Mexico Weekly Flash

Next week…

- **Different economic activity indicators set to report on the country's economic performance in greater detail for the third quarter 2013**

  Taking into account the slowdown in aggregate demand components such as private consumption (-0.76%) and gross fixed capital (-1.91%) in the second quarter of the year compared to the previous quarter (with figures corrected for seasonal variation), the country's economic activity indicators for the third quarter are highly important. On Monday, September 23, INEGI will release the indicators for commercial establishments, centered on retail sales. Wednesday 25 sees the release of the global economic activity indicator (IGAE) for July. Thursday 26 sees the release of the trade balance in August. In addition, Friday 27 sees the release of the manufacturing sector indicator for July. Attention will need to be paid to how these indicators are performing to see the likelihood of a recovery in the Mexican economy in the second half of the year. The reports may confirm the downward bias in the economic growth forecast for 2013, currently at 1.4%.

- **The Fed decides to not taper its asset purchases and boosts risk assets**

  This week the Fed surprised the market not only with its decision to not start tapering its asset purchases as part of its quantitative easing program but also with the tone set at the press conference. Bernanke tried to highlight that the cycle of rises will be very slow: on the one hand, FOMC forecasts for the policy rate at the end of 2016 are just 2.0% and, on the other, in the Q&A session Bernanke stated that the cycle of rises could last two or three years beyond 2016. Consequently, markets set back the start of the cycle of rises with regard to what was seen recently, again discounting a very slow normalization for monetary policy (see chart 2). Markets reacted strongly to the announcement on Wednesday and risk assets saw major gains. Nonetheless, from Thursday on market took a breather: major stock markets are mainly stable while interest rate and emerging currency markets reversed some of the gains. Looking forward, the market will be ever more focused on appropriate US cyclical indicators and the margin that will perhaps take away a little weight (although it continues to be the most important) from job figures after Bernanke suggested that the rate may not start to rise even if the unemployment rate comes in below 6.5%.

Commercial Establishments in July (September 23)

Forecast: -0.1% y/y, CSV	Consensus: N/A	Previous: -1.2% y/y, CSV

Monday sees the release of figures for retail establishments in July. It should be stated that retail sales saw an annual decline in June (-1.2%) and despite being highly negative, the ANTAD sales indicator showed some recovery in August (annual change of -3.5% vs. -3.9% in July, CSV). This means the retail sales indicator could show this slight improvement.

Inflation for the first two weeks in September (September 24)

Forecast: 0.29% (3.42% y/y)	Consensus: 0.26%	Previous: 0.07% (3.37% y/y)

On Tuesday, INEGI will release the inflation figures for the first two weeks in September which are set to show stability in year-on-year inflation and no demand pressures. In bi-weekly terms, we expect a 0.29% upswing in inflation and 0.18% in core inflation. With this, in annual terms inflation will remain at 3.4%, while core inflation will remain at 2.4%. The lack of demand pressures due to slack in the economy, the minutes from the last monetary policy decision meeting released on Friday 20 and the continuing weakness in the economic cycle back up our forecast for an addition 25 basis points cut in the policy rate at the next Banxico meeting.

IGAE in July (September 25)

Forecast: 1.0% y/y, CSV	Consensus: N/A	Previous: 0.45% y/y, CSV

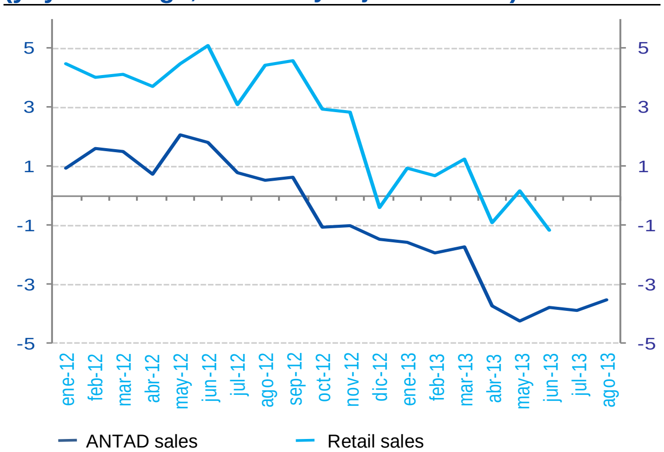
The IGAE will provide initial pointers on economic performance in the third quarter. The IGAE in June saw slight growth in annual terms (0.45% CSV) due to the contraction in the primary and secondary sectors (-2.0% y/y and -2.1% y/y). Meanwhile, the tertiary sector saw growth of 1.9% y/y. Taking into account the poor performance in private consumption (-0.76% q/q, CSV) and gross fixed capital (-1.91% q/q, CSV) in the second quarter of the year, and considering a slight improvement in manufacturing output performance, the IGAE is expected to show annual growth of 1.0% with figures corrected for seasonal variation.

