

Economic Analysis

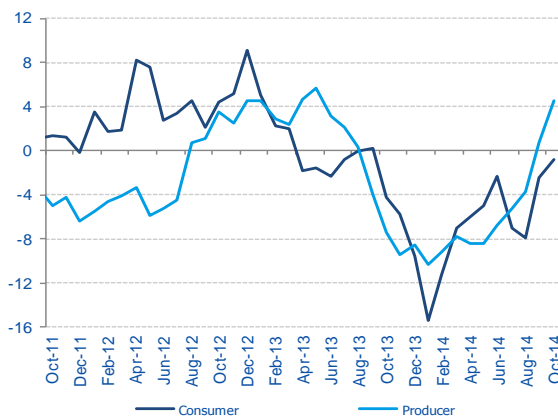
This week the Executive presented an ambitious Justice plan, a key step in improving the population's quality of life

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What happened this week ...

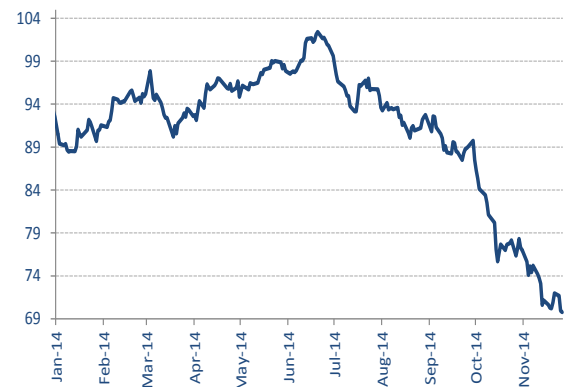
Enrique Peña Nieto, President of Mexico, unveiled the message "Towards a Mexico in peace, with justice, unity and development" at the National Palace, two months after the disappearance of 43 students from the Ayotzinapa teacher training college. The speech outlined a plan to reduce violence, to support the central government's institutional framework and to lay down guidelines to give citizens improved human rights protection. This comes in a context of a recent increase in insecurity, a factor which, if not brought under control, could sabotage the country's economic performance. According to INEGI statistics, the cost of crime nationwide has fallen since 2010 from 1.6% of GDP to 1.4% in 2012. However, the 2012 figure is still a heavy burden for the country if the unmet needs of the Mexican population are borne in mind, as well as the poor status of a number of institutional components relating to public safety and the administration of justice. If the measures announced are to bear fruit and achieve their goals, it is vital that the executive has the capacity to act, in a complex scenario in which major sections of the recently passed reforms have yet to be implemented.

Figure 1
Producer and consumer confidence indexes (YoY % change, sa)



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

Figure 2
Price of Mexican mixed crude oil (USD/b)



Source: BBVA Research with data from Bloomberg.

The unemployment rate fell to 4.78% in October (from 5.01% in September), below our forecast and that of the consensus (BBVAe: 5.0%; consensus: 4.9%). The result was mainly driven by a fall in the Economically Active Population (EAP) from 60.76% in September 2013 to 59.17% in September 2014. With seasonally adjusted figures, the unemployment rate fell to 4.71% in October 2014 from 4.77% the previous month.

In October the balance of trade was USD143mn in surplus, higher than expected (BBVAe: -USD587mn).

This surplus was a result of greater-than-expected annual growth in total merchandise exports (observed 5.7%; BBVAe: 4.9%) and of a moderate expansion in merchandise imports (observed 4.9%; BBVAe: 6.2% annual). As long as the balance of trade continues to show positive performance, this will support expansion of economic activity.

OPEC's refusal to reduce oil production influenced the price fall of Mexican mixed crude and the peso's depreciation at the end of the week.

