Mexico Weekly Flash

Next week…

- **No signs of a rebound in remittances**

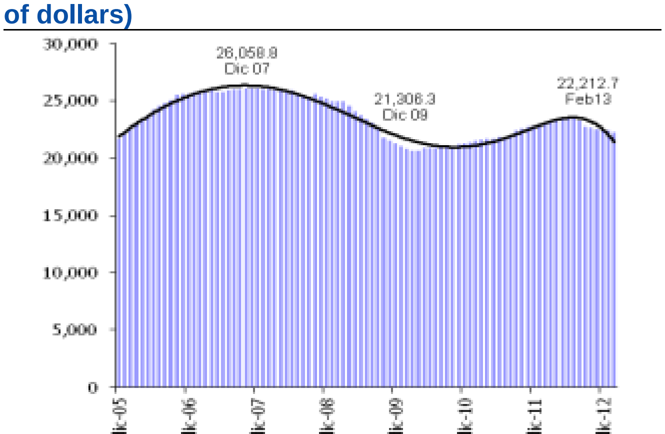
Next week sees the release of family remittance income figures for March in Mexico, mostly from the US. The continuing slow and uncertain recovery in economic output in the US with its impact on jobs means Mexican migrants have not been able to recover pre-crisis employment levels, after almost four years since the turmoil came to an end. Alongside this is the continuing high percentage of Mexican migrants who work in the US in part time jobs due to the economic situation (almost 61%, see ***Mexico Migration Outlook***, Nov. 2012). This cuts into their income and ability to send money home to their families.

Everything points to the remittance flow to Mexico in March likely to see a contraction compared to the same month last year. In this way, remittances could see declines in their annual rate for the ninth month in a row starting from July 2012.

- **Local financial variables continues to react to external factors given the tone in the Banxico statement being in line with expectations**

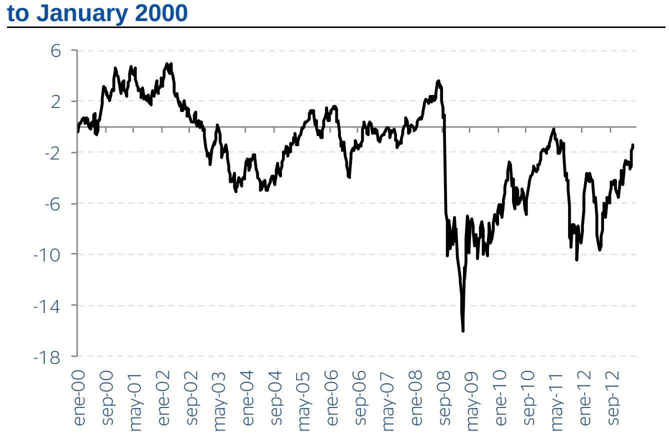
Despite global economic data pointing to the global economy remaining weak, this week abundant global liquidity continued to drive risk appetite. Over the week trading in local assets responded to these external factors: the MBonds curve saw another drop and the MXN maintained its positive bias. This dynamic continued today given the tone of Banxico's monetary policy decision statement basically falling in line with expectations. The Banxico statement suggests the most likely scenario continues to be a monetary pause although factors possibly justifying a cut are also on the table: there would be room for maneuver if Mexico's relative monetary stance in comparison to other countries tightens in a context of weaker economic output and inflation returning to its convergence path toward the target figure. This being said, and taking into account that we expect to see a downward trend in annual inflation from May onwards, the monetary conditions index could halt its upward trend and even see a slight turnaround.

Chart 1
Remittances: 12 month accumulated flows (millions of dollars)



Source: BBVA Research with Banxico figures

Chart 2
Index of monetary conditions[1] change in % compared to January 2000



It is calculated at the weighted average of the changes in the real interest rate and the real exchange rate compared to their average level in January 2000; the weightings are 0.5 and 0.5 respectively.
Source: BBVA Research with Bloomberg, Banxico and Infosel data

Calendar: Indicators

Quarterly report on public finance (April 30)

Forecast: n/a	Consensus: n/a	Previous: n/a

Next Tuesday sees the release of the first quarterly report on public finance for the year. This is an important document to see the trajectory of the main revenue, spending and debt indicators for the public sector. On the revenue side, 12-month flows to February show low growth at a real 2.1% after having reached their maximum growth since 2008 in July 2012 at 9.5%. This slowdown is mainly due to lower oil revenue (the accumulated 12-month flow in February declined 0.9%) and to a lesser extent, lower growth in tax revenue (1.42% y/y) and revenue from non-oil organizations and businesses (2.24% y/y). It is important to highlight that oil revenue will likely be lower this year due to crude prices very likely coming in lower than in 2012 and the stronger peso working against this revenue. In addition, after the 2009 crisis and the tax reform in 2010, revenue from taxes and organizations and businesses seem to have stabilized. This means it is likely that they increase very much in line with economic output. In this way, with no major fiscal changes, 2012 is likely to see moderate growth in public sector revenue.

