Mexico Weekly Flash

Next week…

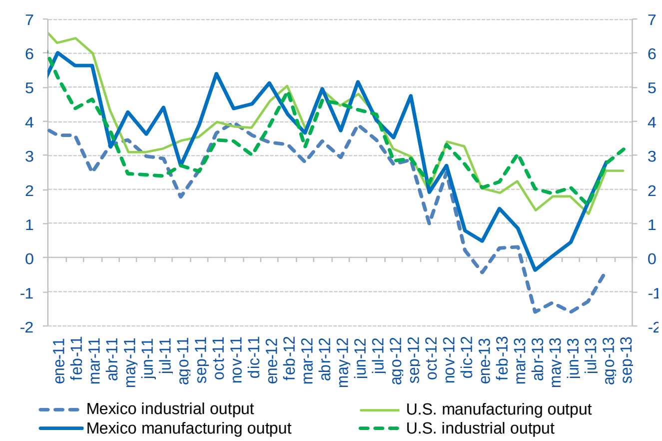
- **The industrial output report for September is set to contribute to honing forecasts on economic growth in Mexico for the end of 2013**

Next Monday, November 11 sees the release of industrial output performance for September 2013. This indicator is very important given its high correlation with GDP. Industrial output in Mexico in August declined by a lower amount than that seen in the four previous months in year-on-year terms (y/y), coming in at -0.37% (corrected for seasonal variation, CSV), although it increased 0.49% compared with the previous month (m/m). The decline in Mexican industrial output was due to the contraction in construction (-4.9% y/y, CSV) and mining (-2.3% y/y, CSV). Electricity, gas and water saw a minor rise of 1.5% y/y CSV and manufacturing increased 2.8% y/y CSV. Manufacturing is highly likely to see sustained increases due to the major upturn in US industrial output in September (3.2% y/y and 0.6% m/m). We therefore expect the Mexican industrial output indicator to show monthly growth of 0.62%, CSV. In addition, we need to pay attention to the results of the National Occupation and Employment Survey for 3Q13 to see how employment performed in Mexico in detail.

- **Upward surprises in a range of US indicators was reflected by losses in higher risk assets**

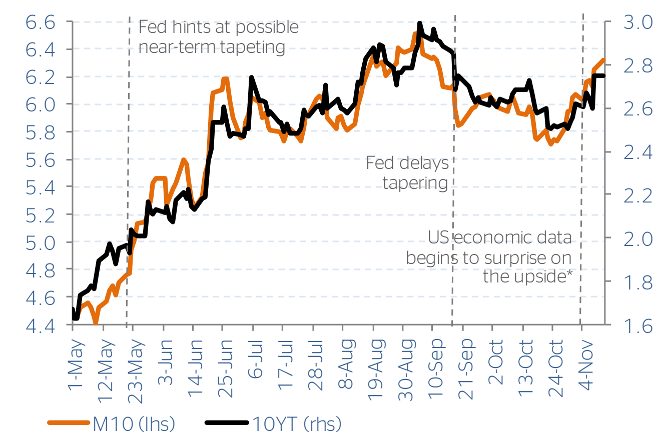
Since the FED delayed the start of its tapering for the asset purchase program, the perception that its validity "depends on data" was strengthened. During most of October, economic figures did not come in as expected for the FED's since it started to outline it exit plans in May. Nonetheless, in the last two weeks and especially this week, economic data from a range of indicators have reported upward surprises. This week the ISM bounced to two-year highs, annual growth in the third quarter was revises up to 2.8% (although mainly due to inventory) and, the most important figure, job creation in October also came in above expectations despite the 16-day government shutdown (+200,000). The upward surprises led to highs in long-term interest rates as a result of the "depends on the data" nature for upcoming FED decisions (chart 2). Long-term rates in Mexico moved in line and the exchange rate ended the week at 13.17ppd, 12 cent more than last Friday.

Chart 1
Industrial output and manufacturing: Mexico and US (% change y/y, CSV)



Source: BBVA Research with INEGI and Bloomberg data. CSV=Corrected for Seasonal Variation.

Chart 2
10-year interest rates (%)



Source: BBVA Research, Bloomberg.

