Mexico Weekly Flash

Next week …

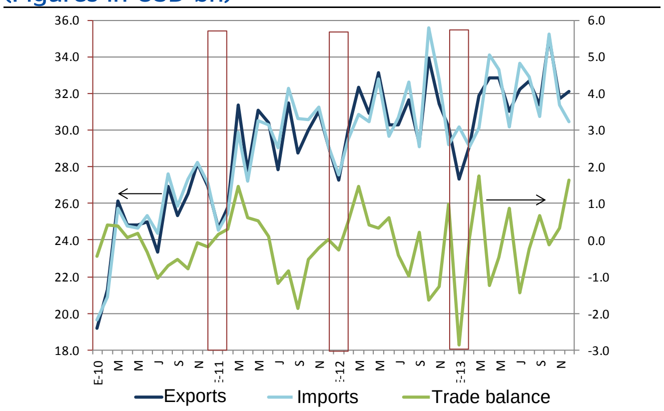
January 2014 balance of trade figures will be published; this is the first set of hard data for evaluating foreign demand performance for the first few months of 2014.

On 26 February INEGI will publish the balance of trade for goods for January 2014. We should point out that since 2000 goods exports in the month of January have always been lower than those of the preceding December. This has not always been the case with imports, which has meant that on several occasions the trade deficit has increased in January over the month before. This occurred in January 2013, when exports went down over the previous month by nearly USD 2.9bn, and imports increased by a little over USD1bn. This meant that the surplus of nearly USD1bn in December 2012 turned into a USD2.8bn deficit in January 2013. In BBVA Research we expect the deficit in January 2014 to be around USD900mn, because the reduction in exports is greater than that of imports this month. Furthermore, the performance of goods exports and imports in January 2014 will be two key indicators for assessing the economy's behaviour at the beginning of the year. The momentum shown by these two variables will reflect, on the one hand, the external market conditions that the country has to deal with and, on the other, the degree of reactivation that the Mexican economy experienced in the first month of the year..

Week of relative calm in the financial markets

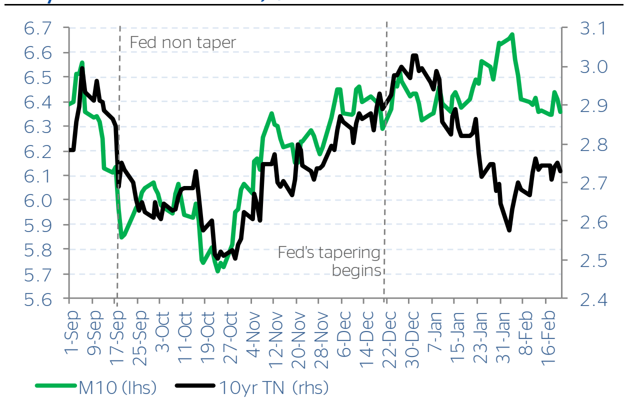
This week past was fairly calm in the financial markets, with limited movements in those assets perceived to be high risk. Although this week, once again, there were worries about global growth, mainly after the manufacturing confidence indexes, the PMIs, from China and the eurozone came in weaker than anticipated, investor sentiment was hardly affected. The publication of the minutes of the Fed's latest meeting, with a less relaxed tone than expected, brought about some volatility to markets and losses on emerging market stock exchanges. In this context, with no good news but without any noticeable effect on investor mood, emerging currencies had only marginal movements. The peso lose 3 cents over the week, closing at 13.27ppd, a depreciation over the week of 0.2%. Long term interest rates also remained pretty stable over the week. The M10 bond closed at 6.36%, the same level as the Friday before, and down from its highest level of the week of 6.44%, reached when the tone of the Fed's meeting minutes was published.

Chart 1
Exports, imports and trade balance (Figures in USD bn)



Source: BBVA Research with INEGI data

Chart 2
10-year interest rates, %



Source: BBVA Research and Bloomberg

Calendar: indicators

Occupation & employment in January 2014 (24 February)

Forecast: 4.77%	Consensus: 4.85%	Previous: 4.25%

Next week the occupation and employment indicator for January will be published, which will give us a basis for change in the labour market and internal market for 1Q14. This variable is important in a context of slow change in Mexico's industrial output, in particular manufacturing, since in December this sector fell by 0.5% MoM, with non.-adjusted figures, although the service sector seems to be performing better at the beginning of the year. So, for January we expect the unemployment rate to increase, up to 4.77%.

Inflation in the first half of January 2014 (24 February)

Forecast: General: 0.23%, 4.32%	Consensus: 0.19%, n/a	Previous: 0.12%, 4.34%
Core: 0.22%, 3.08%	Consensus: 0.22%, n/a	Previous: 0.24%, 3.10%

In the first half of February we anticipate a fortnightly increase in headline inflation of 0.23%, putting YoY inflation at 4.32% (compared to 4.34% we saw in the second half of January). For core inflation we forecast a fortnightly increase of 0.22%, equivalent to 3.08% YoY. Our daily monitoring of the prices of fruit and vegetables indicates another fall in these prices in the first half of February, while for core inflation the most important factor will be the service component, which has been increasing somewhat more than expected. In any case, the figure for the first half of February should confirm the beginning of a downward trend in inflation in annual terms after the increase as a result of the tax shock in January.

