

# Mexico Weekly Flash

## Next week...

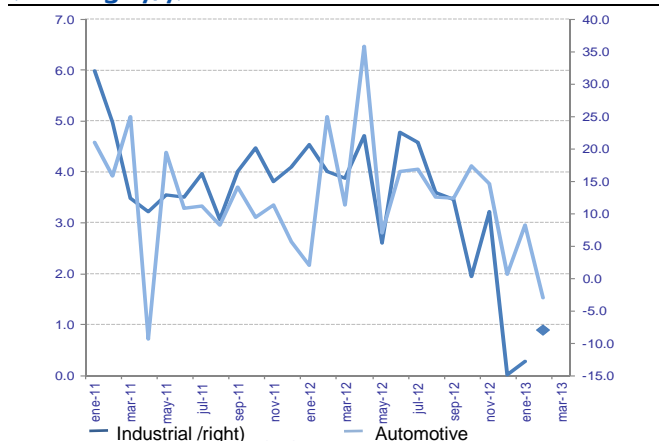
- **Output indicators set to provide information on size of slowdown in first quarter of the year**

Industrial output for February is set for release this week. Manufacturing performance in February could match what was seen in a key branch - automotive production. According to AMIA, production expanded around 0.1% m/m in February (-3.0 y/y). In turn, producer confidence indicators as well as the IMEF indicator point to a marginal slowdown in February compared to January: producer confidence fell (-)0.3% in February (-0.8% in March). Meanwhile, the IMEF manufacturing producers indicator fell back by (-)0.4% in February. It should be stated that out of the selection of confidence indicators and manufacturing orders, manufacturing orders for February are a positive highlight, especially those linked to domestic demand for business products. Moreover, construction industry performance will be key this month having shown two months of declines in annual terms.

- **Weak US economic data and the announcement of a dramatic expansion in monetary policy by the BoJ are behind a global decline in interest rates**

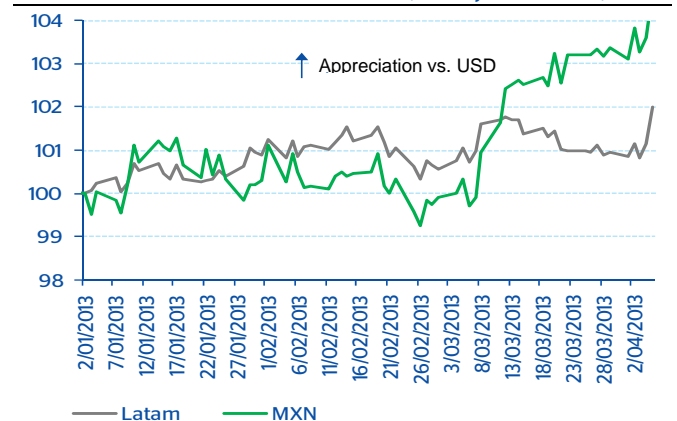
Weak US economic data this week (with negative surprises in the ISM manufacturing index, the ISM services index and job creation in March) and the Bank of Japan's (BoJ) decision to expand its asset purchase program beyond market expectations led to a global rally in interest rates. The figures from this week, with losses on stock markets and major declines in interest rates, point to markets expecting the increase in global liquidity due to the BoJ's higher asset purchases to drive global demand for bonds. In turn, concerns over the situation in Europe continue in the background, as suggested by the decline in credit default swaps. In a scenario of higher global liquidity expectations and no upswing in risk aversion, emerging market currencies strengthened over the week. The MXN was no exception, strengthening and hitting the 12.17 ppp level.

