# Mexico Weekly Flash

## Next week…

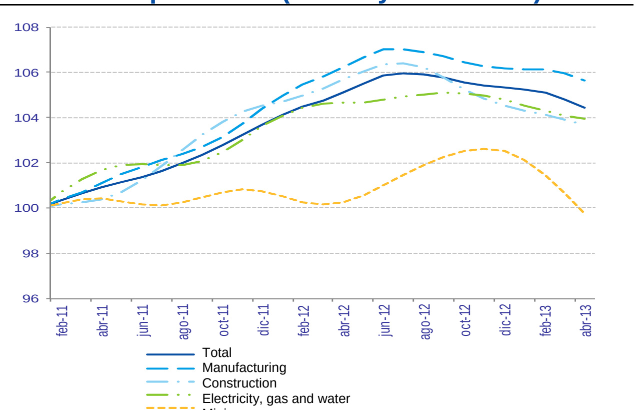
- **The upturn in industrial output was a highlight this week although we maintain a downward bias, awaiting unemployment figures for June...**

Industrial output came in above expectations (-0.2% m/m consensus) in May expanding 1.4% m/m (0.5% y/y). In comparison to last month, the four components saw major progress although only manufacturing expanded at an annual rate. Despite the good data for May, industrial performance in the second quarter is likely to come in below forecasts from the start of the year and, with this, GDP. The level of progress in US manufacturing, as well as a recovery in public expenditure, will be key toward the second half of the year. Based on May's figures, the industry trend seems to have experienced a slight pause in the major slowdown seen in the first four months of the year. Nonetheless, recent indicators on industry sentiment in June such as producer confidence and the IMEF indicator point to the slowdown continuing in June. The IMEF indicator has a threshold of 50 points separating optimism from pessimism and came in at 47.3 points in June, showing a decline for the fifth month in a row and in terms of trend, the lowest level since June 2009. Based on these indicators as well as automotive output in June that saw a production decline equivalent to an annual (-)0.5%, we believe the industrial slowdown is set to continue, confirming the weak progress in manufacturing and, in turn, GDP for the 2Q13. Unemployment and underemployment figures to June are released this week. Here we will see how much the slowdown in output has affected employment.

- **Lower long-term interest rates this week after Bernanke attempted to underscore the message that rates will remain low for a prolonged period**

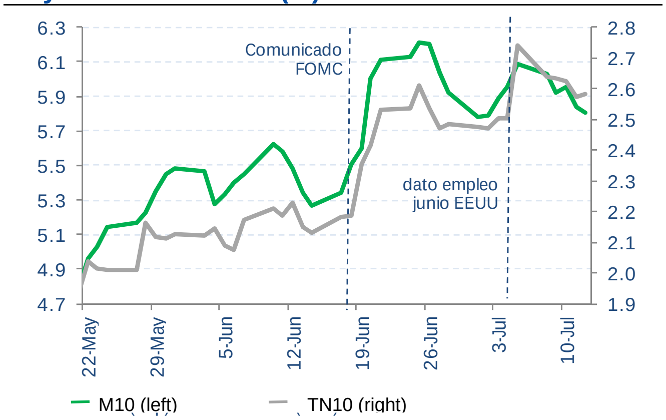
After the strong US job figures in June last week leading to a major additional increase in the 10-year T-bill interest rate (+23bp last Friday, +25bp last week), the rise dropped back this week by over half (-15bp). The interest rate of the 10-year Mexican bond dropped by 28bp over the week, more than reversing the upswing from last week (17bp) and the peso strengthened 2% after falling 1.1% the previous week. These moves were in response to Bernanke's speech where he tried to separate the lower asset purchases at the start of the cycle from increases in the policy rate i.e. he sent a message that a change in unconventional monetary policies should not be taken as a sign that conventional monetary policy will change earlier than planned. Markets responded, although a permanent trend change looks difficult taking into account the change in perception of the Fed's reaction function which seems now to be more linked than before to the unemployment rate. Considering that even with moderate output growth the unemployment rate will continue to decline, and that it is now the determining factor in changes in US monetary policy, permanent trend changes in risk perception on markets that reverse the recently observed normalization look to be difficult.

