



# Weekly Observatory

December 21<sup>st</sup>, 2009

## Potential unexpected decreases in inflation for the first fortnight in December due to agricultural prices

Year-on-year inflation could continue its downward trend in December to levels close to 3.7% (compared to 3.86% in November) supported by non-core factors (agricultural and energy). Although, in these factors there may be pressure on some controlled prices (e.g. transport) on the eve of higher taxes in 2010, these might not offset the magnitude of the fall in prices of fruit and vegetables in supply centers.

Increases are expected in core prices according to the season and rises brought forward by higher tax costs. Nevertheless, we believe the downward trend in annual core inflation will continue in the first two weeks, albeit at a slower pace (4.3% compared to 4.6% in November).

In short, we estimate overall inflation at 0.34% for the first fortnight of December (and 0.54% for the whole month), and core inflation at 0.22% (and 0.41% for the whole month).

## Final Goods and Services Supply and Demand 3Q09

Complementary information to the GDP data for the third quarter related to demand components will be published this week. Based on known data about relevant indicators related to these components, we expect the improvement in quarterly terms to have become generalized as it is more marked in private consumption and exports.

It is considered that private consumption will have been encouraged by the recovery in employment, with some visible positive effects on indicators such as non-oil tax collection, vehicle sales in the domestic market, and commercial establishments. Likewise, signs of improvement in domestic demand are detectable in consumer and producer confidence indicators. In this regard, it should be mentioned that imports of capital goods, despite being the import item that is lagging in terms of improvement, shows more favorable dynamics than previous months, which is related to positive change in the investment component of national accounts.

In turn, indicators related to foreign trade, based on revised information on trade balance in terms of constant pesos, point to a quarterly rate recovery in 3Q, which is particularly clear in the case of exports of goods.

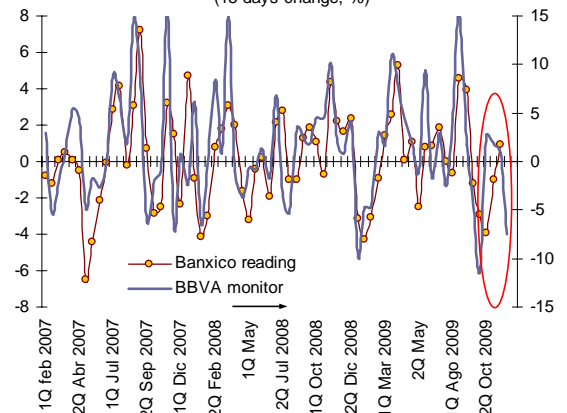
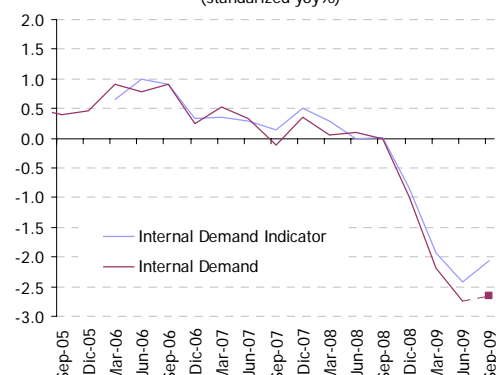
The data to be published this Tuesday will complete the information on the composition of GDP in 3Q09, with growth reported a month ago at the annual rate that was pleasantly surprising and rose to 2.9% at the quarterly rate, corresponding to -6.3% year-on-year.

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Mexico: CPI forecast by components

	Monthly change (%)			Annual change (%)		
	Oct-09	Nov-09	Dic-09	Oct-09	Nov-09	Dic-09
<b>CPI-Mx</b>	<b>0.30</b>	<b>0.52</b>	<b>0.54</b>	<b>4.50</b>	<b>3.86</b>	<b>3.70</b>
<b>Core-Mx</b>	<b>0.29</b>	<b>0.20</b>	<b>0.41</b>	<b>4.90</b>	<b>4.59</b>	<b>4.36</b>
Goods	0.37	0.19	0.43	6.50	6.06	5.66
Food products	0.58	0.12	0.64	7.34	6.60	5.83
Other Goods	0.19	0.25	0.30	5.81	5.62	5.55
Services	0.22	0.21	0.38	3.42	3.22	3.16
Rent	0.15	0.14	0.15	2.70	2.48	2.51
Education	0.00	0.00	0.01	4.12	4.12	4.13
Other serv.	0.39	0.39	0.80	3.95	3.69	3.47
<b>Non Core-Mx</b>	<b>0.33</b>	<b>1.41</b>	<b>0.93</b>	<b>3.38</b>	<b>1.90</b>	<b>1.96</b>
Farm products	-2.47	-1.02	1.21	8.76	4.41	2.78
Fruits//Vegetables	-5.42	-2.55	0.66	11.86	3.67	0.37
Meat//Eggs	-0.40	0.00	1.58	6.79	4.90	4.41
Public managed	1.92	2.72	0.80	0.69	0.64	1.55
Energy	3.41	5.80	0.35	-0.77	-0.32	0.17
Controlled prices	0.45	-0.40	1.18	2.21	1.68	2.96
	Current Forecast			Current Forecast		

