



Weekly Observatory

May 25, 2009

Octavio Gutiérrez Engelman
o.gutierrez3@bbva.bancomer.com

We do not rule out a fall in the current account deficit on the previous quarter of 6.3 billion dollars (4Q09) and close to that of -2.6 billion dollars a year ago (1Q08).

The current account deficit is likely to post a fall for the first quarter of this year in line with the lower economic growth cycle in Mexico. The main elements in the balance of payments suggesting this conclusion are as follows: First, the trade deficit in 1Q09 was 1.9 billion dollars (up on the 1.6 billion dollars deficit posted a year earlier); however, a reduction of this deficit is probable as the year progresses due to the greater economic contraction in Mexico as compared with the U.S. Second, remittances in the first quarter of the year of 5.5 billion dollars represented an annual fall of 4.9%. Although far from positive, we were expecting a bigger fall in this item of 10%. Third, although the surplus in the tourist balance for 1Q09 fell only slightly compared with the figure for a year earlier (2.0 billion dollars), the forecasts are for a severe reduction for the rest of the year, given the health emergency in the second quarter.

Fourth, capital expenses (mainly interest) may register an upturn compared with the average of the two previous quarters (-4.2 billion dollars) due to forecast amortizations: the private sector alone made payments of 7.7 billion dollars, 28% of total obligations for the year. (This includes both capital and interest, so it is an estimate of the balance of capital income in the current account). This balance remains the main source of uncertainty and may register pressures for greater outgoings in the future.

To sum up, we consider that the pressure affecting the current account at the start of the year do not, at present, represent a risk for financing the economy.

Mexico: Current Account

	1Q08	2Q08	3Q08	4Q08	2008	1Q09
Million US dls						
Current Account	-2,576	-2,264	-4,833	-6,284	-15,957	-1,940
Trade Balance	-1,648	-865	-6,427	-8,320	-17,261	-1,890
Non-Factorial Services Balance	-792	-1,938	-2,403	-1,872	-7,006	-324
Factorial Services Balance	-5,988	-6,402	-2,507	-2,255	-17,151	-5,186
Remittances	5,852	6,941	6,504	6,163	25,461	5,461
% GDP						
Current Account	-0.9%	-0.8%	-1.8%	-2.3%	-1.5%	-0.9%
Trade Balance	-0.6%	-0.3%	-2.4%	-3.1%	-1.6%	-0.9%
Non-Factorial Services Balance	-0.3%	-0.7%	-0.9%	-0.7%	-0.6%	-0.1%
Factorial Services Balance	-2.2%	-2.3%	-0.9%	-0.8%	-1.6%	-2.4%
Remittances	2.1%	2.5%	2.4%	2.3%	2.3%	2.5%

Economic Calendar

May 25 to 29

	Monday	Tuesday	Wednesday	Thursday	Friday
	25	26	27	28	29
Mexico	Balance of Payments 1Q09	Occupation and Employment, preliminary figures (Apr)	IGAE (March)	Manufacturing Sector Index (March)	Monetary Aggregates (Apr)
	GDP current prices 1Q09				Public Finances (Apr)

Macroeconomic Forecasts

	Mexico			U.S.			Inflation in Mexico (%)			
	2007	2008	2009	2007	2008	2009	Month	Acumm.	Annual	
Inflation (% , end of period)*	3.8	6.5	3.8	2.9	4.2	0.8	Jan-09	0.23	0.23	6.28
Core (% , end of period)*	4.1	5.7	3.7	2.3	2.3	1.2	Feb-09	0.22	0.45	6.20
GDP (real annual % change)	3.2	1.4	-4.5	2.0	1.4	-2.0	Mar-09	0.58	1.03	6.04
Trade balance (US bn)	-10.1	-16.3	-32.4	-700.0	-680.0	-429.0	Apr-09	0.35	1.38	6.17
Current account (US bn)	-5.8	-17.6	-35.5	-730.0	-688.3	-600.0	May-09	-0.19	1.20	6.09
(% of GDP)	-0.5	-1.5	-3.3	-5.3	-4.8	-3.0	Jun-09	0.10	1.30	5.76
Public balance (% of GDP)	0.0	0.0	-1.8	-1.2	-4.2	-12.7	Jul-09	0.19	1.49	5.37
							Aug-09	0.38	1.87	5.16
							Sep-09	0.55	2.43	5.03
							Oct-09	0.45	2.89	4.78
							Nov-09	0.50	3.40	4.12
							Dec-09	0.35	3.76	3.76

bn billion

* Average for U.S.

