

Weekly Watch

U.S.

Highlights

Houston, March 28th, 2011
Economic Analysis

U.S.
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Bernanke will hold press conferences four times a year after FOMC meetings

Last Thursday, the Federal Reserve announced that the Chairman Ben Bernanke will start holding press conferences after four of its Federal Open Market Committee (FOMC) meetings a year. In these press conferences, Bernanke will present the FOMC's latest economic projections and explain its policy decisions. The FOMC statement at those meetings will be released at 12:30pm ET, rather than 2:15pm ET. In 2011, these press briefings will be held on April 27, June 22, and November 2 and available on-line (live) on the Federal Reserve's website. The announcement for press conferences is part of the Fed's ongoing policy to increase transparency and ensuring accountability and public understanding. The Fed first began releasing a post-meeting statement in 1994. Under Bernanke's leadership, the Fed began releasing the FOMC members' economic projections four times a year in the FOMC Minutes. We expect that the press conferences will help the Fed and Bernanke communicate better and eliminate uncertainties about the Fed's monetary policy. The timing of the announcement is also important since the financial markets are trying to figure out when the Fed would start its exit strategy. The first press briefing will be held on April 27, 2011 and market participants will have the opportunity to ask Bernanke whether the Fed will continue to implement the second round of quantitative easing (a.k.a.QE2) as planned.

U.S. 4Q10 real economic growth is revised up

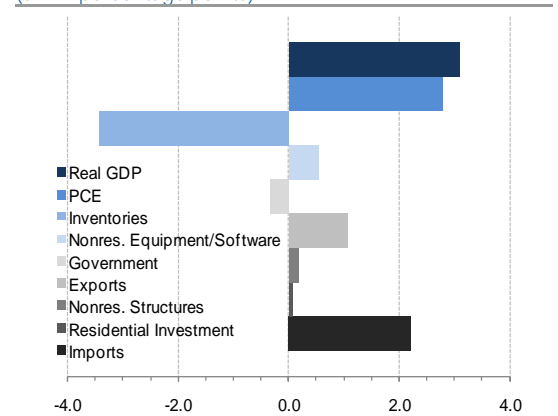
The Bureau of Economic Analysis (BEA) announced that the U.S. economy grew 3.1% in 4Q10 compared to its previous estimate of 2.9% (QoQ annualized rate). This means that the U.S. real GDP increased by 2.9% in 2010. BEA revised up non-residential investment (NRI), residential investment, private inventories which were partially offset by a downward revision in net exports and personal consumption. In 4Q10, the main contributors to real economic growth were personal consumption and net exports. Although recent global events such as the European sovereign debt crisis, political turmoil in Middle East North Africa (MENA), the earthquake in Japan, and airstrikes in Libya, have added volatility to financial markets and pushed oil prices up, the latest macroeconomic indicators continue to point to robust economic growth. We expect that the U.S. economy will grow 3.0% in 2011.

Graph 1
Real GDP Growth
(QoQ, SAAR % change)



Source: BEA & Haver

Graph 2
Contributions to Real GDP Growth, 4Q10
(SAAR percentage points)



Source: BEA & Haver

Week Ahead

Personal Income and Spending (February, Monday 08:30 ET)

Forecast: 0.2%, 0.5%	Consensus: 0.4%, 0.5%	Previous: 1.0%, 0.2%
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Personal income and spending are expected to increase in February. In the last 12 months, personal income increased more than personal spending which increased by 0.3% MoM on average while personal income climbed 0.4% MoM. In January, due to significant income growth (1.0% MoM), the savings rate jumped 0.4 percentage points and reached 5.8% (a four-month-high). Moreover, although real personal spending was the main driver of the economic growth in 4Q10, real personal spending declined by 0.1% MoM in January. Due to an increase in oil prices, we expect that consumers will have less money to save or spend on other goods and services, and this trend might negatively affect the ongoing recovery.

