

# Mexico Weekly Flash

March 14, 2014  
Economic Analysis

Mexico

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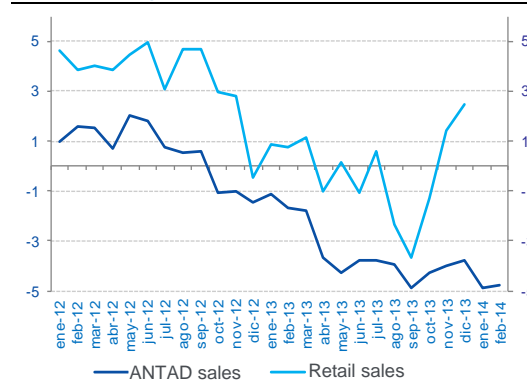
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## What happened this week...

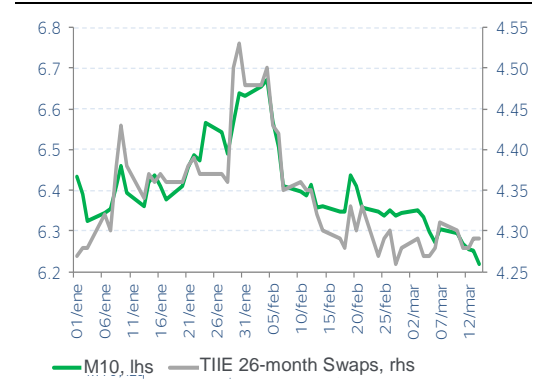
- Mexico's industrial production showed surprising growth of 0.5% in January, driven solely by manufactured goods. Growth was 0.8% YoY, seasonally adjusted (sa). This acceleration was mainly the result of a major MoM gain in the manufacturing sector (2.34%). In contrast, construction (-1.23% MoM), electricity, gas and water (-0.90% MoM) and mining (-0.06% MoM) all declined.
- ANTAD's YoY nominal Same Store (SS) sales for February 2014 fell very slightly (-0.2%). This compares positively with a few months ago, particularly with the decrease in this figure in January (-1.7%).
- The gross fixed investment index for December 2013 showed a monthly rise of 0.7%, which we see as a change in trend.
- Concerns over Chinese economic growth and the conflict between Russia and the Ukraine weighed on markets, despite better growth news in the US. Negative surprises in the economic indicators in China (industrial production, investment and retail sales) increased worries about what is currently being seen as the main risk for global economic outlooks. This, added to uncertainty caused by the Crimean situation, provoked an uptick in the demand for assets seen as lower risk. In this context, despite surprises to the upside in US activity data (retail sales and unemployment claims), the flight to quality caused a 14bp fall in the 10-year Treasury bill (to 2.65%). Stock markets suffered losses across the board and volatility rose. However, both the Mexican peso and the M10 bond yield had a good week. Two factors appear to be behind this positive differentiation: on the one hand, Mexico's relatively better position (solid fundamentals, more growth stability from being unaffected by the slowdown in China) and on the other, the recent reduction in long-term yields and their decorrelation with perceived risk appear also to be explained by an adjustment in monetary policy outlooks after the latest favorable inflation figures.

Chart 1  
Retail & ANTAD sales , 2012-14  
(% YoY change, sa)



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

Chart 2  
M10 & TIIE 26-month Swaps  
(%)



Source: BBVA Research, Bloomberg.

### ...What's coming up in the next week

- **Global Supply and Demand of Goods and Services in 4Q13 will report 0.5% growth, with original series.** We expect internal demand for the final quarter of last year to have grown as a consequence of i): total consumption growth of 0.5%; ii) a contraction of 3.1% in total fixed capital gross formation; and iii) a 2.7% expansion in goods and services exports. These figures will corroborate the weakness seen in economic activity at the end of 2013.
- **Retail sales in January will report a YoY increase of 0.75%, sa, (0.29% MoM, sa), driven by slow recovery in employment.** In December, retail sales grew 2.5% YoY, sa, in line with BBVA's forecast (2.7% YoY, sa), but they fell 2.1% MoM, sa.
- **The monetary policy rate will remain unchanged, at 3.5%.** For the moment, the economic conditions are consistent with a prolonged pause. On the one hand, the drop in headline and core inflation in February, to their respective levels of 4.23% YoY and 2.98%, confirm the transitory nature of the price rises after the tax hike and the absence of second-round effects on remaining prices. On the other hand, we forecast that the lack of demand pressures will continue in view of the slow recovery of economic activity in the first few months of the year.
- **Next week the markets will be concentrating on the Federal Reserve's monetary policy meeting and will continue to be affected by the uncertainty around the conflict between Russia and the Ukraine.**

