

Mexico Weekly Flash

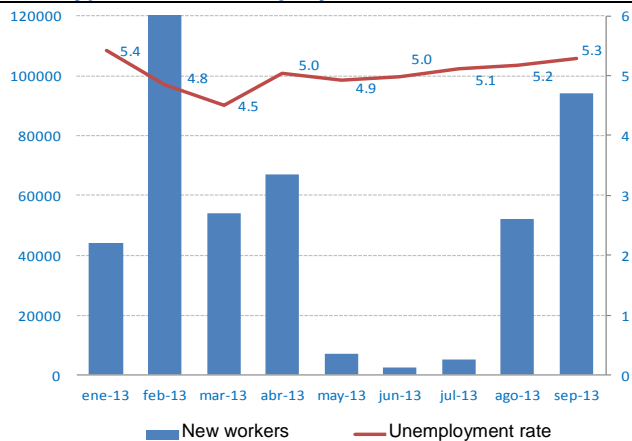
Next week...

- Initial job figures for the fourth quarter in a backdrop of slight economic recovery**
 INEGI is set to release structural employment figures for October 2013 on Monday, November 25. The indicator will show the type of jobs created at the start of the fourth quarter for the entire labor force and stands out due to its importance for strengthening consumption and the domestic market in general. Around 94,000 formal jobs were created in September and in line with economic activity performance, specifically in industrial output for September reported by the IMEF in October (0.5% m/m, CSV), we forecast a slight drop in unemployment from 5.3% in September 2013 to 5.2% in October.

The Fed is planning a gradual reduction in its asset purchases but the cyclical strength and effective communication limit risk aversion.

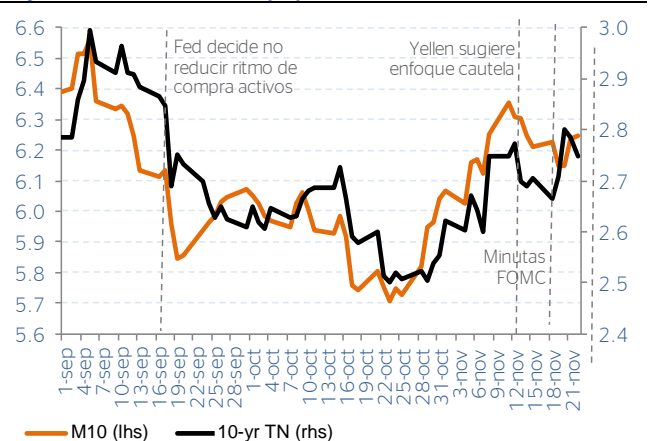
After statements from Yellen last week suggesting caution in terms of unconventional monetary policy led to higher risk assets being favored, the minutes of the last Fed meeting (October 29-30) were published last Wednesday and again increased the likelihood of a tapering to quantitative easing at "one of the coming meetings". This led to long-term interest rates rising in the US. This move was again accompanied by interest rates for bonds issued by emerging economies. The M10 rate in Mexico increased 10bp at the end of the week from its level prior to release of the Fed minutes (6.15% to 6.25%) while the lost 1.0% on Wednesday before recovering 0.9% later on, closing the week at 12.97ppd (vs. 12.93ppd last Friday). The positive performance on the currency market compared with bonds in a context where there is again a likelihood of lower growth in global liquidity in the short-term could be due to the recent success at the Fed in explaining the separation between conventional policies (i.e. exceptionally low interest rates over a prolonged period) and unconventional ones (i.e. the coming reduction in asset purchases). It could also be due to the gradual strengthening in the global economic cycle that could favor inflows onto stock markets in emerging economies that would be favored by said strengthening.

Chart 1
New workers registered with the IMSS (social security) and the unemployment rate



Source: BBVA Research with STPS data.

Chart 2
10-year interest rates (%)



Source: BBVA Research and Bloomberg.

Calendar: Indicators

Occupation and employment in October (November 25)

Forecast: 5.20%

Consensus: 5.15%

Previous: 5.29%

October trade balance (November 25)

