

# Mexico Weekly Flash

## Next week...

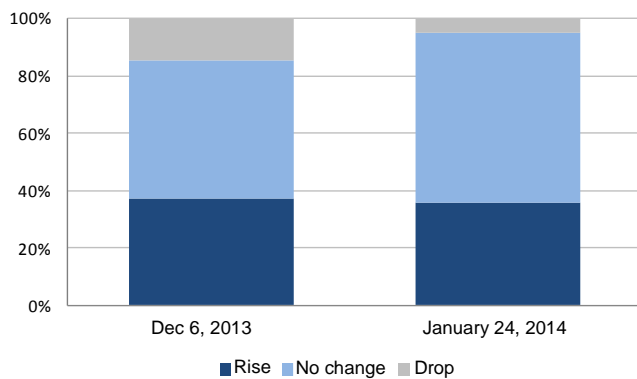
**Decision on monetary policy. No changes in the rate, but a more cautious tone following the recent uptick in inflation**

The monetary policy decision will be announced on Friday. With the increase in general and core inflation resulting from tax changes and higher agricultural product prices, we expect the tone of the announcement to be less relaxed and to focus on sending two messages: that the increase in inflation is temporary and that the central bank is on guard for any knock-on effects. These messages are supported by the absence of demand pressures given the considerable slack in the economy, as shown by recent figures highlighting the continuing lag in the construction sector and the fall in sales for ANTAD, to levels even lower than those of 2009. As signaled in the January 2010 communiqué, it may be explicitly stated that central banks do not usually take action in the face of temporary price effects, such as those from tax changes. However, we will have to keep a look out for any mention of possible effects from the recent exchange rate depreciation resulting from uncertainty over the pace of the Federal Reserve's tapering of its asset purchasing program. The Fed will also be announcing its monetary policy decision next week.

## Risk aversion in financial markets has rocketed this week

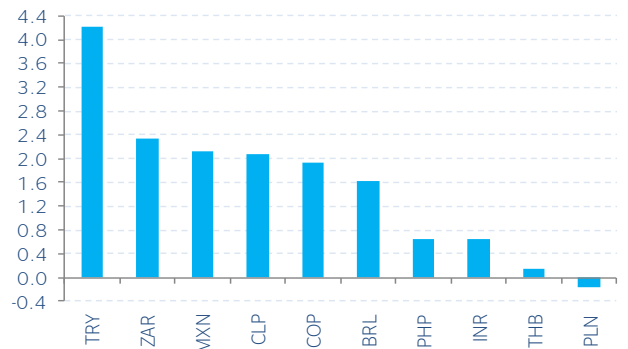
This week, there has been a substantial increase in risk aversion in the markets as a result of political and economic events in some emerging markets, concerns about growth in China and, to a lesser extent, uncertainty over the Fed's tapering of its asset purchasing program, with expectations that it will upgrade its assessment of economic activity. The confused decision by Turkey's Central Bank not to increase its monetary policy rate and to introduce a "virtual" funding rate of 9.0% to replace the 7.75% rate for a few days created uncertainty in the markets, given the ambiguity of this monetary restriction. Furthermore, the depreciation of the Argentinean peso without any reaction from its central bank has added volatility to the global situation, which has only been added to by an advance indicator from China suggesting a possible contraction in the manufacturing sector; this would affect assets sensitive to growth in various emerging markets. As with most emerging currencies, the peso has weakened, falling 2.1% in the week to 13.53 ppd. With this strong risk aversion, the interest rate on 10-year Treasury bills fell by 10 bp in the week, with the interest rate on a 10-year Mexican bond rising 22 bp, to 6.59%.

Chart 1  
**Probability of a change in the monetary policy rate in 2014 (average of survey responses)**



Source: BBVA Research with data from Thompson Reuters

Chart 2  
**Appreciation (-) / depreciation (+) of emerging economy currencies against the dollar, last week, %**



Source: BBVA Research, Bloomberg

# Calendar: Indicators

## December trade balance (27 January)

Forecast: 1,101 md

Consensus: 819.5 md

Previous: 339.1 md

On Monday, 27 January, INEGI will publish figures for the December 2013 trade balance. We estimate that the trade balance for the month will stand at 1,101 million dollars (md), slightly higher than the almost 1,000 md for December 2012. This is the result of lower imports of goods in the month, together with a slight increase in exports. With a surplus of 1,101 md in December, the trade balance for 2013 as a whole would be -1,565 md, exceeding the -46 md in 2012.

