough action in employment indicators

- Inflation expectations measured via 10yr inflation indexed and implicit 10yr are noticeably higher than both post-QE2 and recovery-pre-QE2 periods, but consumer price increases remain uncomfortably low
- Strong flows to foreign mutual funds are illustrative of intense capital flows to emerging markets following commodities' continued climb (Chart 5)
- Although the unemployment rate declined, in reality this is the result of a decreased participation ratio rather than widespread and robust job creation
- With current trends – moderate increase in payrolls, low inflation, stable inflationary expectations – we expect that the Fed will continue its LSAP as planned, but it will closely watch unfolding economic indicators.

Table 1

### Large Scale Asset Purchases (LSAP) Scorecard

	Latest available	Post QE2 11/3//10-present	Recovery- preQE2 7/09-10/10	Crisis 12/07-6/09	Pre-Crisis 3/03-11/07
10yr Treasury (%)	3.40	2.94	3.34	3.49	4.41
3mo Treasury (%)	0.15	0.14	0.13	1.06	3.02
Slope (bp)	325	280	321	243	139
10yr Inflation Indexed (%)	0.98	0.78	1.34	1.77	2.06
Implicit 10yr Inflation exp. (%)	2.42	2.16	2.00	1.72	2.35
5yr Breakeven inflation expectations (%)	2.84	2.67	2.38	2.15	2.41
VIX (Index)	16.2	19.0	23.7	33.6	15.8
S&P500 (Index)*	1286	1214	1093	1109	1462
Real effective exchange rate (\$, Index)	99.7	99.4	102.3	102.9	111.2
Corporate Spreads (BAA bp)	268	301	287	409	201
30yr Mortgage sprd (bp)	29	23	57	155	115
3M Libor-Treasury (bp)	15	15	22	128	36
Monetary aggregate M2 (yoy %)	3.7	3.3	3.8	7.8	5.4
Mutual Fund Flows Domestic (\$M)	-4229	-1822	-1884	-	-
Mutual Fund Flows Foreign (\$M)	2416	2026	919	-	-
Mutual Fund Flows Taxable (\$M)	2693	917	6393	-	-
Mutual Fund Flows Muni (\$M)	-2146	-2228	1105	-	-
Commercial Paper issuance (\$bn)	90.9	76.4	88.3	134.2	173.8
Initial Claims (4wk avg)	423	431	492	478	341
Unemployment rate (%)	9.4	9.6	9.7	6.8	5.2
Private Payrolls (K monthly)	113	96	12	-389	119
Consumer confidence (Index)*	53	53	53	53	98
Retail sales ex bldg, autos & gas (yoy %)	6.4	6.1	2.1	-0.1	5.3
Industrial production (yoy %)	5.4	5.5	1.2	-6.1	2.3
Capacity Utilization (%)	75	75	73	75	79
ISM Survey (Index)	57.0	56.8	55.8	44.0	54.0
Consumer Prices (12m %)*	1.1	1.2	1.0	2.2	2.9
Core Consumer Prices (12m %)*	0.8	0.7	1.2	2.1	2.0
Bank Mortgage loans (\$bn)*	2112	2113	2106	2060	2014
Bank CRE loans (\$bn)*	1494	1506	1610	1676	1574
Bank C&I loans (\$bn)*	1224	1215	1270	1524	1416
Bank Consumer loans (\$bn)*	1111	1119	992	837	786

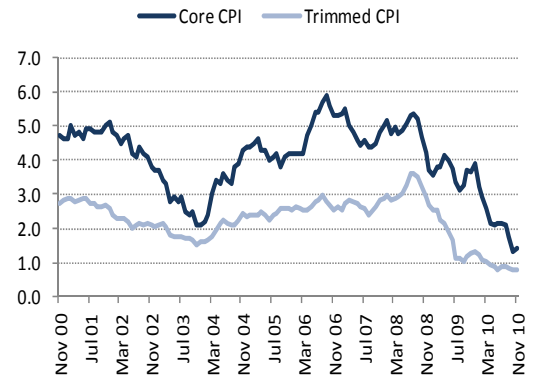
Source: BBVA Research &amp; Haver Analytics. \* Pre-Crisis = Nov 2007

