

# Mexico Weekly Flash

## Next week ...

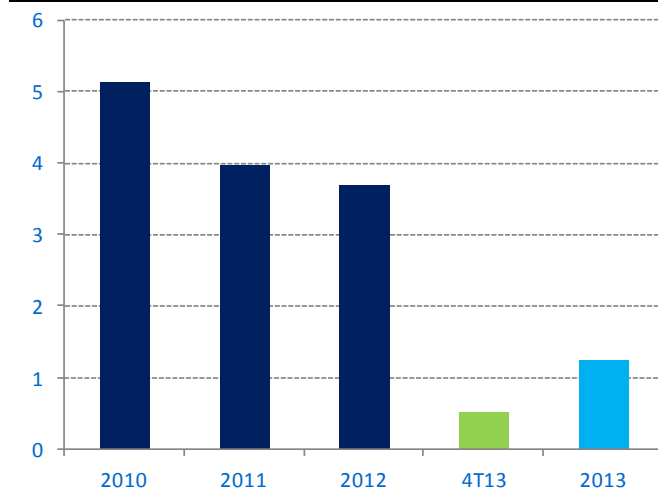
4Q13 GDP figure to be published. We expect QoQ growth rate to be 0.5% (seasonally adjusted).

On Friday 21 February GDP figures for 4Q13 will be announced. After quarterly growth of 0.84% in 3Q13 the economy is expected to have continued recovering, albeit slowly, as reflected in GDP growth of 0.5% QoQ. On the one hand, industrial output fell in 4Q, but on the other, continued strength in the service sector as demonstrated in the IGAE, greater public spending and the positive trend in the US economy are among the main factors that will support this performance, so growth rate for the whole of 2013 will come in at about 1.2%.

## Greater demand for Mexican assets in the light of lowered global risk aversion

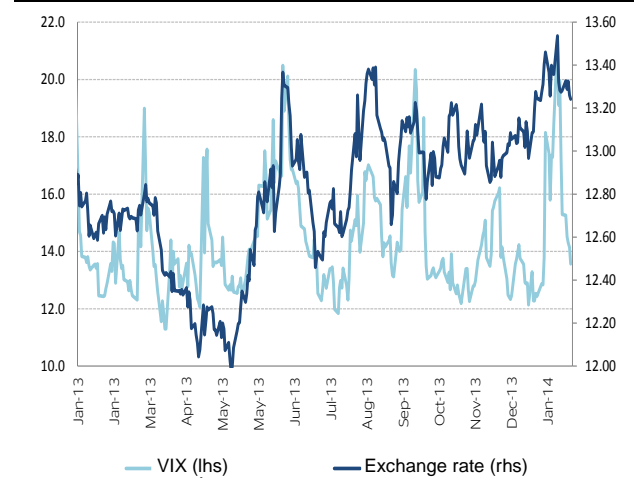
Over the week, two factors were an influence on the increased demand for Mexican assets. First, global risk aversion, measured using the VIX index, remained low and stands at levels similar to those before 24 January, the date on which the sale of emerging country assets began. Meanwhile, at her first appearance before the House of Representatives' Financial Services Committee, the new Chair of the Federal Reserve confirmed the continuity of current monetary policy and indicated that, for the moment, she does not believe that the current episode of volatility will have an effect on US growth. As a result of these events the peso gained 0.31% against the dollar, closing the week at 13.24 pesos to the dollar, its lowest level since 20 January last year. In the government debt market, the yield of the 10 year bond fell around 5bp to close at 6.37%, bringing the total fall to more than 30bp since the raising of Mexico's sovereign debt rating was announced. Finally, sovereign credit risk, measured using the CDS spread, registered a marginal drop and remains below 100bp.

Figure 1  
Real GDP and estimates 3Q13 & 2013  
(%YoY & QoQ change, sa)



Source: BBVA Research, with data from INEGI.  
sa = seasonally adjusted.

