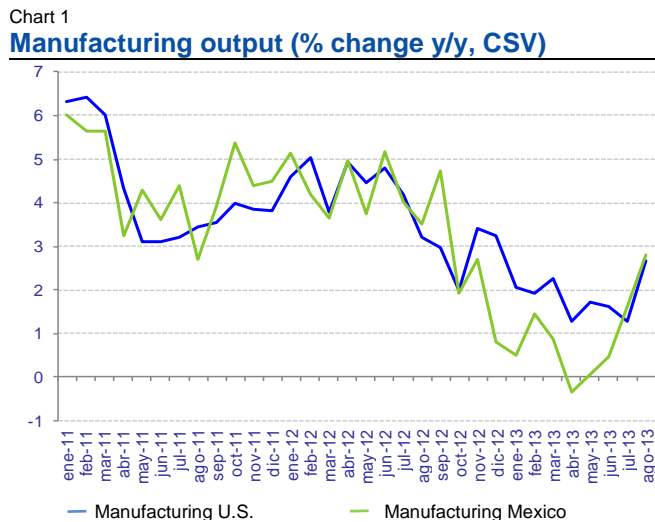


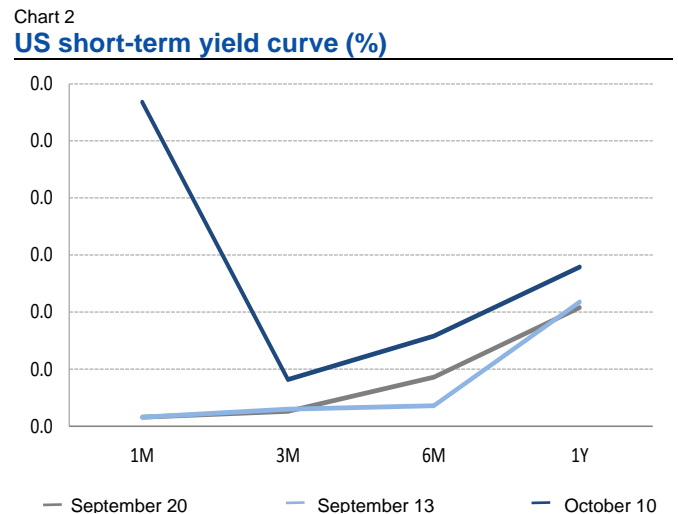
# Mexico Weekly Flash

## Next week...

- Mexican employment figures for September are set for release and should provide signs on the performance in consumption at the end of the third quarter of the year**  
 Employment data in Mexico to the end of September are set for release this coming Friday including the unemployment rate (see next page for details). These job figures will help assess how consumption in the third quarter should have performed. Further important figures for the Mexican economy that could be released this coming week include US industrial output for September. However, due to the government shutdown in the US, their release is likely to be delayed. These latter figures should help assess whether the higher industrial and manufacturing output in Mexico in August could continue in coming months and, therefore, provide clearer signs about GDP growth in the third quarter of the year.
- Fiscal conflict in the US sets market behavior**  
 During the week, the US president proposed Janet Yellen, current deputy chair of the FED, take the helm at the Federal Reserve for 2014-2018 after Ben Bernanke steps down. Although it could be said that the appointment was warmly welcomed by markets, the development in fiscal negotiations remained the main influence affecting financial markets. The meeting between President Obama and Republican legislators at the end of the week created expectations that an agreement could be reached on increasing the debt ceiling. Nonetheless, there are no signs of a solution at present. On the one hand, Republicans propose ending the government 'shutdown' and temporarily increasing the debt ceiling to maintain spending until November 22, as long as the president accepts to negotiate his long-term spending program especially health spending. On the other, President Obama insists that he will not accept conditions with regard to the debt ceiling and the government 'shutdown'. In this scenario, the expectation of an agreement led to gains on stock markets and a 0.6% weekly rise in the peso taking it again to 13 pesos to the dollar at the end of the week. Short-term rates in Mexico saw a fall for the month in expectation of a cut by Banxico while in the US, one-month yields touched a 5-year high in light of the uncertainty surrounding fiscal negotiations.



