

Mexico Weekly Flash

Next week...

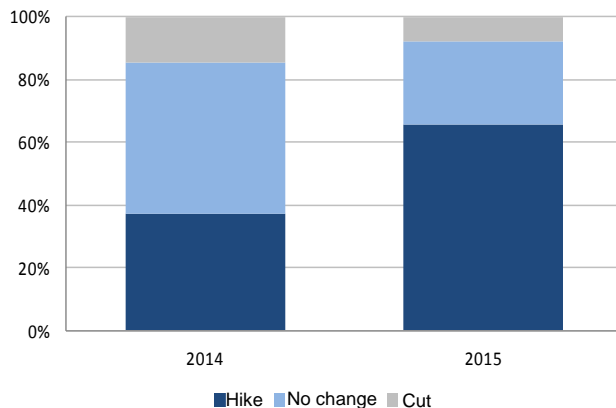
- Banxico set to maintain monetary pause which we expect to remain for a prolonged period

This coming Friday sees the release of the monetary policy decision. After the central bank highlighted it did not see making additional cuts as wise in its last statement, we expect the one-day interbank lending rate to remain unchanged and start a prolonged pause period given the prevailing slack in the economy and the lack of demand pressures for the foreseeable future. In terms of the statement's tone, slightly better-than-expected figures for economic growth in the third quarter are likely to lead to mention of lower downward risks for output compared to the last meeting, while stating that these risks still remain high. With regard to inflation, the temporary moderate nature of the impact from fiscal changes is expected to be underlined with no significant change in the tone nor in the balance of risks forecast. Attention will need to be paid to what the central bank says about US monetary policy and its impacts on financial markets, especially given the recent Federal Reserve minutes reactivating expectations of a tapering in asset purchases in coming months and with economic output and employment figures for the US due out this coming week. These figures will be important for the FED's monetary policy decision on December 18.

Optimism surrounding the US cycle in a week with lower trading volumes

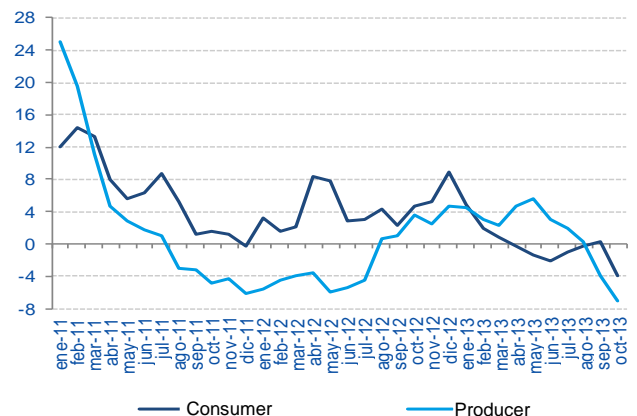
In a quiet trading week thanks to holidays in the US, lower-than-expected figures on unemployment benefit applications increased concern surrounding a tapering in asset purchase rates in coming months. This contributed to a 0.51% devaluation in the peso mid-week, taking it to 13.12 pesos per dollar, a rise in 10-year interest rates to 6.11%. In turn, better-than-expected US consumer confidence and housing sector figures that point to the improvement continuing despite uncertainty surrounding mortgage rates led to optimism on the US cycle and gains on stock markets.

Chart 1
Likelihood of next monetary policy rate move according to analysts (%)



Source: BBVA Research with Reuters data.

Chart 2
Consumer and producer confidence, Mexico, % change y/y, CSV



Source: BBVA Research, INEGI.

Calendar: Indicators

Remittances in October (December 2)

Forecast: 1.825 bd	Consensus: 1.820 bd	Previous: 1.796 bd
--------------------	---------------------	--------------------

On Monday, December 2, the Bank of Mexico will release figures on remittances received in Mexico for October. According to estimates based on the Current Population Survey (CPS) of the US Bureau of Census and the Bureau of Labor Statistics, there was a recovery in jobs for Mexican migrants in the United States. Especially noticeable, albeit at a low rate, is the recovery in jobs in the construction, manufacturing and retail sectors where nearly 40 per cent of all working Mexican migrants in the US are employed. In this sense, forecasts point to October seeing remittances possibly coming in at 1.825 billion dollars, representing a 3.0% increase compared to the same month last year. In this way, remittances could see an increase for the third month in a row in annual terms for the year to date.

IMEF manufacturing and non-manufacturing indicator for November (December 2)

This coming Monday, December 2, sees the release of the IMEF manufacturing and non-manufacturing output indicator for November. The figures should provide clues on economic performance in the fourth quarter of 2013. We expect a slight rise in the indicator for November thanks to the positive performance in the US manufacturing sectors in October (0.3% m/m, CSV).