Fruits and Vegetables Prices (non-Core)  
(15-days change, %)Internal Demand & Internal Demand Indicator  
(standardized yoy%)

## Economic Calendar

December 21 to 25

	Monday	Tuesday	Wednesday	Thursday	Friday
	21	22	23	24	25
Mexico		Final Goods and Services Supply and Demand 3Q09-12.5% y/y (-13.6% prev.)	Inflation 1FDecCPI: 0.34 (0.53% prev.) / 3.68 (3.92%p rev.) Core.: 0.22 (0.11% prev.) / 4.32 (4.63% prev.)		Holiday
		Nov. Trade Balance			

## 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	5.1	<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	5.1	<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>	-8.9	-8.9	<b>-6.3</b>	<b>-4.6</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	4.50	<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	4.53	<b>4.49</b>	<b>4.47</b>	<b>4.47</b>	<b>4.47</b>	<b>4.53</b>
28-day TIE (% , avg)	8.28	<b>5.94</b>	<b>4.90</b>	8.01	5.92	4.90	<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	8.12	<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	13.3	<b>13.1</b>	<b>13.2</b>	<b>13.2</b>	<b>13.0</b>	<b>12.7</b>
U. S.											
Fed Funds (% , end of period)	0.50	<b>0-0.25</b>	<b>0-0.25</b>	0-0.25	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>
10-year bond (% avg)	3.64	<b>2.35</b>	<b>3.075</b>	2.71	2.35	2.00	<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	1.43	<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

December 10 to 17

Spreads	Previous close	Week chng. bp	Currencies	Previous close	Week % chng.	Bolsas	Previous close	Week % chng.
U.S. corporate (BAA)	412	-18	Peso / dollar	12.88	-0.56	IPC	31,948.4	0.10
EMBI+ Mexico	184	14	Real Brazil / dollar	1.78	1.43	Dow Jones	10,308.3	-0.94
EMBI+ Brazil	205	9	Dollar / euro	1.43	-2.67	S&P	1,096.1	-0.57
EMBI+ LatAm	361	2	Yen / dollar	90.0	2.00	Bovespa	67,068.0	-2.42

## Financial Markets Evolution

December 10 to 17

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*		4.61	2
							Govnmt. funding*		4.51	1
							TIIE (28d)		4.96	4
T.Bill 91d	0.04	2					Cetes (28d)	4.51	4.51	4
							Cetes (91d)	4.61	4.59	0
							Cetes (182d)	4.87	4.87	5
Libor 3m	0.25	0					Cetes (364d)		5.08	13
T-Notes	0.33	16								
5 years										
			UMS 10 (45d)	0.49	-17.60	-163				
			UMS 11 (392d)	0.63	-73.90	-150	M7 i (370d)	5.11	5.11	0
			UMS 12 (757d)	1.77	-41.30	-36				
T-Notes	2.13	1	UMS 13 (1125d)	2.51	-31.80	38	M10 i (1098d)	6.788	6.74	-4
10 years			UMS 14 (1489d)	3.32	-29.60	119	M10 i (1462d)	7.186	7.09	-9
			UMS 15 (1901d)	4.00	-16.50	-34	M10 iL (1826d)	7.55	7.47	-9
			UMS 16 (2463d)	4.30	-18.20	-3				
			UMS 19 (3664d)	5.00	-15.00	66				
T-Bond	4.33	-9	UMS 22 (4663d)	5.23	-19.00	90	M20 i (5102d)	8.29	8.29	0
30 years			UMS 26 (5992d)	5.46	-20.60	113				
			UMS 31 (7910d)	5.92	-15.40	159				
			UMS 33 (8512d)	5.95	-14.50	162				
			UMS34 (9049d)	5.98	-13.60	165				

\* Weighted rates