Chart 1  
**Industrial Output and Automotive Output (% change y/y)**



Source: BBVA Research with INEGI data

Chart 2  
**Currencies: MXN and LACI Index (Jan 2, 2013=100)**



Source: BBVA Research with data from Bloomberg

# Calendar: Indicators

## Investment in January (April 8)

Forecast: 2.1% m/m (1.0% y/y)	Consensus: n/a	Previous: -3.9% m/m (-0.5% y/y)
-------------------------------	----------------	---------------------------------

## Industrial Output for February (April 11)

Forecast: 0.5 m/m (0.9% y/y)	Consensus: 0.8% m/m	Previous: 1.1 m/m (0.3% y/y)
------------------------------	---------------------	------------------------------

Investment in January is set to be released this week. We forecast growth of around 1.0% y/y, the change in January for capital goods imports in pesos increased to 3.3% y/y. Nonetheless, the trend toward a slowdown in the indicator should be recalled, involving a decline from variations of around 6.0% from September to November to (-)0.5% y/y in December due to lower investment in construction as well as imported machinery and equipment.

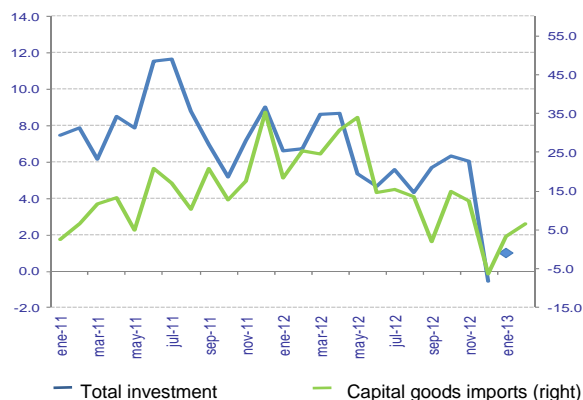
## March Inflation (April 9)

Forecast: 0.67% m/m 4.19% y/y	Consensus: 0.68% m/m	Previous: 0.49% m/m, February
-------------------------------	----------------------	-------------------------------

Inflation saw a surprise upswing in the first two weeks of March from 3.6% y/y in the second half of February to 4.1%. This increase is due to different pressures on the non-core sub-index. Behind these pressures are supply shocks on agricultural markets such as lemons due to the HLB outbreak in Colima or eggs and chickens affected by a new outbreak of bird flu mainly hitting Guanajuato state this time around. In addition, energy prices and some local government set prices have also seen pressures this year. In turn, core inflation remains at low levels despite seeing an upswing from 2.97% y/y in the second half of February to 3.06% y/y. This favorable performance, after remaining above 4% since April 2011, is thanks to goods prices seeming to stabilize since last February under the 4% threshold due to the stronger peso, stability in grain prices and the continuing slack in the economy. Service prices continue to move up after hitting a minimum of 1.15% in December, coming in at 2.4% in the first half of March thanks to mobile telephony prices seeing major increases in the first two months of the year due to the end of the winter season offers and, to a lesser extent, the holiday situation in March causing an upswing in tourist prices. We estimate that inflation will rise 0.67% m/m and come in around 4.2% y/y. Inflation will continue to rise until at least April. Nevertheless, low core inflation points to the upswing being due to supply shocks which will not create knock-on effects. This means inflation should decline steeply in the third quarter to end the year below 4.0%.

Chart 3

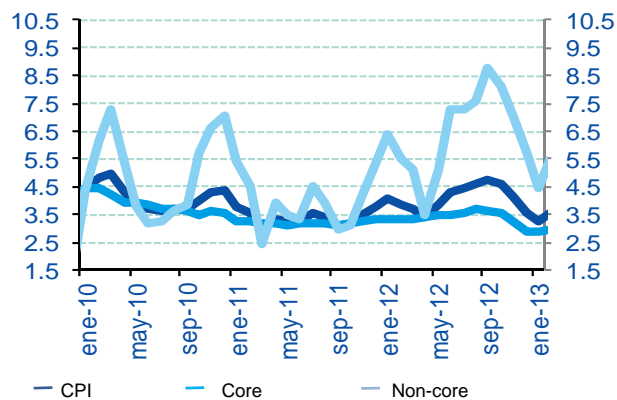
### Investment and Capital Goods Imports (% change y/y)