* Forecast in **bold**

Financial Forecasts (% , end of period)

Mexico								U.S.							
	2007	2008	2009	1Q09	2Q09	3Q09	4Q09		2007	2008	2009	1Q09	2Q09	3Q09	4Q09
Bank funding	7.50	8.30	4.50	6.75	4.75	4.50	4.50	Fed Funds	4.25	0 - 0.25	0.00	0.00	0.00	0.00	0.00
28-day Cetes	7.44	8.00	4.47	6.60	5.64	4.97	4.47	10-year bond	4.26	3.25	2.23	2.70	2.27	1.98	2.23
28-day TIE	7.93	8.70	4.83	7.70	6.30	5.55	4.83	Dollar / euro	146	140	1.15	135	1.25	1.18	1.15
M 10 years (avg)	8.04	8.40	6.40	8.03	7.38	6.60	6.40								
Peso/dollar (avg)	10.86	11.20	13.40	14.49	14.17	13.70	13.40								

Financial Markets Evolution

May 14 to 21

U.S. Debt			UMS				Cetes & Bonds (M's) with taxes			
Term	Previous close	Week chng bp	Term (days)	Prev. Close	Week chng bp	Spread vs. Treasury	Term (days)	Primary	Prev. close*	Week chng bp
Fed Funds	0.25	0					Bank funding*		5.25	-78
							Govnmt. funding*		5.21	-75
							TIE (28d)		5.57	-28
T.Bill 91d	0.18	2					Cetes (28d)	5.18	5.16	-22
							Cetes (91d)	5.09	5.11	-23
							Cetes (182d)	5.11	5.06	-21
Libor 3m	0.66	-19					Cetes (364d)		5.05	-23
T-Notes	0.35	-2								
5 years										
			UMS 10 (255d)	1.71	-6.70	-60	M 7 i (216d)	5.49	5.17	-32
			UMS 11 (602d)	2.19	-6.90	-12	M 7 i (580d)	5.33	5.24	-9
T-Notes	2.31	20	UMS 12 (967d)	3.32	-9.10	102				
10 years			UMS 13 (1335d)	4.11	-9.60	180	M 10 i (1308d)	6.47	6.29	-18
			UMS 14 (1699d)	4.47	-17.90	217	M 10 i (1672d)	7.03	6.82	-21
			UMS 15 (2111d)	4.90	-15.30	58	M 10 iL (2036d)	7.22	7.06	-16
			UMS 16 (2673d)	5.34	-2.00	102				
			UMS 19 (3874d)	5.97	5.40	165				
T-Bond	4.32	27	UMS 22 (4873d)	6.23	-4.80	191	M 20 i (5312d)	7.94	8.09	15
30 years			UMS 26 (6202d)	6.46	-1.40	214				
			UMS 31 (8120d)	6.78	8.80	246				
			UMS 33 (8722d)	6.75	4.20	244				
			UMS 34 (9259d)	6.74	0.70	242				

* Weighted rates

Spreads	Previous close	Week chng bp	Currencies	Previous close	Week % chng	Bolsas	Previous close	Week % chng
U.S. corporate (BAA)	562	-24	Peso / dollar	13.07	-1.17	IPC	23,821.3	1.77
EMBI+Mexico	249	-41	Real Brazil / dollar	2.03	-2.64	Dow Jones	8,292.1	-0.47
EMBI+Brazil	309	-24	Dollar / euro	1.39	1.84	S&P	888.3	-0.53
EMBI+LatAm	539	-28	Yen / dollar	94.41	-1.45	Bovespa	50,087.3	1.30