



# Weekly Observatory

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## Annual inflation in October will continue its downward trend

Headline inflation in October could be 0.44% for the National Consumer Price Index (INPC) and 0.35% for core inflation. This would mean a fall in the year-on-year rate from 4.89% in September to 4.64% in October.

The prices contributing positively to annual inflation are non-core components, particularly administered prices (energy). Although a monthly increase due to seasonal factors is to be expected in electricity, this increase may well be lower than a year ago due to the freezing of public prices in 2009. In core prices the results could be mixed, with upward pressure (monthly and annual) in goods, above all food, and lower pressure in services resulting from the low growth cycle.

If the price freeze in administered prices continues and the negative effect of volatile agricultural prices is not too great, year-on-year inflation may close 2009 slightly under 4%.

## Industrial production could moderate its rate of improvement in September

We estimate that industrial production will have reduced its rate of recovery in September, as was the case in the previous two-monthly period which registered one of the lowest monthly changes since the start of the recession.

Manufacturing output, which is closely linked to U.S. output and consumption, may have moderated its recovery, which could be in line with an inventory adjustment process following the most pronounced fall since the start of the statistical series. Automotive production, a key component of manufacturing, continues its slow recovery with an annual increase of nearly 23% in September (40% as an average for the first eight months of the year).

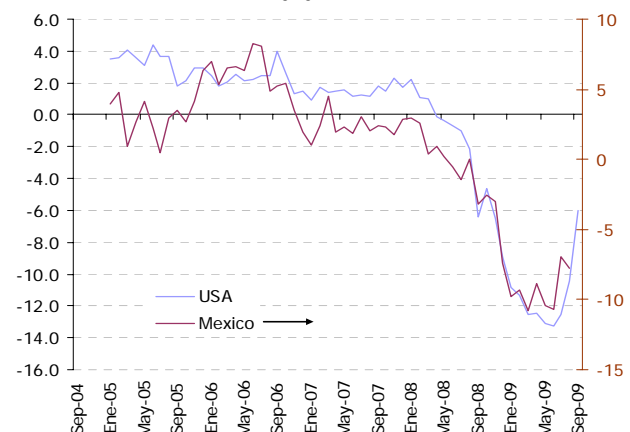
The construction industry has been the sector that has lagged behind most in the recovery process in relative terms. This can be seen in employment in the industry, with a sluggish recovery reflected in negative monthly figures.

We expect a fall in industrial output of around 7%, representing a monthly fall of 1.2%.

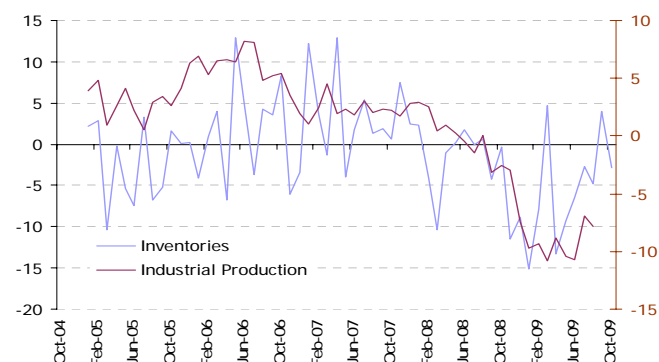
Mexico: CPI forecast by components

	Monthly change (%)			Annual change (%)		
	Aug-09	Sep-09	Oct-09	Aug-09	Sep-09	Oct-09
CPI-Mx	0.24	0.50	0.44	5.08	4.89	4.64
Core-Mx	0.21	0.43	0.35	5.10	4.92	4.96
Goods	0.31	0.40	0.43	6.48	6.38	6.57
Food products	0.22	0.42	0.69	7.11	7.00	7.47
Other Goods	0.38	0.38	0.26	5.97	5.88	5.89
Services	0.12	0.47	0.26	3.80	3.56	3.46
Rent	0.13	0.20	0.19	2.99	2.97	2.74
Education	0.56	2.48	0.00	5.08	4.13	4.12
Other serv.	-0.08	-0.08	0.44	4.21	4.01	4.00
Non Core-Mx	0.32	0.70	0.72	5.04	4.82	3.78
Farm products	0.28	2.14	-1.56	11.58	12.76	9.78
Fruits/Vegetables	1.64	5.60	-3.35	15.88	20.28	14.31
Meat/Eggs	-0.61	-0.15	-0.34	8.90	8.03	6.85
Public managed	0.34	-0.11	1.79	1.74	0.80	0.56
Energy	0.47	-0.22	3.46	0.65	-0.32	-0.73
Controlled prices	0.21	0.01	0.41	2.83	1.92	2.17
	Current Forecast			Current Forecast		

Industrial Production USA & Mexico  
(yoy %)



Inventory Levels & Industrial Production  
(Points & Index)



## Economic Calendar

November 9 - 13

	Monday	Tuesday	Wednesday	Thursday	Friday
	9	10	11	12	13
<b>Mexico</b>	October inflation National CPI 0.44% m/m (0.50% prev. / 4.64% y/y (4.89% prev.) Core infl. 0.35% m/m (0.43% prev.) -4.96% y/y (-% prev.)		Industrial production Sep. -7.0% (-7.3)		

