

# Fed Watch

US

 26 January 2012  
 Economic Analysis

US

 Boyd Nash-Stacey  
 boyd.nashstacey@bbvacompass.com

 Jeffrey Owen Herzog  
 jeff.herzog@bbvacompass.com

## QE Dashboard

Lengthened low rates pledge added onto maturity extension program

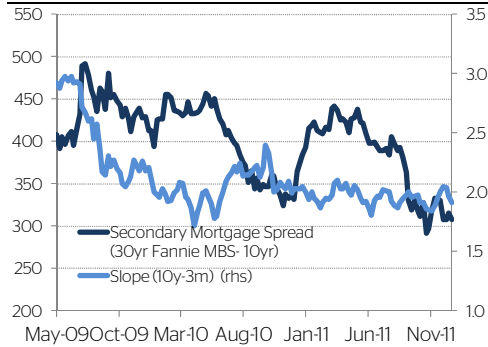
- The maturity extension program moderately flattened the yield curve and lowered key mortgage spreads since its inception, but little movement in real estate credit outstanding as a result. The Fed continues to focus on housing.
- The new pledge and the continuation of the maturity extension program will further lower interest rate volatility, with uncertain effects on housing
- Reenacted liquidity swap programs eased short-term interbank credit conditions and foreign capital outflows slowed as Europe deleverages
- Labor markets conditions eased as unemployment dropped to 8.5%, but the FOMC remains unconvinced of the sustainability of current labor market indicators, the behavior of which may reflect factors outside of monetary policy

Table 1  
 Large Scale Asset Purchases (LSAP) Scorecard

	Latest available	Operation Twist 10/11-present	Post QE2 11/10-10/11	Recovery-preQE2 7/09-10/10	Crisis 12/07-6/09	Pre-Crisis 3/03-11/07
10yr Treasury (%)	1.96	2.03	2.94	3.34	3.49	4.41
3mo Treasury (%)	0.05	0.02	0.10	0.13	1.06	3.02
Slope (bp)	191	202	284	321	243	139
10yr Inflation Indexed (%)	-0.16	0.04	0.80	1.34	1.77	2.06
Implicit 10yr Inflation exp. (%)	2.12	1.99	2.15	2.00	1.72	2.35
5yr Breakeven inflation expectations (%)	2.38	2.30	2.51	2.38	2.15	2.41
VIX (Index)	18.3	30.4	22.3	23.7	33.6	15.8
S&P500 (Index)*	1318	1222	1226	1093	1109	1462
Real effective exchange rate (\$, Index)	99.6	98.9	98.3	102.3	102.9	111.2
Corporate Spreads (BAA bp)	331	323	288	287	409	201
30yr Mortgage sprd (bp)	88	95	39	57	155	115
3M Libor-Treasury (bp)	52	44	22	22	128	36
Monetary aggregate M2 (yoy %)	10.0	9.6	5.8	3.8	7.8	5.5
Mutual Fund Flows Domestic (\$M)	-804	-3744	-2213	-8171	-	-
Mutual Fund Flows Foreign (\$M)	320	-902	727	3954	-	-
Mutual Fund Flows Taxable (\$M)	3813	2868	2259	27889	-	-
Mutual Fund Flows Muni (\$M)	1743	849	-901	4849	-	-
Commercial Paper issuance (\$bn)	93.5	96.9	86.3	88.3	134.2	173.8
Initial Claims (4wk avg)	378	393	413	494	479	341
Unemployment rate (%)	8.5	8.8	9.1	9.7	6.8	5.2
Private Payrolls (K monthly)	212	172	160	-14	-396	119
Consumer confidence (Index)*	65	52	58	53	53	98
Retail sales ex bldg, autos & gas (yoy %)	5.5	5.9	5.8	1.6	-0.6	5.3
Industrial production (yoy %)	2.9	3.7	4.6	0.2	-7.0	2.3
Capacity Utilization (%)	78	78	77	72	75	79
ISM Survey (Index)	53.9	52.3	55.9	55.7	44.0	54.0
Consumer Prices (12m %)*	3.0	3.4	3.0	1.0	2.2	2.9
Core Consumer Prices (12m %)*	2.2	2.1	1.5	1.2	2.1	2.0
Bank Mortgage loans (\$bn)*	2081	2067	2072	2106	2058	2005
Bank CRE loans (\$bn)*	1411	1416	1463	1609	1673	1571
Bank C&I loans (\$bn)*	1354	1326	1251	1264	1512	1414
Bank Consumer loans (\$bn)*	1096	1092	1088	990	840	789

