

Mexico Weekly Flash

May 30, 2014
Economic Analysis

Mexico

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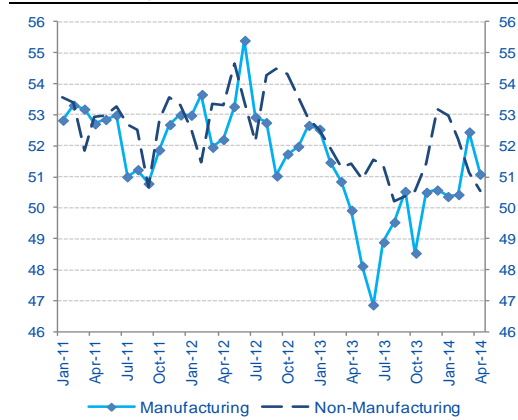
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What happened this week...

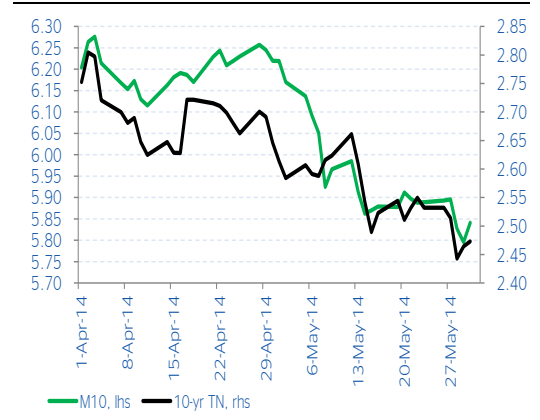
- The INEGI announced a surplus of USD510mn in April's balance of trade.** This balance of trade figure was the product of annual growth rate of 3.7% in goods exports and a negative growth rate in goods imports, at -1.5%. The balance of trade for April was expected to register a deficit of USD880mn, since considerably higher growth was anticipated in imports (2.1%), while estimated growth in exports (3.2%) was in line with results. The negative growth in goods imports may have been associated with lower economic activity in April than expected.
- Financial assets held the trend of the last few weeks.** Expectations of monetary loosening by the ECB next week and the continuation of the downward trend of long-term US interest rates remained the supporting factors for emerging risk assets this week, which contributed to sustaining the bullish trend of the last few weeks. Certain concerns as to the fragility of the recovery in the US, where activity contracted in the first quarter, but where the economic indicators for the second quarter also surprised to the downside, account for the renewed fall of long-term yields over the week; for example, the interest rate on the 10-year T bond (NT10a) dropped a further 6bp to levels of 2.47% by the end of the week, the lowest since June 2013. In this context of depressed government bond yields, higher risk assets continued to show gains. Stock indexes, particularly in LatAm and Mexico, maintained their bias to the upside, and currencies in these regions their relative strength. Movements in the 10-year M bond's (M10) interest rate mimicked those of its US equivalent and fell 5bp, to 5.84% by the end of the week.

Figure 1
IMEF Manufacturing and non-manufacturing index, 2011-14 (YoY % change sa)



Source: BBVA Research with data from IMEF. sa: seasonally adjusted

Figure 2
10-year bond interest rates, Mexico and US (%)



Source: BBVA Research, Bloomberg

...What is coming up next week

- **Next week the IMEF will publish its indicators on manufacturing and non-manufacturing performance expectations for May.** These indicators will provide the latest information about manufacturing production in the US and its knock-on effect on Mexican economic performance. If the IMEF indicators do not perform well, there may be a delay in Mexico's economic activity upturn, signs of which we expected to see from 2Q14 onwards.
- **Remittances to Mexico could grow by 2.8% (to USD1.955bn) in April, continuing the trend seen in recent months.** Despite the significant growth of remittances to Mexico in March, growth of a similar magnitude is not expected for April. This is a result of factoring in the mixed signals being given out by the main economic indicators in the US, which generates most of the remittances. On the one hand, the latest estimates for US GDP performance indicate a possible contraction of around -1.0% YoY; but on the other, in April, the unemployment rate nationwide in the US fell to 6.3%, the lowest level since 2008.
- **Producer and consumer confidence will report a slight uptick in May (+0.4% and +0.6% MoM, sa, respectively).** On Wednesday 4 and Thursday 5 June, the INEGI will publish May's producer confidence (PCI) and consumer confidence (CCI) indexes. We estimate that the PCI will come in at 51.2 points, that is, a MoM increase of 0.4%, sa. On the other hand, taking into account the moderate creation of formal employment in April (56,042 jobs) and its limited effect on the wage bill and consumption, we expect the CCI to rise by 0.6% MoM, sa, and to reach a level of 90.0 points.

