

# Mexico Weekly Flash

## Next week...

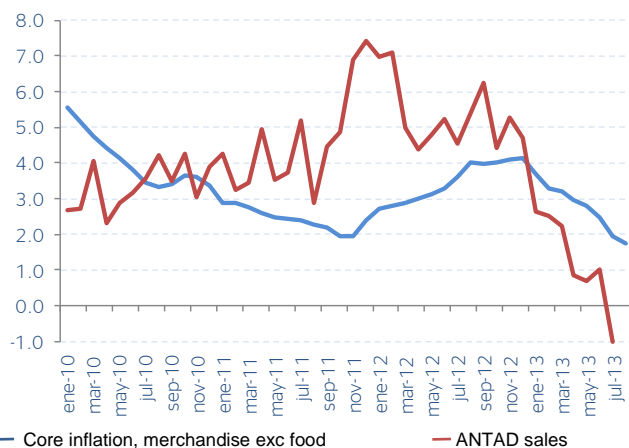
- **The minutes from the monetary policy meeting could help assess the likelihood of an additional policy rate cut**

This coming Friday Banxico will release the minutes from the last monetary policy meeting where it cut the policy rate by 25bp. The debate could provide clues as to the likelihood of an addition cut at forthcoming meetings. Given the clear emphasis in the statement on the slack in the economy lasting for a prolonged period, even taking into account a recovery in the economy in the second half of this year and next year, it will be important in terms of a monetary decision to see the weight the board gives the effect a possible tapering in asset purchases by the Federal Reserve could have. In addition, it will be interesting to see board member opinions regarding the recent exchange rate volatility, especially since both the market and different analysts discounted this factor being key to not cutting the rate. Finally, attention will need to be paid to the arguments surrounding structural reforms, especially fiscal reform, and their possible effects on prices and economic growth.

- **The Fed is expected to announce a tapering in its asset purchases this week; higher uncertainty surrounding its plans could favor financial variables**

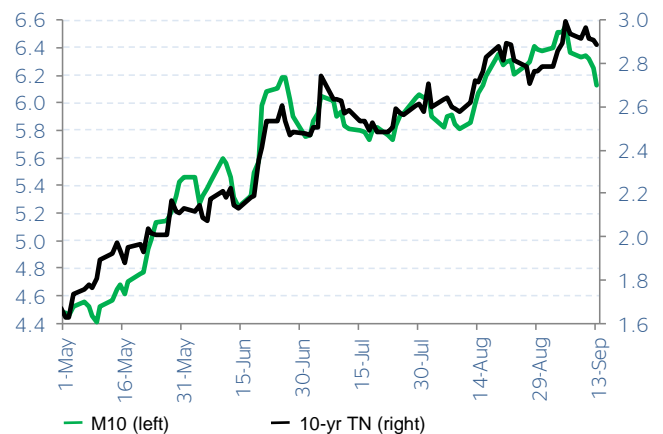
US cyclical data this week were mixed and markets took a breather in anticipation of the Fed's decision on tapering its asset purchases this coming Wednesday. US interest rates fell slightly and calm markets favored risk assets. We expect the Fed to announce a cut in its asset purchase rate this coming week. This will reduce uncertainty on the markets regarding the path it will follow to taper its QE3 program (i.e. to start moving away from unconventional policies and slowly head toward a more standard monetary policy). This could strengthen the recent stabilization trend in long-term US interest rates and even lead to a slight downward move as markets adapt to greater certainty (see [FedWatch: Ahead of September 17 18 FOMC Meeting](#)).

Chart 1  
ANTAD\* sales and core inflation non-food goods  
(% change y/y)



\* 4MMA. Source: BBVA Research and INEGI

Chart 2  
10-year interest rates (%)



Source: BBVA Research, Bloomberg.

# Calendar: Indicators

## Goods and services supply and demand, 2Q13 (September 19)

Forecast: AD 1.4% y/y, CSV

Consensus: 1.8% y/y, CSV

Previous: 1.0% y/y, CSV

In a scenario of a change in the base year for the GDP series (from 2003 to 2008), the INEGI will release global goods and services supply and demand data for the second quarter of 2013 on September 19. This GDP breakdown will be important for weighing up the slowdown in the components vis-à-vis the revised downward quarterly GDP growth for the first quarter and the decline in the second quarter. Specifically, with figures corrected for seasonal variation, GDP fell 0.74% in the second quarter compared to the previous quarter. Secondary Activities declined 1.10% and Tertiary fell back 0.42% while Primary Activities increased by just 1.22% compared to the previous quarter. Private consumption saw very moderate performance in the months prior to the report. Retail sales and the ANTAD sales indicator continue to show negative performances, impacted by the continual rise in unemployment. Nonetheless, thanks to inflation continuing to be contained, real wages have remained relatively stable. In turn, gross fixed investment remained weak, declining 1.13% in June compared to the previous month, with figures corrected for seasonal variation. In addition, the most recent report (July) on industrial output showed a sustain decline, mainly in construction (-6.5% y/y, CSV). In addition, based on the trade balance indicators, we know that foreign trade in goods has moderated in manufactured goods and oil exports. This is why we cannot rule out net trade coming in negative due to lower exports while imports of goods should show better growth. Thanks to all this, Aggregate Demand will likely show growth of 1.4% y/y, CSV.