Source: BBVA Research with INEGI data

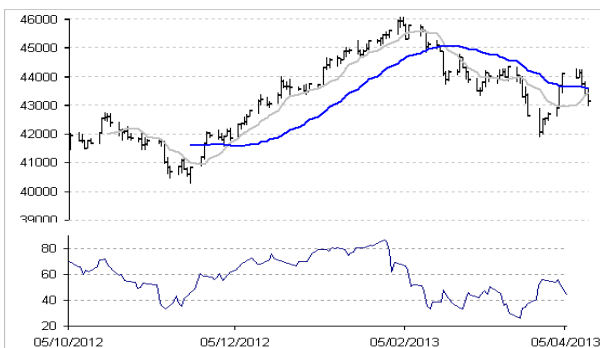
Chart 4

### Inflation breakdown (% change y/y)



Source: BBVA Research with INEGI data

## IPC



Source: BBVA, Bancomer, Bloomberg

The weekly change again places the IPC below the 10- and 30-day rolling averages and opens the door to a return to the short-term support level (42,000pts). We could see the following scenarios at this level: i) the IPC starts to bounce from the floor, marking a short-term double bottoming-out seeking a higher upswing than recently or ii) the IPC breaks down through 42,000pts, hitting a new low and strengthening the negative short-term trend to seek out the 40,500pts level. Since we saw no over-buying levels during the last bounce, we believe the most the first scenario is the most likely and therefore recommend, with a return to the support level, increasing short-term exposure. **Previous Rec.** (3/25/13): The RSI of the IPC stood at 26 points, indicating a short-term overselling.

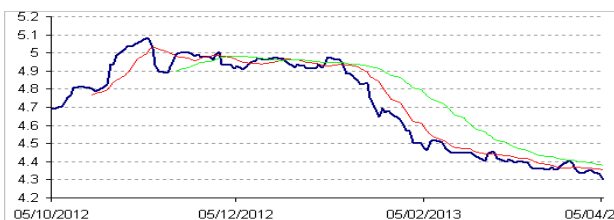
## MXN



Source: BBVA, Bancomer, Bloomberg

The dollar continued its major short-term downward trend. The upswing attempts remained below the 10-day rolling average. We think the MXN12.20/12.15 level could in the end provide short-term support. **Previous Rec.** (3/25/13): After this breakthrough, the next support is at the MXN 12.20/12.15 level.

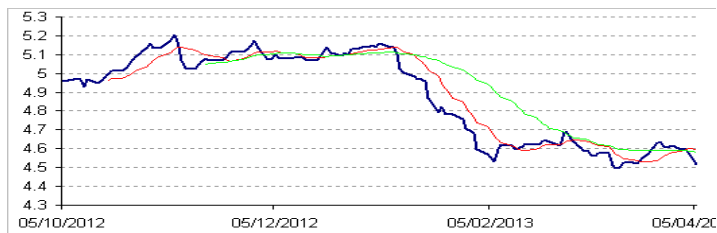
## 3Y M BOND



Source: BBVA, Bancomer, Bloomberg

The 3-year bond failed to hit above the 10- and 30-day rolling averages. The RSI at 28pts signals high over-selling. Major resistance at 4.39%. Breaking this level would mean a trend change. **Previous Rec.** (3/25/13). No break of any major resistance since it continues to trade below 10 and 30-day rolling averages

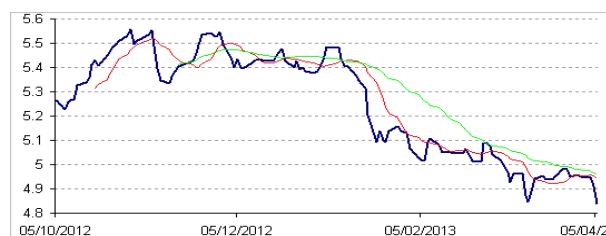
## 5Y M BOND



Source: BBVA, Bancomer, Bloomberg

The 5-year bond was unable to break through the 4.6% resistance level. It has hit below the 30-day rolling average, testing the level where it bounced. We believe it may respect the 4.5% support level. **Previous Rec.** (3/25/13): Important signal if it breaks through 4.6% to hit at least 4.7%.

