

Economic Analysis

Eyes peeled for the May industrial production figures. Greece is weighing on financial markets

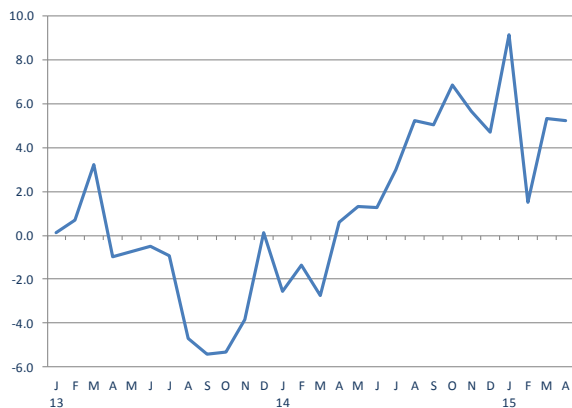
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What happened this week...

Gross fixed investment showed annual growth of 5.3% in April, which was ahead of our estimate and the consensus forecast (BBVAe: 4.1%, consensus: 4.4%). Of its two components, the more vigorous was machinery and equipment investment, growing at 7.2% YoY, while the construction component did so at 4.2%.

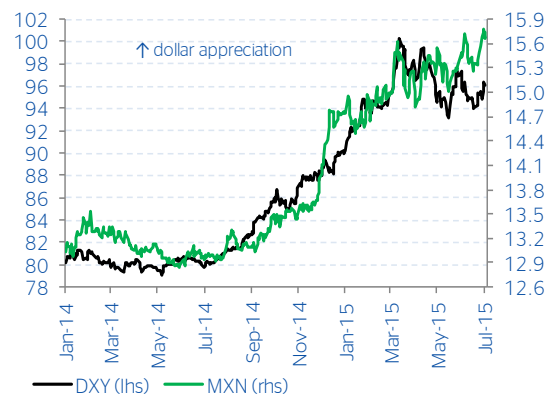
With respect to the Mexican business climate indicator (the IIEEM), which is produced by the Mexican Institute of Financial Executives (IMEF), its manufacturing reading for June rose to 53.1 points, sa, suggesting a moderate improvement, in line with our estimate (BBVAe: 52.9pt, sa). Turning to the non-manufacturing IIEEM, this ticked up slightly from 51.2pt in May to 51.3pt in June, contrary to forecasts of a retreat.

Figure 1
Gross Fixed Investment
(Annual % change, seasonally-adjusted)



Source: BBVA Research with INEGI data.

Figure 2
Value of the USD relative to the major currencies globally and exchange rate against the MXN (DXY index and USD/MXN)



Source: BBVA Research with Bloomberg data

A feeling of risk aversion predominated in the markets this week amidst concern over Greece's insolvency, although the mood became more positive at the end of the week. In this context, investors took refuge in bonds viewed as safe-havens, and during the week 10-year yields came down by 11bp (basis points) in Germany, 9bp in the United States and 5bp in the United Kingdom. In Mexico, the interest rate on the 10-year Mbono eased back by 9bp, in line with the fall in the rate on the 10-year Treasury note, arriving at 6.05% at the end of the week. Contagion over the problems facing Greece spilled over into European countries on the periphery at the beginning of the week, although the situation later calmed, whereupon yields on their bonds

slipped back on Friday. 10-year yields rose over the week in Greece (+ 379bp), Portugal (+ 27bp), Italy (+ 16bp) and (Spain + 16bp). The assets that were most sensitive to worries of this kind were shares. In equity markets, European indices fell heavily over the week (Euro Stoxx 50 -5.4%). Meanwhile, in the United States, the S&P 500 also shed 1.2% on the week. On the currency markets, the USD strengthened against its chief counterparts (DXY + 0.6%). Most emerging market currencies depreciated against the USD, and among those sliding the most were the COP (-2.0%), the RUB (-2.1%), and the MXN (-1.2%). The Greek referendum scheduled for Sunday was likely to keep short-term prospects uncertain for risk assets. Nevertheless, although events in Greece are likely to continue to instil a certain degree of volatility among the securities of emerging markets (EM), the contagion should remain relatively contained as it has thus far, probably even given the outcome of a "no" in the referendum (i.e., most Greeks voted not to accept the austerity conditions and cuts to their pensions imposed by their European partners). Whatever the case, any future decisions by the Federal Reserve will continue to be the dominant factor behind market movements and investor sentiment in the coming months. The June job creation figure was relatively in line with forecasts and did not manage to sway expectations over the start of a rate hike one way (the view that this might start sooner) or the other (that it will be delayed).

Remittances to Mexico grew 2.4% YoY in May, with inflows of USD2,198.4mn. The positive employment trend in the United States has had an impact on sending remittances, but for the first five months of 2015 this has been smaller than expected by the market consensus, in which the observed growth rate was 3.6% compared to the same period in 2014. This slowdown in the flow of remittances could relate to the flatness of the US economy. If no major growth is seen in remittances in the next few months, the flow is likely to close the year with only modest growth.

...What to expect next week

We estimate that annual inflation will have held stable in June (2.88% forecast, compared to 2.87% in May) and that in Q3 it will stay close to the level of the past two months (2.87% on average). We forecast monthly growth of 0.17% for headline inflation and a rise of 0.20% for core. If our predictions prove right, in YoY terms core inflation should recede a shade, to 2.31% compared to 2.33% in May. With respect to non-core inflation, we anticipate an encouraging performance from fruit and vegetable prices in the second fortnight of the month. Given the slack in the economy and the favourable factors described previously, we estimate that annual inflation will remain relatively stable until October at levels of 2.8-2.9% before falling back in the final two months of the year, thanks to a helpful basis for comparison, and then close 2015 at slightly under 2.7%.