## IGAE November (27 January)

Forecast: 0.1%, y/y, SA

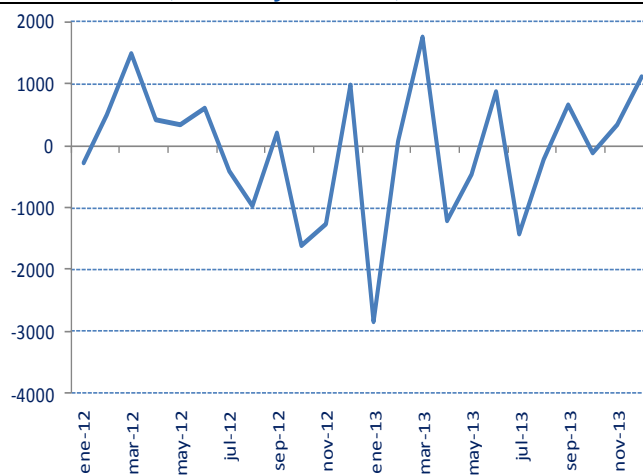
Consensus: NA

Previous: 1.3%, y/y, SA

The Global Economic Activity Indicator (IGAE) for November 2013 will be released on Monday, 27 January. This indicator is relevant to forming expectations of GDP growth in the final quarter of 2013. In October, the IGAE grew at a seasonally adjusted rate (SA) of 1.3%, buoyed by a rebound in agriculture (11.4% y/y, SA), services (1.8% y/y, SA), and an improved performance by industry, which reversed its negative performance with slight growth of 0.1% y/y, SA. Due to the slow performance of Mexico's industrial activity indicator (0.1% m/m, SA) and a very slight rebound in formal employment in the services sector (0.1% m/m, SA) in November, we estimate that the IGAE will show annual growth of 0.1% and a monthly rate of 0.47%, on a seasonally-adjusted basis.

Chart 3

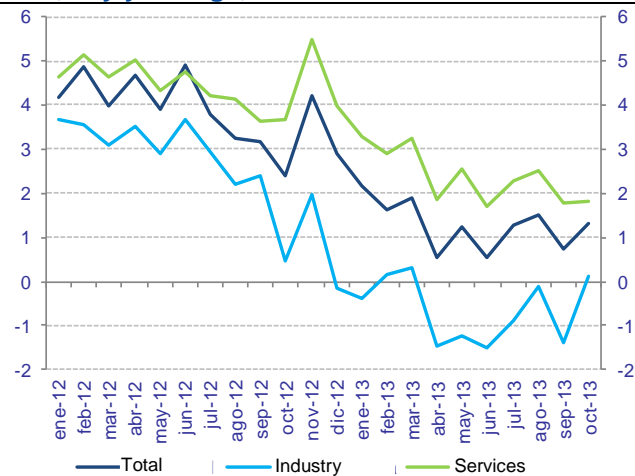
### Trade balance, monthly balance, md



Source: BBVA Research with INEGI data.

Chart 4

### IGAE, % y/y change, SA



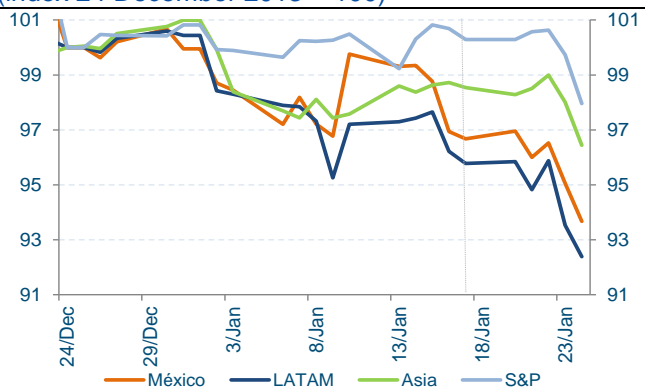
Source: BBVA Research with INEGI data. SA = Seasonally adjusted.

# Markets, activity and inflation

- Losses in share markets and depreciation of emerging economy currencies against a backdrop of a sharp increase in global risk aversion, stemming from negative manufacturing output data in China, uncertainty over monetary policy in Turkey and exchange rate policy in Argentina.