Chart 1
**Industrial Output: trend (January 2011 = 100)**




Source: INEGI and BBVA Research

Chart 2
**10-year interest rates (%)**



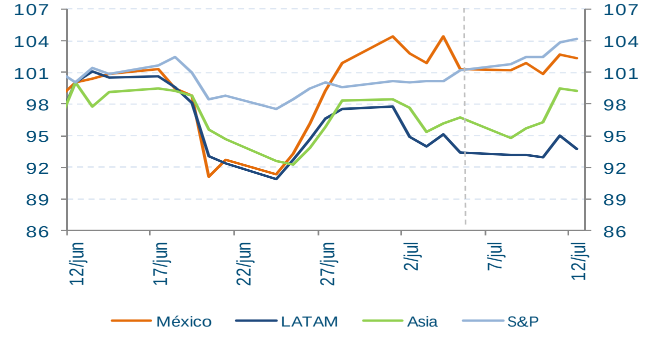

Source: BBVA Research and Bloomberg

No part of this document can be reproduced, taken away or transmitted to those countries (or persons or entities from such) where distribution may be prohibited by current law.
Non-compliance with these restrictions may constitute an infraction of the law in the pertinent jurisdiction.
SEE IMPORTANT INFORMATION AT THE END OF THE DOCUMENT

# Markets, activity and inflation

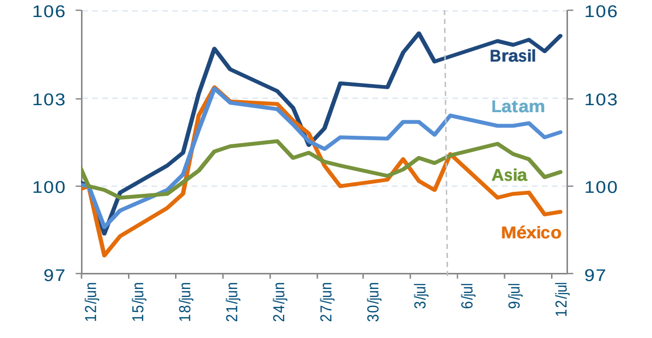
- Corporate reports above-expectations and, especially, statements by the FED chairman regarding the need for a loose monetary policy in the foreseeable future led to weekly gains on stock markets and stronger LatAm currencies.

Chart 5
Stock markets: MSCI indices
(June 12, 2013 = 100)




Source: BBVA Research with data from Bloomberg

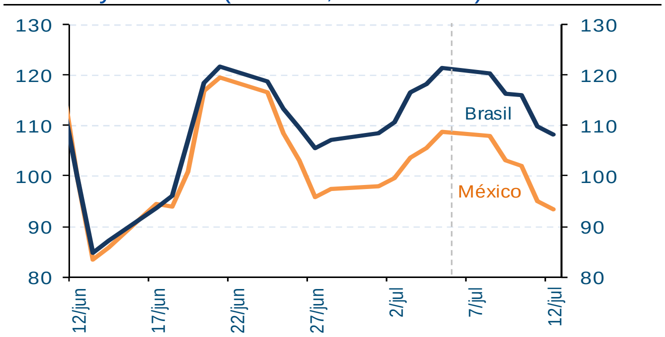
Chart 6
Foreign exchange: dollar exchange rates
(June 12, 2013 = 100)




Source: BBVA Research with Bloomberg data NB: LATAM includes Argentina, Brazil, Chile, Colombia and Peru. Asia includes the Philippines, South Korea, Taiwan, Singapore, Indonesia and Thailand.

