

# Mexico Weekly Flash

## This week ...

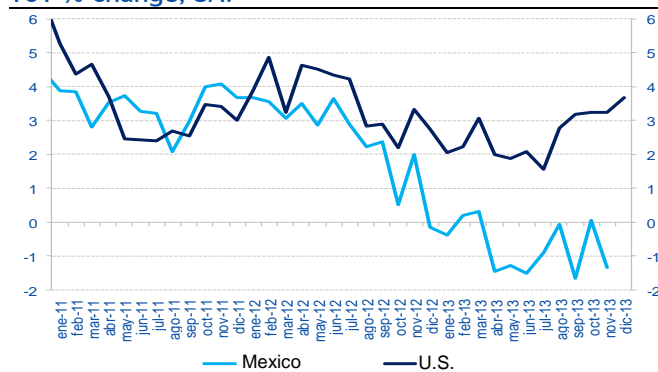
December industrial output indicator will be published, giving solid information about economic growth to end of 2013

This Tuesday 11th February, the INEGI will publish the December 2013 industrial output figures. In November Mexico's industrial production once again suffered a pronounced drop of -1.35% YoY, seasonally adjusted (sa). MoM, growth was scarcely 0.07%. The YoY fall in industrial production was caused by drops in construction (-6.64% YoY, sa) and mining (-2.87% YoY, SA). Meanwhile, manufacturing and electricity, gas and water figures all rose (1.50% and 0.42% YoY SA, respectively), but this expansion was insufficient to make up for the fall back in other areas of activity. Due to the monthly increase in US industrial output in December (0.5% MoM), we expect Mexico's industrial output figure to report a monthly growth of 0.7%, which would represent annual growth of 1.04%, sa.

## A degree of stabilisation in emerging markets after the pressure of the last few weeks

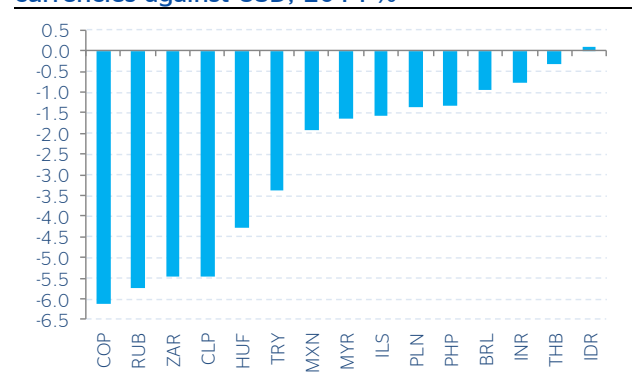
After the high degree of volatility and heavy pressure on emerging markets in the last few weeks, prices of emerging assets showed some stabilisation this week. Output growth figures which suggest less weakness may have helped. After China's manufacturing weakness, which had been a factor in recent pressure, this week the figure for the ISM non-manufacturing index in the US was stronger than expected (54; consensus 53.7), and the eurozone's manufacturing index speeded up (54.0) to its strongest level since May 2011. In addition, idiosyncratic factors which in the last few weeks had contributed to a greater risk perception in emerging assets have now supported them. Specifically, Moody's decision to raise Mexico's credit rating from Baa1 to A3 because of the better economic and fiscal outlook after the recent reforms were approved helped investor confidence. The peso strengthened around 0.7% after the announcement and the M10 bond interest rate dropped 10bp that day and 21bp over the week compared to the relative stability of the 10 year T-bond's performance (+3bp over the week). The negative surprise of the US job creation figures during January (+113K; consensus: 180K) does not seem to have had an important effect in changing the week's trends. As the markets continue to stabilise we ought to see greater differentiation in those currencies with better fundamentals such as the Mexican peso.

Gráfica 1  
Industrial production in Mexico and the USA,  
YoY % change, SA.



SA: Seasonally adjusted  
Source: BBVA Research, with data from INEGI and Bloomberg

Gráfica 2  
Apreciación (+) / depreciación (-) in emerging  
currencies against USD, 2014 %



Source: BBVA Research, Bloomberg

## Gross fixed investment November 2013 (10 February)

On 10 February gross fixed investment performance in November 2013 will be published. This is a key forward indicator of Mexico's industrial output in the next few months. Given the gradual improvement in the industrial sector in November (0.07% MoM, seasonally adjusted), we expect a very slight improvement in this month's investment.

