

Economic Analysis

June inflation marked a historical low, while May industrial production showed weakness

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What happened this week...

Annual inflation plumbed a new historical low in June. Headline inflation rose, in line with our June forecast, although slightly below the consensus estimate (BBVAe: 0.17%, consensus: 0.19%), which means that the annual rate registered a new historical low (2.87%). As we were expecting, the drop in fruit and vegetable prices in the second half of the month contributed to a low monthly inflation reading. Core prices climbed 0.21% with respect to the previous month, which was in line with forecasts, whereas in annual terms core inflation held unchanged at 2.33%. These figures support our prognosis that headline inflation will remain below the central bank's target rate for the rest of the year. We are standing by our year-end forecast of 2.65% for headline inflation, which we expect to reach a low-point in Q4, as favourable base effects will contribute to a lower annual rate in the final months of the year. Conversely, core inflation seems to be gathering a bit of steam, which suggests that economic conditions are starting to improve. We are keeping to our year-end forecast of 2.50% for core inflation, while the course we expect it to follow means that it is likely to have reached its low for the year in June and should pick up slightly in H2 with the stronger growth in the economy. Both headline and core inflation will accelerate in 1Q16, due to the base effect and the greater liveliness of economic activity, yet we expect headline inflation to stay relatively close to the target over 2016, although above the central bank's intended level.

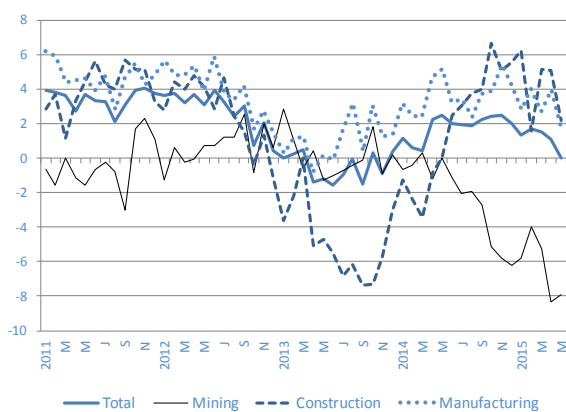
The monthly and annual growth rates for May 2015 for the industrial production index in its seasonally-adjusted series were -0.4% and 0.0% respectively. According to information from INEGI, monthly growth rates for industrial production components in May were as follows: the mining industry (including oil) 0.7%, water and electricity -0.8%, the manufacturing industry -0.9%, and the construction industry -1.5%. Our estimate was in line with the observed figure, as with the consensus estimate: BBVAe, -0.3%; consensus, 0.0%. Here we should add that the MoM decline for the manufacturing industry which we were anticipating also matched the data actually observed, whereas we had been forecasting growth of 0.4% for the construction industry, which in fact contracted sharply (-1.5%). This will have an impact on the performance of gross fixed investment (GFI) for that month, as construction is the most significant component within GFI. The poor performance by industrial production in May will likewise be passed through to the reading for the global economic activity index for that month too.

The seasonally-adjusted consumer confidence series made progress, rising from 92 points (pt) in May 2015 to 93.8pt in June. According to INEGI, four out of the five components of the consumer confidence indicator performed well in June, which led to growth of 2% MoM, sa, for the index. The forecast by BBVA Research had indicated negligible growth for this index from May to June and the better figure for the indicator

could have come from the substantial rise in the number of workers registered with the Mexican Social Security Agency in June, largely due to the job formalisation programme underway.

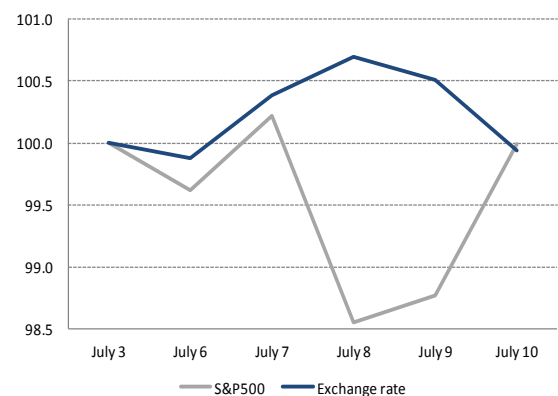
Optimism in the markets regarding an agreement between Greece and its creditors gave rise to a firmer peso at the end of the week. In spite of the volatility following the result of the referendum last Sunday in Greece, the Greek government's reform proposals that it sent to their creditors today have brought back optimism to markets over an imminent agreement. The fact is that the new proposals contain many elements that had already been brought to the table before the referendum was called, above all as regards matters such as taxation and pensions. In these circumstances, the dollar exchange rate ended the week unchanged at MXN15.73, after hitting a new historically high level of 15.85 last Wednesday. This was enough to make the peso the ninth best weekly performer among the emerging currencies as a whole. In the government fixed income market, the redemption yield on the 10-year Mbono dropped 4bp over the week, closing at around 6.03%, in contrast to the 2bp rise for the yield on the 10-year T-bond. This was influenced during the final days' trading by lower demand given expectations of agreement in Greece, the stock market rise in China and the public address by the Fed chair, in which she repeated her outlook of a rise in the federal funds rate this year. In the US equity market, there were no changes in the level at the end of the previous week either, after shedding as much as 1.5%, according to the level seen on Wednesday. In Mexico the IPyC closed having fallen around 0.3% over the week, which was far less of a setback than the level of close to -5.0% for the emerging markets benchmark (MSCI emerging markets). Finally, the price of Mexican mix oil made up lost ground again after an intra-day fall of almost 10.0% midweek, closing at around USD52/bbl.

