

Economic Analysis

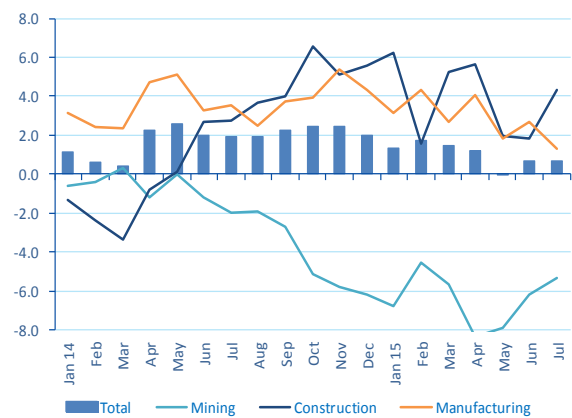
The financial markets await the Federal Reserve's monetary policy decision

Arnoldo López / Javier Amador / Iván Martínez / Javier Morales

What happened this week...

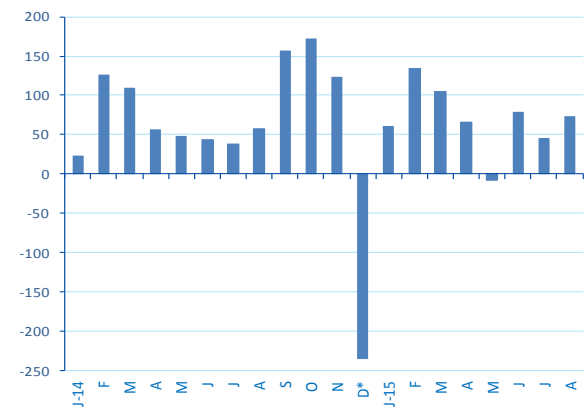
July industrial production showed monthly growth of 0.2% in its seasonally-adjusted series, matching our forecast, while it was above the level anticipated by the market (BBVAe: 0.2%; consensus: -0.1%). In annual terms, growth for this indicator was 0.7% in July. Within the industrial production components, we find that the mining and industry production readings performed a bit below the level expected of them, while the construction industry showed some improvement. Up until now, the manufacturing industry has continued to exhibit weakness that is not being offset by the encouraging performance of the automotive sector.

Figure 1
Industrial Production
(Annual % change, sa)



sa=seasonally-adjusted
Source: BBVA Research with INEGI data

Figure 2
Monthly increase in the total number of IMSS-registered workers (Thousands)



D* refers to the decrease in the number of IMSS-registered workers due to seasonal factors (i.e. end of Christmas sales period)
Source: BBVA Research with INEGI and IMSS data

The number of workers registered in the Mexican Social Security Institute (IMSS) rose by 72,359 in August, which was ahead of forecasts (BBVAe: 51,000 workers). The growth rate for IMSS-registered workers was 4.5% in August, and the number of new jobs that have been registered with the agency in the past 12 months is almost 768,000. These levels are very encouraging in an environment of limited economic growth, with an annual growth rate (AGR) for 2Q15 GDP of 2.2%, for which reason the current job formalisation programme might continue to return very promising results.

Annual inflation hit a new low of an annual 2.59%. The August level was in line with forecasts (observed: 2.59% YoY; BBVAe: 2.62%) and, as expected, it was brought about by an increase in educational fees and durable goods prices, these being offset by a reduction for tourist services and farming and livestock products.

Risk aversion receded slightly over the week. Expectations of more substantial measures to support growth in Japan prompted something of a rally in capital markets after the fall of the previous week (S&P 500: +1.2% Euro Stoxx: +0.8%, Nikkei: +2.7%). On the other hand, the downgrade for Brazil's credit rating to below investment grade failed to spark any significant spill-over into other emerging economies. The oil price also fell in the week (Brent: -4.5%, WTI:-3.8%) on the outlook put forward by analysts that it could have a lot further to fall, which was influential in a small depreciation of the peso at the end of the week, that took it to a dollar rate of MXN16.84. Mexican bonds continue to track US bonds with a marginal rise in the week ahead of the Federal Reserve's monetary policy decision.

...What to expect next week

INEGI is set to publish indicators of Global Supply and Demand for Goods and Services on 18 September, which will provide an insight into the factors behind GDP growth in 2Q15. On the demand side, information will be provided on Private Consumption, Public Sector Consumption, Gross Fixed Capital Formation, and Inventory Exports and Variation, while on the supply side the components given are GDP and Imports. These variables enable calculation of the contribution of each of them to GDP growth. For example, based on the monthly information available on Gross Fixed Investment in 2Q15, we expect the AGR for GFCF in 2Q15 to have been 5.5%.