We estimate that industrial production will have come down in May by 0.3% MoM, in seasonally adjusted terms (sa) and on 10 July INEGI will publish the official May 2015 figure for this. The forecast contraction in industrial production in May is likely to come from a poor performance by manufacturing industry (-0.9% MoM, sa) given the fall in this segment of industry in the United States in May, while we predict that mining will not have seen any MoM growth and that the construction industry will have grown only moderately (0.4% MoM, sa).

We forecast that the consumer confidence index for June will not vary with respect to May, and this will be published by INEGI on 7 July, when we expect it to show that it has stayed at 91.5 points, sa, after the weak employment figure for May.

Calendar of indicators

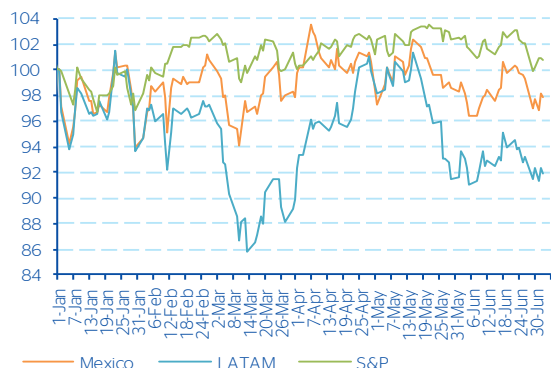
Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Headline inflation (MoM % change)	June	9 July	0.17%	0.20%	-0.50%
Core inflation (MoM % change)	June	9 July	0.20%	0.22%	0.12%
Headline inflation (YoY % change)	June	9 July	2.87%	2.90%	2.88%
Core inflation (YoY % change)	June	9 July	2.31%	2.33%	2.33%
Industrial production (MoM % change, sa)	May	10 July	-0.3%	0.0%	-0.1%
Industrial production (YoY % change, sa)	May	10 July	0.4%	0.5%	1.1%

United States	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
ISM Non-Manufacturing NMI	June	6 July	56.3	56.4	55.7
Job Openings By Industry Total (thousands, sa)	May	7 July	5,395	5,300	5,376
Initial Jobless Claims (thousands, sa)		9 July	267	270	281

Source: BBVA Research with data from Bloomberg. sa = seasonally adjusted. saar = seasonally adjusted annual rate. YoY = annual % change. QoQ = quarterly % change. MoM = monthly % change. P = preliminary

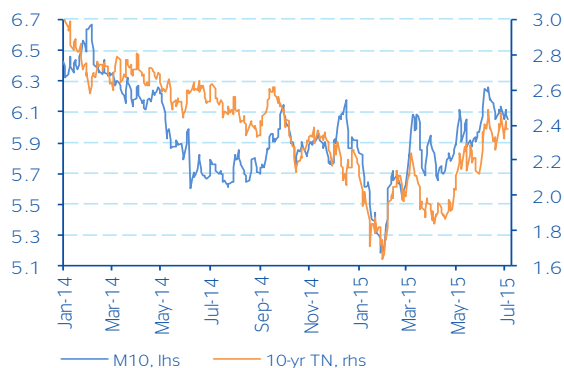
Markets

Figure 3
MSCI stock market indices
(Index 1 Jan 2015=100)



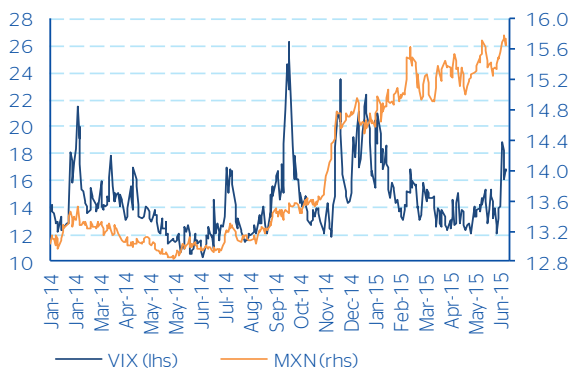
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



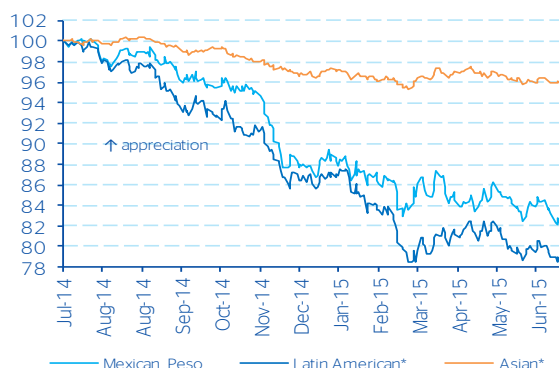
Source: BBVA Research, Bloomberg

Figure 5
Global risk and exchange rate:
VIX index and USDMXN



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD
(3 Jul 2014 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

	2013	2014	2015
Mexico GDP (YoY % change)	1.4	2.1	2.5
General inflation (% average)	3.8	4.0	2.9
Core inflation (% average)	2.7	3.2	2.4
Monetary Policy Rate (% average)	3.8	3.2	3.2
M10 (% average)	5.7	6.0	5.7
US GDP (YoY % change)	1.9	2.4	2.9

Source: BBVA Research.

Recent publications

Date	Description
25 Jun 2015	➔ Mexico Banking Flash. Banking deposits: lower growth in April

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