## Macroeconomic and Financial Forecasts

Mexico	2008	2009	2010	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10
Inflation (% , avg)	5.1	<b>5.4</b>	<b>4.7</b>	6.2	6.0	<b>5.1</b>	<b>4.3</b>	<b>4.6</b>	<b>4.4</b>	<b>4.7</b>	<b>5.2</b>
Core (% , avg)	4.9	<b>5.3</b>	<b>4.6</b>	5.8	5.6	<b>5.1</b>	<b>4.5</b>	<b>4.4</b>	<b>4.5</b>	<b>4.7</b>	<b>5.0</b>
GDP (real annual % change)	1.4	<b>-7.2</b>	<b>3.1</b>	-8.4	-9.7	<b>-7.1</b>	<b>-3.5</b>	<b>2.5</b>	<b>4.5</b>	<b>2.9</b>	<b>2.4</b>
Bank funding (% end of period)	8.25	<b>4.5</b>	<b>4.50</b>	6.75	4.75	<b>4.50</b>	<b>4.50</b>	<b>4.50</b>	<b>4.50</b>	<b>4.50</b>	<b>4.50</b>
28-day Cetes (% , avg)	7.62	<b>5.43</b>	<b>4.48</b>	7.26	5.45	<b>4.53</b>	<b>4.49</b>	<b>4.47</b>	<b>4.47</b>	<b>4.47</b>	<b>4.53</b>
28-day TIIE (% , avg)	8.28	<b>5.94</b>	<b>4.90</b>	8.01	5.92	<b>4.90</b>	<b>4.91</b>	<b>4.90</b>	<b>4.90</b>	<b>4.90</b>	<b>4.90</b>
M 10 years (% , avg)	8.37	<b>7.98</b>	<b>7.66</b>	8.02	7.86	<b>8.12</b>	<b>7.94</b>	<b>7.90</b>	<b>7.67</b>	<b>7.52</b>	<b>7.57</b>
Peso/dollar (avg)	11.1	<b>13.5</b>	<b>13.0</b>	14.4	13.3	<b>13.3</b>	<b>13.1</b>	<b>13.2</b>	<b>13.2</b>	<b>13.0</b>	<b>12.7</b>
<b>U. S.</b>											
Fed Funds (% , end of period)	0.50	<b>0-0.25</b>	<b>0-0.25</b>	0-0.25	0-0.25	<b>0-0.25</b>	<b>0-0.25</b>	<b>0-0.25</b>	<b>0-0.25</b>	<b>0-0.25</b>	<b>0-0.25</b>
10-year bond (% avg)	3.64	<b>2.35</b>	<b>3.075</b>	2.71	2.35	<b>2.00</b>	<b>2.35</b>	<b>2.55</b>	<b>3.00</b>	<b>3.25</b>	<b>3.50</b>
Dollar / euro (avg)	1.47	<b>1.39</b>	<b>1.27</b>	1.29	1.38	<b>1.43</b>	<b>1.46</b>	<b>1.42</b>	<b>1.38</b>	<b>1.35</b>	<b>1.32</b>

\* Forecast in **bold**

## Financial Markets

October 29 to November 5

Spreads	Previous close	Week chng. bp	Currencies	Previous close	Week % chng.	Bolsas	Previous close	Week % chng.
U.S. corporate (BAA)	415	18	Peso / dollar	13.32	1.99	IPC	29,735.3	1.67
EMBI+ Mexico	192	1	Real Brazil / dollar	1.72	-0.94	Dow Jones	10,006.0	0.44
EMBI+ Brazil	227	0	Dollar / euro	1.49	0.33	S&P	1,066.6	0.05
EMBI+ LatAm	358	-4	Yen / dollar	90.71	-0.77	Bovespa	64,815.7	1.72

## Financial Markets Evolution

October 29 to November 5

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*		4.65	9
							Govnmt. funding*		4.57	10
							TIIE (28d)		4.93	-1
T.Bill 91d	0.03	-1					Cetes (28d)	4.52	4.53	2
							Cetes (91d)	4.62	4.61	-1
							Cetes (182d)	4.90	4.87	2
Libor 3m	0.28	-1					Cetes (364d)		5.33	-4
T-Notes	0.10	-2								
5 years										
			UMS 10 (86d)	1.05	11.50	-124	0	0.00	0.00	0
			UMS 11 (433d)	1.61	-9.10	-67	M7 i (411d)	4.87	4.87	0
T-Notes	2.28	-2	UMS 12 (798d)	2.47	-7.70	19				
10 years			UMS 13 (1166d)	3.14	-18.30	85	M10 i (1139d)	6.81	6.84	3
			UMS 14 (1530d)	4.04	6.90	175	M10 i (1503d)	7.28	7.30	2
			UMS 15 (1942d)	4.43	3.40	6	M10 iL (1867d)	7.53	7.58	5
			UMS 16 (2504d)	4.73	-1.00	36				
			UMS 19 (3705d)	5.38	7.40	102				
T-Bond	4.37	17	UMS 22 (4704d)	5.69	10.00	132	M20 i (5143d)	8.41	8.45	4
30 years			UMS 26 (6033d)	5.89	10.40	152				
			UMS 31 (7951d)	6.10	8.90	173				
			UMS 33 (8553d)	6.10	9.30	174				
			UMS34 (9090d)	6.10	9.80	173				

\* Weighted rates