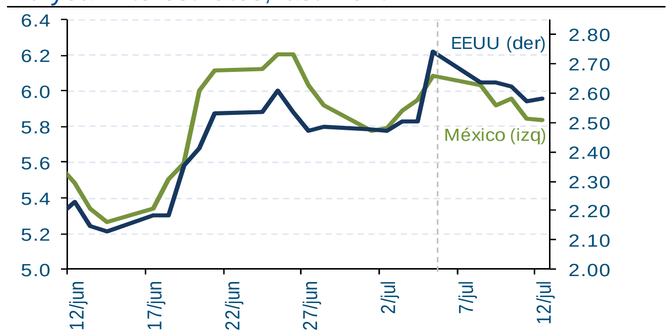
- Higher demand for US government bonds after the statement by the FED chairman in a setting where Mexico's credit risk premium is trending at its average level for the last two years. Rates in Mexico declined over the week in line with US Treasury bonds

Chart 7
Risk: 5-year CDS (June 12, 2013 = 100)




Source: BBVA Research with data from Bloomberg

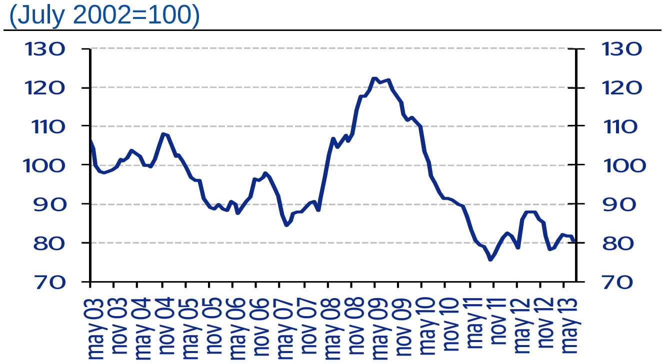
Chart 8
10-year interest rates, last month




Source: BBVA Research with data from Bloomberg

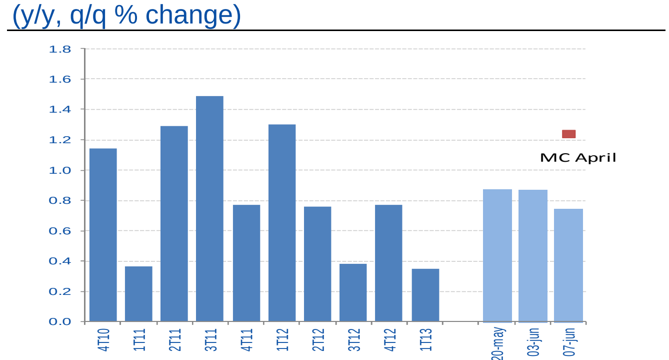
- Inflation has now started to decisively drop back. Output is expected to see an improvement in the second half of 2013 after the slowdown in the first half.

Chart 9
*Inflation Surprise Index
(July 2002=100)




Source: Bloomberg and BBVA Research
*This measures the deviations in inflation in comparison to market-forecast figures, adjusting for inflation volatility. When it trends down, this implies a lower-than-expected inflationary surprise; when it trends up, this indicates a higher-than-expected inflationary surprise.

Chart 10
Observed GDP
(y/y, q/q % change)




Source: BBVA Research

No part of this document can be reproduced, taken away or transmitted to those countries (or persons or entities from such) where distribution may be prohibited by current law.
Non-compliance with these restrictions may constitute an infraction of the law in the pertinent jurisdiction.
SEE IMPORTANT INFORMATION AT THE END OF THE DOCUMENT

Arnoldo López Marmolejo
arnoldo.lopez@bbva.com

Javier Amador Díaz
javier.amadord@bbva.com

Iván Martínez
ivan.martinez.2@bbva.com

Pedro Uriz Borrás
pedro.uriz2@bbva.com

Cecilia Posadas
c.posadas@bbva.com

Claudia Ceja
claudia.ceja@bbva.com

Ociel Hernández
ociel.hernandez@bbva.com

BBVA | RESEARCH | Av. Universidad 1200, Col. Xoco, Mexico 03339 D.F. | researchmexico@bbva.bancomer.com | www.bbvaresearch.com

## IMPORTANT DISCLOSURES

The BBVA Group companies identified by the research analysts' names included on page 3 of this report have participated in or contributed to its preparation, including the information, opinions, estimates, forecasts and recommendations therein.

