

# Mexico Weekly Flash

## Next week...

Employment figures will be important to weigh up performance on the job market at the end of last year and provide clues as to how the domestic market is doing at the start of 2014

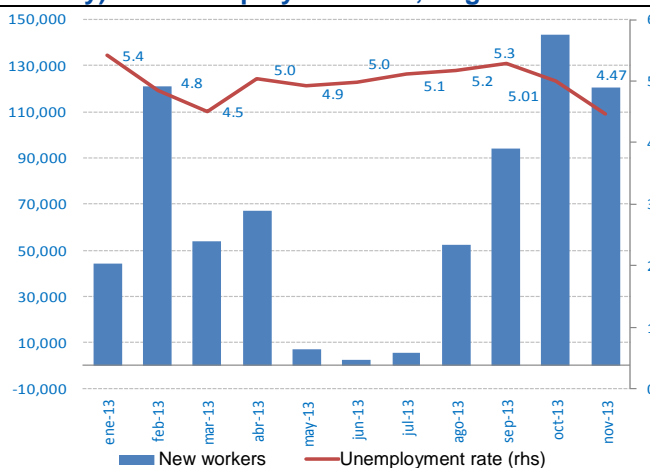
Next week sees the release of occupation and employment figures and ANTAD sales in December which should provide an indication to estimate economic activity in the country at the end of the year (see details on page 2). These variables are important given them being indicators on the domestic market's performance. This comes in a scenario of limited foreign demand seen in the slow recovery in Mexican industrial output, especially in manufacturing. This sector saw a monthly decline in November of (-)1.26% although construction saw growth of 2.93% after five months in a row seeing decline.

## The negative surprise in US job creation figures boosts risk assets

The far below-expectations job creation figures in the US (74,000 vs. 197,000 forecast by consensus) boosted risk assets in the face of a possible slower tapering in QE at the Fed. Before the job figures, a slightly restrictive tone in the last Fed minutes had strengthened the dollar against emerging currencies, continuing its trend from recent weeks. This trend was cut short on Friday after the downward surprise was announced. This suggests the Fed will not alter the tapering rate for asset purchases in the near future. In light of this, emerging currencies strengthened across the board against the dollar. The peso rose 1.1%, closing the week at 12.97 ppd. In turn, long-term Mexican bond yields were again coupled to those in the US (see chart 2). The M10 interest rate dropped 7bp on Friday after having increased 14bp up to Thursday. Looking forward, actions by the Fed will continue to play a key role on Mexican financial markets.

Chart 1

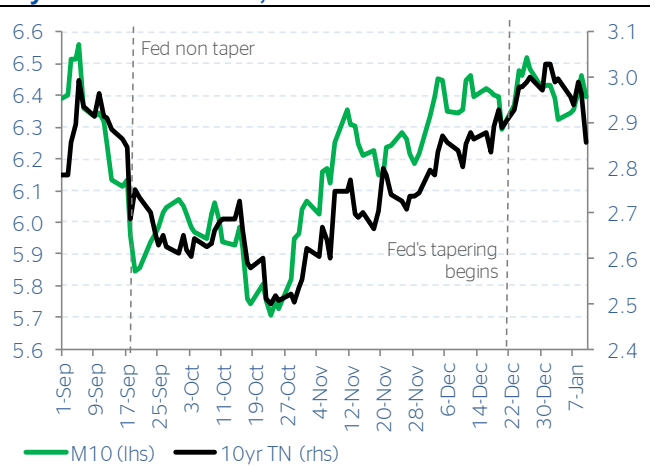
**New workers registered with the IMSS (social security) and unemployment rate, original series**



Source: BBVA Research with INEGI and STPS data.

Chart 2

**10-year interest rates, %**



Source: BBVA Research and Bloomberg

# Calendar: Indicators

## ANTAD sales in December (January 14)

Forecast: N.A.

Consensus: 1%

Previous: 4.4%

On Tuesday, January 14, ANTAD will release information on sales in retail establishments in its association for December. Attention should be paid to this information since it will provide pointers to retail sector performance in Mexico at the end of 2013.

## Occupation and employment in December (January 17)

Forecast: 4.44%

Consensus: 4.33%

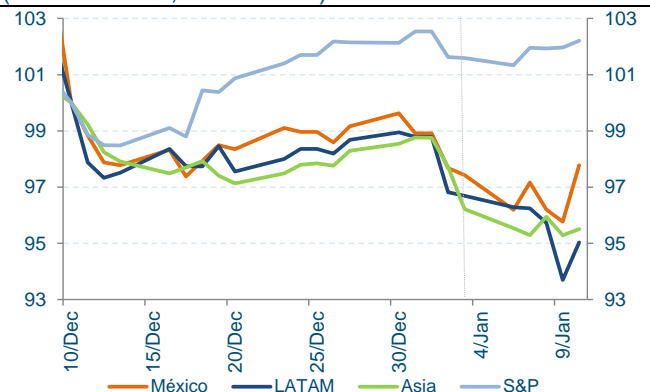
Previous: 4.47%

INEGI is set to release structural employment figures for December that will complete information for the last quarter of 2013. The indicator will offer an assessment of the strength of the economic recovery, especially in consumption and, in general, the domestic market, which has seen a very slow recovery. Over 120,000 formal jobs were created in November although industrial output only increased 0.1% m/m CSV (Corrected for Seasonal Variation) and the services sector has seen a weak performance. We therefore estimate a slight drop in unemployment from 4.47% in November to 4.44% in December 2013.