August trade balance (September 26)

Forecast: -1.849 bd	Consensus: N/A	Previous: -1.440 bd

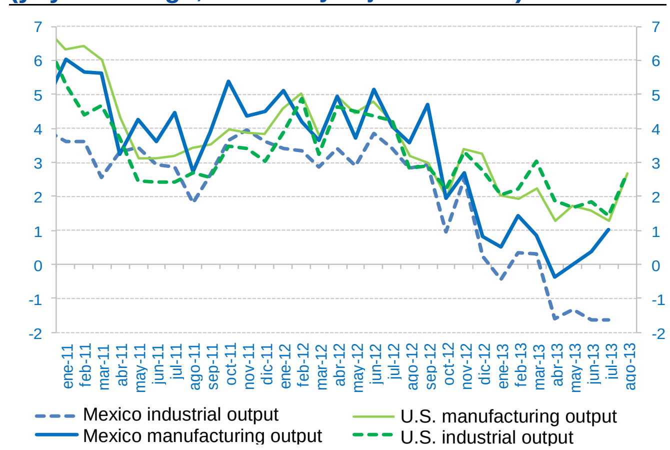
Next Thursday, trade balance figures for August will be released. We expect to see some growth in both exports and imports (7.2% and 9.7% respectively) due to the recent upswing in industrial output in the US. For example, manufacturing output in the US in August rose 2.7% y/y, up from 1.3% in July. With regard to the trade balance, we therefore believe it should come in negative in August as imports of intermediate goods and capital in July may point to an increase in manufacturing exports in the short-term.

Chart 1
Commercial Establishments and ANTAD sales (yoy % change, seasonally-adjusted series)



Source: BBVA Research with ANTAD and INEGI data

Chart 2
Mexico and United States Industrial Output (yoy % change, seasonally-adjusted series)

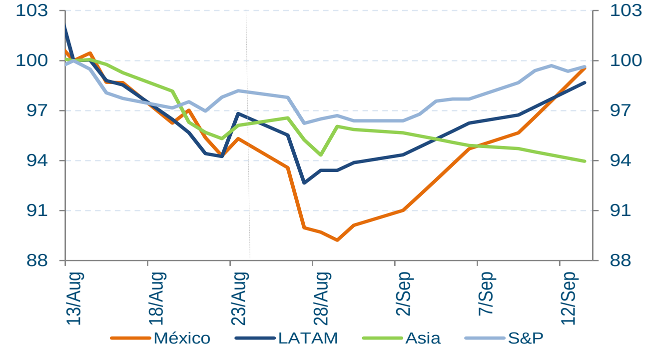


Source: BBVA Research with INEGI and Bloomberg data

Markets, activity and inflation

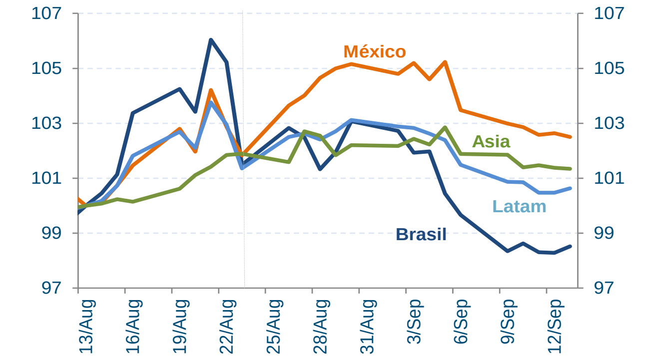
- The decision to put back the tapering in asset purchases at the FED led to higher demand for risk assets and emerging markets. Stock markets reacted with gains while the peso strengthened 1.4% over the week.