Figure 2  
Exchange rate and global risk aversion  
(ppd, VIX index %)



Source: BBVA Research, Bloomberg

## Gross domestic product at 3Q13 (21 November)

Forecast: 0.5% QoQ, SA

Consensus: 0.7% QoQ, AE

Previous: 0.8% QoQ, SA

## IGAE for December 2013 (21 February)

Forecast: 1.0%, YoY, SA

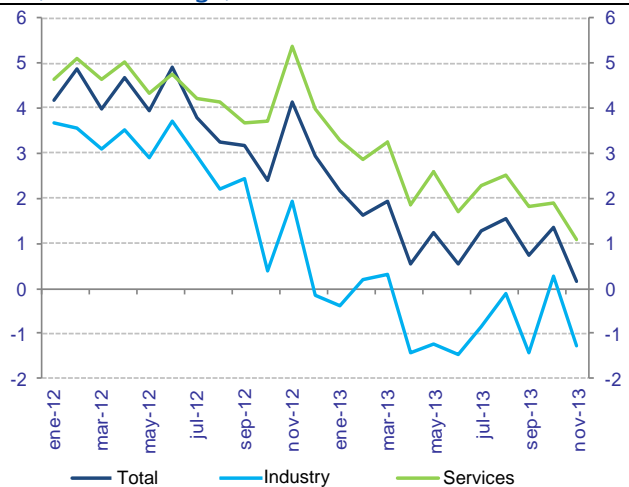
Consensus: 1.2% YoY

Previous: 0.1%, YoY, SA

Next Friday the National Statistics and Geographical Institute (INEGI) will also report the figure for December 2013's Global Economic Activity Index (IGAE). YoY growth in November's IGAE was just 0.1%, seasonally adjusted (sa). This slight increase was due to growth in services (1.1% YoY, sa) and to major falls in agriculture (4.0% YoY, sa) and industry (-1.3% YoY, sa). Partly as a result of Mexico's poor industrial output performance in December (-0.5% MoM, sa) and also to a slight upturn in formal employment in the services sector (0.2% MoM, sa), the Global Economic Activity Index is expected to report annual growth of 1.0% and monthly of 0.1%, on seasonally-adjusted figures. The estimate for December's IGAE performance will be in line with expected growth of 1.2% of GDP in 2013, since it should be borne in mind that this indicator should be considered with the GDP figure for 4Q13.

Figure 3

### IGAE, % YoY change, sa

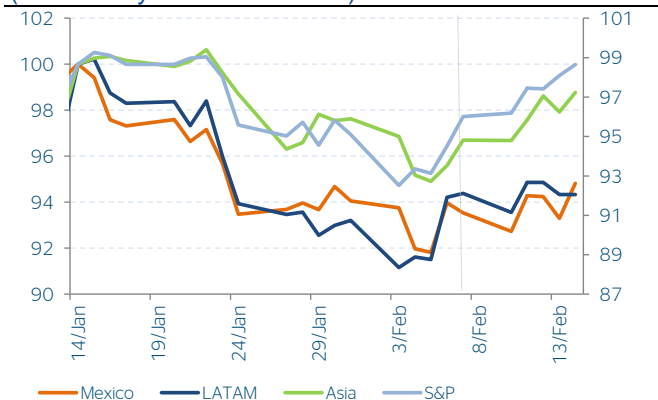


Source: BBVA Research, with data from INEGI.  
sa = seasonally adjusted.

# Markets, activity and inflation

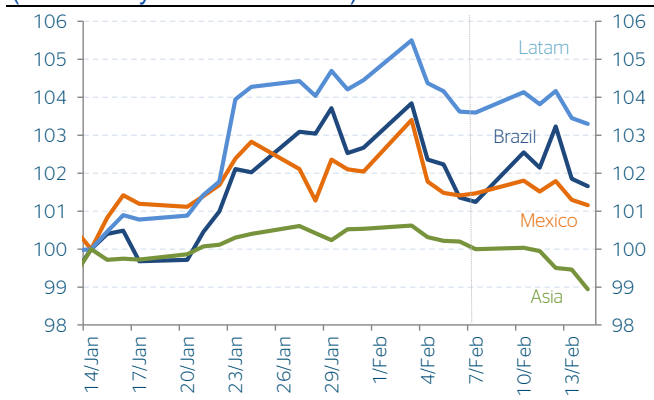
- Gains in stock markets and rises in emerging currencies due to reduced pressure on risk assets. The markets' good mood was a response to lowered concerns about the Chinese economy after the positive shock of export figures and Yellen's speech confirming continuity.