Indicator Calendar

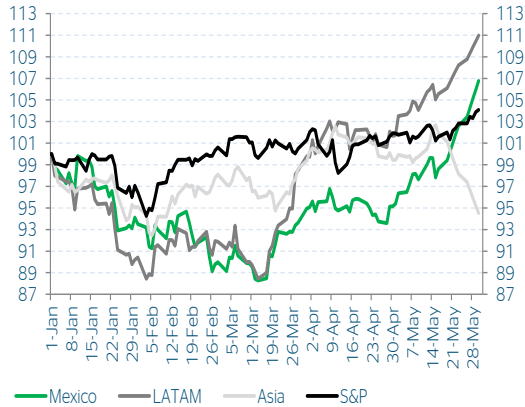
Mexico	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
Household remittances (USD mn)	April	2 June	1,955	1,951	2,056.0
IMEF manufacturing indicator (sa index)	May	2 June	--	--	51.1
IMEF non-manufacturing indicator (sa index)	May	2 June	--	--	50.6
Producer confidence (sa index)	May	4 June	51.2	--	51.0
Consumer confidence (sa index)	May	5 June	90.0	90.8	89.4

United States	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
ISM-PMI manufacturing index (sa)	May	2 June	55.3	55.5	54.9
Total automotive sales (sa, annualised, mn)	May	3 June	16.1	16.1	16.0
Total new manufacturing orders (MoM, sa)	April	3 June	0.6%	0.5%	0.9%
ISM-NMI Non-manufacturing index (not sa)	May	4 June	55.3	55.5	55.2
Increase in the total private sector, non-farm payroll (MoM, sa, net increase in '000s)	May	6 June	195	215	273

Source: BBVA Research with data from Bloomberg. sa = seasonally adjusted. 1Q14 = First quarter 2014.

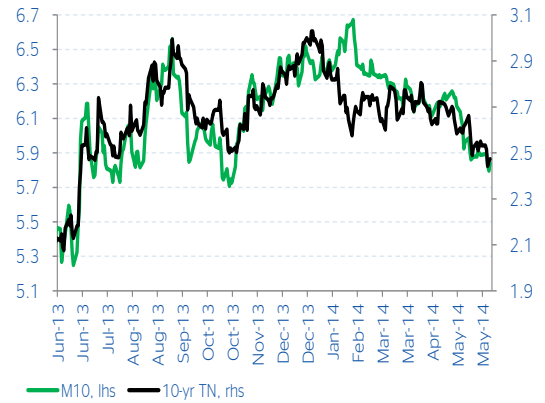
Markets

Figure 3
MSCI stock market indexes
(1 Jan 2014 index=100)



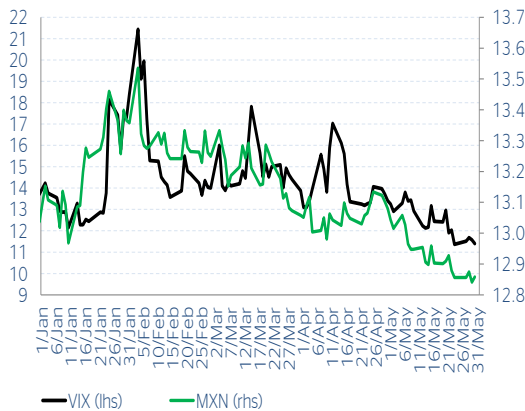
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



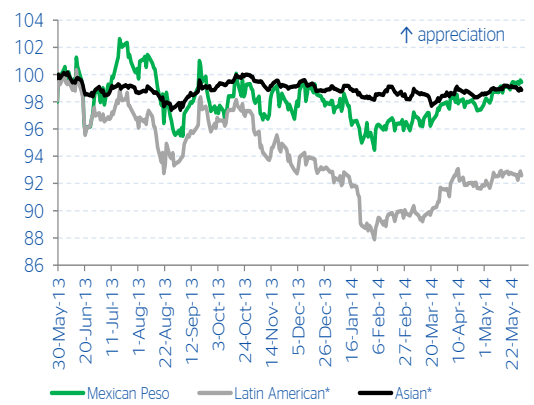
Source: BBVA Research, Bloomberg.

Figure 5
Global risk and exchange rate (VIX index & MXNUSD)



Source: BBVA Research, Bloomberg

Figure 6
Currencies to USD
(30 May 2013 index=100)



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

Annual information and forecasts

	2012	2013	2014
Mexico GDP (YoY % change)	4.0	1.1	2.5
Headline inflation (Avg. %)	4.1	3.8	4.0
Core inflation (Avg. %)	3.4	2.7	3.1
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
23 May 2014	➡ Mexico GDP Flash. BBVA Bancomer revises its 2014 growth forecast downwards to 2.5% and raises its 2015 estimate to 3.5%

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