Chart 5

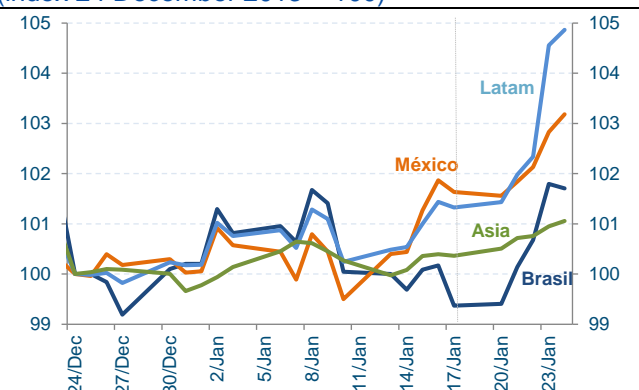
Share markets: MSCI indexes (index 24 December 2013 = 100)



Source: BBVA Research with data from Bloomberg

Chart 6

Currencies: Exchange rates against the dollar (index 24 December 2013 = 100)

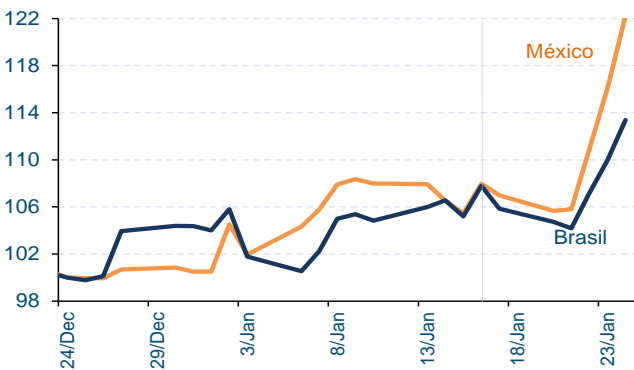


Source: BBVA Research with Bloomberg data. Note: LATAM includes Argentina, Brazil, Chile, Colombia and Peru. Asia includes the Philippines, South Korea, Taiwan, Singapore, Indonesia and Thailand.

- Increases in interest rates in Mexico and falls in the USA with a flight to quality in the markets. Significant increase in aversion to emerging economy risk.

Chart 7

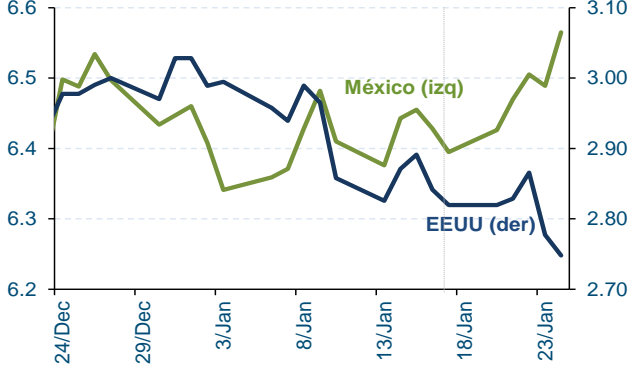
Risk: 5 year CDS (index 24 Dec 2013 = 100)



Source: BBVA Research with data from Bloomberg

Chart 8

10-year interest rates, last month

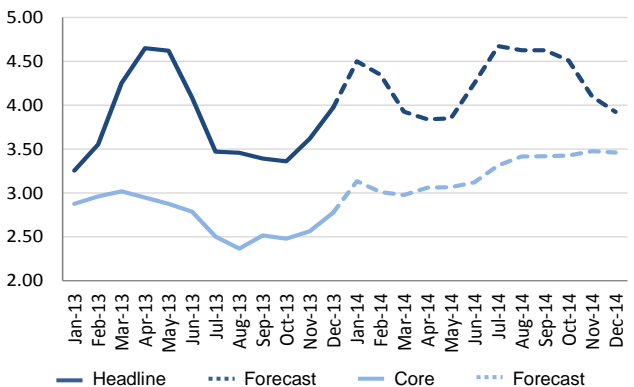


Source: BBVA Research with data from Bloomberg

- Surprise increase in inflation in the first two weeks of January and rebound in annual terms of 3.97% at the end of 2013 to 4.63%

Chart 9

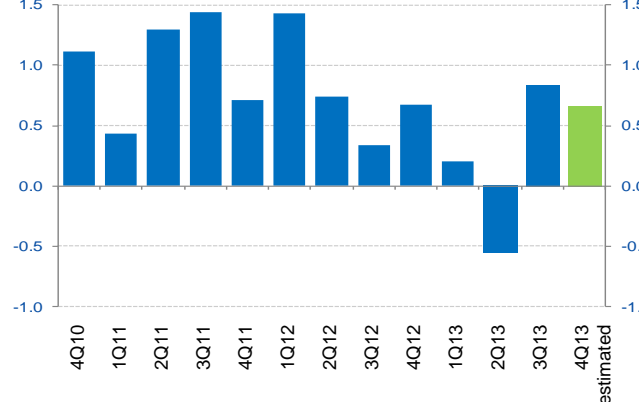
Headline and core inflation (% y/y change)



Source: INEGI, BBVA Research

Chart 10

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



Source: BBVA Research with INEGI data.

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