

Mexico Weekly Flash

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Economic Analysis

Mexico

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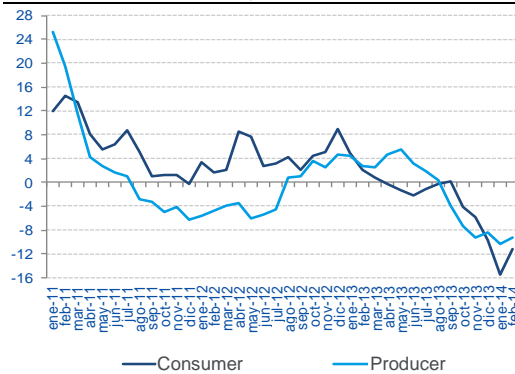
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What happened this week...

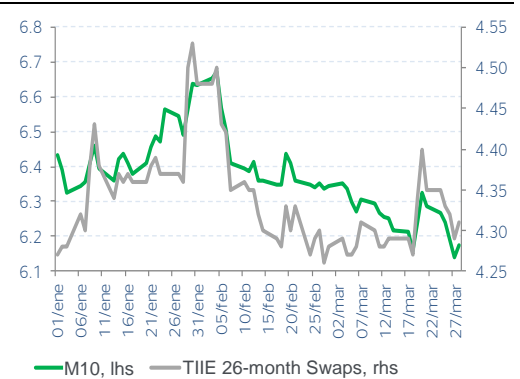
- The January IGAE (Global Economic Activity Index) reported weak YoY growth of 0.9%, seasonally adjusted (sa), (0.1% MoM, sa). This figure was close to our forecast and slightly further away from the consensus (BBVAe: 1.0%, consensus: 1.4%). By components, industry grew 0.8%, services by 1.2% while agriculture fell 1.8% YoY, sa. This figure confirms our estimate for a very slow kick-off to economic activity in 2014.
- Headline inflation returned to within Banxico's tolerance levels as we anticipated, while core inflation is close to its level at the close of 2013. Headline inflation grew 0.17% QoQ in the first half of March, in line with our forecast (BBVAe: 0.18%, consensus: 0.19%), slowing down YoY to 3.89%. Core inflation was 0.11% QoQ, also closer to our forecast than others (BBVAe: 0.13%, consensus: 0.17%). On a YoY basis, it went down to 2.84%.
- The unemployment rate went down in February to 4.65% from its level of 5.05% in January. This result, slightly below expectations (BBVAe: 4.90%, consensus: 4.90%), was due to a moderate improvement in the creation of formal employment in February (125,559 new jobs vs. 120,873 created in the same month of 2013), but above all to a reduction in the economically active population (58.19% in February 2014 vs. 58.74% in the same month last year).
- Appetite for risk in financial markets despite China's disappointing PMI figure¹ and Brazil's downgrading from BBB- to BBB- by S&P. Market optimism was driven mainly by growing expectations that the Chinese government will soon announce countercyclical policies to boost its economy. In this context, stock markets and emerging economy currencies enjoyed widespread gains. The M10 bond yield held its downward bias.

Chart 1
Consumer and producer confidence
(2011-14, YoY % change, sa)



Source: BBVA Research & INEGI. sa=seasonally adjusted

Chart 2
M10 and TIIE 26-month Swaps
(%)



Source: BBVA Research and Bloomberg.

¹ The manufacturing production index fell to its lowest level since July 2013.

- **Better performance in merchandise exports was reflected in the trade balance.** There was a USD976.3mn surplus in the February 2014 trade balance, well above the market's forecast (BBVAe: -USD440mn, consensus: -USD188mn). The result was due to YoY growth of 4.7% in Total Merchandise Exports, which was fed by a 5.1% expansion in oil exports and a 6.3% increase in non-oil exports. In the latter category, manufacturing exports grew 5.8%, Automotive 13.4%, Non-automotive and others 2.4%. Total imports of merchandise grew 1.6%, due to the increase in oil imports (6.7%) and non-oil imports (1.1%). Although automotive export performance was favourable, this was not mirrored in other export classes. Furthermore, the small growth in non-oil import growth may still be a sign of a degree of weakness in internal demand.

...What's coming up next week

- **Remittances to Mexico in February could reach USD1.662bn (+4.7% YoY).** This represents a growth of over 5% on January's data. This growth is linked to good economic activity in the US in the last few months, since during February the unemployment rate stayed fairly low (6.7%) and the ISM manufacturing index showed growth of 1.9% over the previous month.
- **Producer and consumer confidence showed a slight improvement (+1.7% and +0.9% MoM, sa, respectively).** Next Wednesday, 2 April, the INEGI will publish the figures for the producer (PCI) and consumer (CCI) confidence indexes for March 2014. On the one hand, due to an increase in US manufacturing production in February (0.8% MoM, sa) and its knock-on effect on Mexican manufacturing, we estimate that the producer confidence index will post around 51.8 points, i.e. a monthly rise of 1.7%, sa. However, bearing in mind the moderate creation of formal employment in February (125,559 jobs) and its effect on spending, we expect the consumer confidence index to rise slightly and reach a level of 86.8 points, equivalent to a MoM increase of 0.9%, sa.
- **Mexico's IMEF manufacturing and non-manufacturing activity indexes for March will report a small rise.** These will be published on 1 April 2014. Increased manufacturing production in the US in February (0.8% MoM, sa) suggests that we will see a small increase in these indicators for March 2014.

