Mexico Weekly Flash

Next week…

- ### Important week for job market data for March

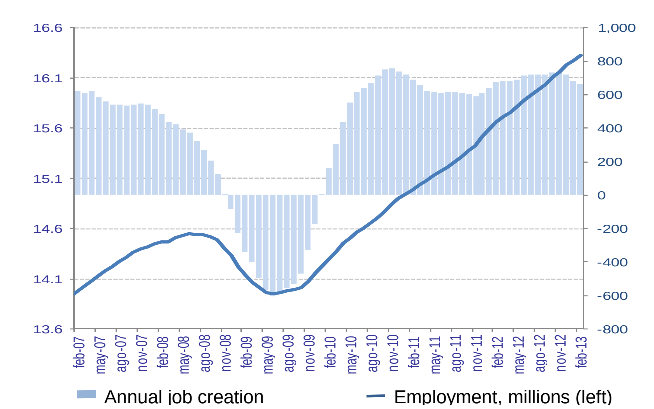
Industrial output increased at a rate of 0.5% m/m in February representing a year-on-year rate of 1.2% (corrected for seasonal variation). It should be stated that the leap-year impact was high in 2013 meaning an annual variation rate for non-corrected series of (-)1.2%. By components, although the slowing trend in manufacturing output continued, there was a slight upturn of around 0.7% m/m (0.1% m/m the previous month). This increase is linked to growth in key manufacturing sectors such as transport and the food industry. Available indicators for automotive production in March point to the decline in output worsening for the month, especially in vehicles for export. It should be highlighted that vehicle production was around 11% lower in March compared to a year earlier. This slowdown in the automotive industry could impact other manufacturing toward the third quarter of the year.

This week will provide further information on the possible negative effect manufacturing may have on economic output with the release of job indicators with numbers for those registered with Social Security (IMSS) and unemployment and underemployment indicators. We forecast job creation to come in around 0.3% higher than in February representing around 140,000 more jobs than at the end of 2012. In turn, the unemployment rate is forecast to continue around 4.8% of the EAP, i.e. around 2.5 million people.

- ### Market have been highly affected by liquidity with economic data continuing to drive volatility

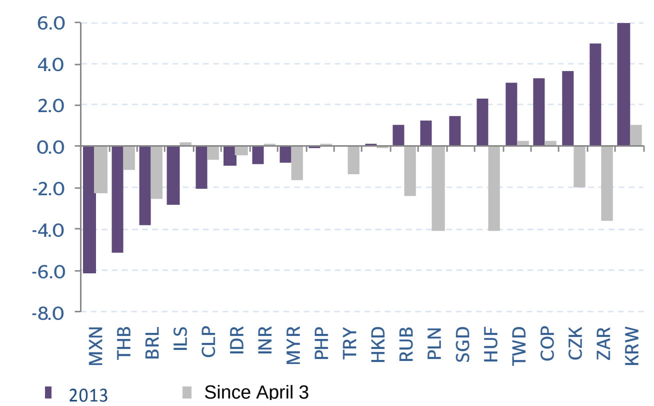
Liquidity injected by the Bank of Japan and expectations that the FED maintains its monetary stimulus has this week contributed to the peso continue to strengthen and sovereign debt rates fall; this has also been seen in other emerging economies. Nonetheless, as shown by the negative retail sales figures for the US released today, volatility will continue in light of the uncertainty surrounding the size of the economic recovery.

Chart 1
Formal Private-Sector Employment: Level and annual change (thousands of people)



Source: BBVA Research with INEGI data

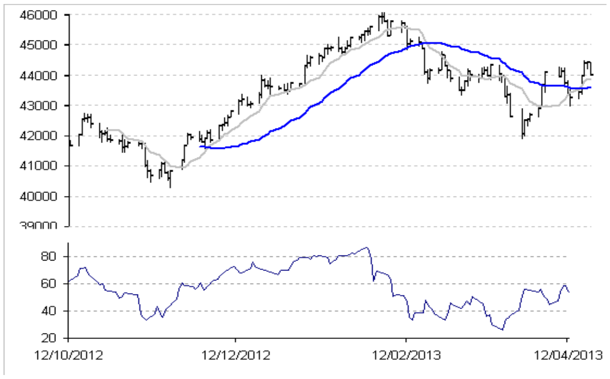
Chart 2
Percentage change in emerging economy currencies since liquidity injection by Bank of Japan