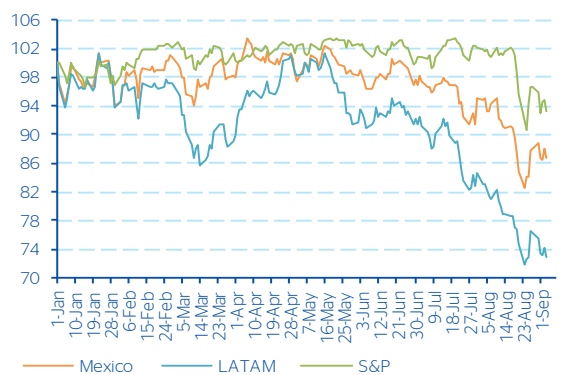
Calendar of indicators

United States	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Industrial production (Monthly % change, sa)	August	15 September	0.40	-0.20	0.56
Manufacturing production (Monthly % change, sa)	August	15 September	0.10	-0.30	0.80
Fed Funds Target Rate (upper bound)	September	17 September	0.50	0.50	0.25

Source: BBVA Research with data from Bloomberg. sa = seasonally adjusted. saar = seasonally adjusted annual rate. YoY = annual % change. QoQ = quarterly % change. MoM = monthly % change. FoF = fortnightly % change. P = preliminary

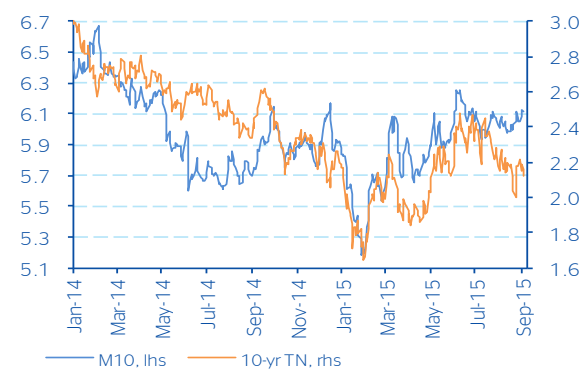
Markets

Figure 3
MSCI stock market indices
(Index 1 Jan 2015=100)



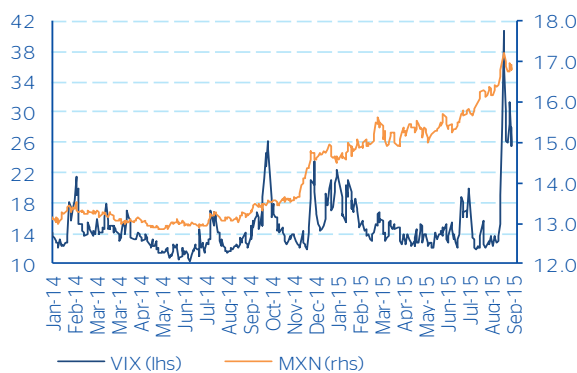
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



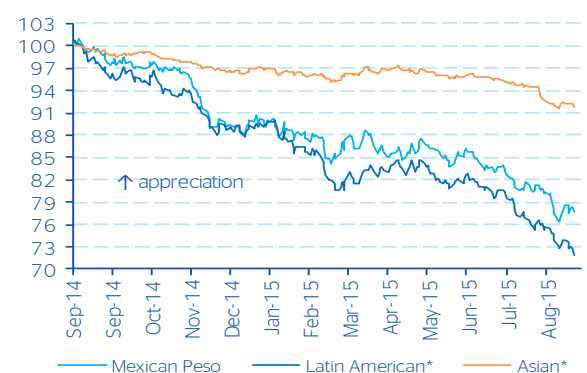
Source: BBVA Research, Bloomberg

Figure 5
Global risk and exchange rate:
VIX index and USDMXN



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD
(4 Sept 2014 index=100)



* JP Morgan indices of Latin American and Asian currencies vs. USD; weighted averages by trade & liquidity.
Source: BBVA Research, Bloomberg

Annual information and forecasts

	2013	2014	2015
Mexico GDP (YoY % change)	1.4	2.1	2.5
General inflation (% average)	3.8	4.0	2.8
Core inflation (% average)	2.7	3.2	2.4
Monetary Policy Rate (% average)	3.8	3.2	3.2
M10 (% average)	5.7	6.0	5.7
US GDP (YoY % change)	1.9	2.4	2.5

Source: BBVA Research.

Recent publications

Date	Description
3Sep 2015	➔ Mexico Migration Flash. Remittances reached the year's highest level of growth in July, at 11.7%, totaling USD2,231.8mn
3 Sep 2015	➔ Mexico Banking Flash. Private sector credit: this increased by 10.7% in July, with all three of its segments performing better

Disclaimer

This document has been prepared by BBVA Research at the Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) and by BBVA Bancomer. S. A., Institución de Banca Múltiple and the BBVA Bancomer Financial Group, on their own behalf and is for information purposes only. The opinions, estimates, forecasts and recommendations contained in this document refer to the date appearing in the document, and, therefore, they may undergo changes due to market fluctuations. The opinions, estimates, forecasts and recommendations contained in this document are based on information obtained from sources deemed to be reliable, but BBVA does not provide any guarantee, either explicit or implicit, of its exactitude, integrity or correctness. This document does not constitute an offer, invitation or incitement to subscribe to or purchase securities.