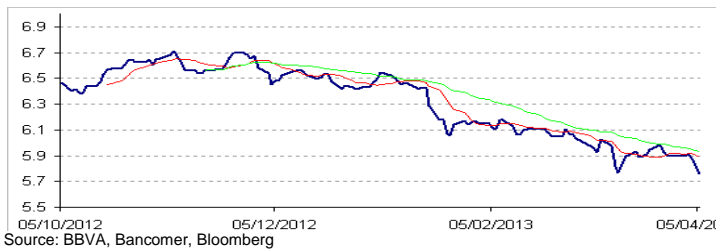
## 10Y M BOND



Source: BBVA, Bancomer, Bloomberg

The 10-year bond continued to trade below the 10- and 30-day rolling averages. It is important it does not break down through 4.85%. The resistance level to set a trend change stands at 5%. The RSI at 29pts signals high over-selling. **Previous Rec.** (3/25/13). It already trades above the 10-day rolling average, pointing to a break of the 30-day

## 30Y M BOND



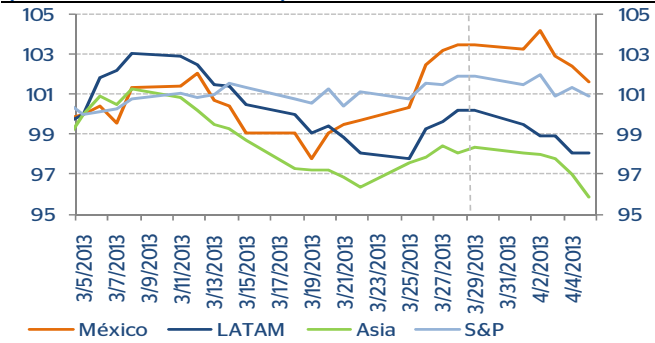
Source: BBVA, Bancomer, Bloomberg

The 30-year bond has a major resistance level at 5.9%. As long as it fails to break up through this level, there is no trend change. **Previous Rec.** (3/25/13). Pointing to a break of the resistance level at the 6% 30-day rolling average.

# Markets, activity and inflation

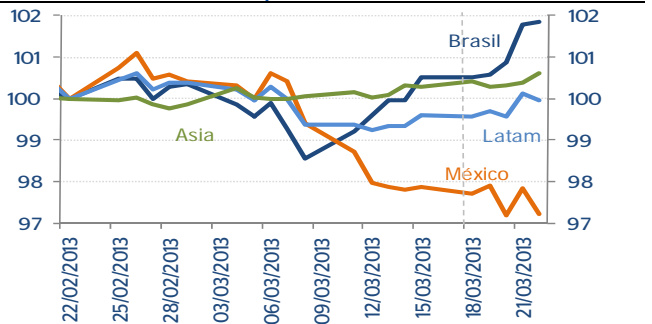
- Figures significantly below expectations for US employment anticipate monetary stimulus packages continuing for longer and had an impact in a volatile session for the currency market ending with the peso strengthening by 1.09%. In turn, the stock market saw losses in light of a flight toward quality on markets.

Chart 7  
**Stock Markets: MSCI indices**  
 (Mar 5, 2013 index = 100)



Source: Bloomberg & BBVA Research

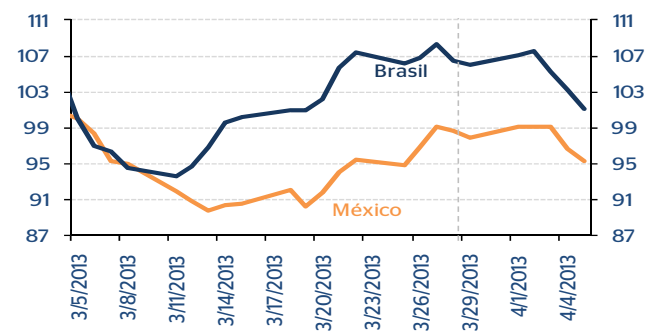
Chart 8  
**Foreign exchange: dollar exchange rates**  
 (Mar 5, 2013 index = 100)



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.