## Occupation and employment (September 20)

Forecast: 5.20%

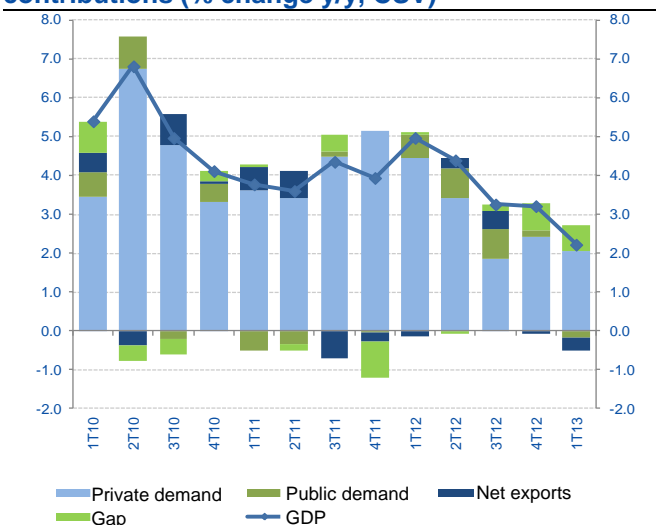
Consensus: 5.30%

Previous: 5.12%

Occupation and employment figures for August will be released this coming week. This time around it will be important to focus on the indicator to assess the performance in formal employment and general economic output in the country. Previous unemployment reports have been negative and job market conditions do not seem to be recovering in the short-term. Due to this, we forecast higher unemployment, from 5.12% in July to 5.20% in August.

Chart 3

### Goods and services supply and demand, annual contributions (% change y/y, CSV)\*

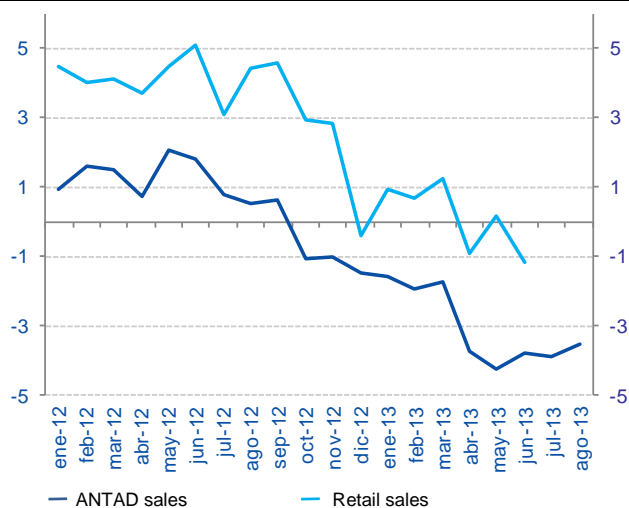


Source: BBVA Research with INEGI data.

NB: \* We should take into account that aggregate GDP for the first quarter was revised downward. This chart was produced with information available in the first quarter with 2003 as the base year.

Chart 4

### Retail stores and ANTAD (% change y/y, CSV)

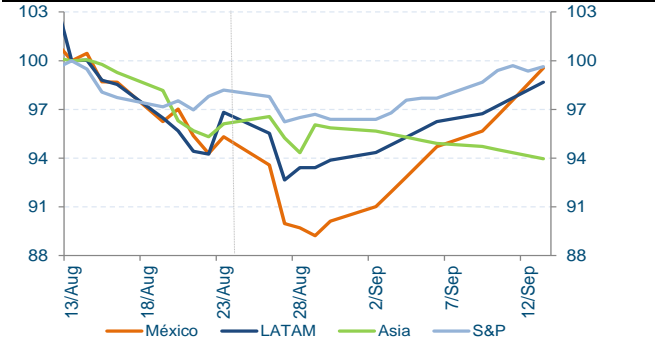


Source: BBVA Research with ANTAD and INEGI figures.

