

Mexico Weekly Flash

Next week...

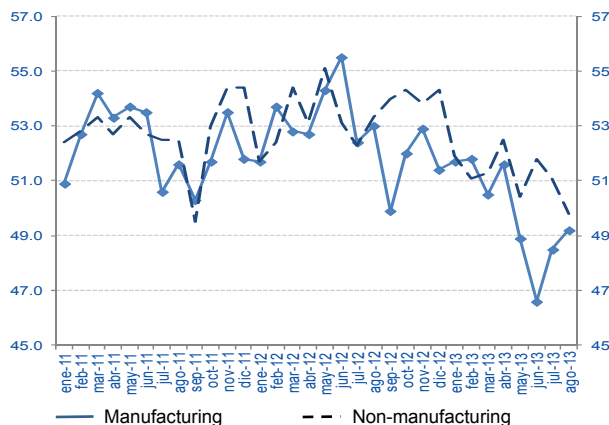
The IMEF manufacturing index for September, one of the earliest indicators on the country's economic performance, set to be released

The IMEF indicator will be released this Tuesday and help assess the country's economic performance at the end of the third quarter. The slight monthly growth in manufacturing output in Mexico in July (0.4% m/m, CSV) and in the US in August (0.6% m/m, CSV) point to the IMEF manufacturing index showing an improved business climate with expected moderate monthly growth of 1.4% to hit 49.9 points (49.2 pts in August). In turn, on October 1 Banxico will release figures on remittances received by families in Mexico in August, with a marginal increase being forecast. Job figures in the US, where most Mexican migrants live, point to a slight recovery, which could (continued on next page).

Negative tone again returns to markets. Uncertainty highly likely to continue

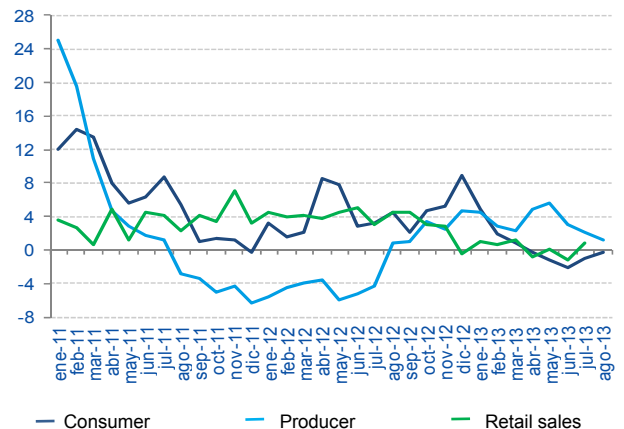
Volatility returned to financial markets this week due to concern surrounding the likelihood of a possible US government shutdown. On the one hand, Treasury secretary, Jack Lew, stated that the Treasury's balance will run very low around October 17; on the other, the Congressional Budget Office estimated that the Treasury could remain without authorization to take out loans or cash at any time between October 22 and 31. Consequently, the greater risk outlook wiped out the gains seen after the Fed's decision to delay the start of tapering to the asset purchase program on Wednesday last week. Compared to what was seen on markets over recent months (i.e. risk revaluation in the face of a start to a normalization in monetary policy), movements this week correspond to a risk episode: declines were seen on stock markets, rises in risk premiums (CDS and interest rate spreads), weaker emerging currencies and a safe haven effect shown in an 11bp drop in the 10-year T-bill rate without real output triggers or monetary policy expectations. All eyes will remain on Washington in coming weeks. In addition, the likelihood is high that risk aversion linked to this uncertainty continues in coming weeks.

Chart 1
IMEF manufacturing and non-manufacturing indicator (indices)



Source: BBVA Research with IMEF data.

Chart 2
Consumer, producer and retail sales confidence (% change y/y, CSV)



Source: BBVA Research with INEGI data.

Calendar: Indicators

Family remittances (October 1)

Forecast: 1.909 b.d.	Consensus: 1.9 b.d.	Previous: 1.841 b.d.
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(continued from previous page) also favor migrant employment and, in turn, remittances to Mexico. Therefore, our forecasts point to it being highly likely that the negative run comes to a halt and August seeing remittances to the country coming in at 1.909 billion dollars, representing an annual change of 1.0% and a monthly change of 3.7%.

