

# Mexico Weekly Flash

## Next week...

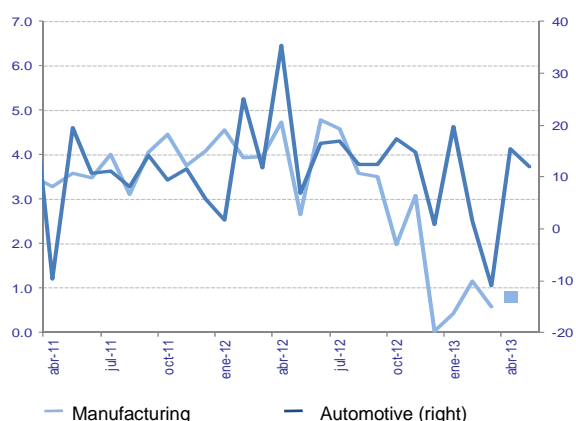
- **Data will be released on industrial output in April, which will help evaluate GDP growth for the second quarter**

Data on industrial output in April will be released next Tuesday. A slight upturn is expected in industrial output as a result of positive figures on automobile output and more moderate growth in other manufactured goods. Specifically, the automobile industry has had two months with significant growth, 14% higher than in the two months of April-May last year. It is also worth highlighting that the sale of units in May this year was the highest for this month in history in the Mexican market. However, other manufacturing branches have been weaker, and this could limit the growth of the manufacturing sector in the second quarter of the year. It will be important to monitor the performance of the construction industry, which in recent months has significantly moderated its growth. We estimate a total seasonally adjusted monthly growth of 1.0% in total industrial output.

- **US employment figures do not clear uncertainty about a possible earlier than expected withdrawal of the monetary stimulus; volatility could continue**

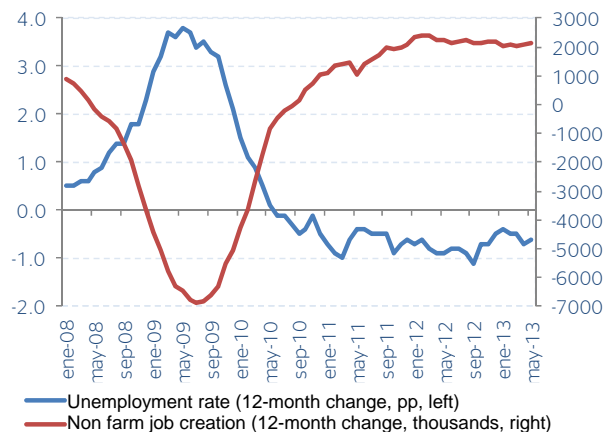
Local assets reacted positively to the Banxico statement, particularly the fixed-income instruments. The fact that Banxico has maintained an implicit bias encouraged expectations that the Central Bank will be more relevant once the global markets tend to stabilize. The MXN was not significantly affected by the statement and the US employment data today had a bigger effect. However, toward the close of the session the US T-bills tended to become more determinant over the local yield curves, while the MXN lost part of its initial gains. Uncertainty remains at present with respect to the Fed's next moves; as expected, the employment figures did not act as a catalyst and until the board is not clearer about the situation, volatility could continue. Thus we do not see factors to justify any break with the current ranges in the short term.

Chart 1  
**Automotive output and manufacturing output (y/y % change)**



Source: INEGI, Banxico, BBVA Research

Chart 2  
**Unemployment rate and job creation in the U.S.**

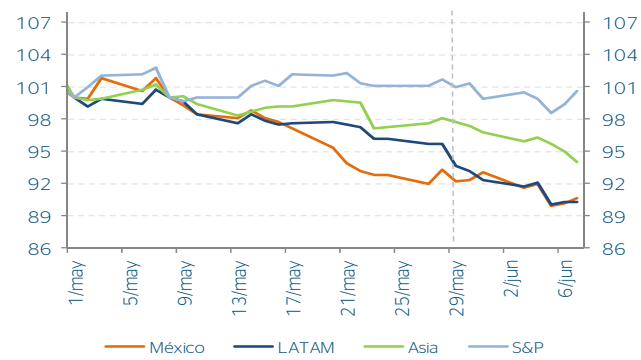


Source: BBVA Research and Bloomberg

# Markets, activity and inflation

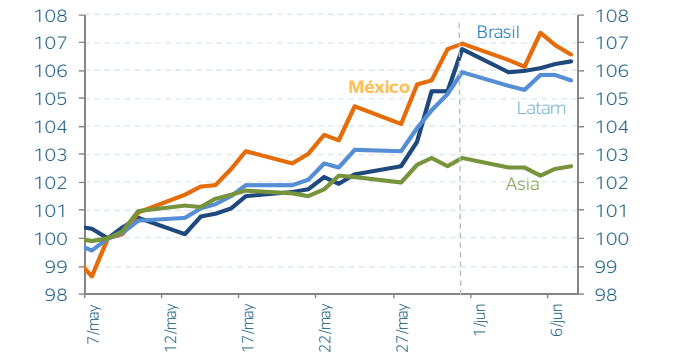
- Employment data in line with expectations and slightly higher unemployment in the U.S. have generated speculation about whether the Fed could maintain the current rate of asset purchases. This was reflected in an appreciation of the exchange rate and rises in stock markets at the end of the week.