# Markets, activity and inflation

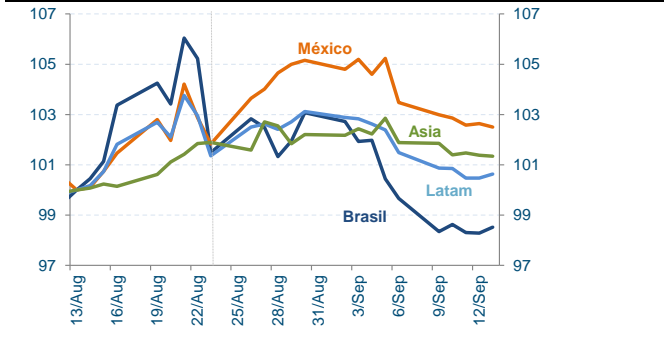
- US interest rates fell slightly and calm markets favored risk assets: stock markets were up and currencies strengthened. The peso ended the week at 13.05ppd (strengthening 0.9% over last Friday and 2.5% since Thursday that same week).

Chart 5  
Stock markets: MSCI indices  
(August 13, 2013 index=100)



Source: BBVA Research with data from Bloomberg

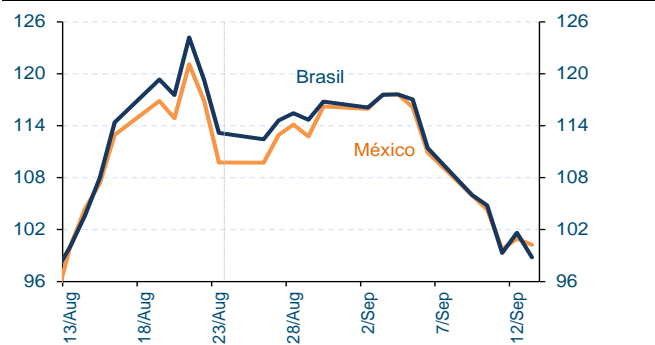
Chart 6  
Foreign exchange: dollar exchange rates  
(August 13, 2013 index=100)



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.

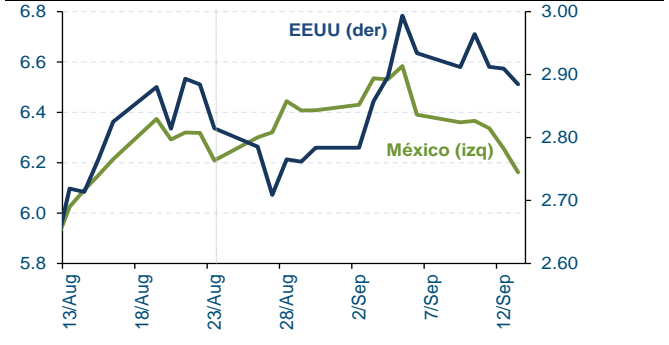
- Although Mbond rates will remain in close correlation with T-bill rates in the near future, lower risk aversion and the recent Banxico cut have led to lower long-term interest rates (e.g. -21bp for the M10 since Friday last week; -43bp since Thursday).

Chart 7  
Risk: 5 year CDS (August 13, 2013 index=100)



Source: BBVA Research with data from Bloomberg

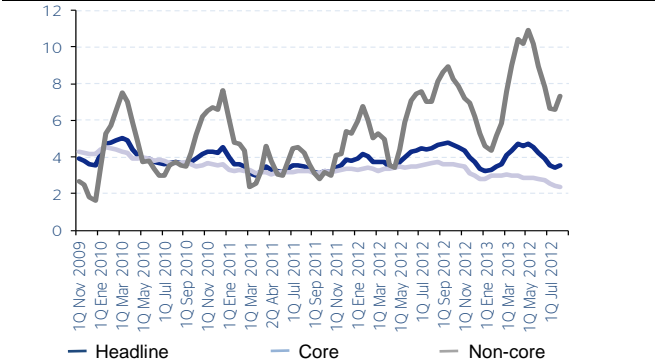
Chart 8  
10-year interest rates, last month



Source: BBVA Research with data from Bloomberg

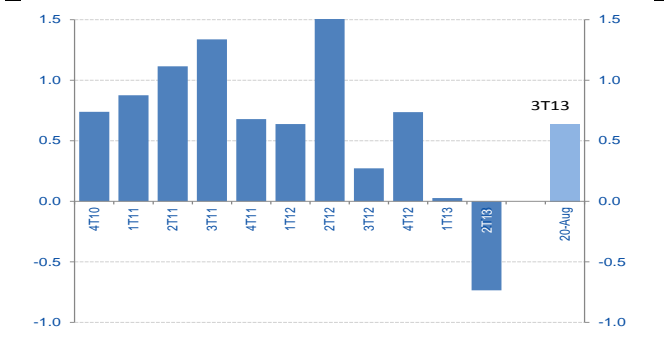
- The slack in economic output points to low core inflation continuing. Growth is expected to see a bounce this quarter, although recent data continues to show weakness.

Chart 9  
Inflation Breakdown  
(% change y/y)



Source: INEGI and BBVA Research

Chart 10  
Observed and estimated GDP 3Q13  
(% change q/q)



Source: BBVA Research

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