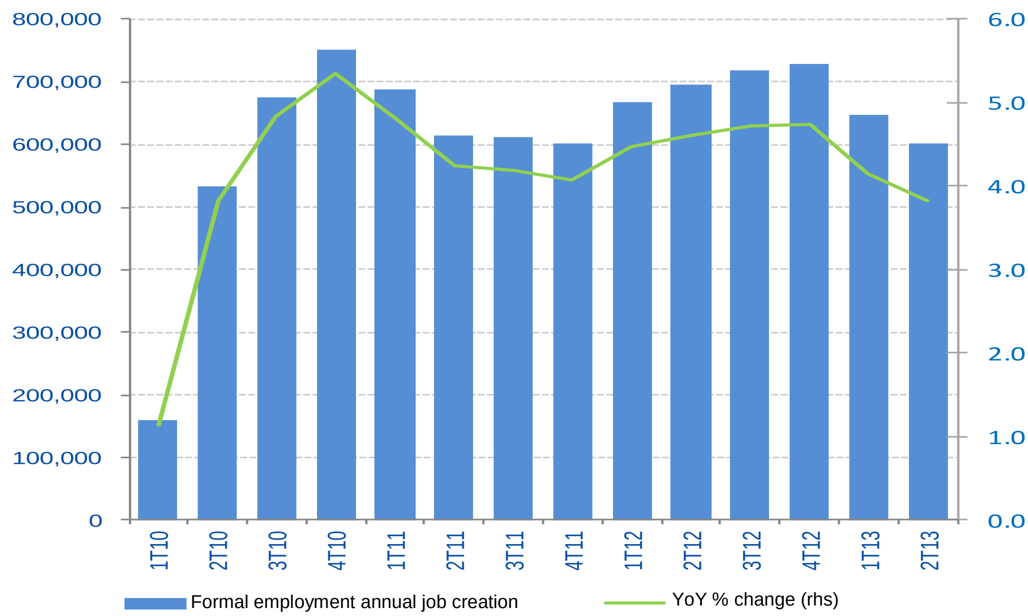
Industrial Output in September (November 11)

Forecast: -0.04% y/y, 0.62% m/m, CSV	Consensus: N/A	Previous: -0.37% y/y, 0.49% m/m, CSV

Occupation and employment 3Q13 (November 12)

Next week sees the release of the results from the National Occupation and Employment Survey for 3Q13. This indicator will show the detailed performance of formal employment and confirm the results seen in unemployment reports and job market conditions which have recently been negative. For example, the unemployment rate in its original series increased from 5.12% in July to 5.17% in August and 5.29% in September 2013.

Chart 3
Formal job creation
(% change y/y and new IMSS insured workers, original series)

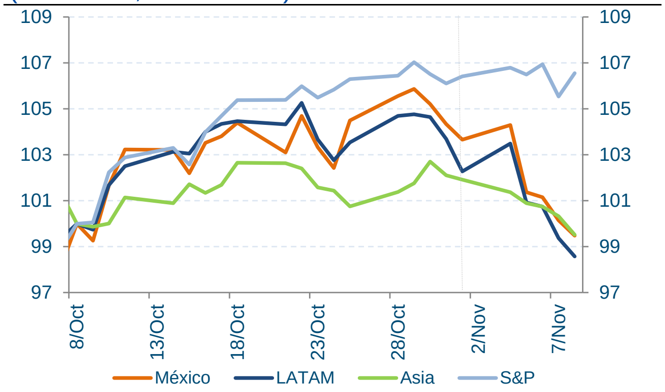


Source: BBVA Research with STPS data.

Markets, activity and inflation

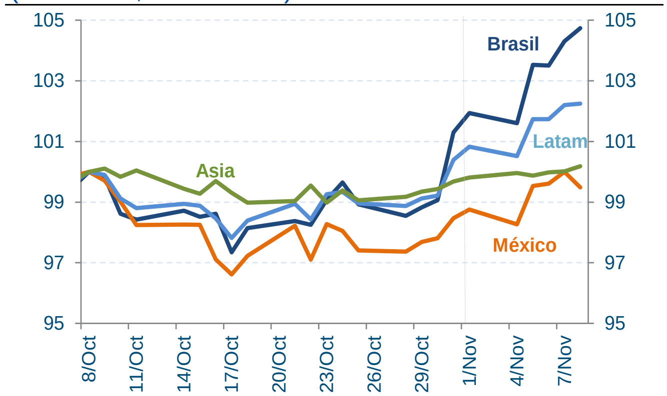
- Higher-than-expected economic activity and employment figures in the US increase speculation surrounding a lower speed for the FED's asset purchases which is reflected by losses on stock markets in emerging nations and lower currencies over the week.