Retail sales in December 2013 (25 February)

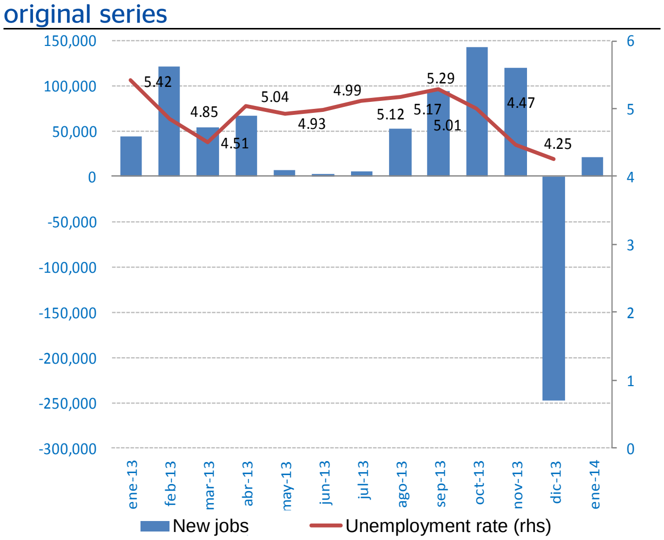
Forecast: 2.7% YoY, sa	Consensus: 0.5 YoY	Previous: 1.5% YoY, sa

On Tuesday 25 February the INEGI will publish the retail sales indicator for December 2013. In November and with seasonally adjusted figures (sa), retail sales grew 1.5% YoY and by 3.1% MoM. We expect a monthly change in December of -1.2%, although in annual terms the course is positive (2.7%). This forecast is in line with the ANTAD sales indicator, which fell in December 1.2% MoM, sa.

Good trade balance January 2014 (26 February)

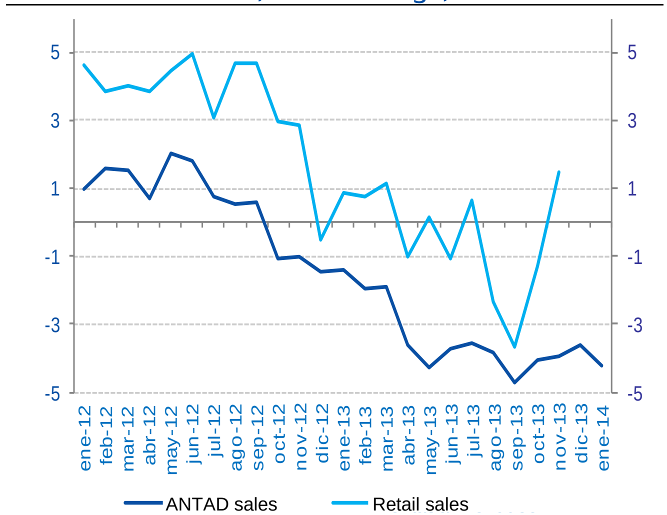
Forecast: - USD900 mn	Consensus: USD537mn	Previous: USD1.645bn

Chart 3
Newly insured on IMSS & unemployment rate, original series



Source: BBVA Research with INEGI and STPS data

Chart 4
Retail & ANTAD sales, YoY % change, sa

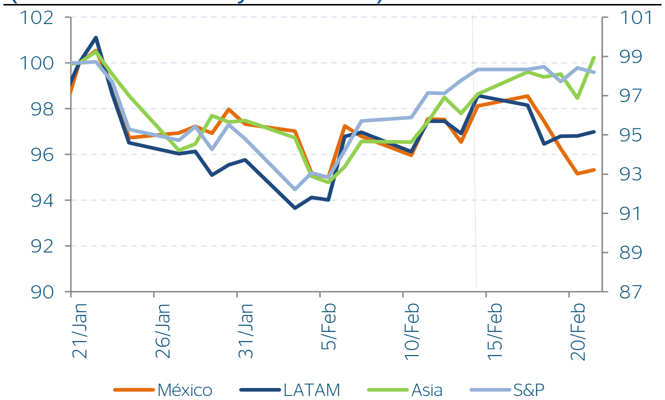


Source: BBVA Research with INEGI and ANTAD data
sa=seasonally-adjusted

Markets, output & inflation

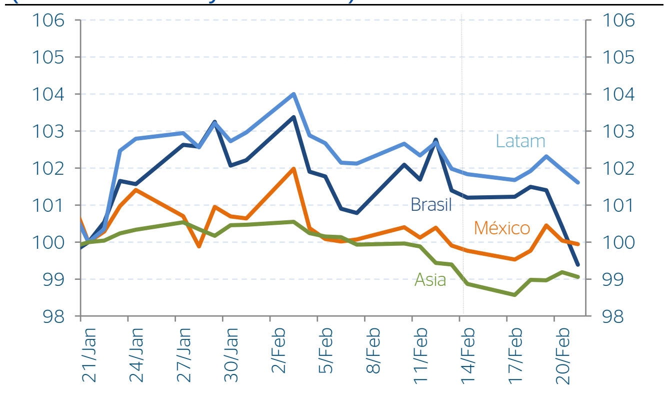
- Depreciation of emerging countries' currencies and losses in stock markets halfway through the week were influenced by the report from the Federal Reserve's monetary policy meeting, which indicates the consensus inside the FOMC over gradual withdrawal from quantitative easing.

