Economic Research Department

BBVA

Mexico

Weekly Observatory

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August inflation sees farming price pressures

According to wholesale prices, the strong increase in farming prices could moderate the rate of decline in annual inflation for August. With this, general inflation rate will probably come in at 0.36% (5.21% yoy) with a core rate of 0.25% (5.13%). The above contrasts with estimates from the previous month at 0.31% and 0.30% respectively. The core rate shows slightly lower increases in service prices to estimates, a sign of the weak economic cycle and start of school (adjustment in tourist services); in turn, goods show monthly increases below August averages but still high given the economic cycle.

Looking ahead, the downward trend for inflation will probably continue over the year, closing at around 4% in 2009 (somewhat above the estimate of 3.8%). Despite this, the risks for the end of 2009 and 2010 are increasing and linked to public prices, fiscal reform and an unfavorable farming year due to climate factors.

Mexico: CPI forecast by components

				Annual change (%)			
	Jun-09	Jul-09	Ago-09	Jun-09	Jul-09	Ago-09	Ago-09
CPI-Mx	**0.18**	**0.27**	**0.36**	**5.74**	**5.44**	**5.21**	**4.83**
Core-Mx	*0.28*	*0.34*	*0.25*	*5.39*	*5.32*	*5.13*	*5.19*
Goods	0.34	0.23	0.31	6.87	6.79	6.48	6.56
Food prod	0.23	0.17	0.28	7.93	7.60	7.17	7.03
Other Goo	0.43	0.28	0.33	6.00	6.12	5.91	6.12
Services	0.23	0.45	0.18	4.01	3.96	3.87	3.91
Rent	0.14	0.15	0.15	3.22	3.09	3.02	3.07
Education	0.07	0.11	0.66	5.67	5.60	5.19	5.22
Other serv	0.41	0.94	0.05	4.24	4.29	4.34	4.38
Non Core-Mx	*-0.10*	*0.08*	*0.70*	*6.72*	*5.75*	*5.45*	*5.07*
Farm produ	-0.20	0.33	1.53	13.47	12.14	12.97	12.28
Fruits/Veg	-0.08	2.32	4.50	14.08	13.84	19.14	16.41
Meat//Egg	-0.28	-0.92	-0.50	13.09	11.06	9.02	9.66
Public mana	-0.03	-0.06	0.32	3.32	2.51	1.72	1.48
Energy	0.10	-0.03	0.57	2.24	1.39	0.75	0.31
Controled	-0.17	-0.09	0.11	4.41	3.64	2.73	2.66
			Current Forecast			*Current Forecast*	*Estimada un mes antes*

Economic Package for 2010

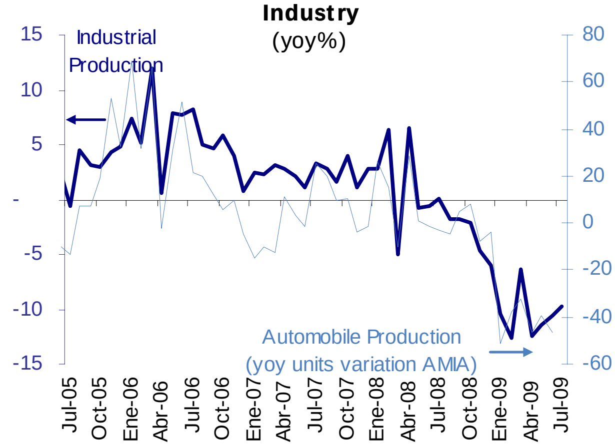
The head of the SHCP will deliver the proposed Economic Package for 2010 to Congress on September 8. With the aim of financing the estimated 300 billion peso fiscal deficit according to the Ministry itself, the tax system could be modified – rates and exemptions – and/or public prices be raised. In addition, there will probably be a reduction in government expenditure.

Industrial output in July: slight monthly improvement expected

Several manufacturing sectors closely linked to Mexican exports continued to see intense year-on-year falls up to June of around (-)47-5% in transport equipment, (-)22.5% in basic metals and (-)21.6% in machinery and equipment. This is consistent with the monthly decline rate in aggregate output moderating. In July, we expect a contraction of around (-)14.5% for manufacturing while construction could maintain a decline rate of around 6%.

With this, all industry would contract in July at around -9.7%, accumulating 12 consecutive months of decline in annual terms. Said contraction, alongside the doubts as to the strength of the recovery in US demand, could mean more time is needed to return to the industrial output levels of mid-2008.