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



Source: BBVA Research with data from Bloomberg

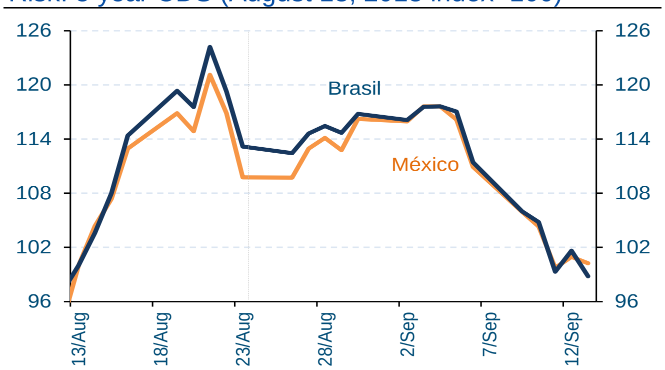
Chart 6
Foreign exchange: dollar exchange rates
(August 13, 2013 index=100)



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.

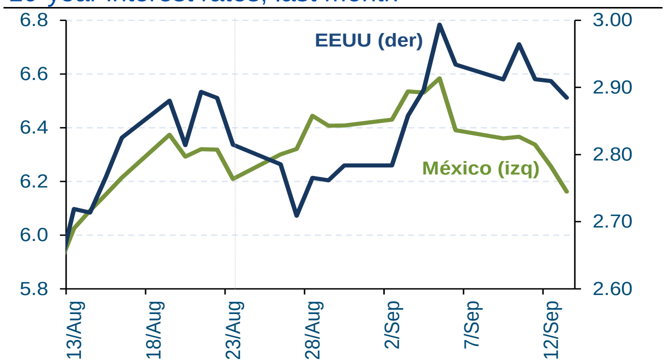
- Lower long-term interest rates in the US (-15bp) and Mexico (-38bp) over the week in light of liquidity expected to remain for a longer period.

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



Source: BBVA Research with data from Bloomberg

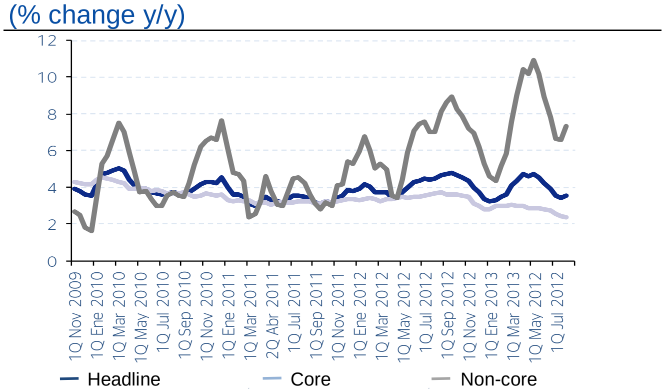
Chart 8
10-year interest rates, last month



Source: BBVA Research with data from Bloomberg

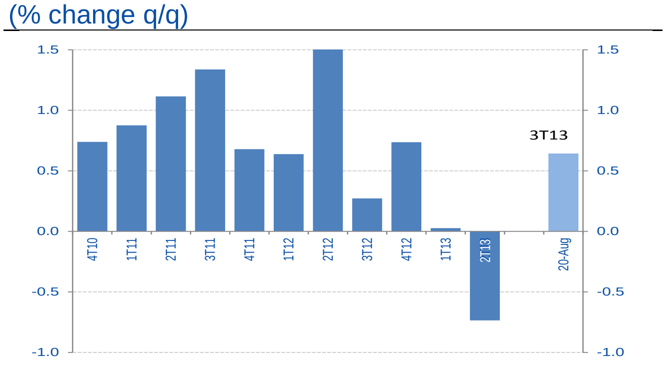
- The slack in economic output remains and recent industrial output figures in the US point to a possible upswing in foreign demand that could support growth in the third quarter slightly.

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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