## Industrial production in December 2013 (11 February)

Forecast: 1.04% YoY, 0.7% MoM, SA

Consensus: 1.0% YoY, 0.2% MoM,

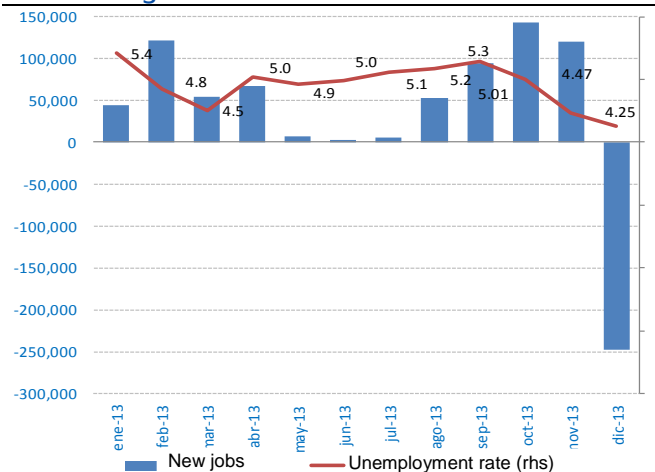
Previous: 1.35% YoY, 0.07% MoM, SA

## 4Q13 occupation & employment (12 February)

This week the National Occupation & Employment Survey's 4Q13 results will be published. This indicator will provide detailed information on the dynamics of formal employment and confirm the results observed in unemployment reports and labour market conditions, which showed a very gradual recovery in the last few months of 2013. For example, in October and November little more than 264 thousand jobs were created, but in December nearly 248 thousand were destroyed, although the unemployment rate went down slightly.

Gráfica 3

### Job creation and unemployment rate, numbers & YoY % change

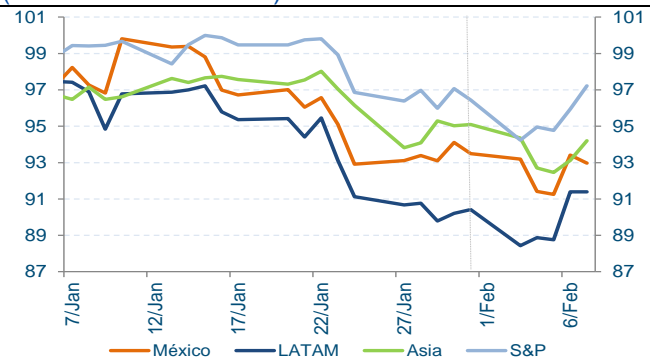


Source: BBVA Research, with data from INEGI and STPS.

# Markets, activity and inflation

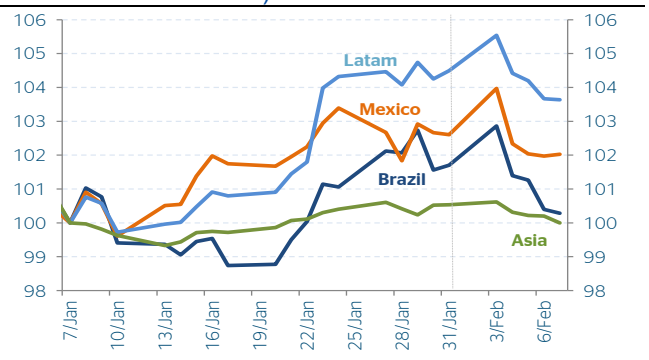
- Rise in the stock markets and appreciation of emerging currency as US employment improved slowly, which reopens the debate on a tapering of asset purchases by the Fed. The peso goes up 0.44% influenced by the rise in Moody's sovereign debt rating.