Producer confidence in April (May 3)

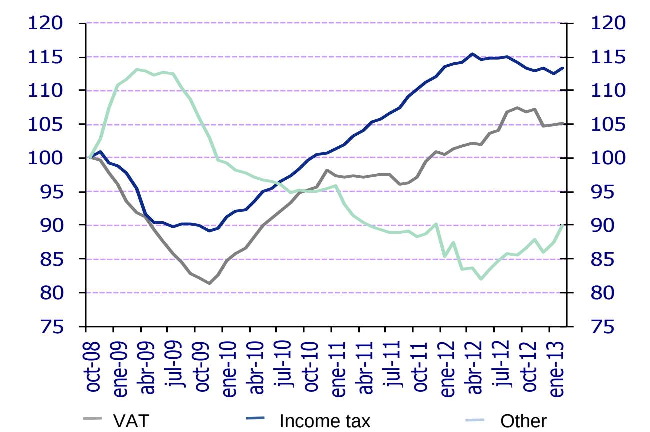
Forecast: -0.3% m/m (55.7 pts)	Consensus: n/a	Previous: -0.8% m/m (55.9 pts)

Consumer confidence in April (May 6)

Forecast: -0.2% m/m (94.7 pts)	Consensus: n/a	Previous: -1.6% m/m (94.9 pts)

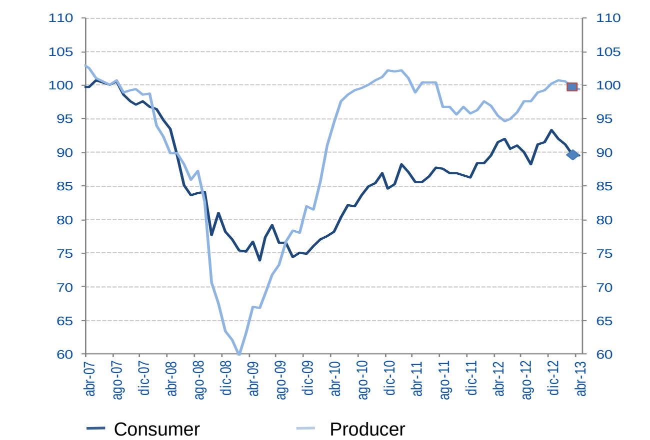
Consumer confidence is likely to continue falling albeit at lower rates than in recent months. It should be stated that one of the key indicators, job creation in the formal private sector, slowed in March from an average monthly growth of 0.4% in the last quarter of 2012 to 0.1% in March (m/m% CSV). In turn, we cannot rule out a contraction in producer confidence, albeit somewhat less than the previous month. It should be highlighted that industrial output has slowed significantly since mid-2012. Nonetheless, the trend in producer confidence has improved mainly due to optimism on indicators such as the right time to invest and the future economic situation for business.

Chart 3
Budget revenue since the crisis, indices of 12-month cumulative flows (Oct 08=100)



Source: BBVA Research with SHCP data

Chart 4
Consumer and Producer Confidence (July 7=100)

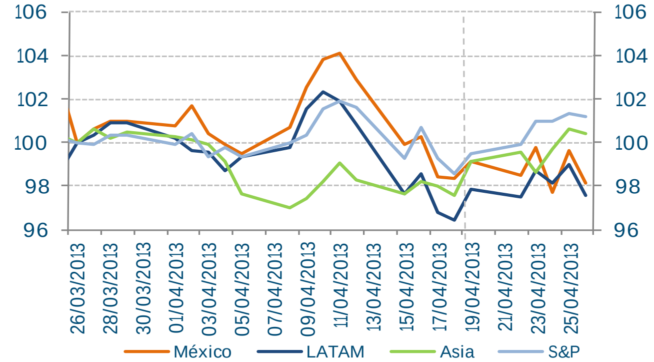


Source: BBVA Research with INEGI data

Markets, activity and inflation

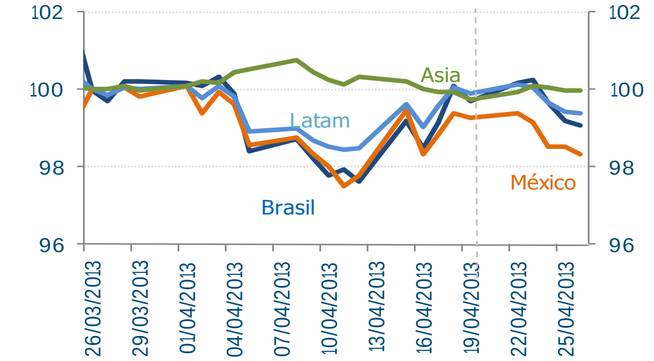
- **Better-than-expected new home sales figures and new unemployment applications below forecasts outweigh the lower-than-expected US GDP figure and contribute to a higher exchange rate over the week. The stock market fell over the week in reaction to the decline in housing construction companies.**

