

Economic Analysis

# The fall in oil prices over the week dominated Mexican financial markets

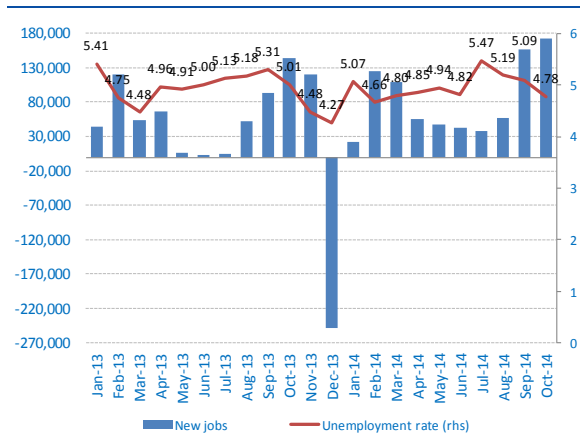
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## What happened this week ...

**September's gross fixed investment index performed well, in line with our estimation, rising at an annualised 5.7%** (BBVAe: 5.8%). This was a result of a 4.2% annual growth rate in the construction component of investment (BBVAe: 4.3%) and of 8.5% (BBVAe: 9.3%) in the machinery and equipment investment component. September's annual (YoY) growth rate of 5.7% in gross fixed capital formation is the highest since November 2012, and marks the fifth month in a row of positive annual growth rates. This is a signal that gross fixed investment has started to be a driver of the country's economic activity.

Figure 1

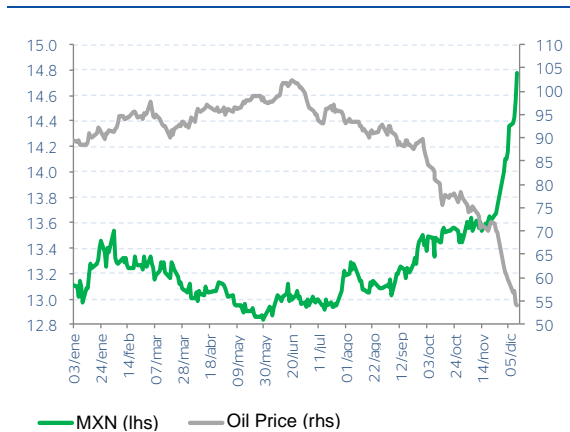
**Unemployment and employment in the formal economy, rates (% YoY var., and workers contributing to the IMSS)**



Source: BBVA Research with data from IMSS.

Figure 2

**Price of Mexican mixed crude oil and the MXN (USD/bbl and MXN)**



Source: BBVA Research with data from Bloomberg.

**There were 122,850 new workers contributing to the IMSS in November**, very close to our estimate (BBVAe: 123,700). The number of people registered with the IMSS is thus 17,475,077, which implies a 4.2% YoY growth in the total number of workers registered with the Institute. We expect a substantial part of this increase in formal employment to be a consequence of the efforts being made by the Work and Social Benefits Department to bring more jobs into the formal economy. This is, in turn, an indicator that in the near future more families will enjoy better social welfare, since they will be eligible for social security provision.

## ...what is coming up next week

**We estimate that October's retail sales will rise by 5.95% YoY, seasonally adjusted (sa).** This result is linked to the improvement in ANTAD sales, which increased its total store figures in October by 2.0% YoY, sa,

and with a faster rate of formal job creation in October (172,134 jobs). Note that in September retail sales grew at an annual rate of 4.3%, sa.

**We forecast a drop in the unemployment rate to 4.66% in November.** On 19 December the INEGI will publish the previous month's unemployment rate. In view of better recent performance in some sectors of economic activity and the rise of the working population in the formal economy in November (122,850 new workers registered with the IMSS), we expect the unemployment rate to fall slightly to 4.66% in November, from 4.78% in October 2014. In seasonally adjusted terms we estimate that the unemployment rate will reach 4.68% in November, as against 4.71% the month before.

**Minutes of the latest monetary policy meeting.** On 19 December, the central bank will publish the minutes of the monetary policy meeting held on 5 December. It will be important to learn the committee members' opinions about the notification that "positive performance is expected in short-term real interest rates in the next few months, even if the monetary policy interest rate is not modified over this period", which could reveal certain expectations for the monetary rate next year. In addition, attention should be paid to any reference that might be made to the potentially inflationary effects of the proposal to increase the minimum wage, in particular in view of the fact that the last statement increased risks to the upside on inflation. Finally, the committee's analysis of exchange rate depreciation will certainly be a topic to watch.