Industrial Production & Automobile Industry
(yoy%)



Economic Calendar

September 7 to 11

	Monday	Tuesday	Wednesday	Thursday	Friday
	7	8	9	10	11
Mexico		2010 Economic Package delivered to Congress	August inflation *CPI 5.21 yoy (5.44 prev.) 0.36 mom (0.27 prev.) Core infl. 5.13 yoy (5.32 prev.) 0.25 mom (0.34 prev.)*		Gross Fixed Investment (June) -10.8 (previous -16.6.)
					Industrial activity (July) *-9.7% (-10.6% previously)*

Macroeconomic and Financial Forecasts

Mexico	2008	2009	2010	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10
Inflation (%, avg)	5.1	**5.4**	**3.7**	6.2	6.0	**5.2**	**4.3**	**4.0**	**3.5**	**3.5**	**3.8**
Core (%, avg)	4.9	**5.2**	**3.5**	5.8	5.6	**5.1**	**4.3**	**3.7**	**3.4**	**3.2**	**3.6**
GDP (real annual % change)	1.4	**-8.2**	**2.3**	-8.4	-9.7	**-9.4**	**-5.1**	**1.7**	**2.7**	**3.2**	**1.7**
Bank funding (% end of period)	8.25	**4.25**	**4.25**	6.75	4.75	**4.50**	**4.25**	**4.25**	**4.25**	**4.25**	**4.25**
28-day Cetes (%, avg)	7.62	**5.34**	**4.23**	7.26	5.45	**4.44**	**4.22**	**4.22**	**4.22**	**4.22**	**4.28**
28-day TIIE (%, avg)	8.28	**5.87**	**4.58**	8.01	5.92	**4.90**	**4.65**	**4.58**	**4.58**	**4.58**	**4.58**
M 10 years (%, avg)	8.37	**7.91**	**7.53**	8.02	7.86	**8.11**	**7.65**	**7.36**	**7.67**	**7.52**	**7.57**
Peso/dollar (avg)	11.1	**13.5**	**13.0**	14.4	13.3	**13.2**	**13.1**	**13.2**	**13.2**	**13.0**	**12.7**
U. S.											
Fed Funds (%, end of period)	0.50	**0-0.25**	**0-0.25**	0-0.25	0-0.25	**0-0.25**	**0-0.25**	**0-0.25**	**0-0.25**	**0-0.25**	**0-0.25**
10-year bond (% avg)	3.64	**2.35**	**3.075**	2.71	2.35	**2.00**	**2.35**	**2.55**	**3.00**	**3.25**	**3.50**
Dollar / euro (avg)	1.47	**1.33**	**1.19**	1.31	1.36	**1.40**	**1.25**				

* Forecast in **bold**

Financial Markets

August 27 to September 3

Spreads	Previous close	Week chng. bp
U.S. corporate (BAA)	393	3
EMBI+Mexico	244	14
EMBI+Brazil	258	-4
EMBI+LatAm	410	1

Currencies	Previous close	Week % chng.
Peso / dollar	13.64	3.32
Real Brazil / dollar	186	-0.35
Dollar / euro	143	-0.62
Yen / dollar	92.64	-0.94

Bolsas	Previous close	Week % chng.
IPC	28,150.1	-101
Dow Jones	9,344.6	-2.46
S&P	1,003.2	-2.69
Bovespa	55,707.2	-3.46

Financial Markets Evolution

August 27 to September 3

U.S. Debt			UMS				Cetes & Bonds (M's) with taxes			
Term	Previous close	Week chng. bp	Term (days)	Prev. Close	Week chng. bp	Spread vs. Treasury	Term (days)	Primary	Prev. close**	Week chng. bp
Fed Funds	0.25	0					Bank funding*		4.52	1
							Govnmt. funding*		4.45	3
							TIIE (28d)		4.91	2
T.Bill 91d	0.12	-2					Cetes (28d)	4.47	4.48	1
							Cetes (91d)	4.57	4.57	1
							Cetes (182d)	4.77	4.76	4
Libor 3m	0.32	-4					Cetes (364d)		5.15	0
T-Notes	0.21	-1								
5 years										
			UMS 10 (150d)	0.90	20.10	-146	M 7 i (111d)	4.73	4.76	3
			UMS 11 (497d)	1.82	14.20	-54	M 7 i (475d)	4.83	4.77	-6
T-Notes	2.35	-18	UMS 12 (862d)	2.73	4.70	37				
10 years			UMS 13 (1230d)	3.57	-0.30	121	M 10 i (1203d)	6.77	6.85	8
			UMS 14 (1594d)	4.45	-3.90	210	M 10 i (1567d)	7.32	7.43	11
			UMS 15 (2006d)	4.88	-3.40	76	M 10 iL (1931d)	7.57	7.63	6
			UMS 16 (2568d)	5.25	1.30	113				
			UMS 19 (3769d)	5.90	1.20	177				
T-Bond	4.13	-7	UMS 22 (4768d)	6.10	1.50	197	M 20 i (5207d)	8.61	8.63	2
30 years			UMS 26 (6097d)	6.25	2.80	212				
			UMS 31(8015d)	6.53	6.80	241				
			UMS 33 (8617d)	6.56	8.00	244				
			UMS34 (9154d)	6.59	9.00	246				

* Weighted rates