Mexico Weekly Flash

Next week…

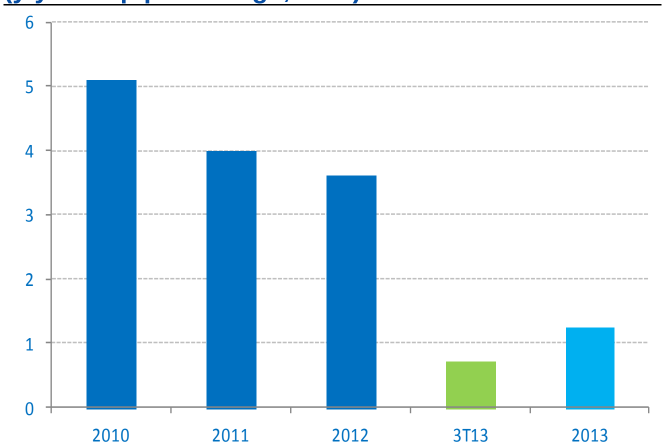
- **Third quarter GDP set for release. We expect to see quarterly (q/q) growth of 0.7%. (corrected for seasonal variation).**

GDP for the third quarter of 2013 is set to be released on Thursday, November 21. After the (-)0.74% quarterly drop in the second quarter of the year, the economic slowdown is expected to have reversed and a period of economic recovery to have started, leading to GDP growth of 0.7% q/q. The upturn in industrial output in the third quarter, the strength of the services sector seen in the IGAE, increased consumer confidence and higher public expenditure are among the main elements supporting this growth. In addition, the last part of the year is expected to see growth in the US, as well as higher investment and public expenditure which should lead to growth of around 1.0% in the fourth quarter. In this sense, the growth rate for 2013 is set to come in around 1.2%.

- **The cautious tone regarding the withdrawal of quantitative easing from Janet Yellen, nominated as chair of the Fed, boosted assets seen as high-risk**

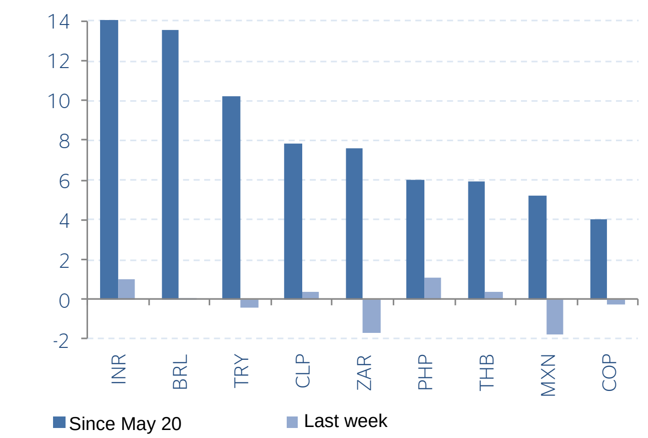
In her statement to Congress, Yellen stated that although the job market had seen significant improvement, the Fed expected stronger growth that boosts continuous improvement in the job market before starting any tapering in its asset purchases. In addition, she highlighted that the benefits in purchasing these are still higher than costs. In short, her statement suggests that there will be a cautious approach to unconventional monetary policies. In response, Treasury bond interest rates partially reversed their highs from the last week that had been driven by upward surprises in available economic indicators, specifically job creation in October. Long-term interest rates in Mexico continued to mirror moves in US rates (the M10 rate dropped 14bp at the end of the week compared to its Monday close) and emerging economies' currencies showed a general trend to strengthen, a somewhat positive difference in the peso which strengthened 1.8% over the week standing out.

Chart 1
Observed and estimated GDP 3Q13 and 2013 (y/y and q/q % change, CSV)



Source: BBVA Research with INEGI data. CSV=Corrected for seasonal variation.

Chart 2
Dollar exchange rates (Change %*)



Source: BBVA Research and Bloomberg. *A positive/negative percentage change indicates a devaluation/strengthening. May 20 corresponds to the day before the speech where Bernanke gave the first pointers on a possible reduction in the asset purchase rate by the Fed in the near future.

