

# Mexico Weekly Flash

June 6, 2014  
Economic Analysis

Mexico

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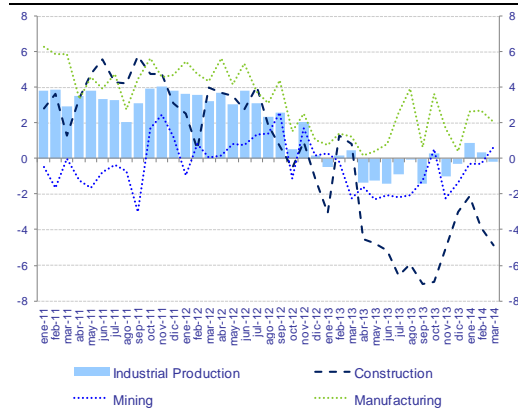
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## What happened this week ...

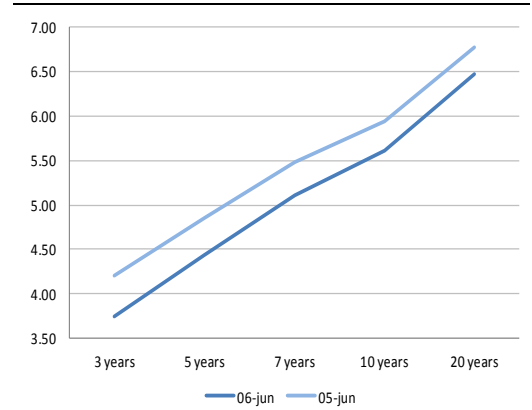
- **Banxico surprised with a 50bp cut, taking the rate to 3.0% because of increased expansiveness in the economy.** The decision was influenced by lower-than-expected growth in the first quarter (expected: 0.6%; observed: 0.28% QoQ seasonally adjusted), which reduces growth forecasts for 2014 and increases economic expansion. The environment is one of controlled inflation which will come in at around 3.0% until January 2015, in line with central bank forecasts. Banxico does not recommend making additional cuts in the future.
- **As we expected, the IMEF Manufacturing Index rose in May to 52.2 points (vs. 51.1 in April).** The series indicators adjusted by company size reveal greater growth, which suggests that the bigger firms, which are more involved in the exports sector, are more dynamic than the small and medium-sized companies. For its part, the IMEF Non-Manufacturing Index recorded a drop in May over the month before, registering 50.1 points (50.6 in April). These two indicators' contradictory results give few clear signs as to GDP performance during the second quarter.
- **Producer and consumer confidence reported a slight improvement in May (+0.1% and +0.7% in monthly terms (MoM), with seasonally adjusted figures (sa), respectively).** Coming in very close to our prognosis (BBVA Research: 0.4% MoM, sa; 51.2 points), the Producer Confidence Index reached 51.03 on May, up from 50.99 in April, sa, very slow progress. The Consumer Confidence Index meanwhile, rose by 0.7% MoM, sa, to 90.4 points, in line with our forecast (BBVA Research: 0.6% MoM, sa; 90.0 points). However, in annual terms (YoY), this index has gone down by 4.9%, sa. It was noticeable that all the indicator sub-indexes grew, so the prevailing perception is for improved confidence, which could contribute to higher consumption.

Figure 1  
Industrial production and its components  
(YoY % change, sa)



Source: BBVA Research with data from INEGI sa: seasonally adjusted.

