



Weekly Observatory

April 12, 2010

Slower recovery rate in industrial output at the start of 2010

Industry has begun a recovery process after the 2009 recession, but is still to reach pre-crisis production levels from mid-2008.

Last February, in line with automotive production and manufacturing performance in the US, already released and closely linked to Mexican industrial output, a slower recovery rate for industry is likely. In this way, monthly growth for Mexican industrial output in February is expected at 0.1% vs. the 0.6% average for the previous three months.

The construction industry, the second most important industrial sector after manufacturing, still show a lag in recovery, with both monthly and year-on-year changes continuing in negative terrain (-5.3% yoy and -0.2% mom) on average for the November to January period.

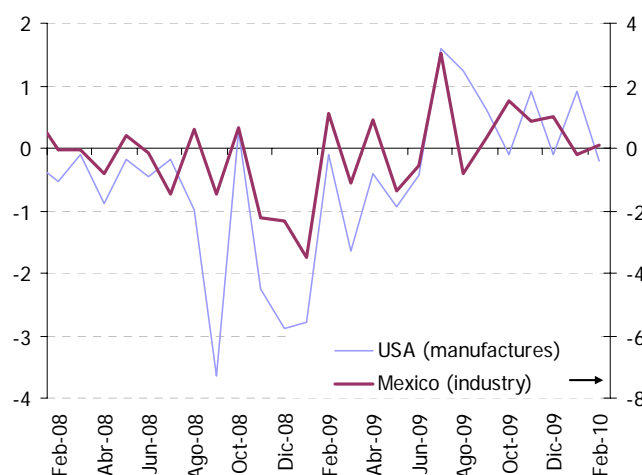
Monetary policy decision: Banxico to hold base rate at 4.5%

In its last two monetary policy meetings, Banxico made some changes to the press release language in line with the strategy of anchoring medium and long-term inflation expectations, and thus giving a margin for continuing to extend the monetary pause. For example, the change in the last release in the monetary policy paragraph states Banxico "will carefully watch" inflation forecasts and/or unexpected price pressures, with regards to the earlier, more gentle, tone (i.e. "will continue to watch"). Other changes also point to greater restraint, for example, the more cautious tone on the moderating impact of the output gap in price pressures. In this way, Banxico gradually begun to bring the language of the last two reports in line with a scenario of demand and prices that, if present trends continue, will finally mean a steady withdrawal of the monetary stimulus.

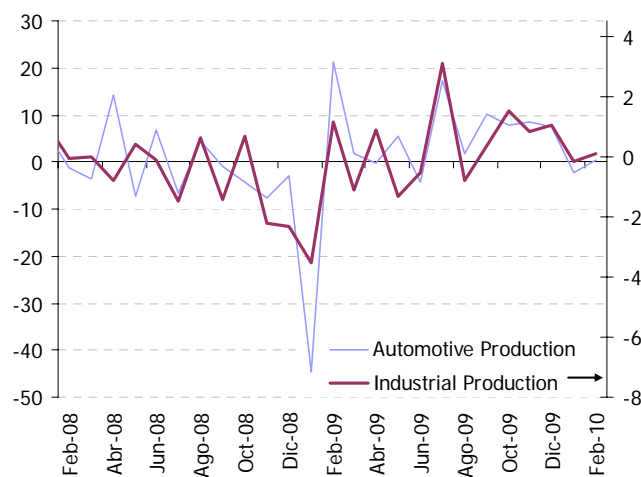
After the change in tone of the last two reports, we believe it will be less evident in this one.

The appraisal of inflation outlook will continue to be favorable to maintaining Banxico's scenario since price pressures are mainly on supply and the figures seen are in line with forecasts. The risks will be based around the 4Q10 when we expect inflation to come in above the upper limit of the forecast Banxico target range.

Industri: Mexico & USA
(mom%)



Automotive production & Industry
(mom%)



Economic Calendar

April 12 to 16

	Monday	Tuesday	Wednesday	Thursday	Friday
	12	13	14	15	16
Mexico	Industrial Output (Feb) 3.7% yoy –SA- (4.8% yoy prev.)				Monetary Policy 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	5.3	4.7	6.2	6.0	5.1	4.0	4.3	4.2	4.4	5.3
Core (% , avg)	4.9	5.3	5.0	5.8	5.6	5.1	4.7	4.7	4.9	5.0	5.2
GDP (real annual % change)	1.4	-6.6	3.8	-9.1	-8.5	-6.1	-2.3	6.0	5.6	2.9	0.8
Bank funding (% end of period)	8.25	5.42	4.50	6.75	4.75	4.50	4.50	4.50	4.50	4.50	4.50
28-day Cetes (% , avg)	7.62	5.43	4.48	7.26	5.45	4.53	4.49	4.47	4.47	4.47	4.53
28-day TIE (% , avg)	8.28	5.94	4.90	8.01	5.92	4.90	4.91	4.90	4.90	4.90	4.90
M 10 years (% , avg)	8.37	7.98	7.57	8.02	7.86	8.12	7.94	7.90	7.67	7.52	7.57
Peso/dollar (avg)	11.1	13.5	13.0	14.4	13.3	13.3	13.1	13.2	13.2	13.0	12.7
U. S.											
Fed Funds (% , end of period)	0.50	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25
10-year bond (% avg)	3.64	2.35	3.075	2.71	2.35	2.00	2.35	2.55	3.00	3.25	3.50
Dollar / euro (avg)	1.47	1.39	1.27	1.29	1.38	1.43	1.46	1.42	1.38	1.35	1.32

* Forecast in **bold**

Financial Markets

March 31 to April 8

Spreads	Previous close	Week chng. bp	Currencies	Previous close	Week % chng.	Bolsas	Previous close	Week % chng.
U.S. corporate (BAA)	393	-6	Peso / dollar	12.22	-107	IPC	33,567.4	0.90
EMBI+Mexico	127	-1	Real Brazil / dollar	178	-0.02	Dow Jones	10,927.1	0.65
EMBI+Brazil	205	22	Dollar / euro	134	-1.10	S&P	1,186.4	1.45
EMBI+LatAm	295	-7	Yen / dollar	93.4	-0.10	Bovespa	71,784.8	2.01