Calendar: Indicators

Retail sales in September (November 20)

Forecast: -1.2% y/y, CSV	Consensus: N/A	Previous: -2.3% y/y, CSV

INEGI will release the retail sales indicator for September on Wednesday, November 20. With figures corrected for seasonal variation (CSV), retail sales in August declined (-)2.3% in annual terms (y/y). We expect retail sales in September to see a 1.8% monthly improvement (although the annual change will remain negative at -1.2%). This taking into account that the ANTAD sales indicator saw a slight recovery in September, hitting a monthly growth rate of 0.8%, CSV (-2.1% y/y in August vs. -3.1% y/y in July, CSV). In addition, almost 94,000 formal jobs were created in September, leading to a higher total wage bill and better possibilities for Mexican household spending.

Gross Domestic Product 3Q13 (November 21)

Forecast: 0.7% q/q% CSV	Consensus: 0.7% q/q, CSV	Previous: -0.7% q/q, CSV

IGAE in September (November 21)

Forecast: 1.1% y/y, CSV	Consensus: N/A	Previous: 1.4% y/y, CSV

INEGI will release the Global Economic Activity Index (IGAE) for September this coming Thursday. The indicator supplements third quarter GDP figures and will provide a guideline for setting Mexican economic growth in the year. In August, the IGAE increased in annual terms (1.4%, CSV) as a result of the upturn in services (2.5% y/y, CSV). Meanwhile, the agricultural sector declined (-)3.1%, CSV and the manufacturing sector dropped (-)0.4%, CSV. Due to the worsening performance in the Mexican industrial output indicator (-1.2% m/m, CSV) and a slight upturn in formal employment in the services sector (0.1% m/m, CSV), both for September, the IGAE is expected to report annual growth of 1.1%, with figures corrected for seasonal variation.

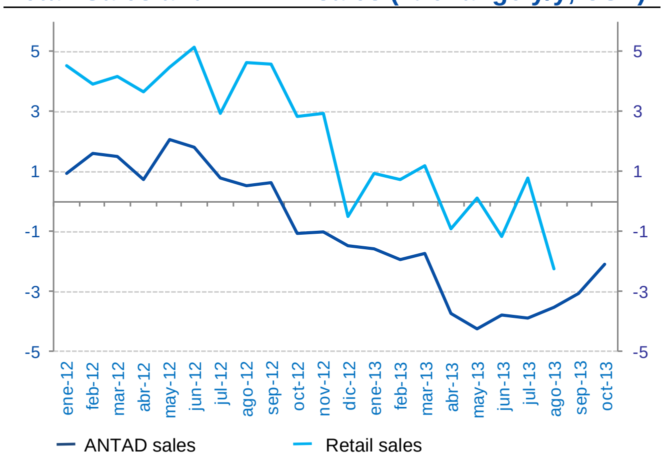
Inflation for the first two weeks in November (November 22)

Forecast: 0.71% (3.37% y/y)	Consensus: 0.58%	Previous: 0.14% (3.36% y/y)

The inflation figure for the first two weeks in November will be released on Thursday, and will continue to show stability in year-on-year inflation and no demand pressures. Nonetheless, high bi-weekly inflation is expected due to the seasonal adjustment in electricity prices and pressures on agricultural products in line with our daily monitoring of them. In bi-weekly terms, we expect an increase in headline inflation of 0.71% and 0.16% for core inflation, with both remaining stable in year-on-year terms respectively at 3.37% and 2.48% (vs. 3.36% and 2.48% in the second half of October). As part of the non-core component, in addition to forecasting a 7.2% increase in the energy price sub-index due to the seasonal adjustment (i.e. the end of summer prices in many countries in the city), we also forecast stronger pressure in agricultural prices than those seen in the second half of October (3.5% bi-weekly vs. 2.9% in the second half of October).