Source: BBVA Research and INEGI



Source: BBVA Research and Bloomberg. The figures correspond to those reports by ICAP Plc, the largest US government debt broker.

# Calendar: Indicators

## Occupation and employment in September (October 18)

Forecast: 5.08%

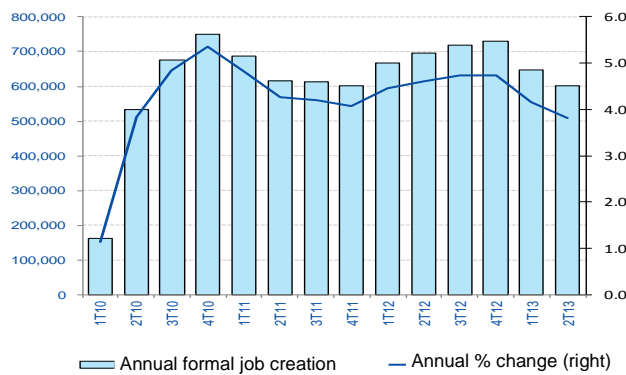
Consensus: 5.10%

Previous: 5.17%

INEGI is set to release employment figures for September 2013 on October 18. Given the slight up-tick in economic activity, specifically in industrial output in August (0.5% m/m, CSV), assessing employment performance will be important. These figures will show the type of employment created to the third quarter of the year for the labor force as a whole. These indicators include payroll, which contributes to assessing the employment income (combination of employment and wages) in the economy; this indicator offers an assessment of domestic market performance. Previous unemployment rates have been poor although job market conditions do seem to be showing a slight recovery in manufacturing and services. In this way, we forecast a slight drop in unemployment from 5.17% in August to 5.08% in September.

Chart 3

### Formal job creation (% change y/y and new IMSS insured workers, original series)

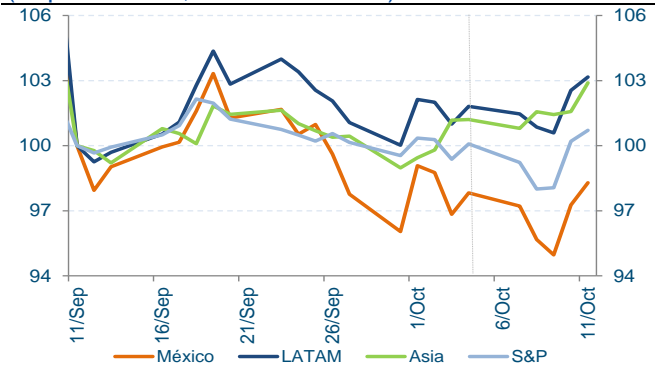


Source: BBVA Research with STPS data.

# Markets, activity and inflation

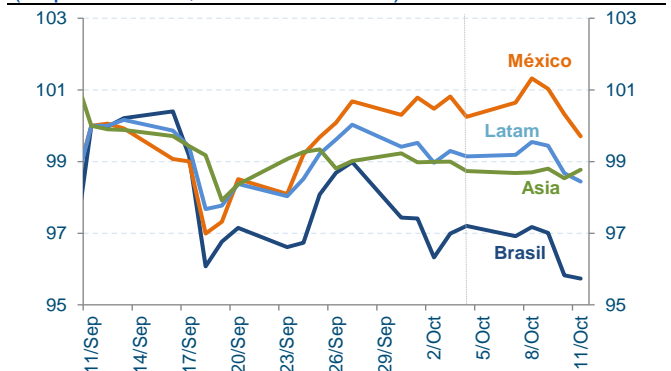
- The meeting between US president and Republicans in an attempt to achieve an agreement on increasing the debt ceiling led to lower global risk aversion seen in gains on stock markets and higher exchange rates at the end of the week.

