

# Weekly Watch

Mexico

## Next week...

Employment jumps with the census revision but the income level pattern remains

The results of the National Survey of Employment and Occupation (ENOE) with absolute figures and up to 1Q11 were updated recently. The data published quarterly by the ENOE between 1Q05 and 4Q10 take as a basis expansion factors adjusted to official demographic forecasts from the National Population Council (CONAPO) based on definitive results from the 2nd General Population and Housing Survey 2005. In this sense, the data for 1Q11 are not completely comparable with previous data since the latter are based on definitive results from the Population and Housing Census 2010. One of the main differences between the information sources is that the ENOE from the 1Q10 forecast a population of 108.7 million Mexicans while the estimated population in the 1Q11 is 113.2 million. In the same way, the total number of those in employment jumps from 43.8 million in 4Q10 to 45.4 million in 1Q11. This jump occurs in the inter-annual rates as the prior data are not revised in line with the new census data.

With this, the information in the ENOE 1Q11 continue to be very useful to uncover how employment is spread by income level, conditions on underemployment or output sectors, something which a priori seems not to have changed much with the new Census. *(continued on next page)*

July 29, 2011

### Economic Analysis

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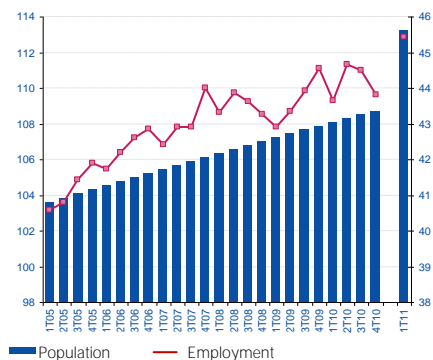
### Market Analysis

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## The international situation marks market trends

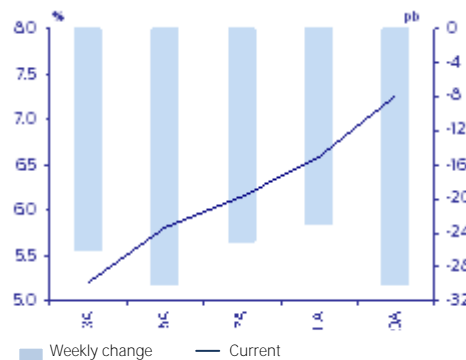
The appetite for safe-haven assets saw significant increases in the face of the current fiscal risks in Europe and the US and economic data suggesting a lower-than-expected bounce in the cycle. Beyond the risks due to the lack of positive solutions in fiscal matters in the US, markets are blocked with the economic risks it represents, structural weakness (cyclical and fiscal) in Europe and uncertainty as to the size of cyclical recovery in coming months. Next week markets will be fixed on the US: the debt ceiling (approved or not and with what conditions) and economic data (manufacturing and employment). As a result, the local curve extends its rally and the peso fluctuates in a wide trading range.

Chart 1  
Total Population and Employment  
(millions of persons)



Source: BBVA Research with INEGI data

Chart 2  
M BOND Curve and weekly change



Source: BBVA Research with data from Bloomberg

## Calendar: Indicators

(continued from previous page)

### Economic Analysis

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In this sense, employment's high contribution to growth remains in segments with lower income, between 0 and 2 minimum wage as well as between 2 and 5 minimum wage. In turn, according to this information, jobs with wages above 5 MW have not positively contributed since 2Q07, certainly something striking. It should be stated here that, in turn, a growing number of workers responding to "unspecified" can be seen regarding their income level. If there were some type of bias in the survey leading to employees with higher incomes not specifying them, the evolution of total labor income would be under-represented.

In any case, what does remain is the predominant role of lower incomes in increased employment, meaning a weakness for private consumption.

### Consumer Confidence (July, July 4)

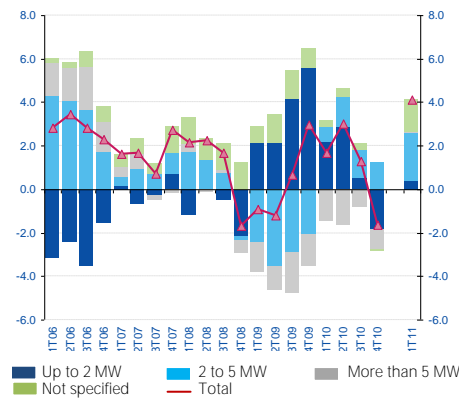
Forecast: 2% m/m (93.7)

Consensus: N.A.