Chart 3

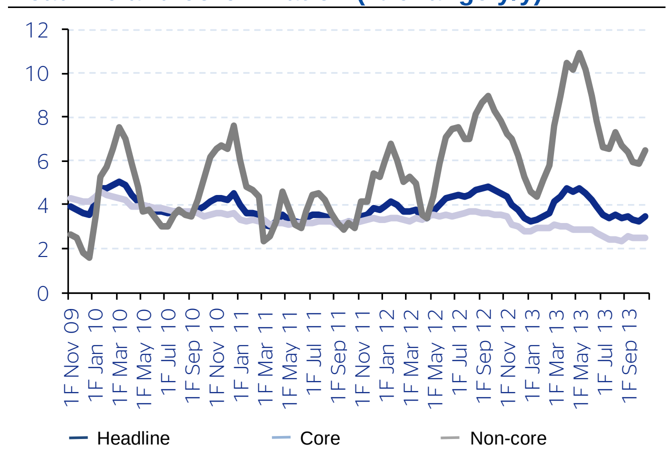
Retail Sales and ANTAD sales (% change y/y, CSV)



Source: BBVA Research with ANTAD and INEGI figures. CSV=Corrected for seasonal variation.

Chart 4

Headline and core inflation (% change y/y)

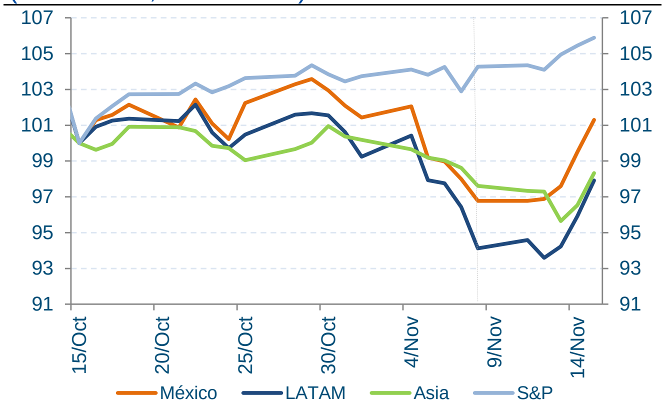


Source: BBVA Research with INEGI data.

Markets, activity and inflation

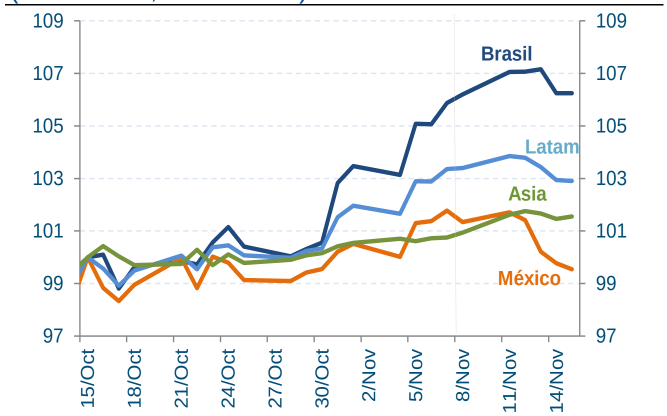
- Gains on stock markets and a general strengthening in emerging currencies after Janet Yellen, in her appearance before the US Senate, lent more toward maintaining stimulus programs.

Chart 4
Stock markets: MSCI indices (October 15, 2013 = 100)



Source: BBVA Research with data from Bloomberg

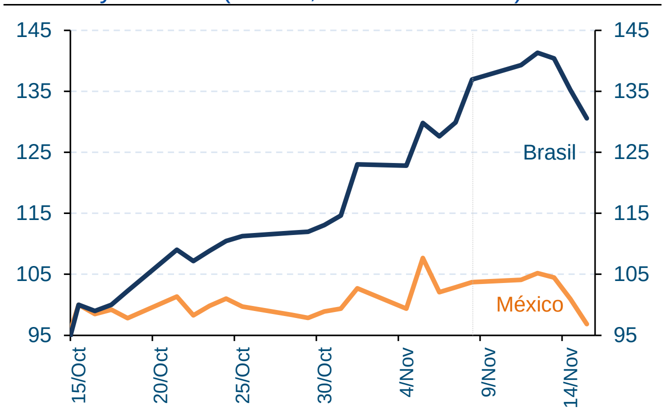
Chart 5
Foreign exchange: dollar exchange rates (October 15, 2013 = 100)



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.