Chart 5
Stock markets: MSCI indexes
(index at 21 January 2014=100)



Source: BBVA Research with Bloomberg data

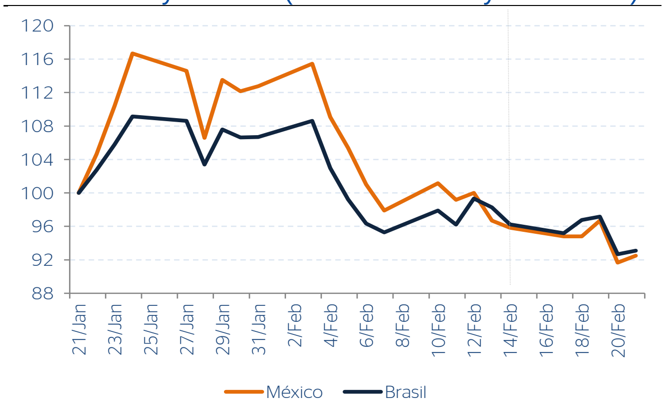
Chart 6
Currencies: Exchange rates compared to dollar
(index 21 January 2014=100)



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

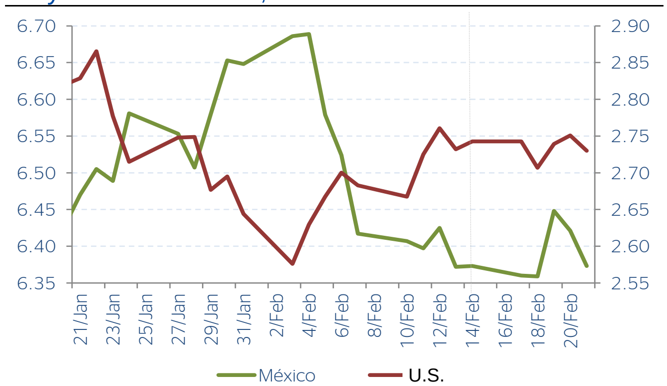
- Slight rise in aversion influenced by the IMF's warning about adverse effects of volatility in emerging markets over world growth. Rates in Mexico show an uptick over the week.

Chart 7
Risk: CDS 5 year CDS (index 21 January 2014 =100)



Source: BBVA Research with Bloomberg data

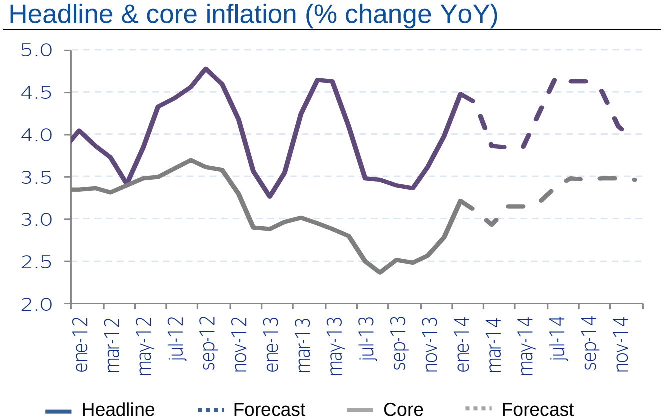
Chart 8
10 year interest rates, latest month



Source: BBVA Research with Bloomberg data

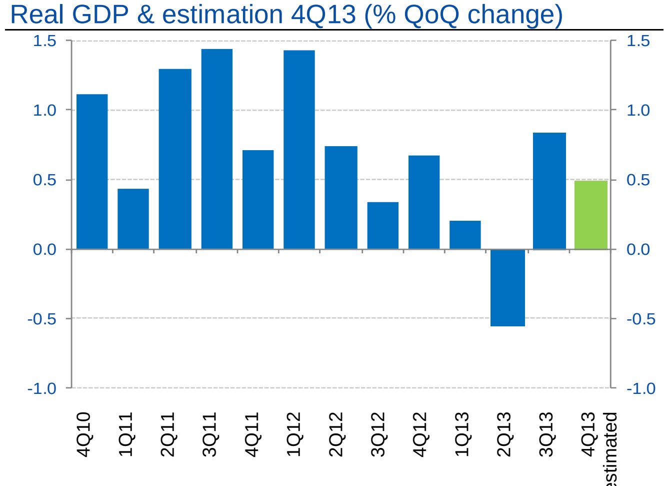
- YoY inflation stood at 4.5% in January as we expected. We believe that YoY inflation will start to drop in February and we do not anticipate any second-round effects.

Chart 9
Headline & core inflation (% change YoY)



Source: INEGI, BBVA Research

Chart 10
Real GDP & estimation 4Q13 (% QoQ change)



Source: BBVA Research with INEGI data

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