Previous: 1.7% m/m (91.9)

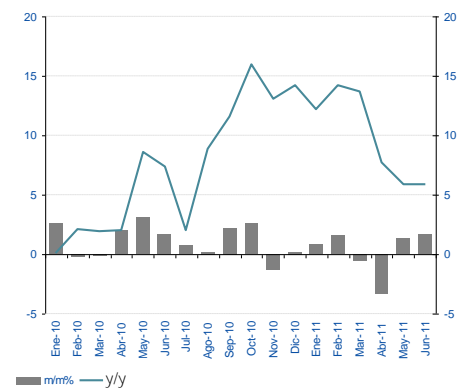
We estimate that the continuous expansion in private formal employment will provide optimism in consumer confidence. It will especially important to know the sub-index of the possibility of purchasing durable goods. It should be stated that according to retail establishments, durable goods still have a major lag with regard to pre-crisis levels. Therefore, good "possibility..." data will be a very good sign on future movements.

Chart 3  
Employment by income level (% change y/y and contributions)



Source: BBVA Research with Banxico data

Chart 4  
Consumer Confidence Index (% change y/y and m/m)



Source: BBVA Research and INEGI

## Markets

### Rally extends at the end of the week

In line with the appetite for safe-haven assets and the UST curve rally extending, the MBonds curve closed with major gains over the week. Yields fell 12bp on average. Over the week, the 5, 10 and 20 year fell 30bp, 23bp and 30bp respectively. The rally on the latter from last month, which intensified over the last week especially in long tranches, was anticipated with the favorable domestic inflationary risk balance, the expected monetary pause being extended over more months and contained pressures in the short-term on UST. The M BOND 2021 reached its 6.6% target (with a stop loss at 7.3%). We extend the target 15bp to 6.45%: the factors behind this: 1) summer economic data will unlikely reverse the uncertainty on the strength of the cyclical recovery until the end of the year; 2) the global situation (aversion in Europe and the UST with limited short-term pressure) will continue supporting foreign capital flows onto the local market; 3) the risks of domestic slowdown are present meaning the likelihood the market continues to delay the start of the restrictive cycle toward our scenario (June 2012) is increasing.

### A wide range remains in place for the USDMXN

Last week, the global currency market's performance was set by different factors, mainly in the US: the debate around the debt ceiling in Congress and the flow of economic data which, mostly, continued to show moderate growth. In turn, although the fiscal situation in the European periphery nations fell into the background due to the agreements announced the previous week, some uncertainty remained which led to higher risk aversion. In this context, the USD saw volatility against G10 and emerging currencies and, on Thursday, the DXY index saw slight appreciation over the week of 0.1%, although GDP indicators at the end of the week led to a general depreciation. The MXN fell around 0.8% however we highlight that more than a response to fiscal factors in the US, the reaction was based on uncertainty with regard to the US economic cycle. With this, we cannot rule out that the currency remains in the high part of the 11.60-11.80 range over the coming weeks.

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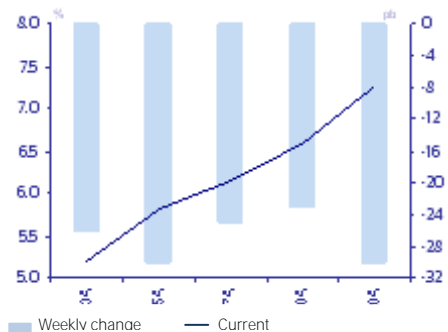
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Chart 5  
M BOND Curve and weekly change



Source: BBVA Research with data from Bloomberg

Chart 6  
Relative performance of Latin American currencies (Jan 1=100)



Source: BBVA Research with data from Bloomberg

Market Analysis  
Equities

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## Technical Analysis IPC Stock Market Index



IPC: . The increased investment in equity at the Afores has created positive technical signals in the short-term for the IPC since its is driving the market above the 30-day rolling average (35,963pts) with the highest volume traded in the year (769mn shares traded on July 27 vs. the daily average of 255mn shares over the year). With this break, the IPC should come in at its next resistance level of 36,600pts, where the 200-day rolling average sits. We see the first support at the 10-day rolling average over 35,660pts.

