

Economic Analysis

Watching out for the annual GDP growth figure for Q2, which we estimate will be 2.0%

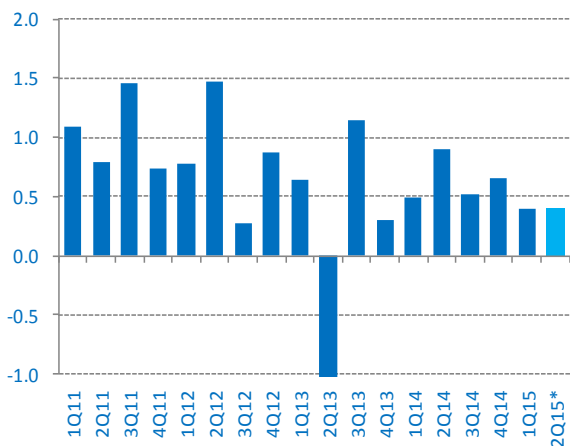
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What happened this week...

The monthly (MoM) growth rate for the industrial production index in June 2015 was 0.2%, after seasonal adjustment (sa). It is worth noting that monthly growth figures for this indicator in April and May were both negative, while the June figure suggests that, for the moment, deterioration of the reading has ended. The comparative performance by the various components in the indicator is striking, because the June figure for mining showed a growth rate that was both high and positive, of 1.1%, when this industry had previously been notable for producing negative monthly growth rates. On the other hand, while the monthly production growth rates for the construction (0.4%) and manufacturing (0.1%) industries were indeed positive, these were low.

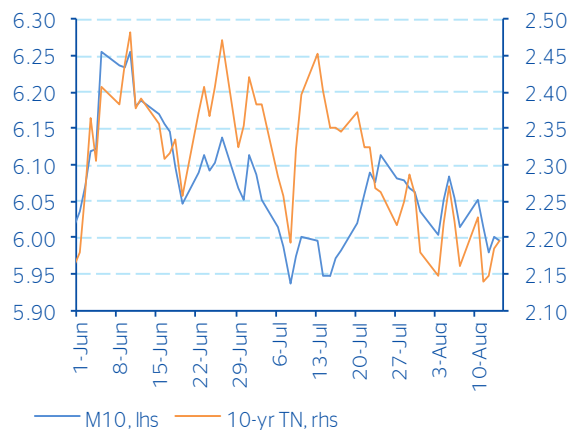
In July the total number of workers that were registered with the IMSS grew by 44,691, which is in line with expectations (BBVAe: 47,200). We believe that this is still being significantly boosted by the job formalisation programme that was implemented by Mexico's labour authorities. The annual growth rate for IMSS-registered employment was thus 4.4% in June, while the annual growth rate (AGR) which we estimate for the IGAE in the same month should have been lower, at approximately 2.1%.

Figure 1
Gross Domestic Product (QoQ % change, sa)



Source: BBVA Research with INEGI data. sa=seasonally-adjusted.
* Estimated

Figure 2
10-year government bond yields (%)



Source: BBVA Research with Bloomberg data

The change to the mechanism for determining the exchange rate of the Chinese yuan caused upheavals in financial trading markets, particularly those in the emerging markets (EM), although fears did ease at the end of the week. The more flexible exchange rate based on market movements gave rise to concern over the situation of China's economic cycle in the midst of fresh signs of a slowdown in the country. This was on top of the challenge which a weaker yuan poses for the competitiveness of other manufacturing economies among the emerging markets. Although market jitters moderated after the Chinese authorities intervened verbally, by indicating that the yuan's adjustment had come to an end, the market effects were substantial. Risk aversion therefore intensified due to global cyclical concerns, driving on the prices of the safe-haven bonds (and even the gold price). Yields on US 10-year government bonds fell back 9 basis points (bp) on Tuesday but then rallied as concerns dissipated somewhat, and they closed the week having moved very little, at 2.20% (compared to 2.23% on Monday). In addition to this, the poorer outlook for the world economy (with China leading the way) was reflected in a drop in commodity and equity prices, with copper down 2.7% and falls for oil (-3.0%), the S&P 500 (-0.7%) and the Euro Stoxx 50 (-5.5%). Furthermore, over the week the trend was maintained of markets now discounting a slower monetary tightening cycle by the Federal Reserve (the Fed) in the future. Thus market attention over the next week will be focussed on the minutes from the Fed's July meeting, to try and gauge the depth of the Fed's concern about the renewed fall in the oil price and the effect of this on inflation. Nervousness on FX markets on account of fears over China's slowdown was particularly acute among Asian EMs, and currencies associated with China and commodities (the Malaysian ringgit, -3.8%; the Indonesian rupiah, -2%; the Mexican peso, -1.5%; and the Colombian peso, -1.5%).