IMEF manufacturing indicator for September (October 1)

Forecast: 49.9 pts, 1.4% m/m	Consensus: 49.9 pts.	Previous: 49.2pts., 1.4% m/m
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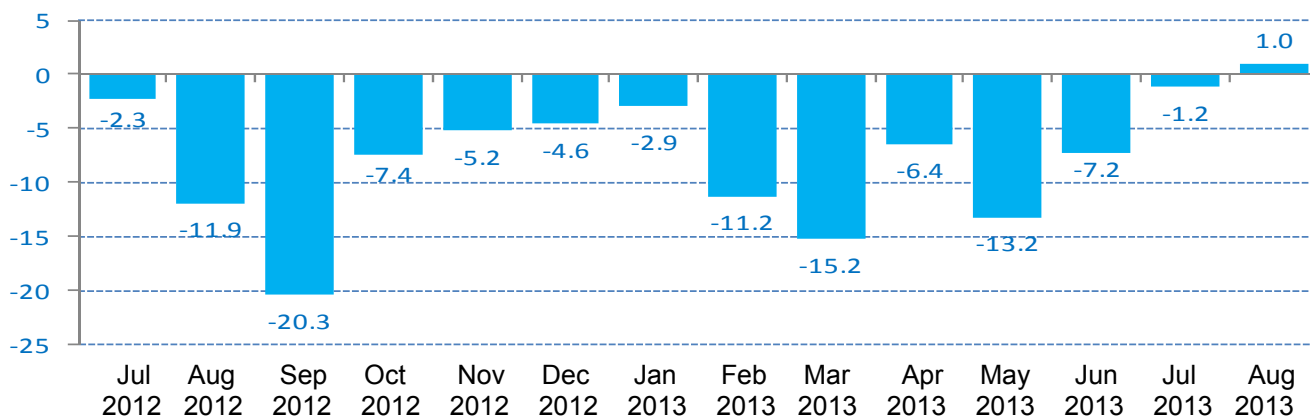
Consumer and producer confidence in September (October 3)

Forecast: Consumer: (97.4 pts.), 1.4% m/m, CSV Producer: (56 pts.), 0.6% m/m, CSV	Consensus: N/A Consensus: N/A	Previous: (96.1 pts.), 0.4% m/m, CSV Previous: (55.5 pts.), 0.8% m/m, CSV
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INEGI will release the producer and consumer confidence indices for September on Thursday, October 3. One of the main indicators linked to consumer confidence is for retail sales. This indicator showed an annual increase of 0.88% (0.58% m/m) in July with figures corrected for seasonal variation (CSV). In this way, the consumer confidence index is expected to see a slight improvement and hit 97.4 points (96.1 pts. in August), CSV. In turn, due to the slight improvement in manufacturing output (especially automotive), we expect the producer confidence index to hit 56 points (55.5 pts. in August), CSV.

Chart 3

Family remittances to Mexico (% change y/y calculated based on dollars)

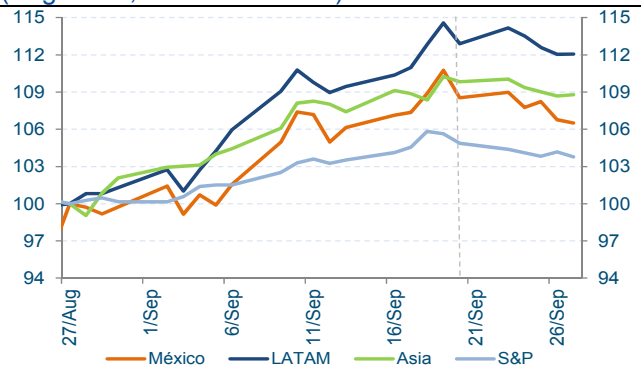


Source: BBVA Research with Banxico data

Markets, activity and inflation

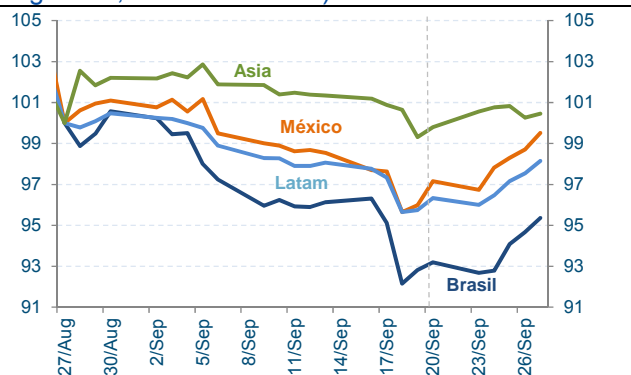
- The lack of legislative agreement in the US surrounding an extension to government spending so as to avoid a government shutdown again led to market volatility. The peso fell to again hit 13 per dollar while stock markets saw losses toward the end of the week.