Chart 1  
**Unemployment rate, %**



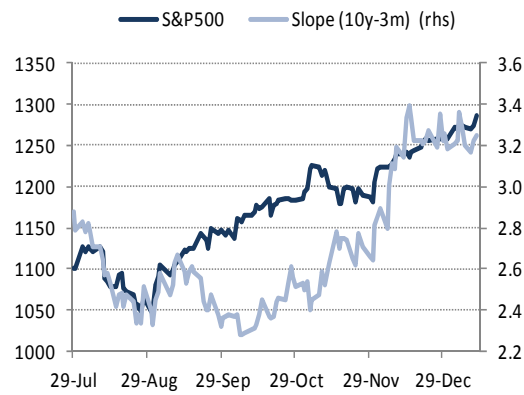
Source: Haver Analytics & BBVA Research

Chart 2  
**Inflation, 12m % change**



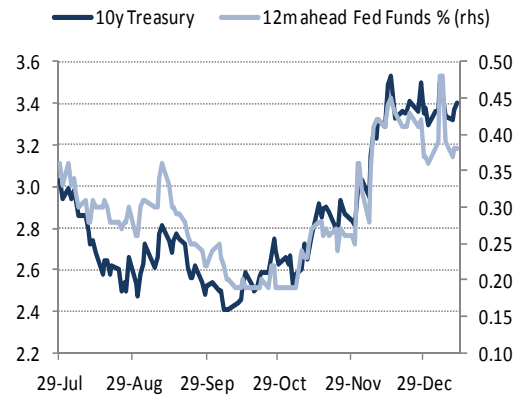
Source: Haver Analytics & BBVA Research

Chart 3  
**S&P500 & Yield curve slope, (index & %)**



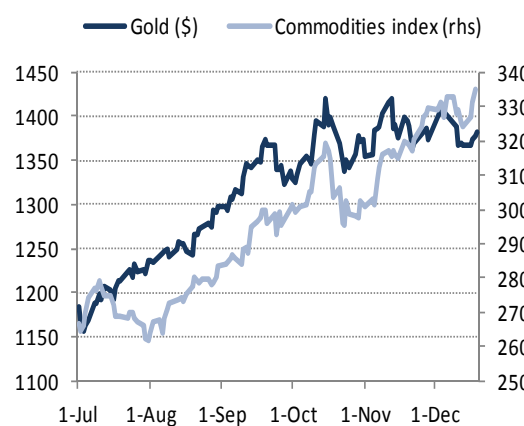
Source: Haver Analytics & BBVA Research

Chart 4  
**10 year Treasury & Fed funds futures, %**



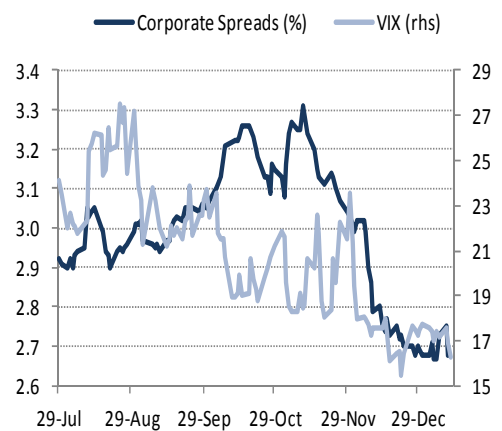
Source: Haver Analytics & BBVA Research

Chart 5  
**Gold & Commodities**



Source: Haver Analytics & BBVA Research

Chart 6  
**BAA spread & Implied volatility**



Source: Haver Analytics & BBVA Research

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