

Weekly Mexico Flash

Next week...

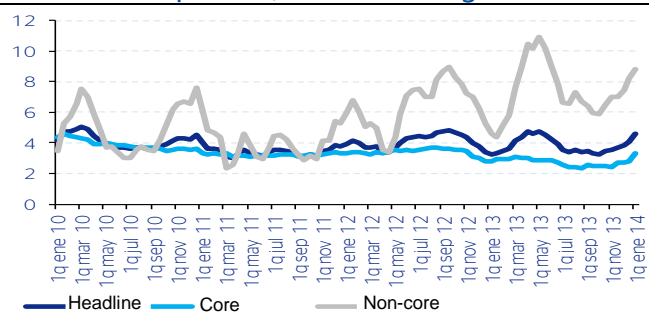
January's inflation rate will be announced, bringing annual inflation to 4.5% and marking the beginning of a downward trend

January's inflation rate will be published next Friday. After a slightly bigger increase than expected in the first half of the month, we are revising our forecast upwards for the month as a whole. We anticipate a monthly increase in general inflation of 0.95%, bringing YoY inflation to 4.54% (compared to 4.63% in the first half of January and 3.97% to the end of 2013). Meanwhile, unexpected pressure on core component food-related services were responsible for a greater than expected core inflation uptick in the first half of the month. For the month of January as a whole we forecast a monthly increase of 0.82% in core inflation, bringing it in annual terms to 3.19% (as opposed to 3.33% in the first half of the month and 2.78% at the close of 2013). Price pressures ought to be transitory given that we do not anticipate any knock-on effects, and from February onwards we should be seeing a slowdown in YoY terms..

Volatility and downward pressure continue on emerging market currencies

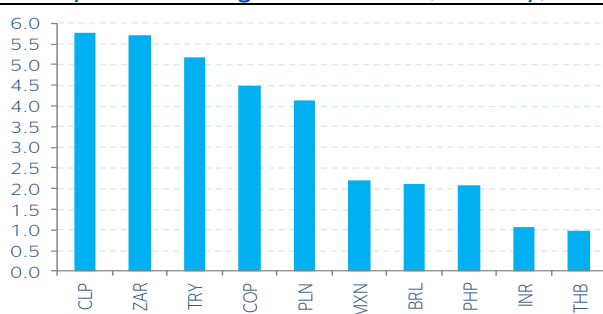
This week risk assets, particularly emerging market currencies, continued to be squeezed. Although movements in bond prices were less significant, there has been a ground-swell and, just as in the currency markets, correlations between emerging markets have been growing, reflecting an environment of risk aversion. A change in market sentiment towards emerging market assets has taken place, in a global context in which the Fed has begun normalising its monetary policy, although local factors have exacerbated the pressures. China's surprisingly weak manufacturing figure last week changed investor mood. Added to this factor are the significant changes in exchange rate policy (exchange rate tightening in Argentina and Venezuela) and surprising monetary policy changes in certain countries in order to put a stop to depreciatory pressures (25bp in India, 50bp in South Africa and 425 and 550bp in Turkey in the funding and repo rate respectively). These responses by central banks succeeded in halting the depreciatory pressure but do not seem to have influenced the market mood, which remains negative. Heavy inflows to emerging markets in recent years appear to be a factor in counteracting these pressures, since investors are unwilling to unwind their positions in emerging markets and lose the carry. However, they are also an underlying factor in potentially more significant movements in financial markets; if investors actually fear being the last one out of their positions, the outflows would intensify suddenly. For the moment, the peso is not among the currencies most affected by this scenario of an upturn in risk-perception in the markets. This week it went up by 1.0%, closing the month with a depreciation of 2.2%. As far as bonds go, the 10-year bond went up 7bp more over the week while the 10 year T-bill dropped 5bp.