Gráfica 4  
Stock Markets: MSCI Indexes  
(index 7 Jan 2014=100)



Fuente: BBVA Research con datos de Bloomberg

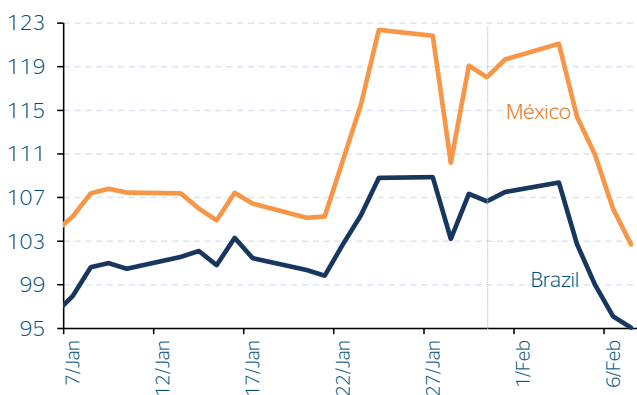
Gráfica 5  
Currencies: Exchange rates with USD  
(index 7 Jan 2014=100)



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

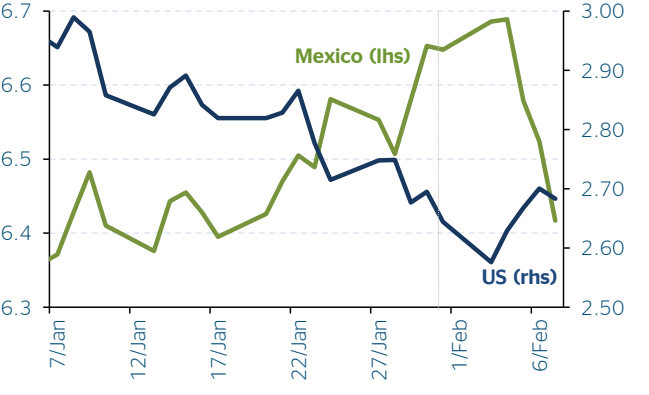
- Drop in global risk aversion over the week affecting, together with rise in sovereign debt rating, in the fall of long-term rates in Mexico.

Gráfica 6  
Risk: CDS 5 years (index 7 Jan 2014=100)



Fuente: BBVA Research con datos de Bloomberg

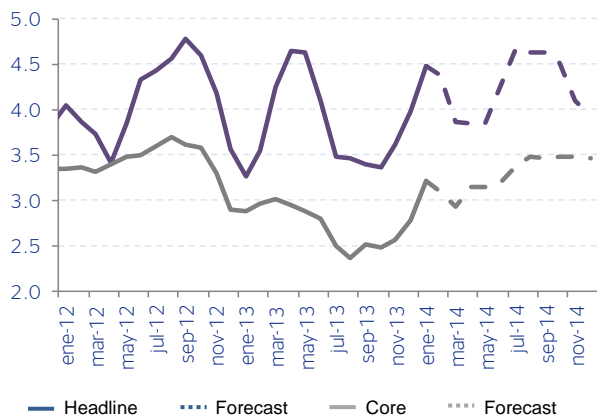
Gráfica 7  
10-year Interest rates, last month



Fuente: BBVA Research con datos de Bloomberg

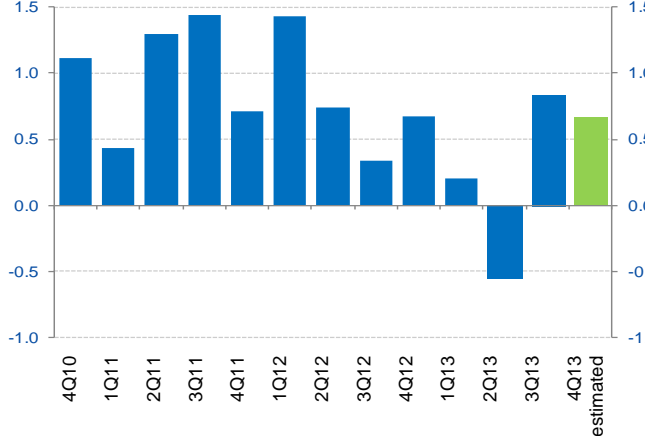
- Annual inflation stood at 4.5% in January, as we had expected. We believe that YoY inflation will begin to drop in February given that the fiscal shock should not have second round effects.

Gráfica 8  
General and underlying inflation (YoY % change)



Fuente: INEGI, BBVA Research

Gráfica 9  
GDP: observed & estimate 4T13 (YoY % change)



Fuente: BBVA Research, con datos del INEGI.

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