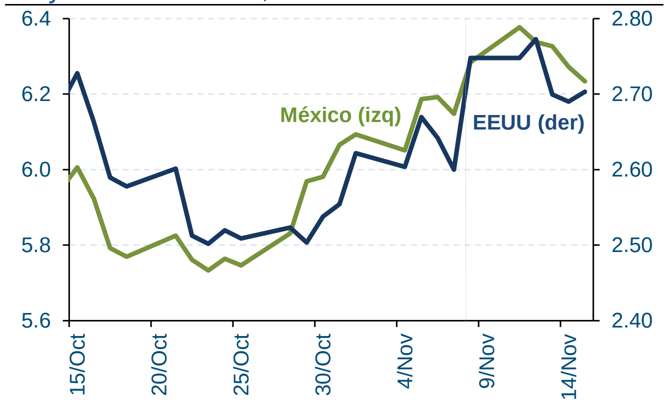
- Decline in Mexican and US interest rates after markets saw a lower chance of monetary stimulus being cut in December.

Chart 6
Risk: 5-year CDS (Oct 15, 2013 index=100)



Source: BBVA Research with data from Bloomberg

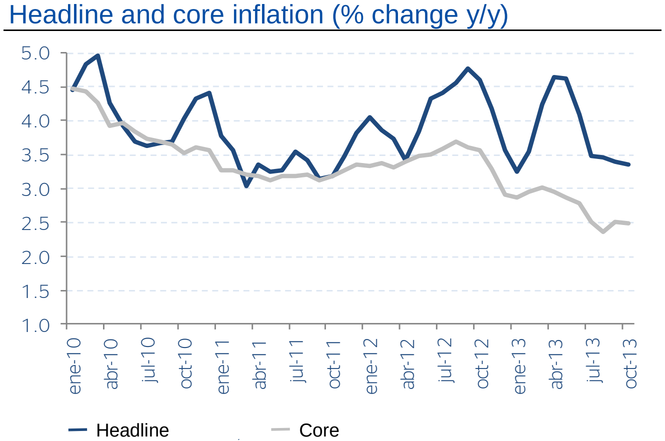
Chart 7
10-year interest rates, last month



Source: BBVA Research with data from Bloomberg

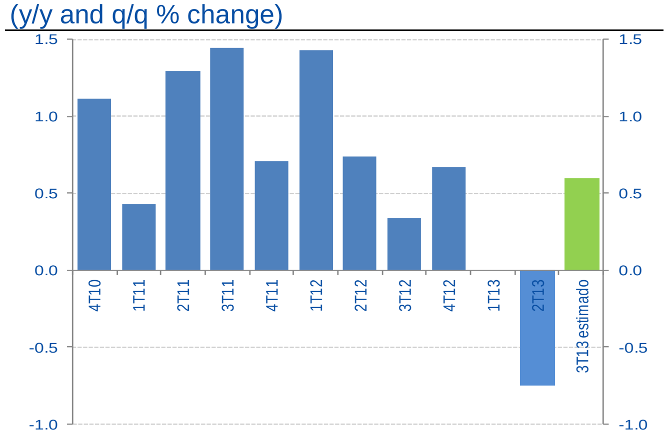
- Both headline and core inflation will remain stable in annual terms in the first two weeks of November. Output data point to a slight recovery in the third quarter and the start of the fourth.

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.

Arnoldo López Marmolejo
arnoldo.lopez@bbva.com

Juan Carlos Rivas Valdivia
Juancarlos.rivas.valdivia@bbva.com

Iván Martínez Urquijo
ivan.martinez.2@bbva.com

Javier Amador Díaz
javier.amadord@bbva.com

Av. Universidad 1200, Col. Xoco, Mexico 03339 D.F. | researchmexico@bbva.bancomer.com | www.bbvaresearch.com