Chart 4
Stock markets: MSCI indices
(August 27, 2013 index=100)



Source: BBVA Research with data from Bloomberg

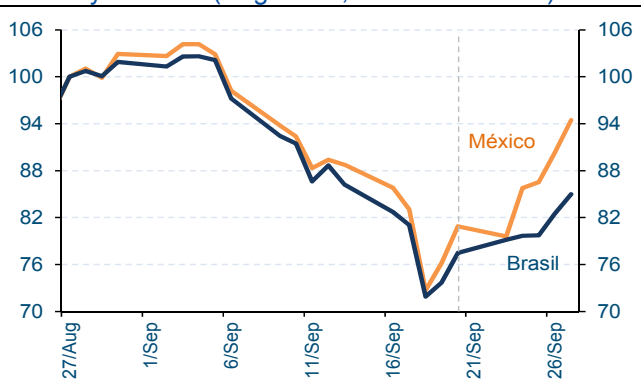
Chart 5
Foreign exchange: dollar exchange rates
(August 27, 2013 index=100)



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.

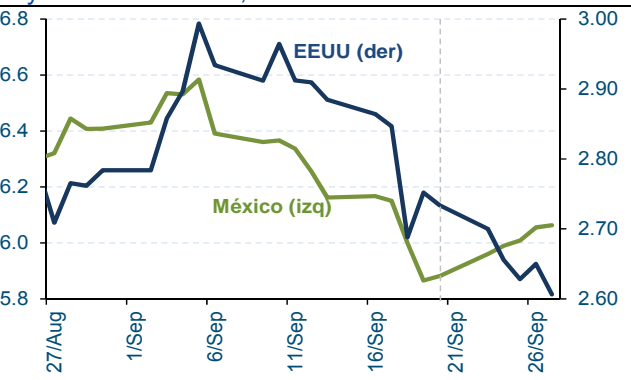
- Decline in US interest rates and a rise in Mexican rate in light of a flight to quality driven by the lack of fiscal agreement in the US. Risk aversion increased.

Chart 6
Risk: 5 year CDS (August 27, 2013 index=100)



Source: BBVA Research with data from Bloomberg

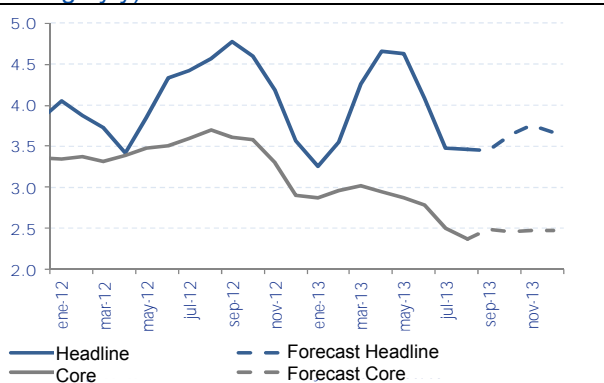
Chart 7
10-year interest rates, last month



Source: BBVA Research with data from Bloomberg

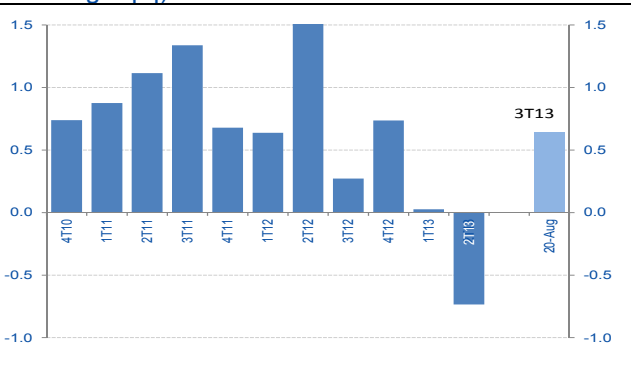
- Core inflation set to remain stable while headline inflation could see a slight increase in coming months. Economic growth is expected to see a bounce this quarter.

Chart 8
Inflation
(% change y/y)



Source: BBVA Research, INEGI

Chart 9
Observed and estimated GDP 3Q13
(% change q/q)



Source: BBVA Research.

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