Chart 4
Stock markets: MSCI indices
(October 8, 2013 = 100)



Source: BBVA Research with data from Bloomberg

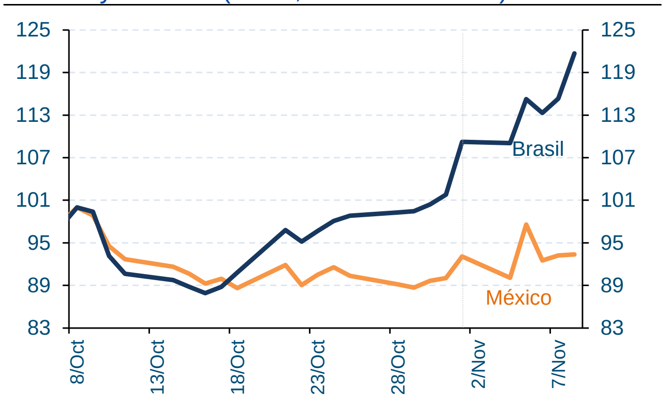
Chart 5
Foreign exchange: dollar exchange rates
(October 8, 2013 = 100)



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

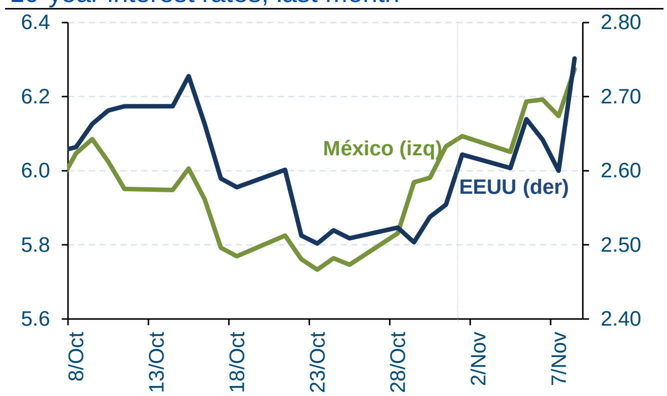
- In line with this, U.S. and Mexican interest rates saw a significant uptick. The credit risk premium in Brazil continued to rise after comments from an agency on a possible downgrade if the fiscal deficit continues to rise.

Chart 6
Risk: 5-year CDS (Oct 8, 2013 index=100)



Source: BBVA Research with data from Bloomberg

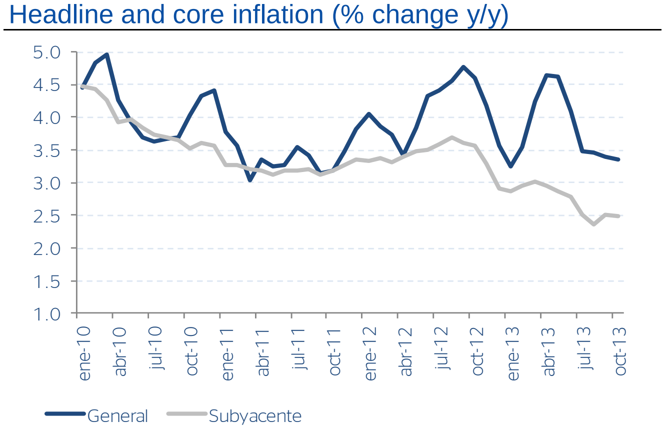
Chart 7
10-year interest rates, last month



Source: BBVA Research with data from Bloomberg

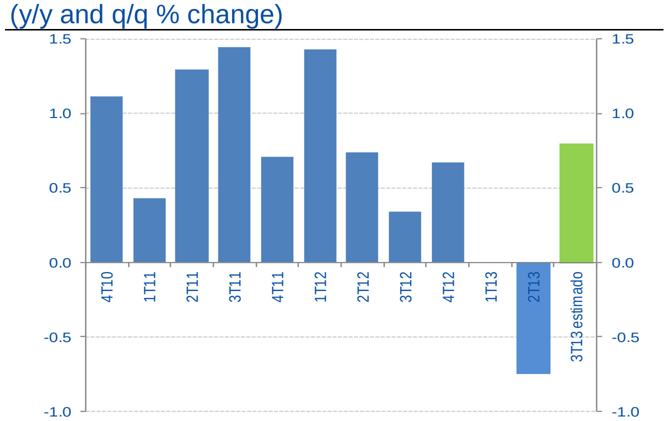
- Both headline and core inflation remained stable in annual terms in October. Output data point to a slight recovery in the third quarter and the start of the fourth.

Chart 8
Headline and core inflation (% change y/y)



Source: INEGI, BBVA Research.

Chart 9
Observed and estimated GDP 3Q13
(y/y and q/q % change)



Source: BBVA Research with INEGI data.

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