

Economic Watch

Mexico

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Economic Analysis

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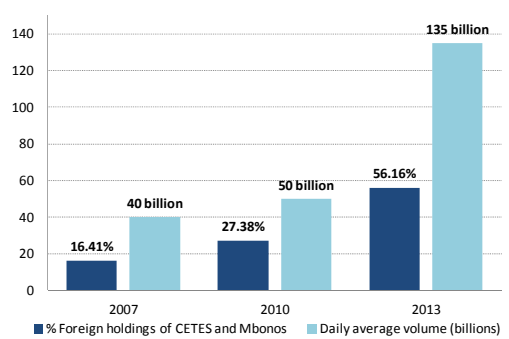
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The Mexican peso becomes the currency with the highest transactions volume among the currencies of emerging countries

- According to the most recent study from the Bank for International Settlements (BIS), the Mexican peso is ranked eighth in terms of currency transactions worldwide and first among emerging countries
- In general, the importance of emerging currencies on the global foreign currency market is increasing and coinciding with the adoption of non-conventional monetary policy measures in developed countries
- Increased participation by institutional investors and hedge funds, among others, continues in the global currency market as well as through derivatives and over-the-counter markets

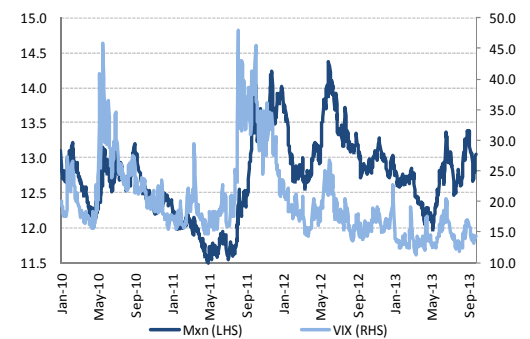
According to the study, carried out every three years by the Bank for International Settlements (BIS) among the world's central banks, the peso has become the currency with the largest volume of transactions among emerging market currencies, while it was ranked third in 2010. With an average volume of transactions increasing by US\$50 billion to US\$135 billion in just three years, the peso has overtaken the South Korean won and the Singapore dollar to reach first place. This 170% increase, far exceeding the 35% overall rise in the total value of currency exchanges worldwide, places the Mexican currency as the eighth most traded currency worldwide, going from 1.3 to 2.6 percent of the total volume traded in global currency markets. It is important to note that only 23% of the US\$135 billion traded daily is traded locally, a reduction from the 33% that this market represented in 2010. This may be one of the influencing factors in the high correlation of the value of the peso with global risk aversion trends, as well as the moderate increase of its volatility in recent years.

Chart 1
CETES and Mbonos held by foreigners and daily transactions volume of the peso (% , US\$ billions)



Source: BBVA Research with BIS and Banxico data

Chart 2
Exchange rate and global risk aversion [VIX] (peso per dollar, %)

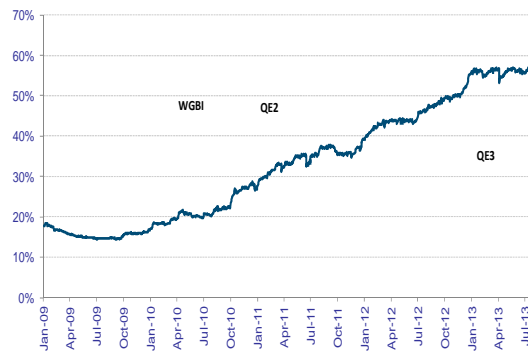


Source: BBVA Research and Bloomberg

In general terms the study indicates increased representation of emerging country currencies in the global currency exchange market, and a corresponding decreased representation of industrialized country currencies. In addition, to the increased representation of the Mexican peso in the currency trading markets, the Chinese yuan increased its representation from 0.9% to 2.2%, while the Russian ruble increased from 0.9% to 1.6%. Conversely the participation of the euro decreased from 39.0% to 33.4%, the Swiss franc from 6.3% to 5.2%, and the Canadian dollar from 5.3% to 4.6% from the total amount traded globally. It should be noted that this phenomenon coincides with the enactment of unconventional monetary policy measures by the central banks in developed countries, in particular the Federal Reserve.¹ This has led to increased interest on the part of investors in the potential performance of emerging markets and, therefore, to greater demand for these countries' currencies. In the particular case of Mexico, an additional possible factor explaining the increase in transactions has been inclusion to the World Government Bond Index (WGBI) in March of 2010, which resulted in greater demand for Mexican financial instruments by institutional investors.²

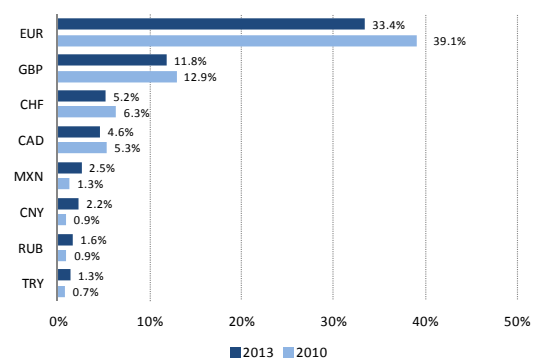
Also, the results confirm the tendency seen in previous studies with respect to the increase in the participation of institutional investors, hedge funds, and small and regional banks as counterparties in the global currency exchange market. This group of investors increased its representation from 48% to 53% of the total volume of transactions. The predominance of transactions using derivatives over spot transactions continued, representing over 60% of operations, a similar level as in the 2010 study. Finally, it should be noted that the vast majority of exchange instrument transactions is carried out in over-the-counter markets, so that, according to the BIS, caution should be applied when taking into consideration currency speculative positions statistics, which generally come from regulated markets.

Chart 3
CETES and Mbonds held by foreigners (% of total)



Source: BBVA Research with Banxico data

Chart 4
Participation in the total volume of operations of the global exchange market (%)



Source: BBVA Research with BIS data Note. EUR: euro; GBP: Great Britain pound; CHF: Swiss franc; CAD: Canadian dollar; CNY: Chinese yuan; RUB: Russian ruble; TRY: Turkish lira.

¹ In the 2010-2013 period, the balance of the US Federal Reserve has increased from US\$2.2 trillion to US\$3.6 trillion.

² CETES and Mbonds holdings by foreigners grew from 17% to 56% between 2010 and 2013.

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