Source: BBVA Research with data from Bloomberg

Technical Analysis

IPC



Source: BBVA, Bancomer, Bloomberg

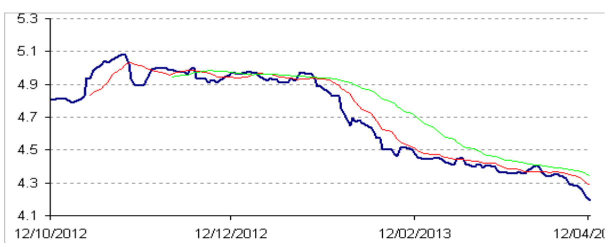
IPC: trading up in the first four sessions of the week. It hit above 44,420pts mid-week, the previous high, showing a major signal of a trend change in the short-term. Despite not managing to end the week above this level, the upward signal continues while it trades above the 30-day rolling average at 43,619pts. If the market settles below this level, it would also be a break in the upward channel that formed after the start of the bounce at 42,000pts. Given that since the bounce began in mid-March the RSI has not hit the over-purchasing zone (in fact, it just about remains mid-channel), we believe it is not very likely that the IPC manages to maintain the positive trend in coming weeks. We could consider 2 resistance levels, the first at 45,000pts in the high part of the upward channel, and the other at 46,000pts. Previous Rec. (4/8/13): A door opens for a return to the short-term support level at 42,000pts

MXN

Source: BBVA, Bancomer, Bloomberg

The dollar maintains its adjustment over the week and is trading below the MXN12.15 level. We believe it has reached the buy level with targets at MXN12.20 and MXN12.38 on the 10- and 30-day rolling averages. Stop loss only if its hits below MXN12.00. Previous Rec. (4/8/13): We think the MXN12.20/12.15 level could in the end provide short-term support

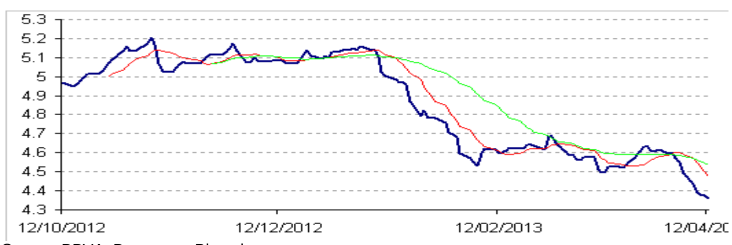
3Y M BOND



Source: BBVA, Bancomer, Bloomberg

3Y M BOND (yield): The 3-year bond saw a major weekly decline and remains below the short-term rolling averages. The RSI being at a very high over-selling level (17pts) leads us to consider a bounce, albeit limited to 4.28% and 4.35%. Previous Rec. (4/8/13). Major resistance at 4.39%. Breaking this level would mean a trend change.

5Y M BOND



Source: BBVA, Bancomer, Bloomberg

5Y M BOND (yield): The 5-year bond fell back over the week and breaks the 4.5% support level. The RSI at 22pts points to a bounce albeit without a trend change. Resistance at 4.47% and 4.54%. Previous Rec. (4/8/13): We believe it may respect the support level floor at 4.5%

10Y M BOND

Source: BBVA, Bancomer, Bloomberg

10Y M BOND (yield): The 10-year bond would only see a trend change by breaking the resistance levels at 4.5% and 4.55%. We can therefore only consider technical bounces toward these levels. Previous Rec. (4/08/13). The resistance level to set a trend change stands at 5%. The RSI at 29pts signals high over-selling

30Y M BOND

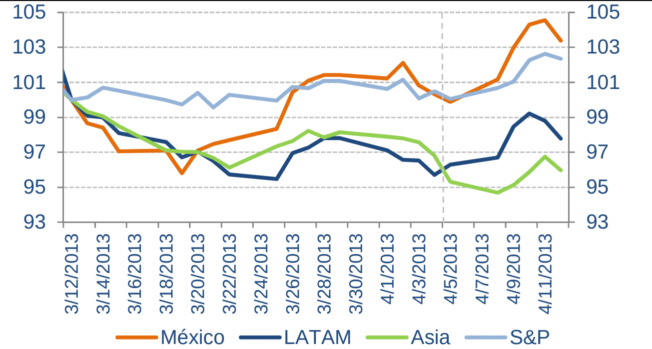
Source: BBVA, Bancomer, Bloomberg

30Y M BOND (yield): The 30-year bond could see technical bounces toward the 5.8% level. Only breaking this level would mean a trend change. RSI at over-selling level at 26pts. Previous Rec. (3/25/13). As long as it fails to break up through 5.9%, there is no trend change