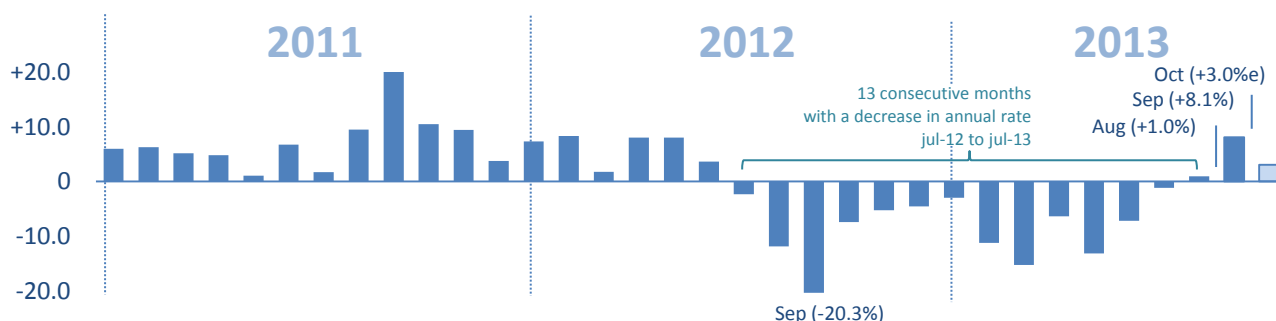
Consumer and producer confidence in November (December 4)

Forecast:		
Consumer: (93.7 pts.), 0.4% m/m, CSV	Consensus: N/A	Previous: (93.3 pts.), -0.5% m/m, CSV
Producer: (52.1 pts.), 0.7% m/m, CSV	Consensus: N/A	Previous: (51.7 pts.), -2.8% m/m, CSV

INEGI will release the consumer and producer confidence indices for November 2013 this coming Wednesday, December 4. These indices showed a monthly decline of (-)0.5% and (-)2.8% in October. Taking into account the moderate job creation and slight decline in unemployment in October (5.01% vs. 5.29% in September), we expect the consumer confidence index to rise and hit 93.7 points, equivalent to a monthly rise of 0.4%, CSV.. In turn, due to the slight improvement in US manufacturing in October (0.3% m/m, CSV) and its knock-on effect for Mexico, we expect the producer confidence index for November will hit 52.1 points, i.e. a monthly rise of 0.7%, CSV.

Chart 3

Family remittances to Mexico January 2011 - October 2013, % change y/y and dollars

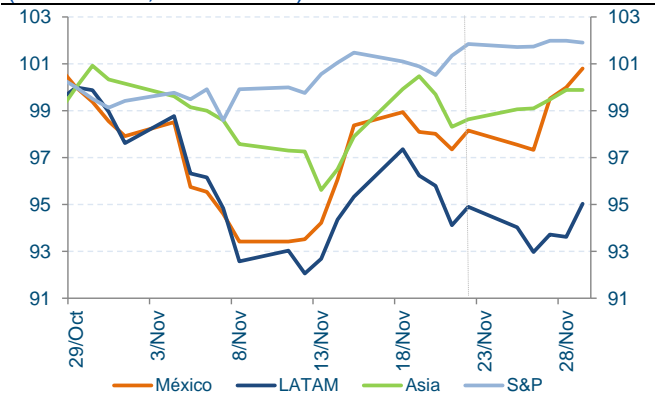


Source: BBVA Research with Banxico data
e: estimate

Markets, activity and inflation

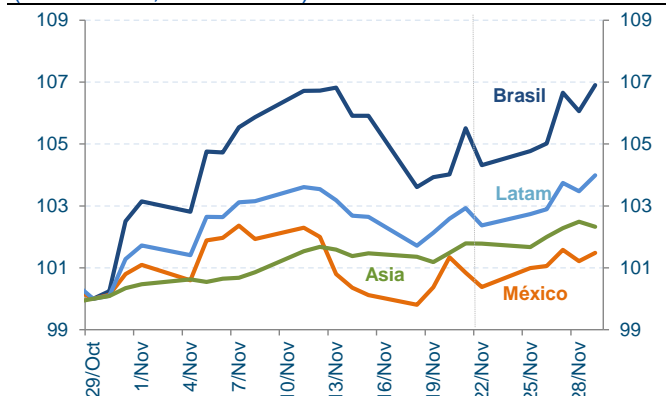
- Lower unemployment benefit applications increased expectations of lower monetary stimulus in coming months. This led to a drop in the peso mid-week. Stock markets saw gains in light of higher US consumer confidence figures.