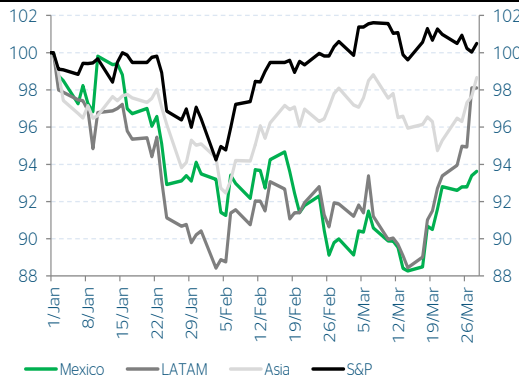
Indicator calendar

Mexico	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
Remittances (USDmn)	February	1 Apr	1,662.0	1,683.1	1,578.3
Producer confidence (Index, sa)	March	2 Apr	51.8	-	50.0
Consumer confidence (index sa)	March	2 Apr	86.8	-	86.0
United States	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
Manufacturing ISM (index)	March	1 Apr	54.5	54.0	53.2
Non-manufacturing ISM (index)	March	3 Apr	53.3	53.5	51.6
Trade balance (USD bn)	February	3 Apr	-38.5	-38.5	-39.1
Unemployment rate (YoY change)	March	4 Apr	6.7%	6.6%	6.7%

Source: BBVA Research with data from Bloomberg. sa = seasonally adjusted.

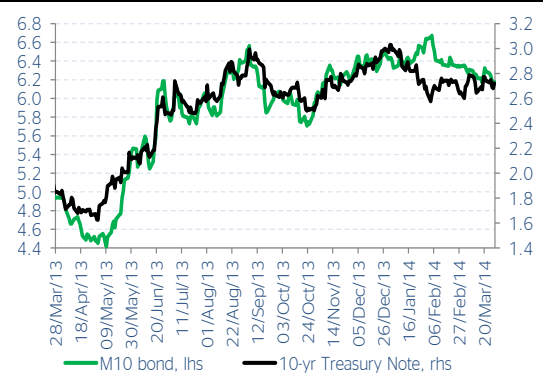
Markets

Chart 3
MSCI stock indexes
(1 Jan index =100)



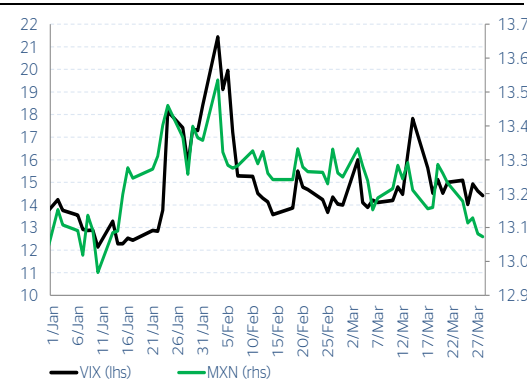
Source: BBVA Research, Bloomberg

Chart 4
10 year government bond rate, %



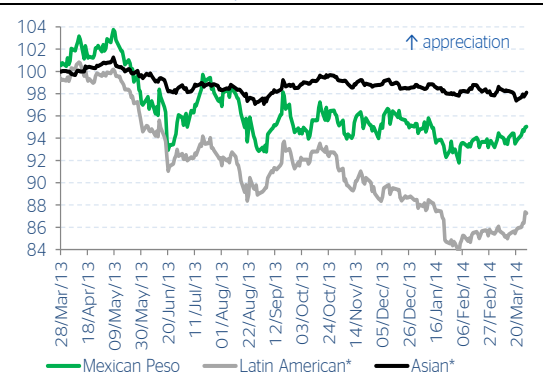
Source: BBVA Research, Bloomberg.

Chart 5
Global risk and exchange rate
(VIX index & pesos per dollar)



Source: BBVA Research, Bloomberg

Chart 6
Currencies against USD
(28 Mar 2013 index=100)



* JP Morgan's Index on Latin American and Asian currencies against the US dollar; weighted averages by trade & liquidity.
Source: BBVA Research, Bloomberg

Yearly data & forecasts

	2012	2013	2014
Mexico GDP (YoY % change)	3.9	1.1	3.4
Headline inflation (Avg., %)	4.1	3.8	4.2
Core inflation (Avg., %)	3.4	2.7	3.2
Monetary Policy Rate (Avg., %)	4.5	3.8	3.5
M10 (Avg., %)	5.7	5.7	6.6
GDP USA (YoY % change)	2.8	1.9	2.5

Source: BBVA Research

Recent publications

Date	Description
24-Mar 2014	➡ Mexico Inflation Flash. Inflation is back to Banxico's tolerance interval

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