Chart 1
Inflation & components, % annual change



Source: BBVA Research, INEGI

Chart 2
Appreciation (-) / depreciation (+) of emerging economy currencies against the dollar, January, %



Source: BBVA Research, Bloomberg

Calendar: indicators

IMEF manufacturing and non-manufacturing indicator for January 2014 (3 February)

Next Monday, the IMEF indicator on Mexican manufacturing and non-manufacturing output for January 2014 will be published. This indicator is important, since it is a forward pointer to the country's industrial output figures. Given US manufacturing's sound performance in December 2013 (0.6% MoM, seasonally adjusted), we expect a slight improvement to this indicator in January.

Family remittances in December 2013 (4 February)

Forecast: USD1,747Mn

Consensus: USD1,747mn

Previous: USD1,694mn

The Bank of Mexico will publish next Tuesday revenues from remittances received by Mexico during December. The US Bureau of Labor Statistics reported that in December the US unemployment rate stood at 6.7%, the lowest recorded since 2008; meanwhile data from the US Department of Labor indicate that there was a YoY drop of 9.8% in existing and new unemployment insurance claims in December. These improvements in the US employment indicators may also have had a positive impact on migrant Mexicans' working conditions there, and be generating a positive effect on remittances to Mexico over the period. We estimate that during December 2013 remittances to Mexico may have reached USD1,747 million, that is, a YoY increase of 2.5%, and 3.1% up on the previous month.

Consumer and producer confidence in January 2014 (5 February)

Forecast: Consumer: 89.5 pts., SA

Consensus: ND

Previous: 90.2 pts., SA

Producer: 52.5 pts., SA

Consensus: ND

Previous: 51.5 pts., SA

Next Wednesday, 5 February the INEGI will publish the consumer (ICC) and producer (ICP) confidence index figures for January 2014. This year's first figures will provide indications as to the expectations of economic players, consumers and the business community on how the economy has kicked off 2014 and its short-term prospects. On the one hand, in December the ICT reported monthly growth of 1.7%, after having it had been dropping nearly all year. However, the ICC showed a monthly fall of 1.4% in December. Bearing in mind the job losses during December (over 247,000 jobs), we expect the consumer confidence index to drop slightly and reach a level of 89.5 points, equivalent to a monthly reduction of 0.8% sa. Then again, thanks to the slight improvement in US manufacturing production in December (0.6% MoM sa) and its knock-on effect on Mexican production, we estimate the producer confidence index will reach 52.5pts, i.e. a monthly increase of 1.9% sa.

Inflation January 2014 (7 February)