Figure 1
Industrial production: total and components (YoY % change, seasonally-adjusted)



Source: BBVA Research with INEGI data.

Figure 2
Exchange rate and US stock market (3 July 2015=100)



Source: BBVA Research with Bloomberg data

...What to expect next week

No significant data published

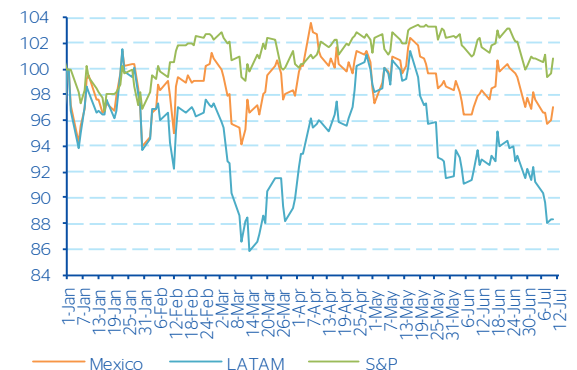
Calendar of indicators

United States	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Adjusted Retail & Food Services Sales (MoM % change, sa)	June	14 July	0.3	0.3	1.2
Industrial Production (MoM % change, sa)	June	15 July	0.2	0.2	-0.2
Private Housing Units Started by Structure Total (MoM % change, sa)	June	17 July	8.6	7.1	-11.1
CPI Urban Consumers (MoM % change, sa)	June	17 July	-0.1	0.3	0.4

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

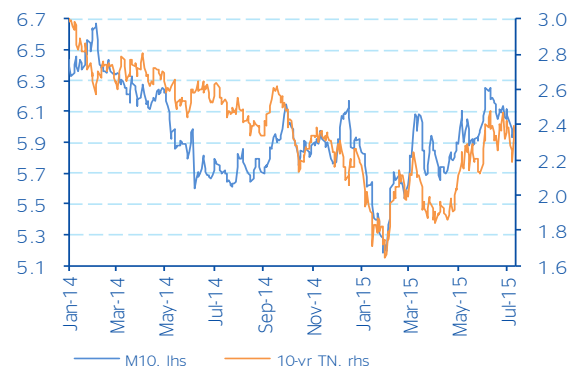
Markets

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



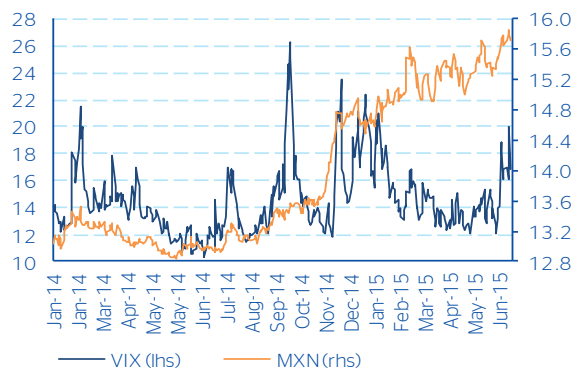
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



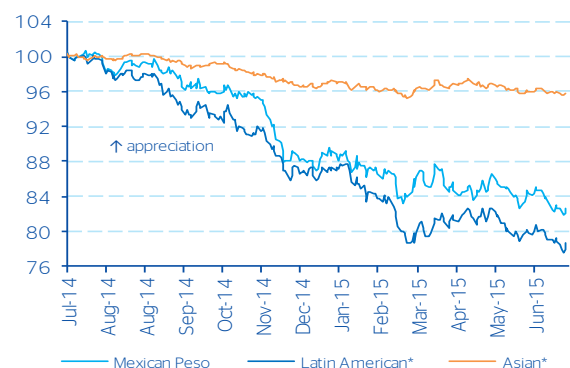
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD
(10 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
6 Jul 2015	➡ Mexico Banking Flash. Private sector credit: increased 10.4% in May, keeping up double-digit growth for the third month in a row
6 Jul 2015	➡ Mexico Migration Flash. Remittances kept up modest growth of 2.4% (YoY) in May 2015
9 Jul 2015	➡ Mexico Inflation Flash. Annual headline inflation hits a fresh record low

Disclaimer

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