Forecast: -846 md

Consensus: -670 md

Previous: 659 md

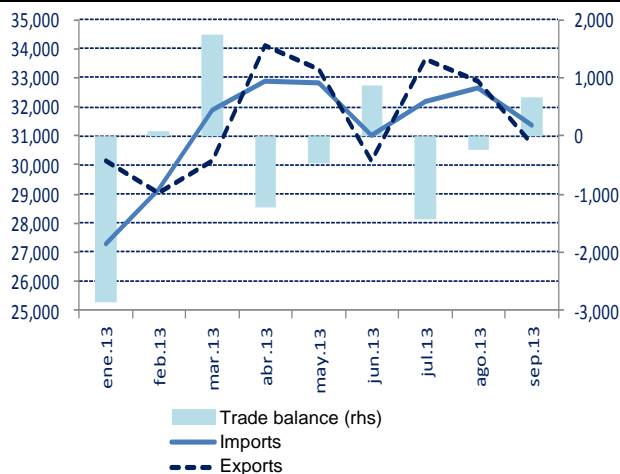
Next Wednesday INEGI will release trade balance figures to October. We expect to see some growth in exports (6.2% y/y) due to the recent upswing in manufacturing output in the U.S. (3.2% y/y in October). In addition, growth in imports is also expected (3.8% y/y). Thus, a negative balance of around (-)846 million dollars can be expected in the trade balance for October. With this, the current account deficit should hit (-)3.39 billion dollars in the third quarter of 2013 (-6.008 billion dollars in 2Q13).

Manufacturing sector indicators in September (November 28)

INEGI will release several manufacturing indicators for Mexico this coming Thursday for September. We need to pay attention to these figures as they provide details of manufacturing output performance in the country. It was already reported that manufacturing output rose 0.6% y/y in September meaning the other sector indicators should come in positive. In annual terms, people in work in August 2013 increase 1.7% compared to the same month in 2012 and hours worked were higher by 0.2%. Meanwhile, average real remuneration including salaries and social security entitlements decreased (-)0.8%.

Chart 3

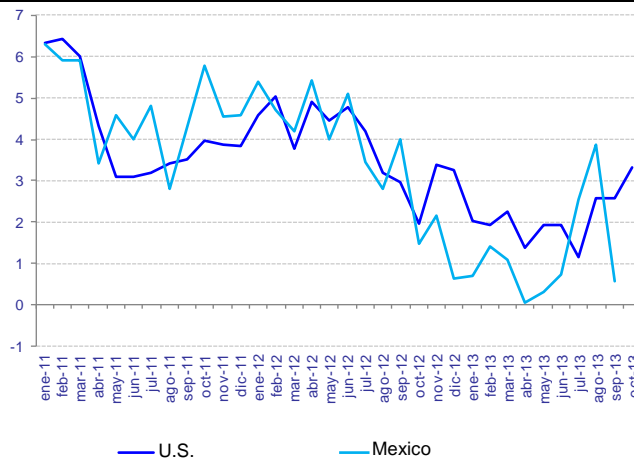
Exports, imports and trade balance for Mexico, millions of dollars



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

Chart 4

Mexican and US manufacturing output, % change y/y, CSV

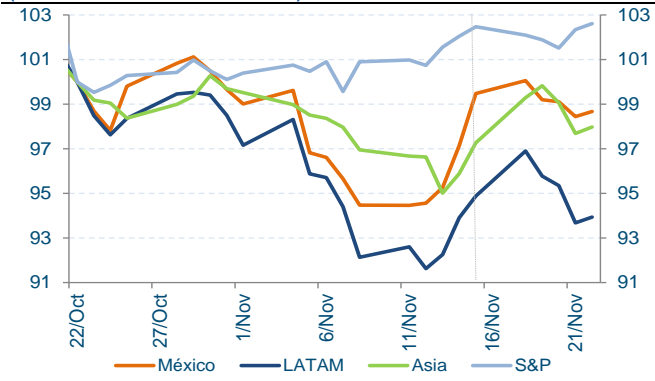


Source: BBVA Research with INEGI and Bloomberg data. CSV=Corrected for seasonal variation.

Markets, activity and inflation

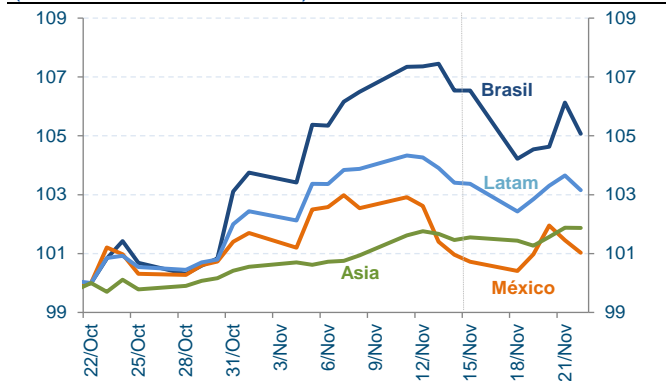
- The tone of the minutes from the last monetary policy meeting at the Fed increased concerns surrounding a tapering to monetary stimulus in coming months. This contributed to a slight devaluation in the peso over the week.