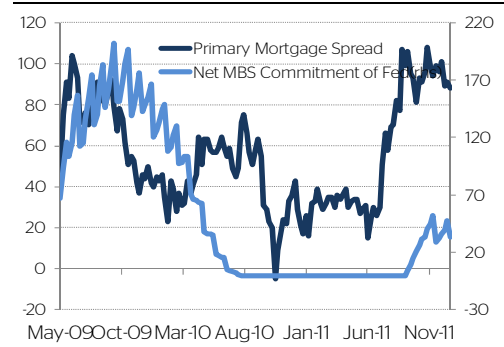
\* Pre-Crisis = Nov 2007  
 BBVA Research & Haver Analytics.

Chart 1  
**Treasury Yield Curve Slope & Secondary Mortgage Market Spread(% , bp)**



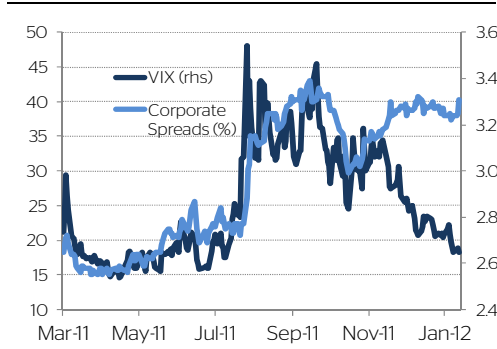
Source: Bloomberg, Haver Analytics & BBVA Research

Chart 2  
**30yr Mortgage Spread & Fed MBS Net Purchases (bp & \$bn)**



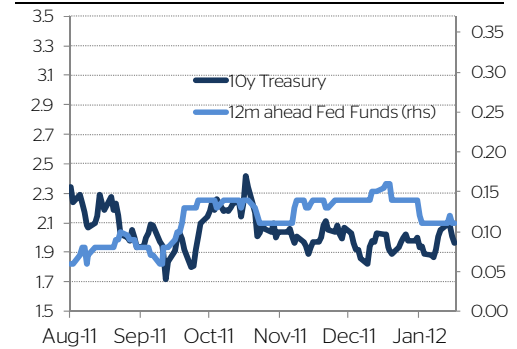
Source: Haver Analytics & BBVA Research

Chart 3  
**Implied Volatility & Corporate Spreads (index & %)**



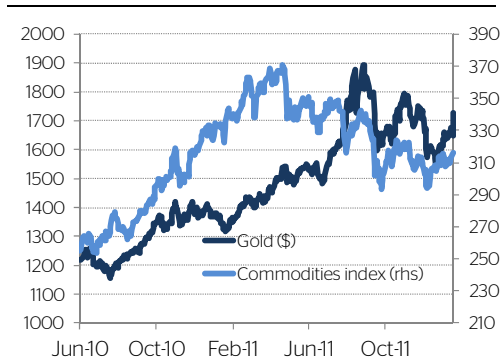
Source: Haver Analytics & BBVA Research

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



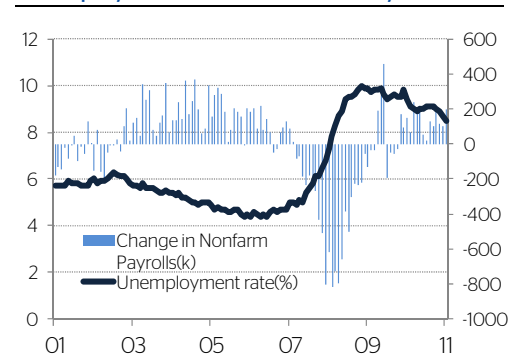
Source: Haver Analytics & BBVA Research

Chart 5  
**Gold & Commodities**



Source: Haver Analytics & BBVA Research

Chart 6  
**Unemployment Rate & Nonfarm Payroll**



Source: Haver Analytics & BBVA Research

**DISCLAIMER**

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research Department on behalf of itself and its affiliated companies (each BBVA Group Company) and is provided for information purposes only. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.