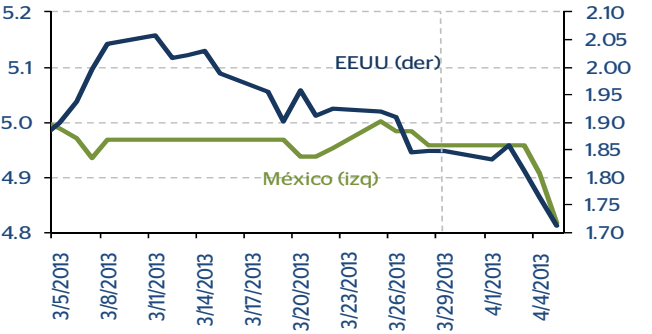
- Fall in U.S. interest rates in light of a flight toward quality after employment figures came in below expectations. Rates in Mexico maintained their correlation with T-bills while in terms of sovereign credit risk there was a weekly decline after Japan announced its monetary stimulus.

Chart 9  
**Risk: 5 year CDS (Mar 5, 2013 index=100)**



Source: Bloomberg & BBVA Research

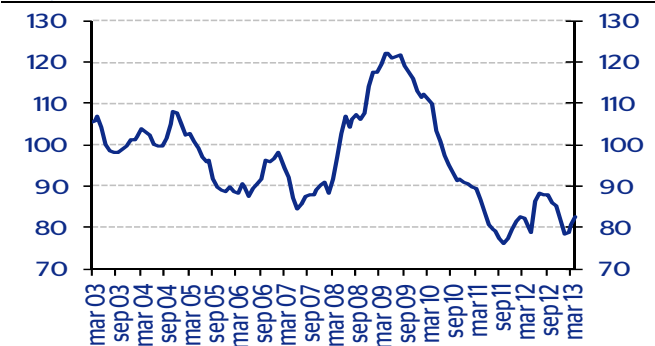
Chart 10  
**10-year interest rates, last month**



Source: Bloomberg & BBVA Research

- Inflation bounced back in the first half of March above the expected level. However, we consider that the upturn will be temporary and reach its high in April, after which it will moderate mid-way through the year.

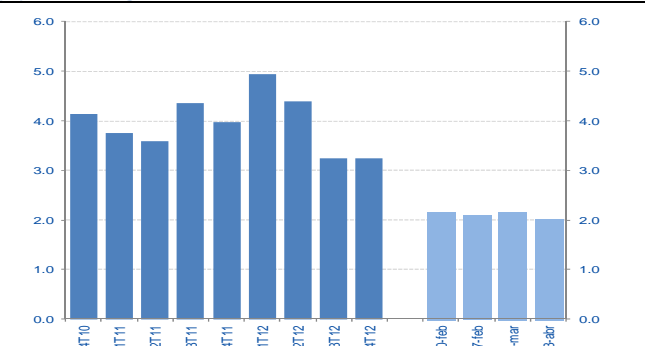
Chart 11  
**\*Inflation Surprise Index**  
 (July 2002=100)



Source: Bloomberg and BBVA Research

\*This measures the deviations in inflation in comparison to market-forecast figures, adjusting for inflation volatility. When it trends down, this implies a lower-than-expected inflationary surprise; when it trends up, this indicates a higher-than-expected inflationary surprise.

Chart 12  
**Observed and estimated GDP**  
 (y/y % change)



Source: BBVA Research with data from Bloomberg

Arnoldo López Marmolejo  
arnoldo.lopez@bbva.com

Cecilia Posadas  
c.posadas@bbva.com

Alejandro Fuentes Pérez  
a.fuentes@bbva.com

Octavio Gutiérrez Engelmán  
o.gutierrez3@bbva.com

Javier Amador  
javier.amadord@bbva.com

Pedro Uriz Borrás  
pedro.uriz2@bbva.com

Iván Martínez  
ivan.martinez.2@bbva.com

Rodrigo Ortega  
r.ortega@bbva.com



| Av. Universidad 1200, Col. Xoco, Mexico 03339 D.F. | [researchmexico@bbva.bancomer.com](mailto:researchmexico@bbva.bancomer.com) | [www.bbva.com/research](http://www.bbva.com/research)

## IMPORTANT DISCLOSURES

The BBVA Group companies identified by the research analysts' names included on the page number 5 of this report have participated in or contributed to its preparation, including the information, opinions, estimates, forecasts and recommendations therein.