Chart 7  
Stock markets: MSCI indices  
(May 7, 2013 = 100)



Source: BBVA Research with data from Bloomberg

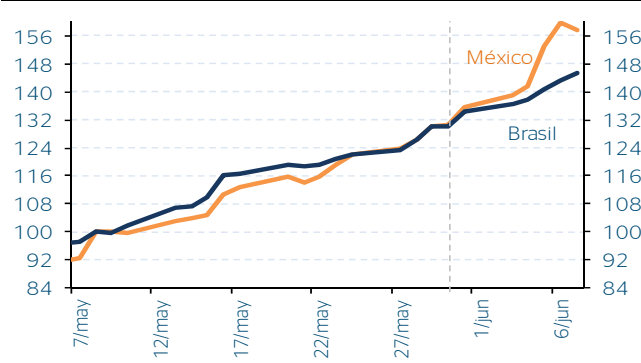
Chart 8  
Foreign exchange: dollar exchange rates  
(May 7, 2013 = 100)



Source: BBVA Research with Bloomberg data. Note: LATAM includes Argentina, Brazil, Chile, Colombia and Peru. Asia includes the Philippines, South Korea, Taiwan, Singapore, Indonesia and Thailand.

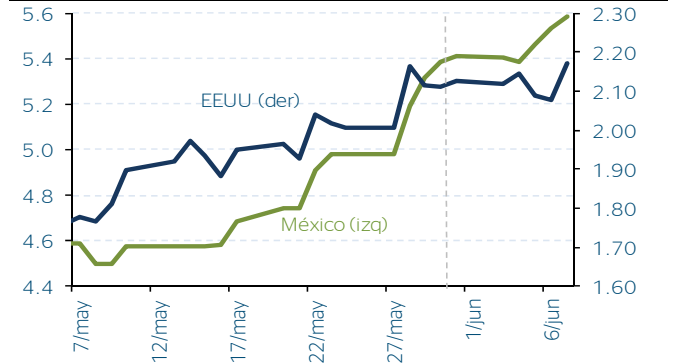
- Slight rise in long-term interest rates in the U.S. following the release of employment figures and increased demand for risk assets. Rates in Mexico still have a high strong positive correlation to US T-Bills. Risk aversion lessens toward the end of the week.

Chart 9  
Risk: 5 year CDS (May 7, 2013 = 100)



Source: BBVA Research with data from Bloomberg

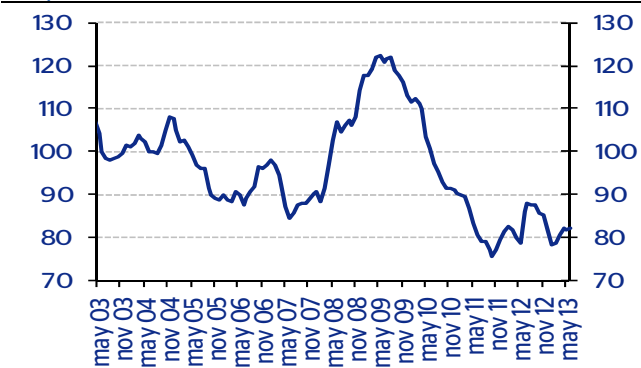
Chart 10  
10-year interest rates, last month



Source: BBVA Research with data from Bloomberg

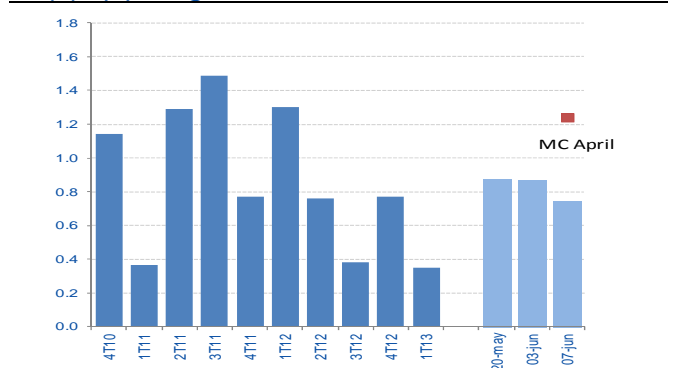
- Inflation will begin to fall in June and we expect a rebound in activity in the coming quarters following the rapid decline in 1Q13.

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, adjusted 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 GDP  
(% y/y, q/q change)



Source: BBVA Research

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