Previous rec.: In order to again consider short-term risk, the IPC would have to come in below the intra-day minimum it hit in the week (35,100pts), opening up a pathway toward June's minimum ranges between 34,600 and 34,800pts.

Source: BBVA, Bancomer, Bloomberg

## MXN

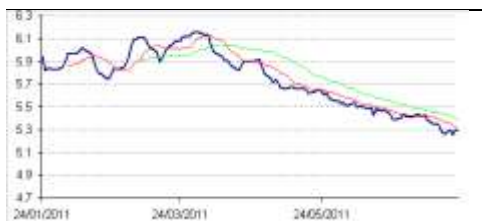


The dollar bounces in the week from the P\$11.60 support to reach an intra-day maximum at the P\$11.80 resistance. We believe that it could, at this point, start a return to the floor zone due to movement in the oscillating indicators. On the other hand, the break of P\$11.80 could place the next resistance at P\$11.90 and P\$12.00.

Previous rec.: We cannot see this floor being broken and should expect a bounce toward the P\$11.70 / P\$11.75 level.

Source: BBVA, Bancomer, Bloomberg

## 3Y M BOND

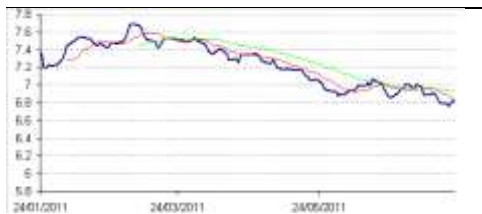


3Y M BOND: (yield): Although oscillating indicators are in oversell, it has not managed to come out of the downward trend it has traded in since April. Resistance at 5.31% and 5.39%. Support in the lower part of the negative range at 5.2% and 5.1%.

Previous rec.: It may carry this decline toward 5.26%.

Source: BBVA, Bancomer, Bloomberg

## 10Y M BOND



10Y M BOND (yield): Maintaining trading in the negative range. Resistances at 6.8%, 6.93% and 7.01%. Only above the latter can we consider a change in the trend. Downward, the next support is 6.66%.

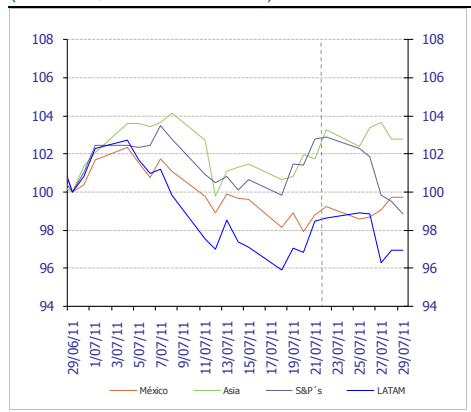
Previous rec.: new yearly minimum with chances of still seeking the 6.74% zone.

Source: BBVA, Bancomer, Bloomberg

Markets

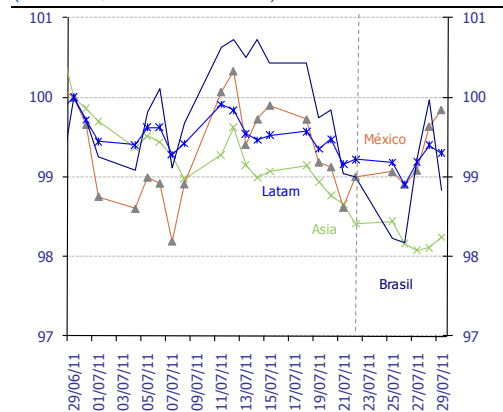
Changes to the Afores investment system help the Mexican stock market to detach from the US and this see a week with gains. Depreciation in the peso due to US growth data below forecasts and uncertainty over the debt ceiling negotiations.