...What to expect next week

We predict that GDP will have grown by 0.4% in Q2 (QoQ, sa). This would equate to 2.0% in annual terms, sa. INEGI is set to release the GDP growth figure for Q2 next Thursday, 20 August. The estimate of a rate of 0.4%, which is moderate, is prompted by the improvement which has been observed in the services sector and the weakness in the industrial sector in the second quarter. The growth figure for H1 could also be revised, for which reason this data will be very important for estimating growth for the year as a whole more accurately. In terms of the initial series, we forecast annual GDP growth for Q2 of 2.3%.

We predict that the Global Economic Activity Indicator (IGAE) will show MoM growth in its seasonally adjusted series (sa) of 0.27% for June, and INEGI is due to publish this figure on 20 August, along with GDP for Q2. Based on a MoM growth rate of 0.27%, the AGR for the seasonally adjusted series for June would be 2.1%. Within this indicator, we expect secondary activities to have grown by 0.2% MoM, sa; with tertiary activities showing 0.4%, MoM, sa, and primary activities indicating a halt to growth.

Calendar of indicators

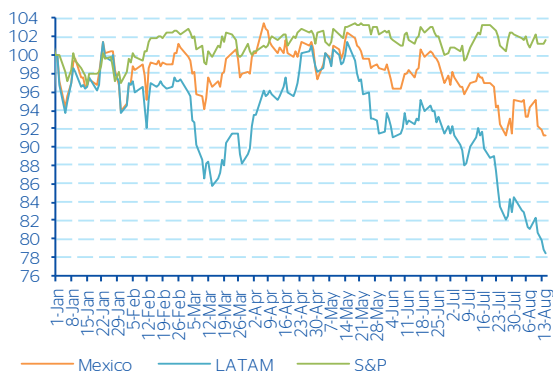
Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
GDP (QoQ % change, sa)	2nd. Quarter	20 August	0.4%	0.4%	0.4%
GDP (YoY % change, sa)	2nd. Quarter	20 August	2.0%	-	2.5%
IGAE (MoM % change, sa)	June	20 August	0.27%	-	0.05%

United States	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
New Privately Owned Housing Units Started by Structure Total (thousands, saar)	July	18 August	1,191	1,180	1,174
CPI Urban Consumers (MoM % change, sa)	July	19 August	0.1	0.2	0.3
CPI Urban Consumers Less Food & Energy (MoM % change, sa)	July	19 August	0.2	0.2	0.2
FOMC Minutes, July 28-29 Meeting	--	19 August	--	--	--

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

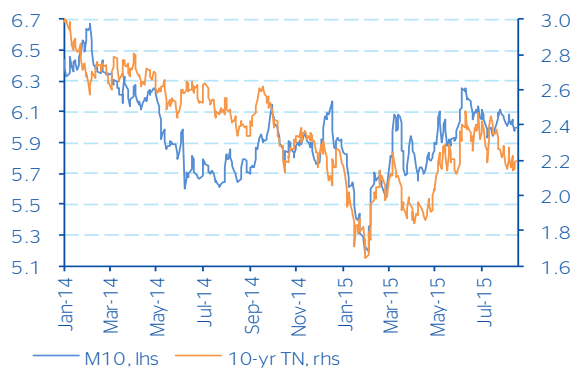
Markets

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



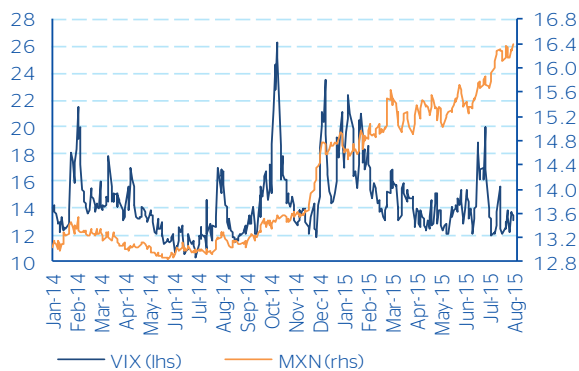
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



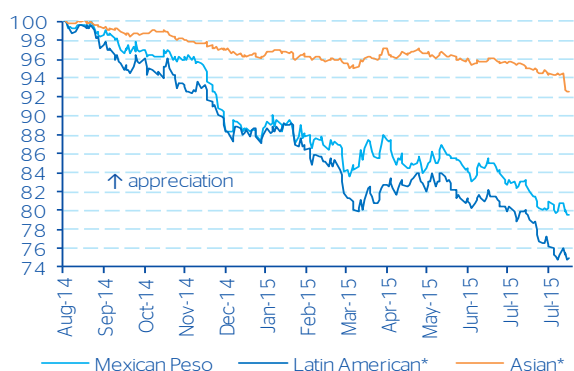
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD
(18 Aug 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	2.8
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	2.5

Source: BBVA Research.

Recent publications

Date	Description
4 Aug 2015	➔ Mexico Migration Flash. Remittances to Mexico increased by 6.1% YoY in June, with an inflow of USD2,168.3mn

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