Markets, activity and inflation

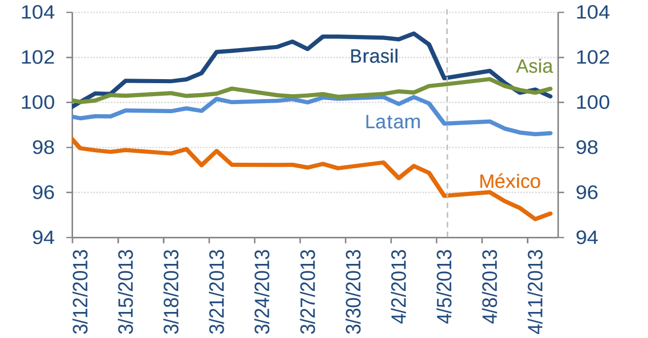
- **Losses on stock markets at the end of the week after retail sales figures from the US came in below expectations. This means doubts remain regarding the effects of the tax cuts on American consumers. The peso continued to strengthen supported by global liquidity measures and expected reforms in Mexico.**

Chart 7
Stock Markets: MSCI indices (Mar 12, 2013 index = 100)



Source: Bloomberg & BBVA Research

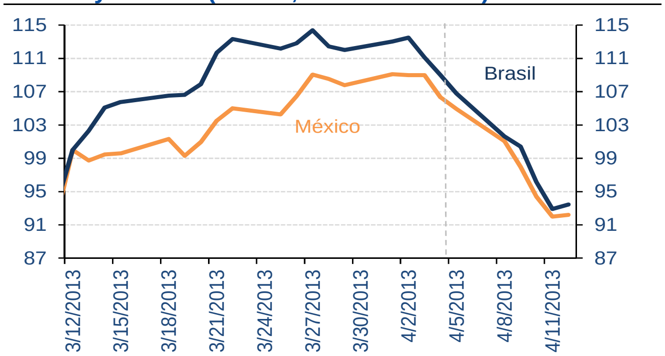
Chart 8
Foreign exchange: dollar exchange rates (Mar 12, 2013 index = 100)



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.

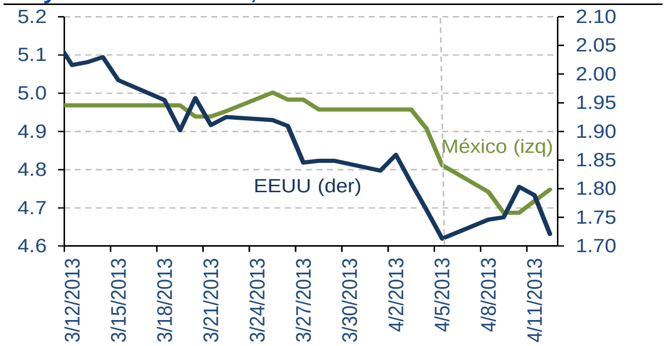
- **Rates in Mexico continue to drop, influenced by foreign investment inflows and stronger currency forecasts. Global risk declines due to global liquidity measures being expected to continue.**

Chart 9
Risk: 5 year CDS (Mar 12, 2013 index=100)



Source: Bloomberg & BBVA Research

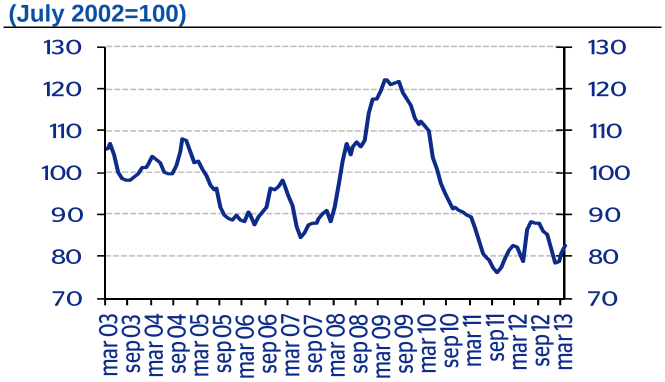
Chart 10
10-year interest rates, last month



Source: Bloomberg & BBVA Research

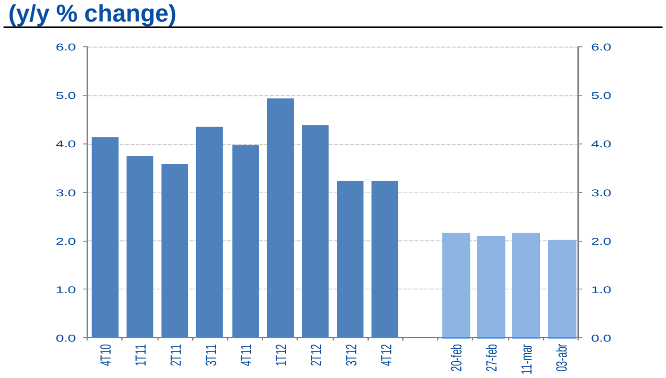
- **Inflation bounced back in the first half of March above the expected level. However, we consider that the upturn will be temporary and reach its high in April, after which it will moderate mid-way through the year.**

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

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