Chart 7  
Stock Markets: MSCI Indices  
(June 29, 2011 index=100)



Source: Bloomberg & BBVA Research

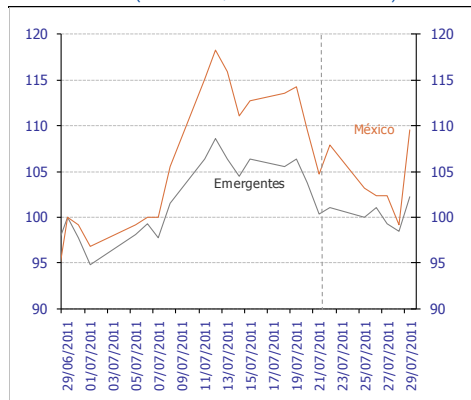
Chart 8  
Foreign exchange: dollar exchange rates  
(June 29, 2011 index=100)



Source: Bloomberg and BBVA Research. Note: LATAM includes Argentina, Brazil, Chile, Colombia and Peru. Asia includes the Philippines, South Korea, Taiwan, Singapore, Indonesia and Thailand. Non-weighted averages

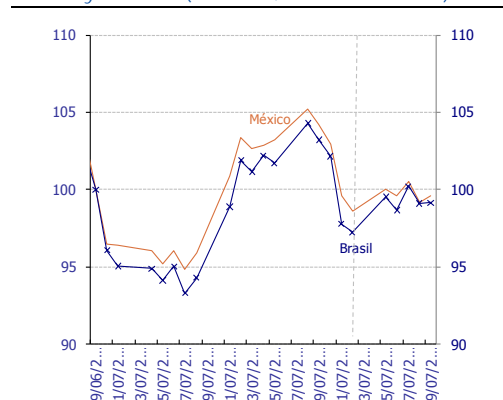
Increased risk aversion as the deadline to approve the increased debt ceiling in the US closes in and in the face of Moody's announcing the Spanish rating is to come under review

Chart 9  
Risk: EMBI+ (June 29, 2011 index=100)



Source: Bloomberg & BBVA Research

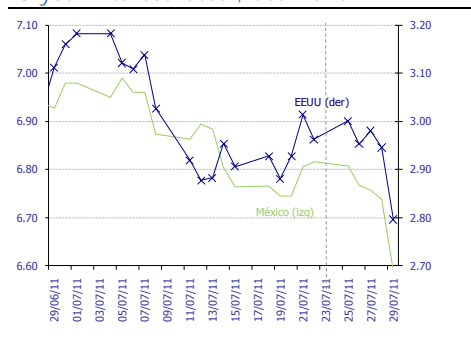
Chart 10  
Risk: 5-year CDS (June 29, 2011 index=100)



Source: Bloomberg & BBVA Research

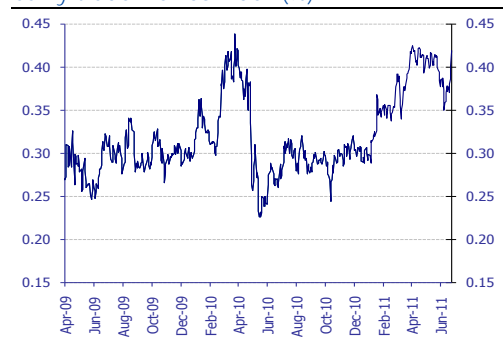
Fall in rates in the USA and Mexico due to increased risk aversion.

Chart 11  
10-year interest rates\*, last month



Source: Bloomberg & BBVA Research

Chart 12  
Carry-trade Mexico index (%)