**For recipients in the European Union**, this document is distributed by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA"). BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.

**For recipients in Mexico,** this document is distributed by BBVA Bancomer, S.A. Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer (hereinafter called "BBVA Bancomer"). BBVA Bancomer is a bank supervised by the Comisión Nacional Bancaria y de Valores de México.

**For recipients in USA,** this document is being distributed by BBVA Securities Inc. (hereinafter called "BBVA Securities"), a subsidiary of Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") registered with and supervised by the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation. U.S. persons wishing to execute any transactions should do so only by contacting a representative of BBVA Securities in the U.S. Unless local regulations provide otherwise, non-U.S. persons should contact and execute transactions through a BBVA branch or affiliate in their home jurisdiction.

BBVA and BBVA Group companies or affiliates (art. 42 of the Royal Decree of 22 August 1885 Code of Commerce), are subject to the BBVA Group Policy on Conduct for Security Market Operations which establishes common standards for activity in these entities' markets, but also specifically for analysis and analysts. This BBVA policy is available for reference at the following web site: www.bbva.com.

Analysts residing outside the U.S. who have contributed to this report are not registered with or qualified as research analysts by FINRA or the New York Stock Exchange and may not be considered "associated persons" of BBVA Securities (as such term is construed by the rules of FINRA). As such, they are not subject to NASD Rule 2711 restrictions on communications with subject companies, public appearances and trading of securities held in research analysts' accounts.

**BBVA is subject to a Code of Conduct for Security Market Operations, which details the standards of the above-mentioned overall policy for the EU. Among other regulations, it includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. This Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance.**

**BBVA Bancomer is subject to a Code of Conduct and to Internal Standards of Conduct for Security Market Operations, which details the standards of the above-mentioned overall policy for Mexico. Among other regulations, it includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. These Code and the Internal Standards is available for reference at the following web site: www.bancomer.com/GrupoBBVABancomer/Conócenos.**

**BBVA Securities is subject to a Capital Markets Code of Conduct, which details the standards of the above-mentioned overall policy for USA. Among other regulations, it includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers.**

---

### EXCLUSIVELY FOR RECIPIENTS RESIDENT IN MEXICO

In the past twelve months, BBVA Bancomer has granted banking credits to the following companies covered in this report: **ALFA, AXTEL, COMISION FEDERAL DE ELECTRICIDAD, CONSTRUCCION Y SERVICIOS INTEGRALES SIGMA, CORPORACION GEO, DAIMLER MEXICO, FACILEASING, GENOMMA LAB INTERNACIONAL, GEO EDIFICACIONES, GRUPO CARSO, GRUPO CASA SABA, GRUPO CEMENTOS DE CHIHUAHUA, GRUPO COMERCIAL CHEDRAUI, GRUPO PALACIO DE HIERRO, IMPULSORA DEL DESARROLLO Y EL EMPLEO EN AMERICA LATINA, INDUSTRIAS BACHOCO, INMOBILIARIA RUBA, PEMEX CORPORATIVO, TIENDAS CHEDRAUI, URBI DESARROLLOS URBANOS, VOLKSWAGEN LEASING.**

In the past twelve months, BBVA Bancomer has granted *Representación Común* services to the following companies covered in this report: **N/A**

**BBVA or one or more of its affiliates makes a market/provides liquidity in the securities of the following companies covered in this report: Casa de Bolsa BBVA Bancomer, MexDer Contrato de Futuros (Dólar de Estados Unidos de América (DEUA), TIIE de 28 días (TE28), Swap de TIIE, CETES de 91 días (CE91)), Bonos M, Bonos M3, Bonos M10, Indice de Precios y Cotizaciones de la BMV (IPC), Contrato de Opciones (IPC, Acciones América Móvil, Cemex, CPO, Femsa UBD, Gcarso A1, Telmex L), Udibonos.**