Chart 5  
Stock markets: MSCI indices  
(September 11, 2013 index=100)



Source: BBVA Research with data from Bloomberg

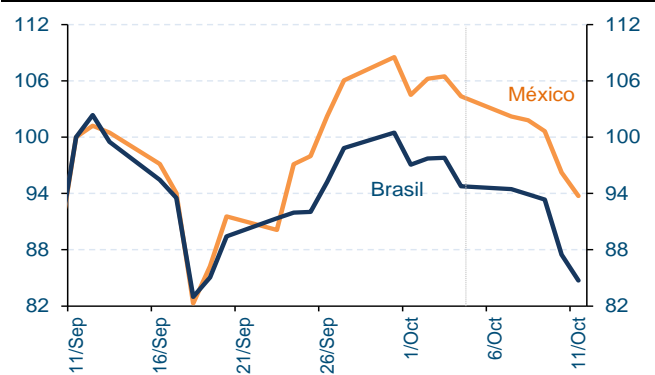
Chart 6  
Foreign exchange: dollar exchange rates  
(September 11, 2013 index=100)



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.

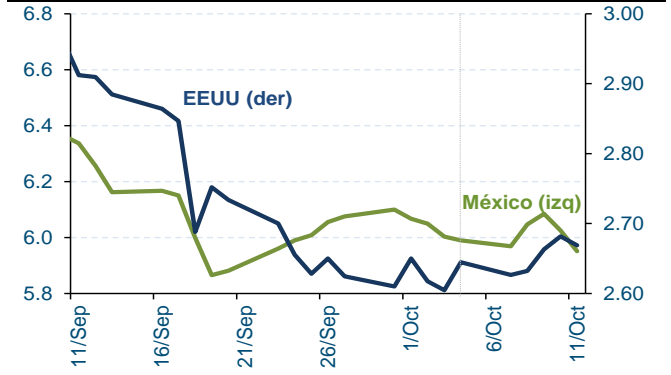
- In this way, credit risk levels for emerging economies fell back and long-term interest rates in Mexico fell back in line with long-term US Treasury rates.

Chart 7  
Risk: 5 year CDS (Sep 11, 2013 index=100)



Source: BBVA Research with data from Bloomberg

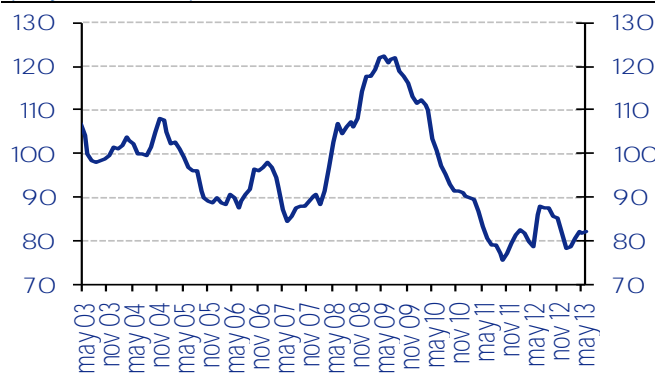
Chart 8  
10-year interest rates, last month



Source: BBVA Research with data from Bloomberg

- Despite the economic effects of the floods, inflation remained stable. Industrial output for August confirmed a slight upswing in the third quarter.

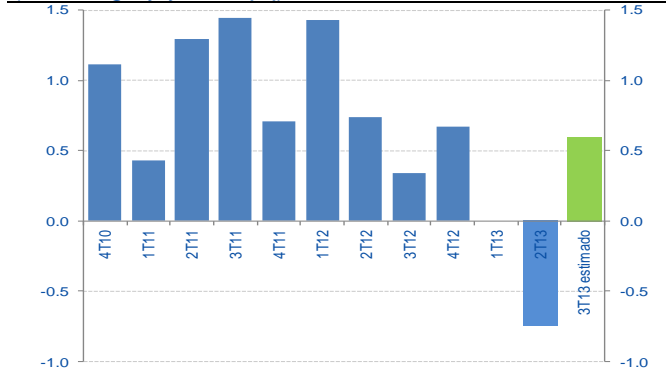
Chart 9  
\*Inflation Surprise Index  
(July 2002=100)



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 and estimated GDP 3Q13  
(% change y/y and q/q)



Source: BBVA Research.

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