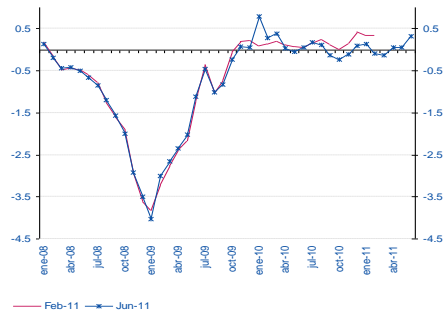


Source: BBVA Research with data from Bloomberg

## Activity, inflation, monetary conditions

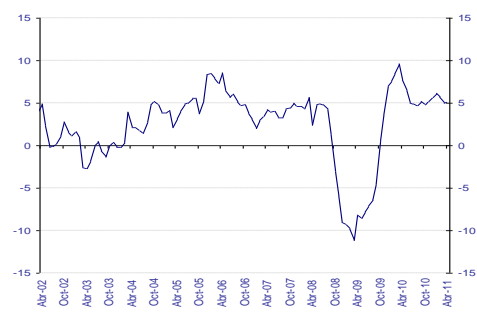
For the time being, recent output data point to moderation in April being temporary and linked to industrial output

Chart 13  
BBVA Research Synthetic Activity Indicator for the Mexican economy



Source: BBVA Research with data from INEGI, AMIA and BEA  
Weighted sum of 21 different indicators of activity, expenditure and expectation, based on trend series.

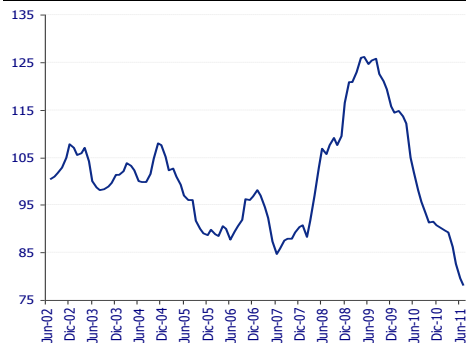
Chart 14  
Advance Indicator of Activity (% change y/y)



Source: INEGI

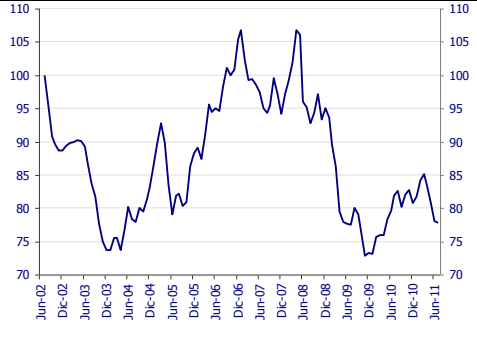
Recent inflationary surprises have been downward, while those concerning economic activity have been mixed.

Chart 15  
Inflation Surprise Index (July 2002=100)



Source: BBVA Research with data from Banxico from the monthly surveys on the expectations of economic specialists in the private sector.

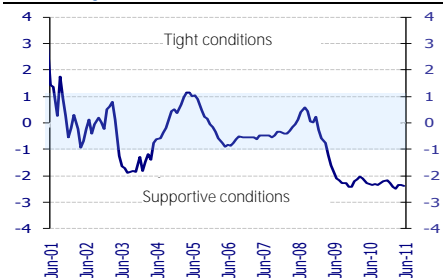
Chart 16  
Activity Surprise Index (2002=100)



Source: BBVA Research with Bloomberg data. Difference between recorded data and the Bloomberg consensus for seven activity variables in Mexico. Standardized index. Rises (falls): positive (negative) surprises.

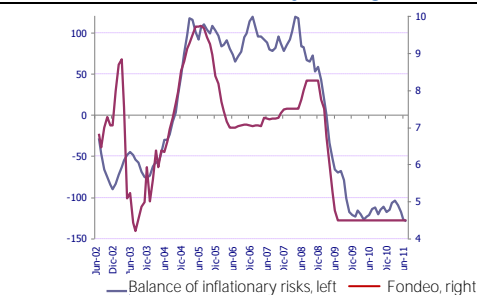
The monetary conditions have not changed and continue to be loose, with this loosening in fact increasing slightly in recent days.

Chart 17  
Monetary Conditions Index



Source: BBVA Research

Chart 18  
Balance of Inflationary Risks\* and Lending Rate (standardized and %; monthly averages)



Source: BBVA Research. \*Standardized, weighted index (between inflation and economic growth); uses economic indicators for activity and inflation. A rise in the index points to a greater weight of inflationary risks over growth risks and thus a greater likelihood of monetary restriction

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