**For recipients in the European Union**, this document is distributed by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA"). BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.

**For recipients in Mexico**, this document is distributed by BBVA Bancomer, S.A. Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer (hereinafter called "BBVA Bancomer"). BBVA Bancomer is a bank supervised by the Comisión Nacional Bancaria y de Valores de México.

**For recipients in USA**, this document is being distributed by BBVA Securities Inc. (hereinafter called "BBVA Securities"), a subsidiary of Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") registered with and supervised by the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation. U.S. persons wishing to execute any transactions should do so only by contacting a representative of BBVA Securities in the U.S. Unless local regulations provide otherwise, non-U.S. persons should contact and execute transactions through a BBVA branch or affiliate in their home jurisdiction.

BBVA and BBVA Group companies or affiliates (art. 42 of the Royal Decree of 22 August 1885 Code of Commerce), are subject to the BBVA Group Policy on Conduct for Security Market Operations which establishes common standards for activity in these entities' markets, but also specifically for analysis and analysts. This BBVA policy is available for reference at the following web site: [www.bbva.com](http://www.bbva.com).

Analysts residing outside the U.S. who have contributed to this report are not registered with or qualified as research analysts by FINRA or the New York Stock Exchange and may not be considered "associated persons" of BBVA Securities (as such term is construed by the rules of FINRA). As such, they are not subject to NASD Rule 2711 restrictions on communications with subject companies, public appearances and trading of securities held in research analysts' accounts.

**BBVA is subject to a Code of Conduct for Security Market Operations, which details the standards of the above-mentioned overall policy for the EU. Among other regulations, it includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. This Code of Conduct for Security Market Operations is available for reference at the following web site: [www.bbva.com](http://www.bbva.com) / Corporate Governance.**

**BBVA Bancomer is subject to a Code of Conduct and to Internal Standards of Conduct for Security Market Operations, which details the standards of the above-mentioned overall policy for Mexico. Among other regulations, it includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. These Code and the Internal Standards is available for reference at the following web site: [www.bancomer.com/GrupoBBVABancomer/Conócenos](http://www.bancomer.com/GrupoBBVABancomer/Conócenos).**

**BBVA Securities is subject to a Capital Markets Code of Conduct, which details the standards of the above-mentioned overall policy for USA. Among other regulations, it includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers.**

---

### EXCLUSIVELY FOR RECIPIENTS RESIDENT IN MEXICO

In the past twelve months, BBVA Bancomer has granted banking credits to the following companies covered in this report: **ALFA, AXTEL, CONSTRUCCION Y SERVICIOS INTEGRALES SIGMA, CORPORACION GEO, DAIMLER MEXICO, FACILEASING, GENOMMA LAB INTERNACIONAL, GEO EDIFICACIONES, GRUPO CARSO, GRUPO CASA SABA, GRUPO CEMENTOS DE CHIHUAHUA, GRUPO COMERCIAL CHEDRAUI, GRUPO PALACIO DE HIERRO, IMPULSORA DEL DESARROLLO Y EL EMPLEO EN AMERICA LATINA, INDUSTRIAS BACHOCO, INMOBILIARIA RUBA, PEMEX CORPORATIVO, TIENDAS CHEDRAUI, URBI DESARROLLOS URBANOS, VOLKSWAGEN LEASING.**

In the past twelve months, BBVA Bancomer has granted *Representación Común* services to the following companies covered in this report: **N/A**

**BBVA or one or more of its affiliates makes a market/provides liquidity in the securities of the following companies covered in this report: Casa de Bolsa BBVA Bancomer, MexDer Contrato de Futuros (Dólar de Estados Unidos de América (DEUA), TIIE de 28 días (TE28), Swap de TIIE, CETES de 91 días (CE91)), Bonos M, Bonos M3, Bonos M10, Índice de Precios y Cotizaciones de la BMV (IPC), Contrato de Opciones (IPC, Acciones América Móvil, Cemex, CPO, Femsa UBD, Gcarso A1, Telmex L), Udibonos.**