Chart 7
Stock Markets: MSCI indices (Mar 26, 2013 index = 100)



Source: Bloomberg & BBVA Research

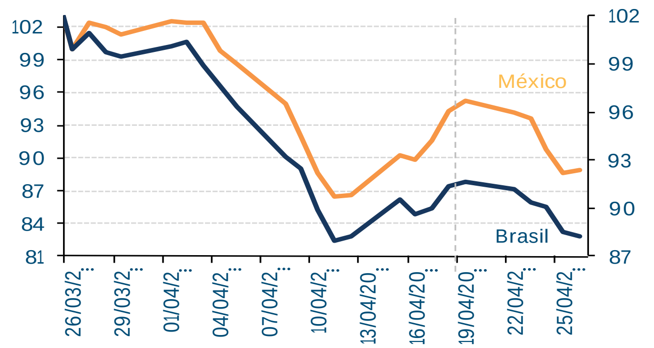
Chart 8
Foreign exchange: dollar exchange rates (Mar 26, 2013 index = 100)



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.

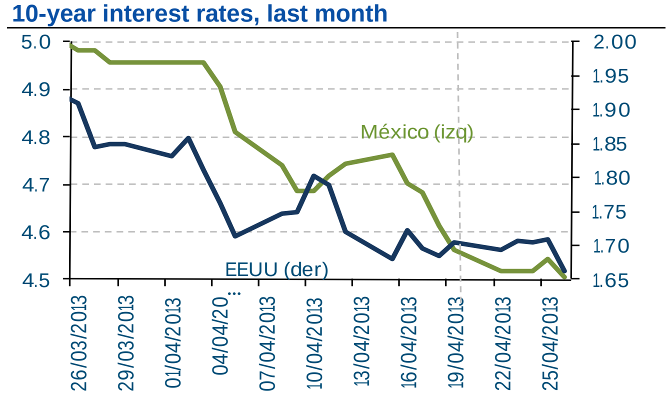
- **Fall in U.S. interest rates toward the end of the week due to lower-than-expected growth figures for Q1 in the US. Rates in Mexico moved in line.**

Chart 9
Risk: 5 year CDS (Mar 26, 2013 index=100)



Source: Bloomberg & BBVA Research

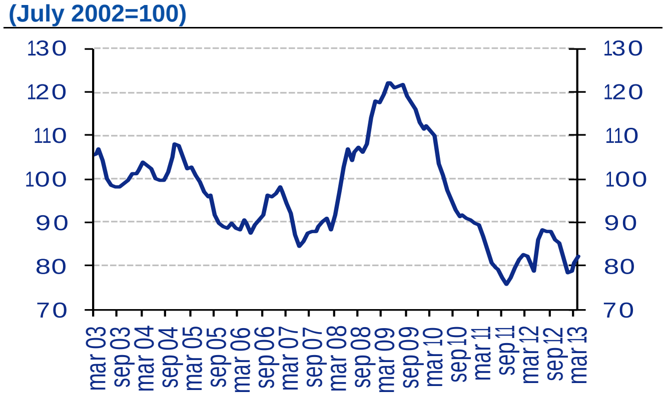
Chart 10
10-year interest rates, last month



Source: Bloomberg & BBVA Research

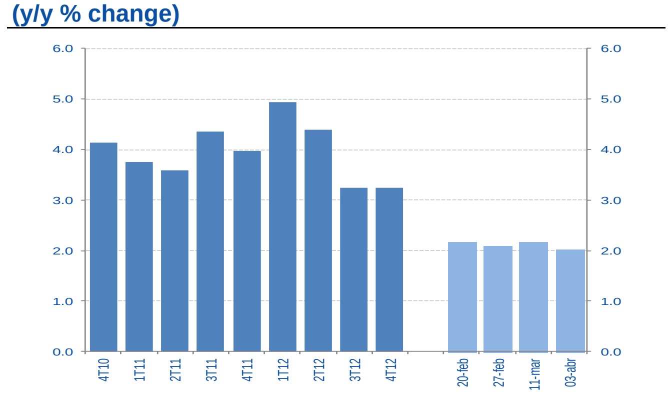
- **Inflation bounced back in the first half of March above the expected level. However, we consider that the upturn will be temporary and reach its high in April, after which it will moderate mid-way through the year**

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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