Figure 2  
Government yield curves  
(%)



Source: BBVA Research with data from Valmer

- **Mexico received USD1.98bn in remittances in April, equivalent to an annualised increase of 2.1%.** Remittances have grown for nine consecutive months since August 2013. The fluctuations in recent remittance reporting are explained by mixed signals in US economic indicators. For example, in the first quarter there was a reduction in the unemployment rate and simultaneously a lower-than-expected increase in GDP.
- **US employment data in line with expectation and Banxico's cut affect the markets.** The US non-farm payroll increased by 217,000 new jobs in May, a figure in line with the market's expectations of 210,000. The unemployment rate and the participation rate stayed unchanged from last month, at 6.3% and 62.8% respectively. This figure caused the exchange rate to jump upwards initially to USDMXN 12.81. Nevertheless, the surprising decision to cut 50bp off the monetary policy rate reversed this appreciation and led the exchange rate to close at USDMXN 12.93. The 0.48% depreciation of the peso was the steepest fall among emerging economies, the vast majority of which showed appreciations as a result of the US employment figure and the European Central Bank's monetary relaxation actions. On the government debt market, the curve showed an average fall of 37bp, with a 33bp fall at the 10-year end, taking its yield down to 5.61%, its lowest level for nearly a year. On the stock market, Banxico's cut contributed to a rise of 1.4% at close of trading.

### ...what is coming up next week

- **The May inflation figure ought to reflect positive seasonal and supply factors. We expect a monthly fall of 0.30% in the general price index and a slight rise of 0.06% in the core index.** The fall in prices will reflect lower electricity prices because of summer subsidies and positive supply side factors which will give rise to falls in fruit and vegetable prices. These factors will be partly offset by increases in fish prices. In annual terms, we estimate that headline inflation will come in at 3.53% (compared to 3.50% in April) and underlying inflation will be 2.97% (compared to 3.11% in April).
- **The gross fixed investment index for March will register positive annual growth of 0.4%.** This contrasts with the negative rates it reported last month (-0.5%) and in the same month in 2013 (-3.1%). The components in this indicator, we should note, are investment in construction and investment in machinery and equipment. The deterioration suffered by total investment in 2013 and in the first few months of 2014 is accounted for more by the performance of investment in construction than in machinery and equipment. Thus, from July 2013 to February 2014, the average annual growth rate of investment in construction was -5.3%, but 1.5% in machinery and equipment. We believe that investment's positive performance in March is a result of the 7.0% increase in machinery and equipment investment, together with the 2.4% contraction of investment in construction. In net terms this will enable gross fixed investment to report annual growth of 0.4% in March.
- **Industrial production in April will grow 1.3% YoY, sa, equivalent to a monthly rate of 0.4%, sa.** We forecast that this increase will be accompanied by good performances in the US monthly industrial production indicator in February and March (1.1% and 0.9% MoM, sa, respectively), given the lag with which it impacts on industrial production in Mexico. In March, Mexico's industrial production fell 0.17% in annual terms and seasonally adjusted. In monthly terms it dropped 0.13%, linked to a significant fall in manufacturing (-0.34% MoM, sa) and in mining (-0.48% MoM, sa). Meanwhile, the sub-sectors of electricity, gas and water grew (0.25% MoM, sa), as did construction (0.05% MoM, sa).

## Indicator Calendar

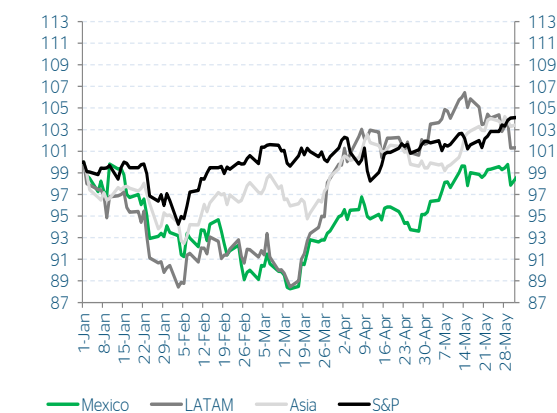
<b>Mexico</b>	Index Period	Publication Date	BBVA Estimate	Consensus	Earlier figure
Headline inflation (YoY change)	2HMay	9 June	3.53%	3.50%	3.50%
Fixed gross investment (YoY % change)	March	10 June	0.4%	1.9%	-0.5%
Industrial production (YoY % change, sa)	April	11 June	1.3%	-	-0.17%
Industrial production (MoM % change, sa)	April	11 June	0.4%	1.0%	-0.13%