Case-Shiller 20-city Index (January, Thursday 09:00 ET)

Forecast: -%3.7	Consensus: -%3.2	Previous: -2.4%
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The Case-Shiller Index is expected to decline further in January. Since the beginning of the housing meltdown, home prices have been affected by foreclosures and short sales. In January 2011, one in every four existing home sales came from distressed properties, which were sold with an average price discount of 35%, according to RealtyTrac. Looking forward, prices will tend to stabilize as the weight of auctioned homes falls and the importance of the structural factors in demand formation increases. The increase in the number of households, the positive growth of family income and the low mortgage rates will all contribute to price stability.

Nonfarm Payrolls (March, Friday 08:30 ET)

Forecast: 195K	Consensus: 192K	Previous: 192K
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In the last three months, the unemployment rate declined unexpectedly from 9.8% to 8.9%. However, the sharp decline in the unemployment rate was mainly due to decline in the labor force participation rate. In February, it was at 64.2% which is the lowest level since March 1984. Last month, total nonfarm payroll rose 192K while private sector created 222K new jobs. In other words, government sector lost 30K jobs and continued to drag the labor market. Regional and local governments are in vulnerable fiscal conditions and therefore, we do not expect significant employment growth in the government sector. However, the latest initial and continuing jobless claims data indicate that labor market conditions are improving. We expect the private sector to continue creating new jobs but the unemployment rate to remain at 8.9%.

ISM (March, Friday 10:00 ET)

Forecast: 62.5	Consensus: 61.0	Previous: 61.4
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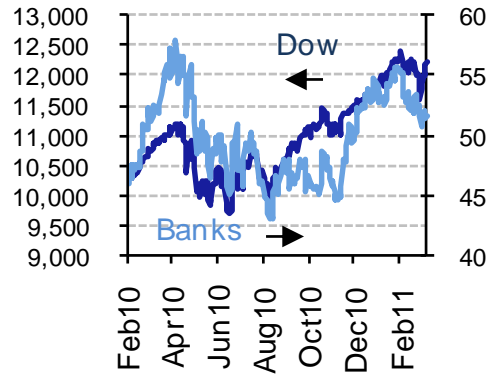
The Institute for Supply Management (ISM) manufacturing Index, a leading index of economic activity, is expected to increase in March. An index number greater than 50 indicates expansion in manufacturing. The ISM manufacturing index has been above 50 since August 2009. The latest report indicates that prices are increasing significantly and inventories have started to decline in the manufacturing sector.

Market Impact

This week, markets will pay close attention to home prices and nonfarm payrolls. Last week both new and existing home sales data were weaker than expected. Therefore, a strong decline in home prices would make financial markets more pessimistic about the housing market throughout the year.

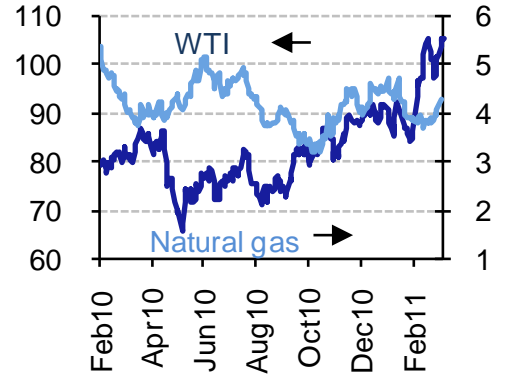
Financial Markets

Graph 3
Stocks (Index, KBW)



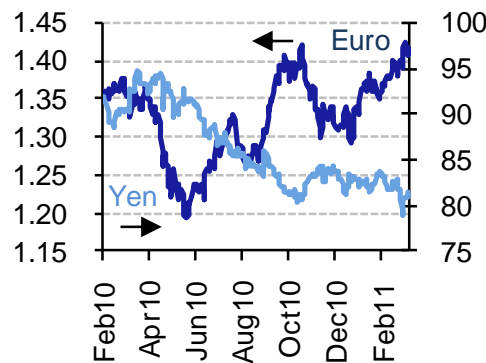
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



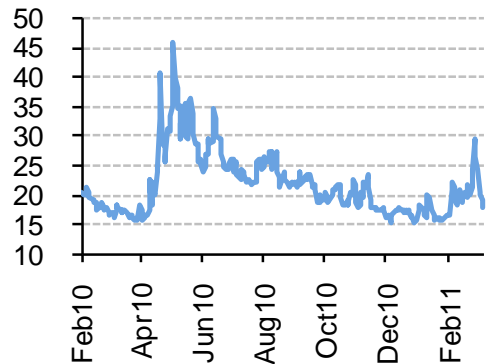
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