Forecast: General: 0.95%, 4.54%

Consensus: 0.96%, 4.54%

Previous: 0.57%, 3.97%

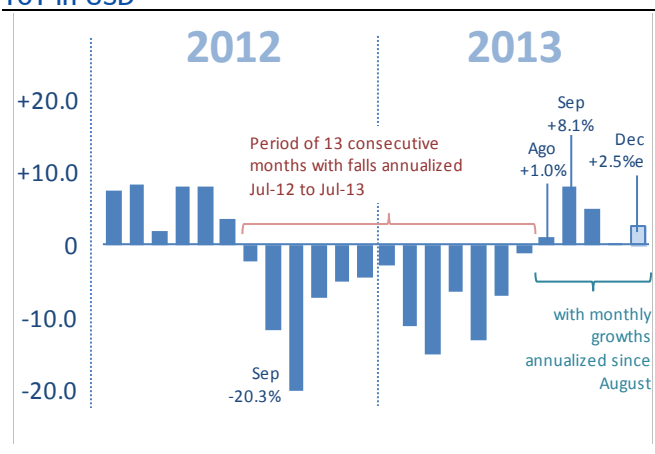
Core: 0.82%, 3.19%

Consensus: 0.87%, ND

Previous: 0.33%, 2.78%

Chart 3

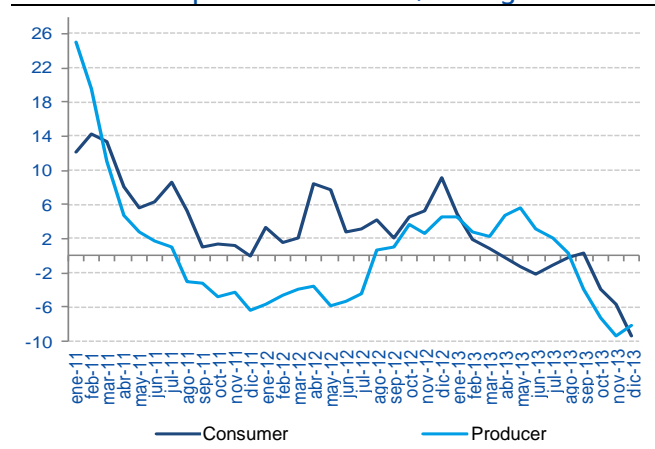
Family remittances to Mexico 2012-2013, % change YoY in USD



Source: BBVA Research, with data from Banxico. e: BBVA estimate.

Chart 4

Consumer and producer indexes. % change YoY sa

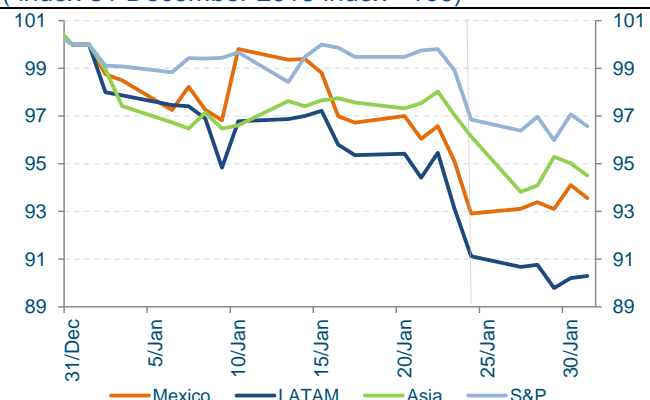


Source: BBVA Research, with data from INEGI. SA=Seasonally adjusted.

Market, output and inflation

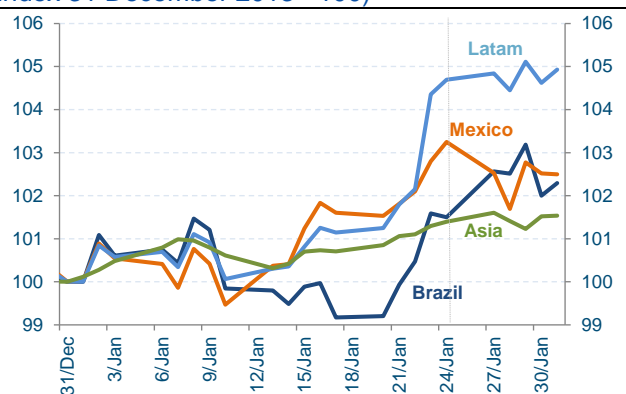
- Increases in the benchmark rates for Turkey, India and South Africa provide a brief pause in the rise of global risk aversion. Stock market slides and depreciations in emerging currencies lessen over the week. The peso rises to its second-highest level among emerging currencies over this period.

Chart 5
Stock Markets: MSCI Indexes
(index 31 December 2013 index =100)



Source: BBVA Research with data from Bloomberg

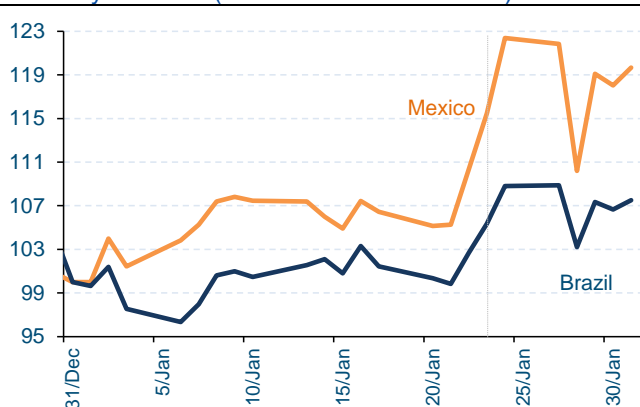
Chart 6
Currencies: Exchange rates against the dollar
(index 31 December 2013 =100)



Source: BBVA Research with data from Bloomberg Note: Latam includes Argentina, Brazil, Chile, Colombia and Peru. Asia includes the Philippines, South Korea, Singapore, Indonesia and Thailand.