As far as it is known, a Director, Executive Manager or Manager reporting directly to the BBVA Bancomer General Manager has the same position in the following companies that may be covered in this report: **Alfa, Alsea, America Movil, AMX, Asur, CMR, Coca-Cola Femsa, Consorcio Hogar, Dine, El Puerto de Liverpool, Fomento Economico Mexicano, Grupo Aeroportuario del Pacifico, Grupo Aeroportuario del Sureste, Grupo Bimbo, Grupo Carso, Grupo Financiero Inbursa, Grupo Kuo, Grupo Maseca, Grupo Modelo, Grupo Posadas, Grupo Televisa, Industrias Peñoles, Invex Controladora, KOF, México, Grupo Aeroportuario del Centro Norte, Sanborns Hermanos, Sears Roebuck de México, Telecom, Telefonos de México, Tenaris, Urbi Desarrollos Urbanos, Vitro.**

BBVA Bancomer, and, as applicable, its affiliates within BBVA Bancomer Financial Group, may hold from time to time investments in the securities or derivatives financial instruments with underlying securities covered in this report, which represents 10% or more of its securities or investment portfolio, or 10% or more of the issue or underlying of the securities covered.

## DISCLAIMER

This document and the information, opinions, estimates, forecasts and recommendations expressed herein have been prepared to provide BBVA Group's customers with general information and are current as of the date hereof and subject to changes without prior notice. Neither BBVA nor any of its affiliates is responsible for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, to undertake or divest investments, or to participate in any trading strategy. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

**Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report.** Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. Other than the disclosures relating to BBVA Group, the contents of this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA or any of its affiliates and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. To the extent permitted by law, **BBVA and its affiliates accept no liability of any type for any direct or indirect losses or damages arising from the use of this document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.**

**The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, derivatives, options on securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying securities. Investors should also be aware that secondary markets for the said instruments may not exist.**

BBVA or any of its affiliates´ salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. More specifically, this document is in no way intended for, or to be distributed or used by an entity or person resident or located in a jurisdiction in which the said distribution, publication, use of or access to the document contravenes the law which requires BBVA or any of its affiliates to obtain a licence or be registered. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

The remuneration system concerning the analysts responsible for the preparation of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

BBVA Hong Kong Branch (CE number AFR194) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission of Hong Kong.

This document is distributed in Singapore by the BBVA's office in this country for general information purposes and it is generally accessible. In this respect, this document does not take into account the specific investment goals, the financial situation or the need of any particular person and it is exempted from Regulation 34 of the Financial Advisors Regulation ("FAR") (as required in Section 27 of the Financial Advisors Act (Chapter 110) of Singapore ("FAA"))

BBVA, BBVA Bancomer or BBVA Securities are not authorised deposit institutions in accordance with the definition of the Banking Act 1959 nor are they regulated by the Australian Prudential Regulatory Authority (APRA)

## GENERAL DISCLAIMER FOR THE EVENT THAT THE READERS HAVE ACCESSED TO THE REPORT THROUGH THE INTERNET

Internet Access

In the event that this document has been accessed via the internet or via any other electronic means which allows its contents to be viewed, the following information should be read carefully:

The information contained in this document should be taken only a general guide on matters that may be of interest. The application and impact of the laws may vary substantially depending on specific circumstances. BBVA does not warrant that this report and/or its contents published on the Internet are appropriate for use in all geographic areas, or that the financial instruments, securities, products or services that can be referenced on it are available or appropriate for sale or use in all jurisdictions or to all investors or counterparties. Recipients of this report acceding to it through the Internet are acceding on their own initiative and are responsible for compliance with local regulations applicable to them.

Changes in regulations and the risks inherent in electronic communications may cause delays, omissions, or inaccuracy in the information contained in this site. Accordingly, the information contained in the site is supplied on the understanding that the authors and editors do not hereby intend to supply any form of consulting, legal, accounting or other advice.

All images and texts are the property of BBVA and may not be downloaded from the Internet, copied, distributed, stored, re-used, re-transmitted, modified or used in any way, except as specified in this document, without the express written consent of BBVA. BBVA reserves all intellectual property rights to the fullest extent of the law.