In a week of low volumes because of the Thanksgiving holiday in the US, the announcement by OPEC that it will keep its oil production at 30 million barrels a day (mbd) caused the biggest weekly drop in the oil price since 2011. Mexican mixed crude for export quoted for the first time since 2010 below USD70/bl, a fall of 31.8% from its June price of USD102/bl. OPEC's announcement translated into expectations to the downside for prices in upcoming months, which has caused depreciations in the currencies of oil exporting countries over the week, with orders of magnitude of over 7.0% in the case of the Russian rouble. The Mexican peso suffered depreciation over the week of 2.21%, less than the depreciation suffered by the Norwegian kroner (3.32%) and the Colombian peso (3.18%), but slightly more than the depreciation of the Brazilian real (1.93%). Nevertheless, the peso is already above USD13.90, the first time since 2012, against a backdrop of limited risk aversion. On the stock exchanges, the S&P 500 recorded a new high, influenced by the review to the upside in the growth of third quarter US GDP, while the IPC fell 0.22%, additional proof of the preference for US assets. In the government debt market, yields on the 10-year M bono fell by around 4bp (basis points) over the week, less of a fall than the 12bp drop in yields on the 10-year T-bond.

...What to expect next week

We expect the IMEF performance indicators for manufacturing and non-manufacturing activity in November to remain unchanged.

These indicators will provide guidance as to expectations on economic performance for the end of the year. We expect the IMEF manufacturing performance indicator to improve a little over the previous month, thanks to end-of-year purchases and that the IMEF non-manufacturing indicator will not move from last month because of slow performance in services.

Income from remittances to Mexico may have reached USD2.016bn (up by 5.4%) in October.

The central bank is expected to report an October figure that holds to the positive trend in the growth of remittances to Mexico, which would be the fifteenth consecutive month of rises. Favourable employment indicators in the United States this year have also driven better working conditions for Mexican migrants in the US, which increases their capacity to send money home. With the executive actions taken by President Obama in the last few days in the area of migration, we estimate the path of growth in remittances to grow in the next few months.

We expect the producers' confidence indicator to continue its spate of growth in November and for consumer confidence to show some recovery.

On 5 December the INEGI will publish the figures for the November producers' (PCI) and consumers' (CCI) confidence indexes. We expect the PCI to post at 54.9 points, after seasonal adjustments (sa), up from 53.9 points the month before, thanks to good performance recently in the manufacturing sector, particularly in automotive production (3.3% MoM, sa in October). In addition, in view of formal employment creation over October (172,134 jobs), we expect the CCI to reach 91.9 points, sa, against 91.1 points the previous month. This would be equivalent to 90.0 points with original series (see Figure 1).

Monetary policy unchanged at 3.0%. On 5 December, the central bank will announce its monetary policy decision. Given the absence of a significant negative surprise in GDP growth in the third quarter (0.5% QoQ) over the central bank's forecast (0.6% QoQ) and in an inflation environment which we expect to stand at the end of the year at just over 4.0%, we are holding to our outlook for a monetary pause in the final 2014 meeting. It will be important to track any mention of the possible effects of a likely approval of an increase in the minimum wage, and of the recent depreciation in the exchange rate, which came to 2.0% during last week. Note that, according to the last quarterly inflation report, next year the monetary policy announcements will be made on Thursdays at 1pm.

Calendar of indicators

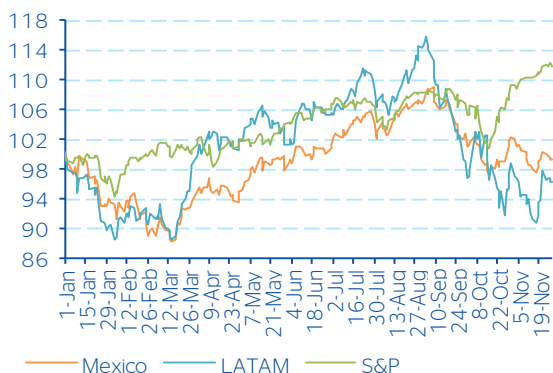
Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
IMEF manufacturing indicator (index, sa)	November	1 Dec	54.9	54.2	54.8
IMEF non-manufacturing indicator (index, sa)	November	1 Dec	52.2	52.3	52.2
Household remittances (USD mn)	October	1 Dec	2,016.0	2,010.0	1,957.7
Producer confidence (Index, sa)	November	5 Dec	54.9	--	53.9
Consumer confidence (index)	November	5 Dec	90.0	90.1	90.6
Monetary policy rate	December	5 Dec	3.0	3.0	3.0