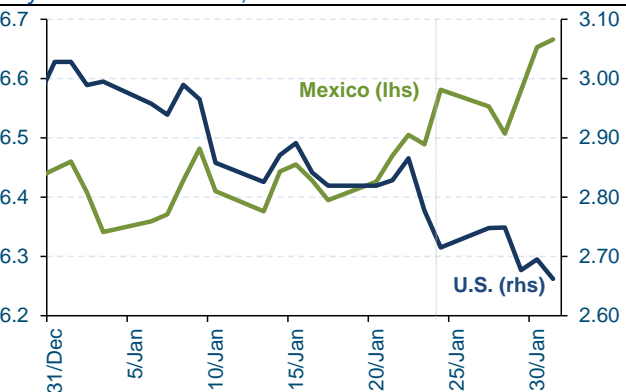
- Diverging behaviour between interest rates in Mexico and the USA in a market environment of flight to quality.

Chart 7
Risk: 5 year CDS (index 31 Dec 2013=100)



Source: BBVA Research with data from Bloomberg

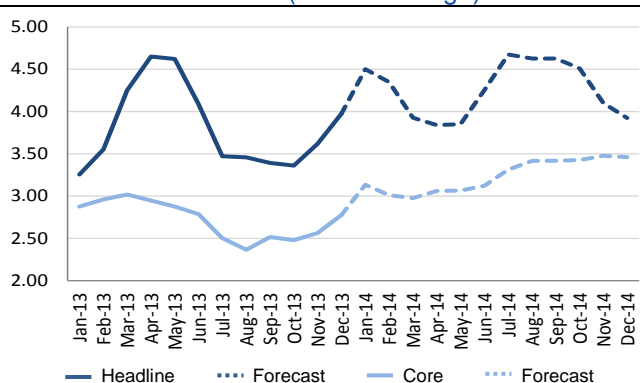
Chart 8
10-year interest rates, last month



Source: BBVA Research with data from Bloomberg

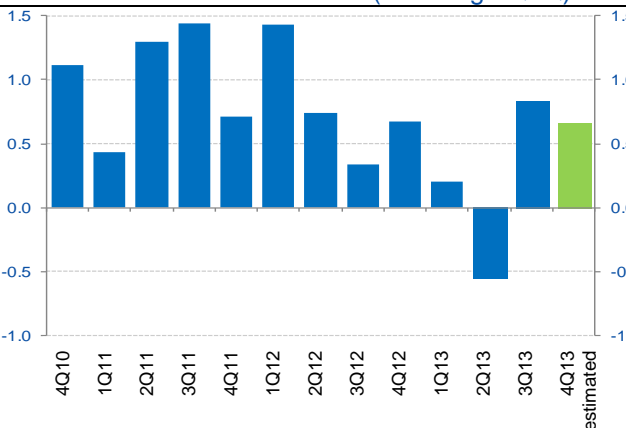
- We anticipate that general inflation will rise by 0.95% in January, equivalent to 4.54% in annual terms. For core inflation we estimate a monthly rise of 0.82%, equivalent to 3.19% annually.

Chart 9
General & core inflation (% YoY change)



Source: INEGI, BBVA Research

Chart 10
GDP observed & 4T13 estimate (% change QoQ)



Source: BBVA Research, with data from INEGI.

Arnoldo López Marmolejo
arnoldo.lopez@bbva.com

Juan Carlos Rivas Valdivia
Juancarlos.rivas.valdivia@bbva.com

Iván Martínez Urquijo
ivan.martinez.2@bbva.com

Javier Amador Díaz
javier.amadord@bbva.com

Javier Morales Ercambrack
fj.morales@bbva.com

Juan José Li Ng
juan.li@bbva.com



| Av. Universidad 1200, Col. Xoco, México 03339 D.F. | researchmexico@bbva.bancomer.com | www.bbvaresearch.com

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