



# Weekly Observatory

January 11, 2010

## January monetary policy meeting: no changes in the base rate

We expect that at its 15 January monetary policy meeting, the Banxico (Bank of Mexico) Board will hold its base rate at 4.5%, continuing the monetary policy pause which has existed since August 2009. Following a year of falling inflation, the CPI has started increasing in 2010 on a trend which will continue throughout the year as a result of changes in public pricing and taxes. However, the path the base rate takes does not have to respond to changes in inflation, but rather to changes in expectations of inflation, which have to be kept under control if the central bank is not to respond with rate increases. By far the most likely scenario is that consumer prices will accelerate in 2010 as a result of the changes already signaled against a background of moderate demand pressures, and that there will be renewed deceleration in 2011, as shown by the bands for the central bank's forecasts. If the increased inflation rates reported caused any change to inflationary expectations, Banxico would respond by making its communication harder hitting. In summary, we continue to consider that Banxico will be in no hurry to increase interest rates, except in reaction to adverse inflationary expectations which cannot be controlled by other monetary policy instruments.

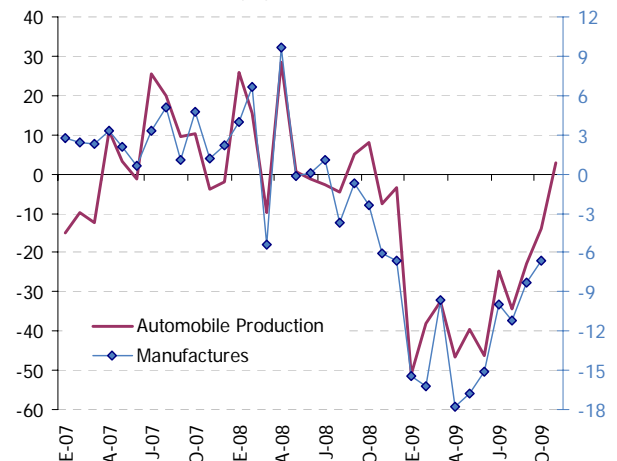
## Industrial activity in November and general activity in October: recovery continues

Figures for industrial output in November and the October IGAE (Economic Activity Indicator - industry, services, agriculture) will be published this week.

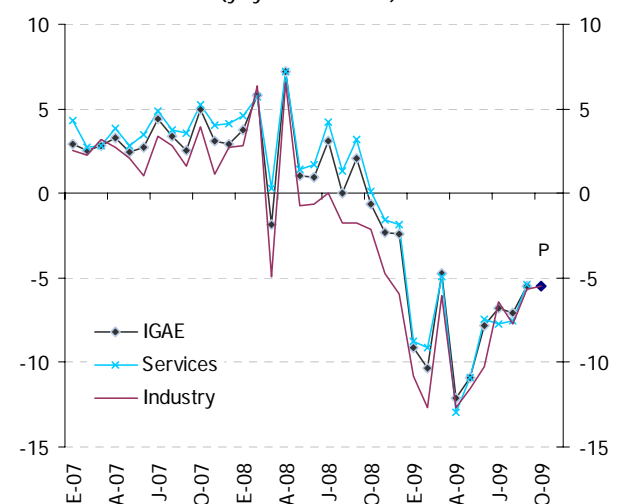
Manufacturing output will have received a boost from activity in key areas such as automotive production, which increased by 2.2% in November, the first year-on-year increase recorded since October 2008. It is worth noting that between November 2008 and October 2009, automotive production was 30% lower than in the same period one year earlier. In addition, other important manufacturing areas, such as basic metals and IT equipment, began to recover in October. Indicators for the construction industry point to it recovering more slowly than manufacturing, which is particularly apparent in the home building sector. We estimate that industrial production will have contracted by around -4% (previously -5.2%) in November.

The October IGAE index will also be published this week. Based on the figures we have for industry (-5.2%), service sector indicators and the retail sector survey, we estimate that the service sector will have contracted slightly in October. The year-on-year change in retail sales was -5.2% compared to -4.9% in 3Q09; whilst the service sector indicator was -7.9% compared to -6.7% in 3Q09. We therefore estimate that the IGAE will have contracted by -5.5% on an annual basis in November (previously -5.5%).

**Automobile Production & Manufactures**  
(yoy%, mom%)



**IGAE**  
(yoy % mom %)



## Economic Calendar

January 11 to 15

	Monday	Tuesday	Wednesday	Thursday	Friday
	11	12	13	14	15
<b>Mexico</b>		November Industrial Production Indicator -4.0 (-5.2% prev.)		IGAE Oct. -5.5 (5.5% prev.)	Monetary Policy Decision 4.5 (4.5% prev.)

## Macroeconomic and Financial Forecasts

Mexico	2008	2009	2010	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10
Inflation (% , avg)	5.1	5.31	<b>4.50</b>	6.2	6.0	5.1	4.0	<b>4.3</b>	<b>4.1</b>	<b>4.4</b>	<b>5.2</b>
Core (% , avg)	4.9	5.29	<b>4.89</b>	5.8	5.6	5.1	4.7	<b>4.7</b>	<b>4.8</b>	<b>4.9</b>	<b>5.2</b>
GDP (real annual % change)	1.4	-7.2	<b>3.1</b>	-8.9	-8.9	-6.3	-4.6	<b>2.5</b>	<b>4.5</b>	<b>2.9</b>	<b>2.4</b>
Bank funding (% end of period)	8.25	5.42	<b>4.50</b>	6.75	4.75	4.50	4.50	<b>4.50</b>	<b>4.50</b>	<b>4.50</b>	<b>4.50</b>
28-day Cetes (% , avg)	7.62	5.43	<b>4.48</b>	7.26	5.45	4.53	4.49	<b>4.47</b>	<b>4.47</b>	<b>4.47</b>	<b>4.53</b>
28-day TIE (% , avg)	8.28	5.94	<b>4.90</b>	8.01	5.92	4.90	4.91	<b>4.90</b>	<b>4.90</b>	<b>4.90</b>	<b>4.90</b>
M 10 years (% , avg)	8.37	7.98	<b>7.66</b>	8.02	7.86	8.12	7.94	<b>7.90</b>	<b>7.67</b>	<b>7.52</b>	<b>7.57</b>
Peso/dollar (avg)	11.1	13.5	<b>13.0</b>	14.4	13.3	13.3	13.1	<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	0-0.25	<b>0-0.25</b>	0-0.25	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>
10-year bond (% avg)	3.64	2.35	<b>3.075</b>	2.71	2.35	2.00	2.35	<b>2.55</b>	<b>3.00</b>	<b>3.25</b>	<b>3.50</b>
Dollar / euro (avg)	1.47	1.39	<b>1.27</b>	1.29	1.38	1.43	1.46	<b>1.42</b>	<b>1.38</b>	<b>1.35</b>	<b>1.32</b>

\* Forecast in bold

## Financial Markets

December 30 to January 7

Spreads	Previous close	Week chng. bp	Currencies	Previous close	Week % chng.	Bolsas	Previous close	Week % chng.
U.S. corporate (BAA)	385	1	Peso / dollar	12.76	-2.48	IPC	33,064.6	190
EMBI+Mexico	154	-11	Real Brazil / dollar	175	0.11	Dow Jones	10,606.9	0.55
EMBI+Brazil	205	9	Dollar / euro	143	-0.09	S&P	1,141.7	136
EMBI+LatAm	316	-12	Yen / dollar	93.4	0.38	Bovespa	70,451.1	2.72