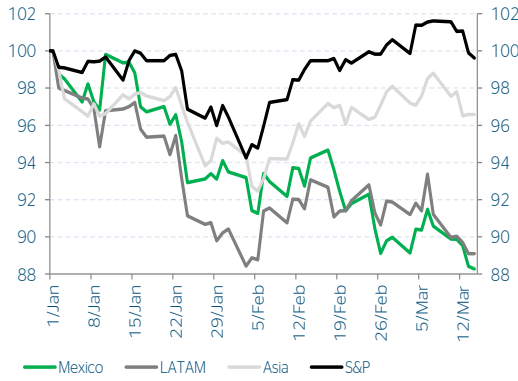
### Indicator Calendar

<b>Mexico</b>	Period covered	Publication date	BBVA Estimate	Consensus	Previous figure
Global demand for goods & services (YoY change)	4Q13	20 Mar	0.5%	0.4%	1.5%
Interbanking 1 day interest rate	March	21 Mar	3.5%	3.5%	3.5%
Retail sales (YoY change, sa)	January	21 Mar	0.75%	-	2.5%
<b>United States</b>	Period covered	Publication date	BBVA Estimate	Consensus	Previous figure
Industrial production (MoM change)	February	17 Mar	0.3%	0.2%	-0.3%
Inflation (MoM change)	February	18 Mar	0.4%	0.1%	0.1%
Housing construction (thousands)	February	18 Mar	986	915	880

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

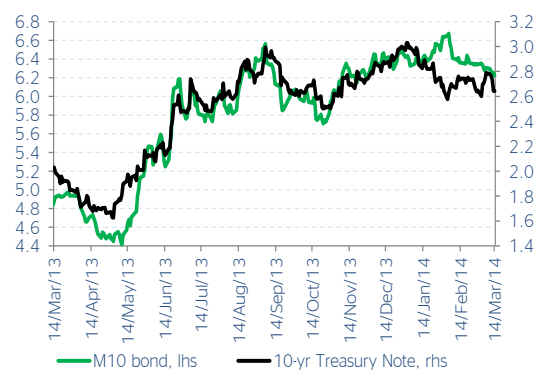
Markets

Chart 3  
MSCI share indexes  
(1 January Index =100)



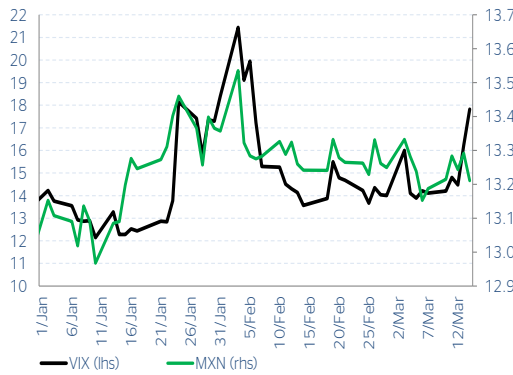
Source: BBVA Research, Bloomberg

Chart 4  
10-year government bond yields (%)



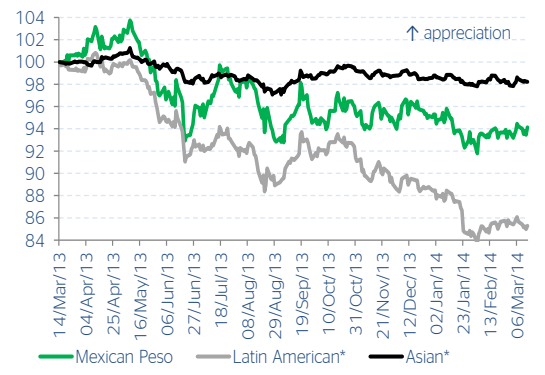
Source: BBVA Research, Bloomberg

Chart 5  
Global risk & exchange rate (VIX index and ppp)



Source: BBVA Research, Bloomberg

Chart 6  
Currencies against USD  
(14 Mar 2013 index=100)



\* JP Morgan's Index on Latin American and Asian currencies against the US dollar; weighted averages by trade & liquidity.  
Source: BBVA Research, Bloomberg

Annual information & forecasts

	2012	2013	2014
Mexico GDP (% YoY change)	3.9	1.1	3.4
Headline inflation (Avg.)	4.1	3.8	4.2
Core inflation (Avg.)	3.4	2.7	3.2
Monetary Policy Rate (% Avg.)	4.5	3.8	3.5
M10 (% Avg. change)	5.7	5.7	6.6
US GDP (% YoY change)	2.8	1.9	2.5

Source: BBVA Research

## Recent publications

Date	Description
11-Mar 2014	➡ <a href="#">Mexico Banking Flash. Bank deposits: slow start to 2014</a>
12-Mar 2014	➡ <a href="#">Mexico Banking Flash. Credit to the private sector: slow growth at the start of the year</a>
13-Mar 2014	➡ <a href="#">Mexico Flash. In January 2014 industrial production surprised to the upside, driven solely by manufactured goods</a>

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