# Markets, activity and inflation

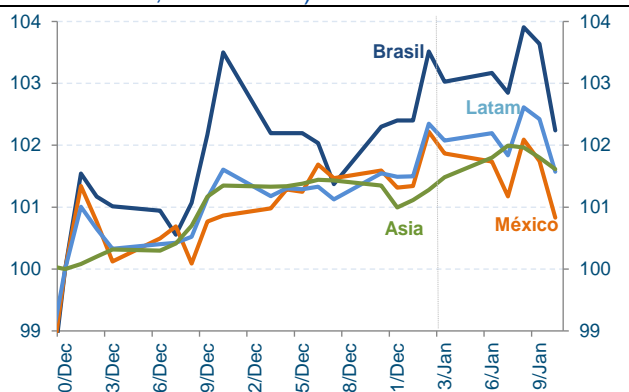
- The lower-than-expected US employment figures led to stronger emerging currencies and highs on stock markets in light of expectations that the tapering rate for asset purchases by the Fed (US Federal Reserve) will remain unchanged.

Chart 5  
Stock markets: MSCI indices  
(December 10, 2013 = 100)



Source: BBVA Research with data from Bloomberg

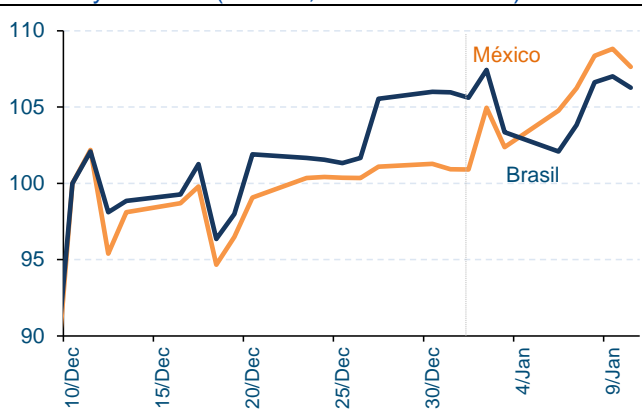
Chart 6  
Foreign exchange: dollar exchange rates  
(December 10, 2013 = 100)



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.

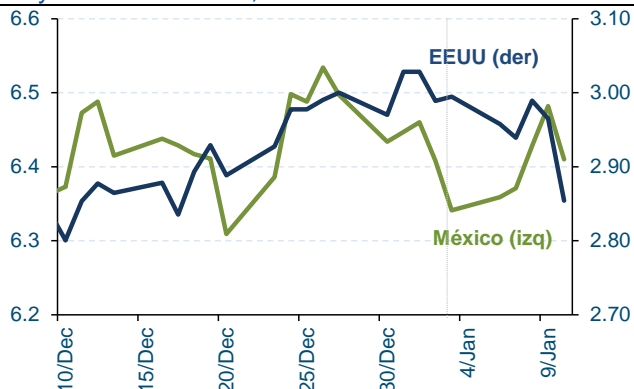
- This also led to US and Mexican interest rates declining at the end of the week. Mexico's credit risk remains at 20 basis points below its average over the last three years.

Chart 7  
Risk: 5-year CDS (Dec 10, 2013 index=100)



Source: BBVA Research with data from Bloomberg

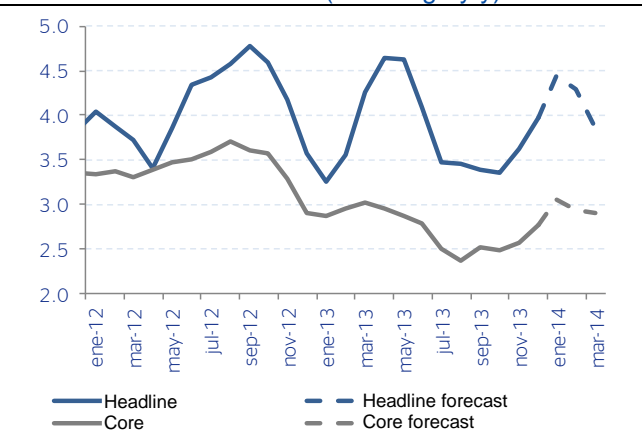
Chart 8  
10-year interest rates, last month



Source: BBVA Research with data from Bloomberg

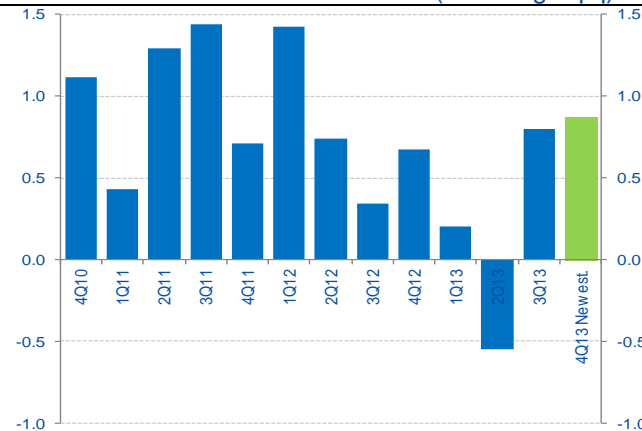
- After inflation ending 2013 at 3.97%, we forecast an increase to around 4.5% in January due to the fiscal shock

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



Source: INEGI, BBVA Research

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



Source: BBVA Research with INEGI data.

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