As far as it is known, a Director, Executive Manager or Manager reporting directly to the BBVA Bancomer General Manager has the same position in the following companies that may be covered in this report: **Alfa, Asea, America Movil, AMX, Asur, CMR, Coca-Cola Femsa, Consorcio Hogar, Dine, El Puerto de Liverpool, Fomento Economico Mexicano, Gruma, Grupo Aeroportuario del Pacífico, Grupo Aeroportuario del Sureste, Grupo Bimbo, Grupo Carso, Grupo Financiero Inbursa, Grupo Kuo, Grupo Maseca, Grupo Modelo, Grupo Posadas, Grupo Televisa, Industrias Peñoles, Invex Controladora, KOF, México, Grupo Aeroportuario del Centro Norte, Sanborns Hermanos, Sears Roebuck de México, Telecom, Telefonos de México, Tenaris, Urbi Desarrollos Urbanos, Vitro.**

BBVA Bancomer, and, as applicable, its affiliates within BBVA Bancomer Financial Group, may hold from time to time investments in the securities or derivatives financial instruments with underlying securities covered in this report, which represents 10% or more of its securities or investment portfolio, or 10% or more of the issue or underlying of the securities covered.

## DISCLAIMER

This document and the information, opinions, estimates, forecasts and recommendations expressed herein have been prepared to provide BBVA Group's customers with general information and are current as of the date hereof and subject to changes without prior notice. Neither BBVA nor any of its affiliates is responsible for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, to undertake or divest investments, or to participate in any trading strategy. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

**Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report.** Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. Other than the disclosures relating to BBVA Group, the contents of this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA or any of its affiliates and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. To the extent permitted by law, **BBVA and its affiliates accept no liability of any type for any direct or indirect losses or damages arising from the use of this document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.**

**The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, derivatives, options on securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying securities. Investors should also be aware that secondary markets for the said instruments may not exist.**

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. More specifically, this document is in no way intended for, or to be distributed or used by an entity or person resident or located in a jurisdiction in which the said distribution, publication, use of or access to the document contravenes the law which requires BBVA or any of its affiliates to obtain a licence or be registered. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

The remuneration system concerning the analysts responsible for the preparation of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

BBVA Hong Kong Branch (CE number AFR194) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission of Hong Kong.

This document is distributed in Singapore by the BBVA's office in this country for general information purposes and it is generally accessible. In this respect, this document does not take into account the specific investment goals, the financial situation or the need of any particular person and it is exempted from Regulation 34 of the Financial Advisors Regulation ("FAR") (as required in Section 27 of the Financial Advisors Act (Chapter 110) of Singapore ("FAA"))

BBVA, BBVA Bancomer or BBVA Securities are not authorised deposit institutions in accordance with the definition of the Banking Act 1959 nor are they regulated by the Australian Prudential Regulatory Authority (APRA)

---

### GENERAL DISCLAIMER FOR THE EVENT THAT THE READERS HAVE ACCESSED TO THE REPORT THROUGH THE INTERNET

#### Internet Access

In the event that this document has been accessed via the internet or via any other electronic means which allows its contents to be viewed, the following information should be read carefully:

The information contained in this document should be taken only a general guide on matters that may be of interest. The application and impact of the laws may vary substantially depending on specific circumstances. BBVA does not warrant that this report and/or its contents published on the Internet are appropriate for use in all geographic areas, or that the financial instruments, securities, products or services that can be referenced on it are available or appropriate for sale or use in all jurisdictions or to all investors or counterparties. Recipients of this report acceding to it through the Internet are acceding on their own initiative and are responsible for compliance with local regulations applicable to them.

Changes in regulations and the risks inherent in electronic communications may cause delays, omissions, or inaccuracy in the information contained in this site. Accordingly, the information contained in the site is supplied on the understanding that the authors and editors do not hereby intend to supply any form of consulting, legal, accounting or other advice.

All images and texts are the property of BBVA and may not be downloaded from the Internet, copied, distributed, stored, re-used, re-transmitted, modified or used in any way, except as specified in this document, without the express written consent of BBVA. BBVA reserves all intellectual property rights to the fullest extent of the law.