Chart 4
Stock markets: MSCI indices
(October 29, 2013 = 100)



Source: BBVA Research with data from Bloomberg

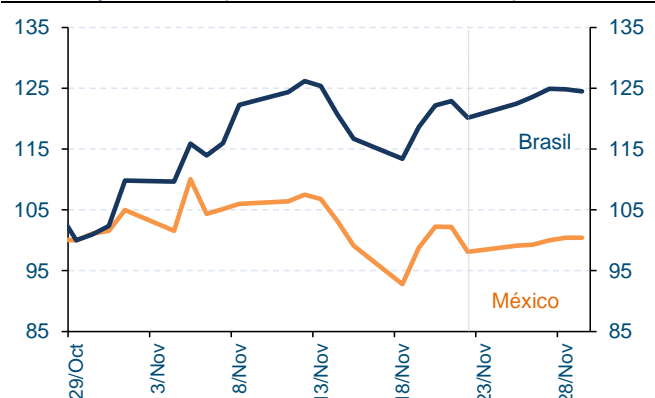
Chart 5
Foreign exchange: dollar exchange rates
(October 29, 2013 = 100)



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.

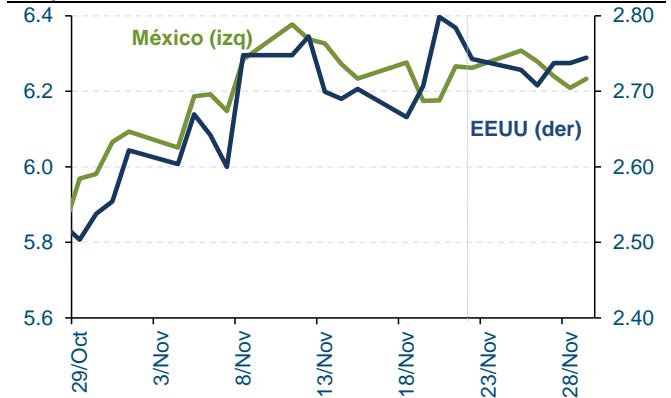
- Increase in Mexico interest rates mid-week in light of the better-than-expected unemployment benefit application figures.

Chart 6
Risk: 5-year CDS (Oct 29, 2013 index=100)



Source: BBVA Research with data from Bloomberg

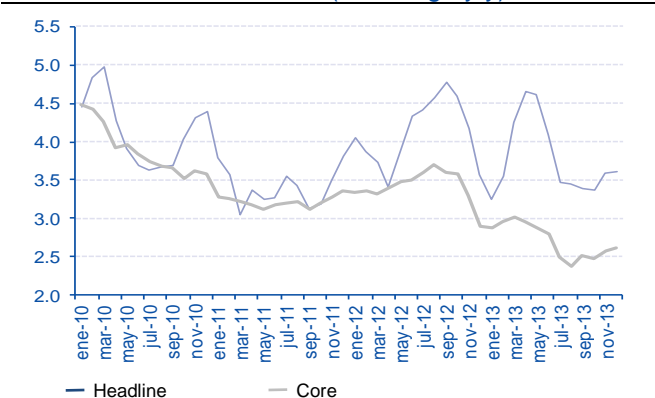
Chart 7
10-year interest rates, last month



Source: BBVA Research with data from Bloomberg

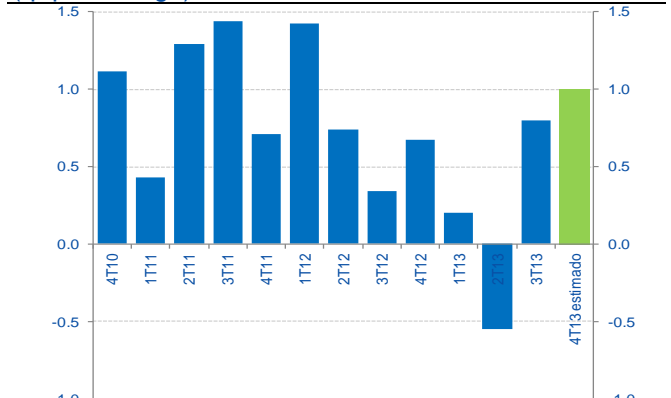
- Inflation remains in check and in line with expectations. We expect the improvement in Q3 output to continue into the fourth quarter given the recent uptick in US industrial output.

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



Source: INEGI, BBVA Research

Chart 9
Observed and estimated GDP 4Q13
(q/q % change)



Source: INEGI, BBVA Research

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
javier.amadord@bbva.com



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

Disclaimer

This document was prepared by Banco Bilbao Vizcaya Argentaria, S.A.'s BBVA Research Department (BBVA) and by BBVA Bancomer S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, on its own behalf, and is provided for information purposes only. The opinions, estimates, predictions, and recommendations appearing in this document refer to the date shown herein, and may therefore change as a result of market fluctuations. The opinions, estimates, forecasts and recommendations included herein are based on information obtained from reliable sources; however, BBVA gives no guarantee, whether express or implicit, about the accuracy, completeness or correctness of such information. This document is not an offer, an invitation, or an incitement to subscribe or buy shares.