Chart 5
Stock markets: MSCI indices
(October 22, 2013 = 100)



Source: BBVA Research with data from Bloomberg

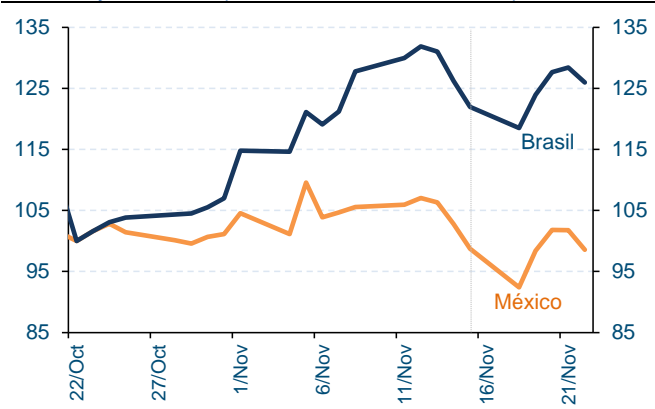
Chart 6
Foreign exchange: dollar exchange rates
(October 22, 2013 = 100)



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.

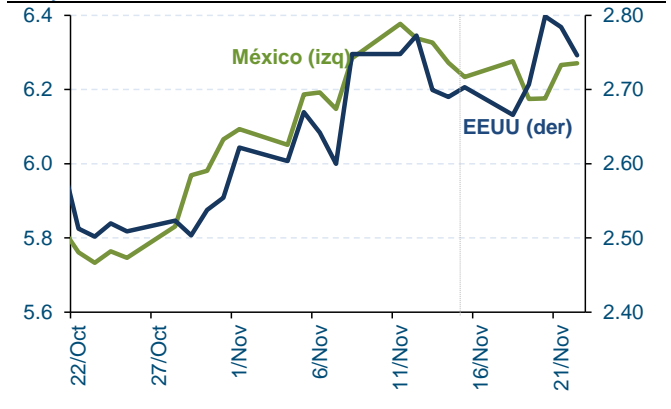
- Increase in rates in the US in light of a possible tapering to monetary stimulus. Long-term rates in Mexico reduced their correlation with Treasury bills and closed without major changes over the week.

Chart 7
Risk: 5-year CDS (Oct 22, 2013 index=100)



Source: BBVA Research with data from Bloomberg

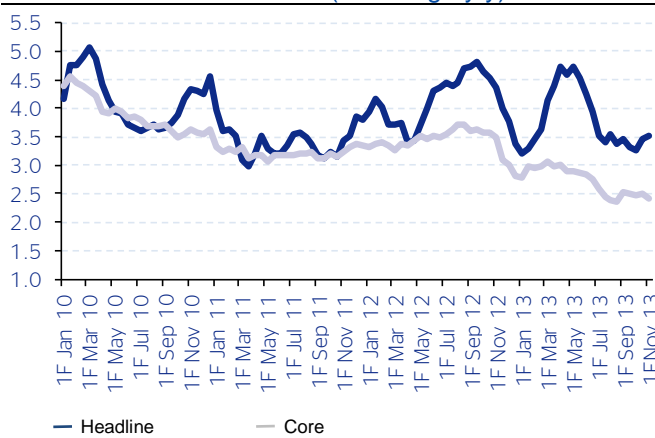
Chart 8
10-year interest rates, last month



Source: BBVA Research with data from Bloomberg

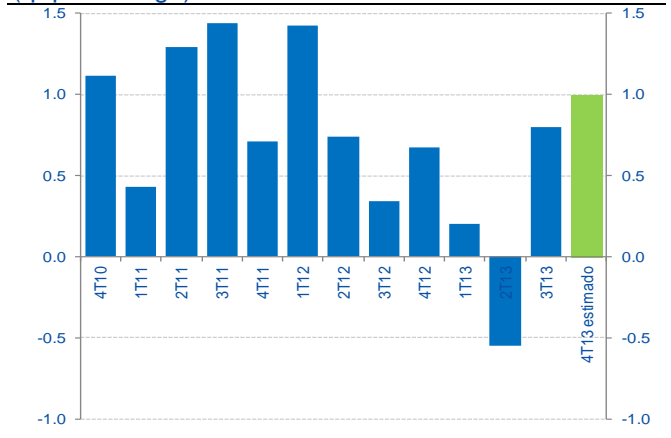
- Inflation saw a surprise uptick in the first two weeks of November but lower-than-expected core inflation supports our end-of-year forecast which remains unchanged at 2.6%.

Chart 9
Headline and core inflation (% change y/y)



Source: BBVA Research, INEGI.

Chart 10
Observed and estimated GDP 4Q13
(q/q % change)



Source: BBVA Research with INEGI data.

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