<b>United States</b>	Index Period	Publication Date	BBVA Estimate	Consensus	Earlier figure
Retail sales ex. cars and gas (MoM % change)	May	12 June	0.3%	0.4%	-0.1%
Manufacturing inventories ( MoM % change)	April	12 June	0.3%	0.4%	0.4%
Producer prices ( MoM % change)	May	13 June	0.2%	0.1%	0.6%
Producer prices ex. food & energy ( MoM % change)	May	13 June	0.3%	0.1%	0.5%

Source: BBVA Research with data from Bloomberg. sa = seasonally adjusted. 1Q14 = First quarter of 2014.

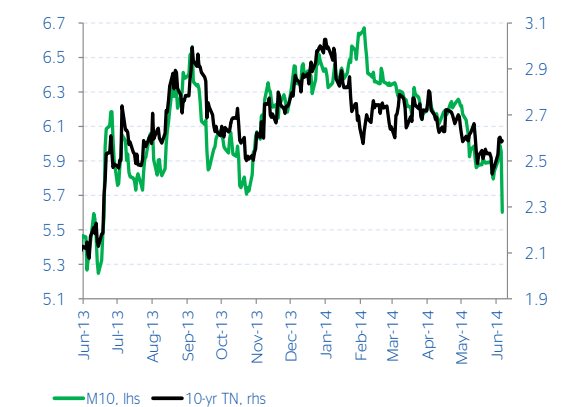
## Markets

Figure 3  
MSCI stock market indexes  
(1 Jan 2014 index=100)



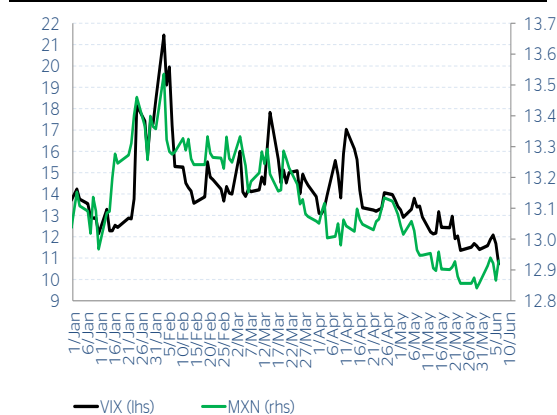
Source: BBVA Research, Bloomberg

Figure 4  
10-year government bond yields (%)



Source: BBVA Research, Bloomberg.

Figure 5  
Global risk and exchange rate (VIX index & MXNUSD)



Source: BBVA Research, Bloomberg

Figure 6  
Currencies to USD  
(30 May 2013 index=100)



\* JP Morgan's indices of Latin American and Asian currencies against the US dollar; weighted averages by trade & liquidity.  
Source: BBVA Research, Bloomberg

## Annual information and forecasts

	2012	2013	2014
Mexico GDP (YoY % change)	4.0	1.1	2.5
Headline inflation (Avg. %)	4.1	3.8	3.9
Core inflation (Avg. %)	3.4	2.7	3.1
Monetary Policy Rate (Avg. %)	4.5	3.8	3.2
M10 (Avg. %)			
GDP USA (YoY % change)	2.8	1.9	2.5

Source: BBVA Research.

## Recent publications

Date	Description
2 June 2014	➡ <a href="#">Mexico Migration Flash. Remittances remain on growth path, in April increased 2.1% in annual rate</a>
5 June 2014	➡ <a href="#">Mexico Economic Outlook Second Quarter 2014 (in Spanish)</a>
6 June 2014	➡ <a href="#">Banxico Flash. Unexpectedly, Banxico cuts fondo rate in 50bp to 3.0% as economic slack increases</a>

### Disclaimer

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