**The fall in oil prices continued, with the MXN depreciating to levels of USDMXN14.80.** The peso accumulated a further depreciation of 2.8% over the week, 1.5% of it on Thursday alone, the weakest emerging currency that day. The aggregate loss since November has been 7.9%, which rises to 9.0% from October onwards. Over both periods, the peso is the third worst performer of the emerging currencies, only better than the Colombian peso and the rouble. The trend this week was boosted by new falls in the oil price. Mexican mixed crude fell by more than 8% over the week, coming in at levels below USD55/bbl. As with last week, Mexican assets showed a negative differential. On the stock market, the CPI chalked up a weekly fall of 5.5%, against a less intense reversal by the S&P 500 (-1.9%). On the government debt market, 10-year M-bono yields rose by 9bp over the week, which contrasts with a fall of 14bp on the 10-year T-bond yield.

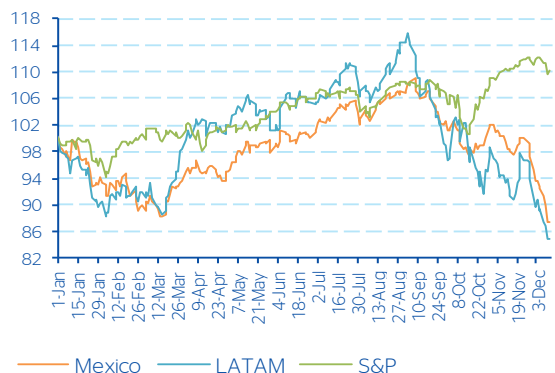
## Calendar of indicators

Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Retail sales (% var., YoY, sa)	October	18 Dec	5.95	--	4.26
Unemployment rate (% var., YoY, original series)	November	19 Dec	4.66	4.65	4.78
Unemployment rate (% var., YoY, sa)	November	19 Dec	4.68	--	4.71
USA	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Industrial production (% var., MoM, sa)	November	15 Dec	0.40	0.60	-0.11
Manufacturing production (% var., MoM, sa)	November	15 Dec	0.20	0.00	0.20
Forward economic activity indicator (% var., MoM, sa)	November	15 Dec	0.50	0.50	0.90

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

**Markets**

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



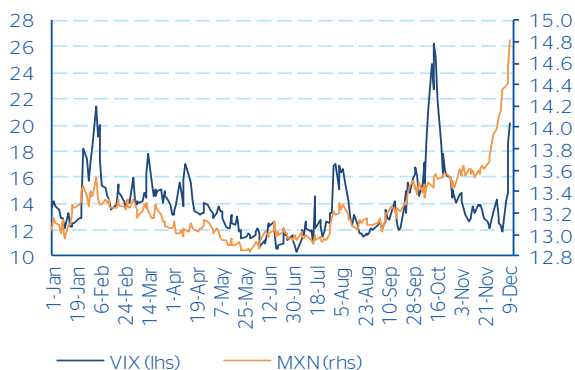
Source: BBVA Research, Bloomberg

**Figure 4**  
**10-year government bond yields (%)**



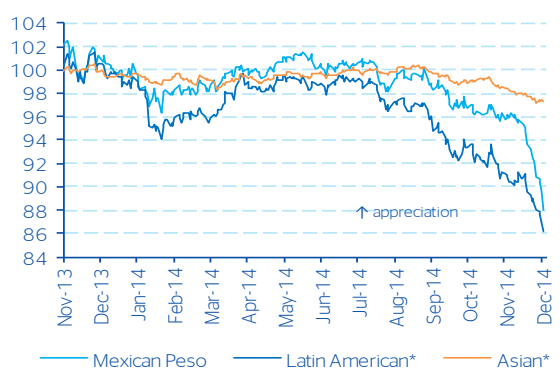
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

**Figure 6**  
**Currencies vs. USD**  
(11 Dec 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**

	<b>2012</b>	<b>2013</b>	<b>2014</b>
Mexico GDP (YoY % change)	4.0	1.4	2.1
Headline 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

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Date	Description
8 Dec 2014	➡ Mexico Economic Outlook 4Q14 (Spanish version)
9 Dec 2014	➡ Mexico Inflation Flash. Annual inflation is on a downward trend and the outlook remains favorable

### Disclaimer

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