Figure 4  
Stock Markets: MSCI Indexes  
(14 January 2014 index=100)



Source: BBVA Research with data from Bloomberg

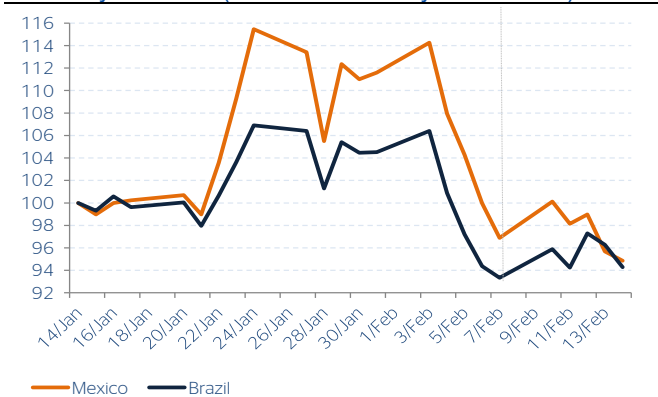
Figure 5  
Currencies: Exchange rate against the USD  
(14 January 2014 index=100)



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

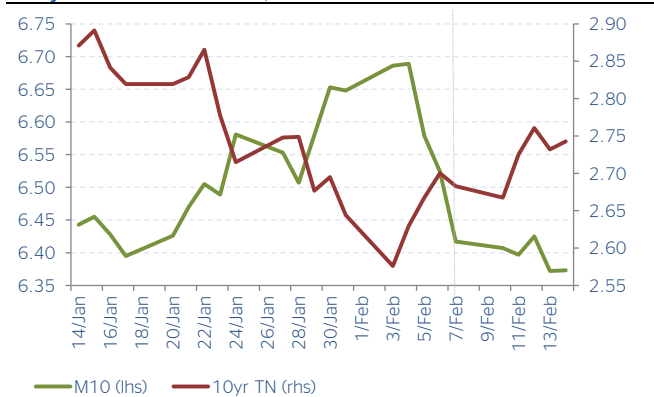
- In this context, CDS spreads narrowed and the M10 rate continued to fall despite the slight upturn in the yield on the 10-year T bill over the week.

Figure 6  
Risk: 5 year CDS (index 14 January 2014 =100)



Source: BBVA Research with data from Bloomberg

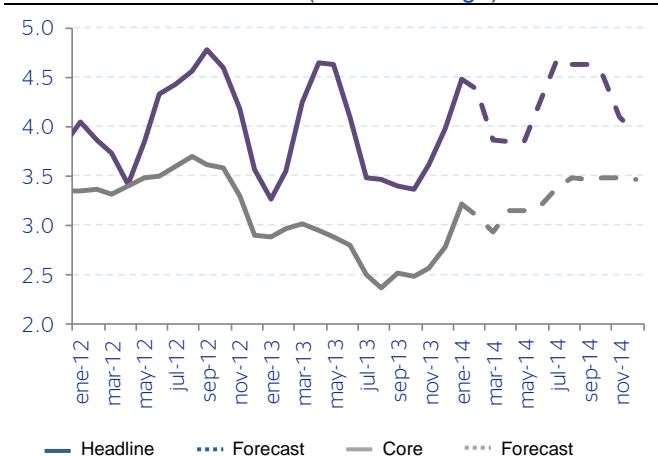
Figure 7  
10-year interest rates, last month



Source: BBVA Research with data from Bloomberg

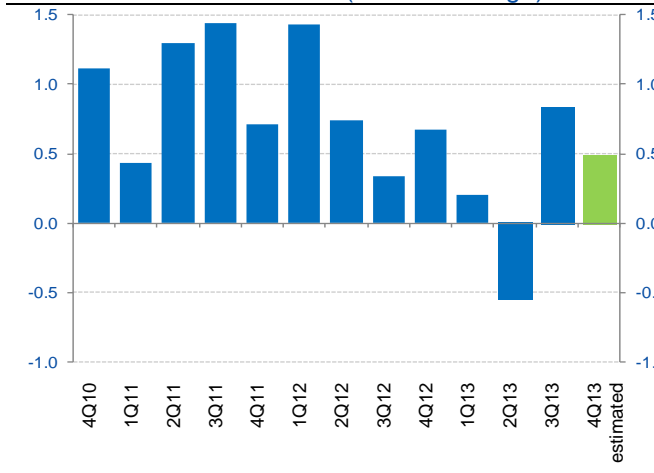
- Annual inflation was 4.5% in January, as we had forecast. We expect YoY inflation to begin to fall in February and do not expect any second round effects.

Source 8  
Headline & core inflation (% YoY change)



Source: INEGI, BBVA Research

Source: 9  
Real GDP & estimate 4Q13 (% QoQ change)



Source: BBVA Research, with data from INEGI.

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