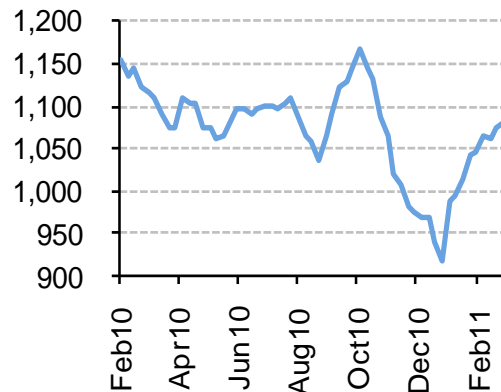
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



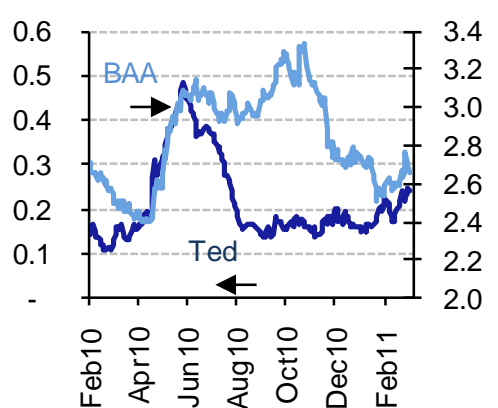
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

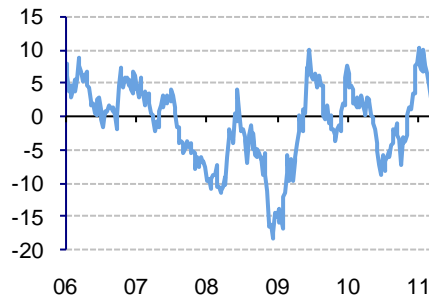
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