USA	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
ISM Manufacturing PMI (index, sa)	November	1 Dec	59.80	58.15	59.00
ISM Non-Manufacturing NMI (index, nsa)	November	3 Dec	57.90	57.70	57.10
Trade Balance of Goods and Services (USD mn)	October	5 Dec	-43.30	-41.00	-43.03
Manufacturers New Orders Total (MoM % change, sa)	October	5 Dec	0.20	-0.10	-0.60
Federal Reserve Consumer Credit Total (MoM % change, sa)	October	5 Dec	16.50	16.25	15.92

Source: BBVA Research with data from Bloomberg. sa = seasonally adjusted. MoM = monthly rate of variation.

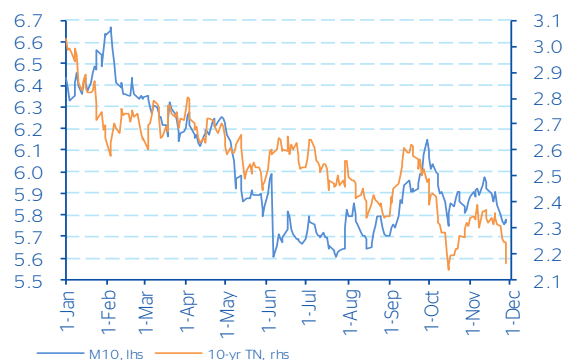
Markets

Figure 3
MSCI stock market indices
(Index 1 Jan 2014=100)



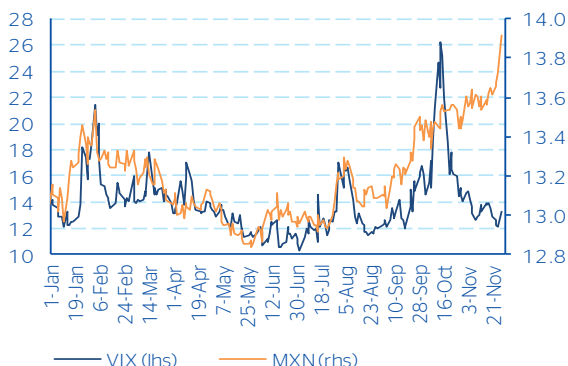
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



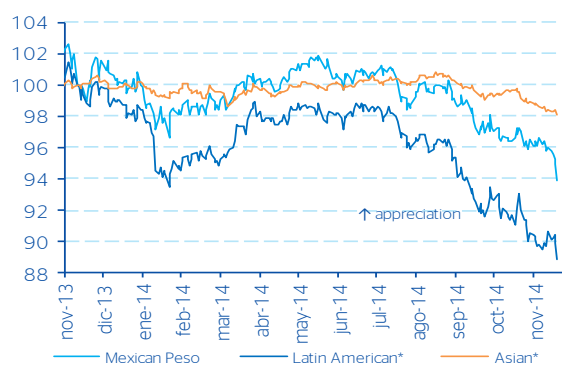
Source: BBVA Research, Bloomberg

Figure 5
Global risk and exchange rate (VIX index and USD/MXN)



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD
(22 Nov 2013 index=100)



* JP Morgan indices of Latin American and Asian currencies vs. USD; weighted averages by trade & liquidity.
Source: BBVA Research, Bloomberg

Annual information and forecasts

	2012	2013	2014
Mexico GDP (YoY % change)	4.0	1.4	2.1
General inflation (% , average)	4.1	3.8	4.0
Core inflation (% , average)	3.4	2.7	3.2
Monetary Policy Rate (% , average)	4.5	3.8	3.2
M10 (% , average)	5.7	5.7	6.0
US GDP (YoY % change)	2.8	1.9	2.0

Source: BBVA Research.

Recent publications

Date	Description
24 Nov 2014	➔ Mexico Inflation Flash. Annual inflation is on a downward trend but is unlikely to end the year below 4.0%

Disclaimer

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