

Mexico

Banxico Watch

18 June 2010

Economic Analysis

Javier Amador
javier.amador@bbva.bancomer.com

No rate change, or tone variation.

Monetary Policy Decision

The lending rate remains at 4.5%. June 18th

- **Global context: more optimistic than the last statement.**
- **Mexico, growth: an improvement is noticed in consumption and private investment, although these remain at low levels. Inflation: optimism—the fall of inflation is not merely seasonal and due to chance fluctuation; it is expected that the situation will evolve as forecasted**
- **Banxico is in no hurry to increase rates; the language remains slightly “dovish”**

In a statement without changes in the paragraph on *policy*. Relevant changes only in a more optimistic evaluation of the global environment for raw materials producers and the US, with a limited impact by the situation in Europe.

Banxico has described a global environment that is more optimistic than in the previous statement, published in midst of the market disturbance caused by the debt crisis in Europe. Banxico is now saying that “...*The impact of the events in Europe on the US economy seems limited...*”, the latter being, in addition, an economy in which prospects for consumption and investment are improving, according to the Mexican central bank’s analysis. With regard to emerging markets, ‘*vigor*’ is the word used to characterize their growth, including ‘overheating’ for some of them.

With regard to Mexico, the bank still regards the recovery of private consumption and investment as slow, but does cite a level of improvement. This analysis is broadly consistent with our own, although the improvement of investment levels seems far less certain to us. We see neither clear signs of such an improvement in the indicators, nor reasons for this to be the case given the high level of unutilized capacity. Exports and manufactured products continue to be the main driver of growth. In a new development, a few sentences are dedicated to the behavior of long-term interest and exchange rates, which is unusual. This is consistent with a willingness to demonstrate the stability of Mexican financial variables in a highly volatile week, in particular in May.

The central bank has not changed its optimistic tone on inflation, and it points out that it fell once again in May. The fall of inflation is not merely seasonal and due to chance fluctuation; the statement maintains that inflation will evolve according to predictions. In truth, after the surprises of the second quarter of 2010, it is very probable that inflation will be within this range at year’s end, between 4.75% and 5.25%. But a large part of what took place in the second quarter of the 2010 has been seasonal fluctuation and volatility, so we believe that it will be necessary to be very attentive to possible surprises in price offerings.

The tone of the monetary policy statement does not feature relevant changes, and we believe the Bank itself doubts that could arise on its monetary actions over the coming months. It is confirmed that Banxico is in no hurry to increase the policy rate, and the balance of risks currently backs the continuance of a prolonged pause. With all this in mind, we shall continue to expect a prolonged monetary pause up to the end of the first quarter or beginning of the second quarter of 2011.

Disclaimer

This document was prepared by Banco Bilbao Vizcaya Argentaria’s (BBVA) BBVA Research and BBVA Bancomer S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer on behalf of itself and is provided for information purposes only. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA Bancomer, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.