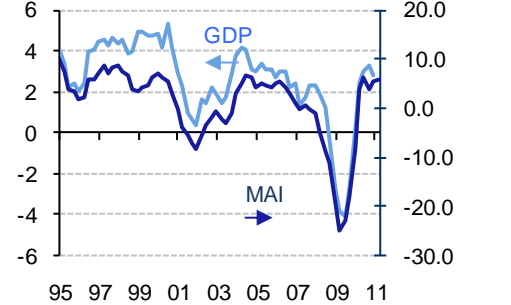
Economic Trends

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



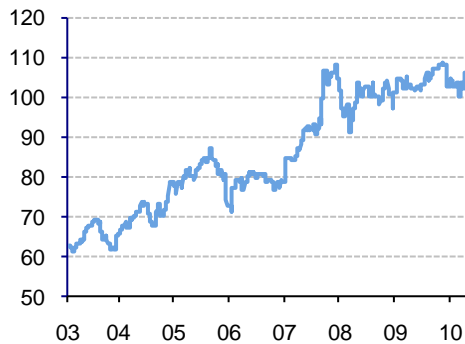
Source: BBVA Research

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



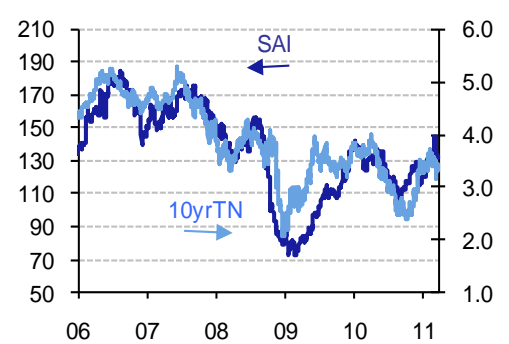
Source: BBVA Research & BEA

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



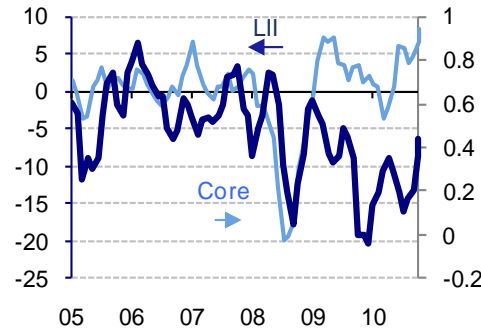
Source: BBVA Research

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



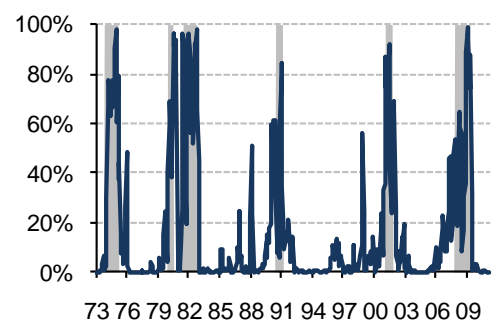
Source: Bloomberg & BBVA Research

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

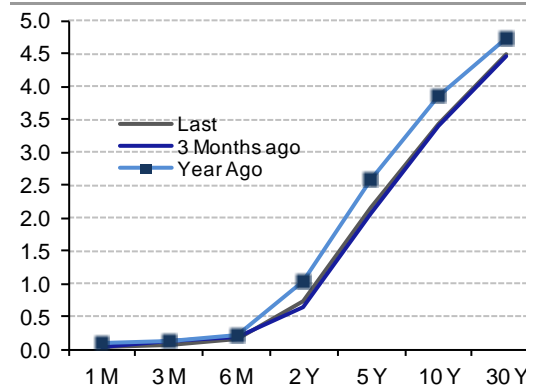
Yield Curve and Interest Rates

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)	13.73	13.73	13.73	12.79
New Auto (36-months)	4.76	4.81	5.04	6.40
Heloc Loan 30K	5.48	5.47	5.54	5.71
30-year Fixed Mortgage *	4.81	4.76	4.95	4.99
Money Market	0.63	0.61	0.61	0.79
2-year CD	1.25	1.28	1.29	1.64
5-year CD	2.07	2.06	2.06	2.60

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

Graph 15
Treasury's Yield Curve, %



Source: Bloomberg

Quote of the Week

Federal Reserve Bank of Dallas President Richard Fisher
March 22, 2011
Wall Street Journal

"The next step is to stop accommodation. We are presently still accommodating. So tightening has to follow that step. Then it's a question of appropriate timing, and that will be decided by the Committee. Given my proclivities I'm likely to advocate moving sooner than others on the Committee, but that's my bias."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
28-Mar	PCE Core (MoM)	FEB	0.2%	0.2%	0.1%
28-Mar	Personal Spending	FEB	0.5%	0.5%	0.2%
28-Mar	PCE Deflator (YoY)	FEB	1.60%	1.60%	1.20%
28-Mar	Personal Income	FEB	0.2%	0.4%	1.0%
28-Mar	Pending Home Sales MoM	FEB	-2.1%	0.0%	-2.8%
29-Mar	S&P/CS 20 City MoM% SA	JAN	-0.8%	-0.5%	-0.4%
29-Mar	S&P/CS Composite-20 YoY	JAN	-3.7%	-3.2%	-2.4%
29-Mar	Consumer Confidence	MAR	64.0	65.0	70.4
31-Mar	Initial Jobless Claims	26-Mar	375K	380K	382K
31-Mar	Continuing Claims	19-Mar	3700K	3710K	3721K
31-Mar	Chicago Purchasing Manager	MAR	70.0	69.0	71.2
31-Mar	Factory Orders	FEB	1.2%	0.5%	3.1%
1-Apr	Change in Nonfarm Payrolls	MAR	195K	192K	192K
1-Apr	Change in Private Payrolls	MAR	220K	222K	222K
1-Apr	Unemployment Rate	MAR	8.9%	8.9%	8.9%
1-Apr	Avg Hourly Earning MOM All Emp	MAR	0.2%	0.2%	0.0%
1-Apr	Avg Weekly Hours All Employees	MAR	34.3	34.3	34.2
1-Apr	Construction Spending MoM	FEB	-0.3%	0.3%	-0.7%
1-Apr	ISM Manufacturing	MAR	62.5	61.0	61.4
1-Apr	Total Vehicle Sales	MAR	13.25M	13.40M	13.38M

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