

# Weekly Watch

Mexico

April 20, 2011

Economic Analysis

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Market Analysis

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## Next week...

### Banxico minutes

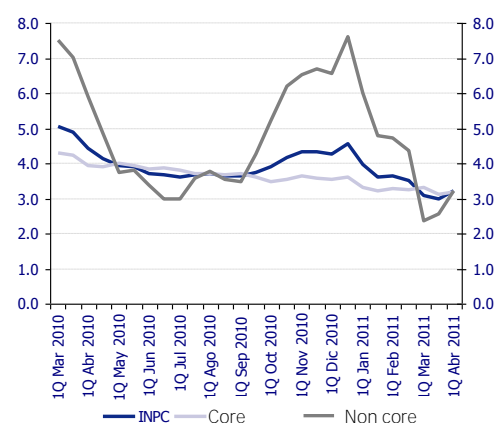
Inflation in the first two weeks of April saw a surprise slight fall with a -0.09% fortnightly change, while the consensus pointed to 0.05%. Although inflation moving up and went from 3.0% to 3.2% in annual terms, it did so below market forecasts, coming in a 3.35% for this period.

In a scenario with lower-than-expected inflation data and no change in forward risks as the last monetary policy release sated, we believe that the minutes from the last meeting on April 15 will show lower debate among board members on factors deteriorating the balance of risks for inflation. Nonetheless, attention will need to be paid to member positions on the size of the inflation bounce in coming months, specifically given the varied factors to price increases in products and the mild effect of non-core inflation. Further, attention should be paid to opinions on the economy's "comfort" level and the possible influence of demand pressures on prices. All while taking into account that according to Banxico the output gap will turn positive toward the middle of the year.

**Caution in markets following a change in the outlook of the USA, but recovery after the country's economic data. Inflation surprise pushed to the background.**

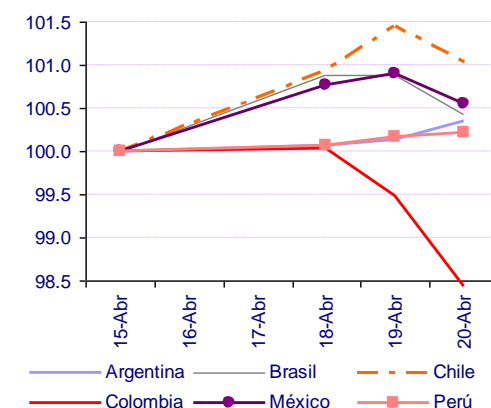
The changed outlook for US debt (Monday 18) led to a depreciation in the MXN at the start of the week which was corrected on Wednesday following the release of favorable data on the real estate sector and corporate earnings in the USA. Despite this, the fixed-income market showed signs of caution at the start of the week in US bonds. At the end of the short week, bonds saw yield highs despite the surprise downward inflation in April. This coincided with rises on stock markets.

Chart 1  
Mexico: General inflation and components (y/y % change)



Source: BBVA Research with Banxico data

Chart 2  
Weekly exchange rate performance (Abr-15=100)



Source: BBVA Research and Bloomberg

## Calendar: Indicators

Commercial establishments, service indicator, IGAE for February

Tuesday April 26 commercial establishments

0.25% m/m (2.8% y/y), previous (-0.1% m/m 3.3% y/y)

Wednesday, April 27, IGAE

0.30% m/m (5.0% y/y), previous 1.2% m/m (6.0% y/y)

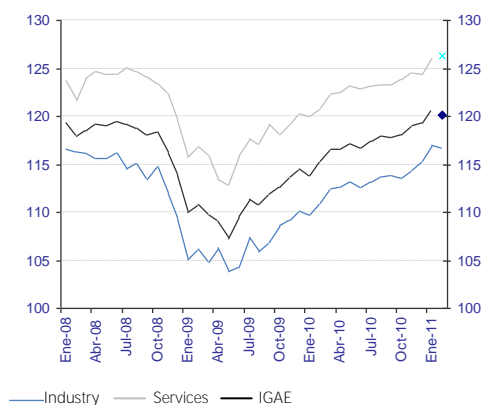
The two output indicators this week give pointers to performance in the first quarter of the year. The last months of last year and the first months of 2011 stood out for the greater volatility in activity indicators, thus, for example industrial output and the IGAE saw positive surprises in January and the industry data for February saw a downward surprise. In turn, retail sales continued to progress slowly. In this sense, the continued job creation, especially in the formal private sector, continued to be key in sales recovery, particularly for durable goods which were most hit by the crisis; indeed, consumer confidence indicators point to improved growth in this category. In general, we forecast a slight move forward in economic activity linked to growth in services, in contrast to the industrial sector.

### Economic Analysis

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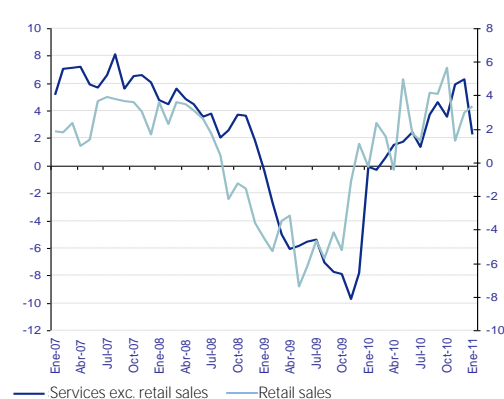
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Chart 3  
 IGAE, SA  
 (Indices, 2003=100)



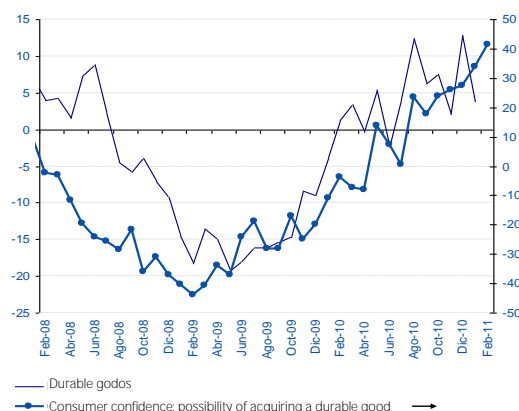
Source: BBVA Research and Banxico

Chart 4  
 Retail Sales and Services Indicator  
 (y/y % change)



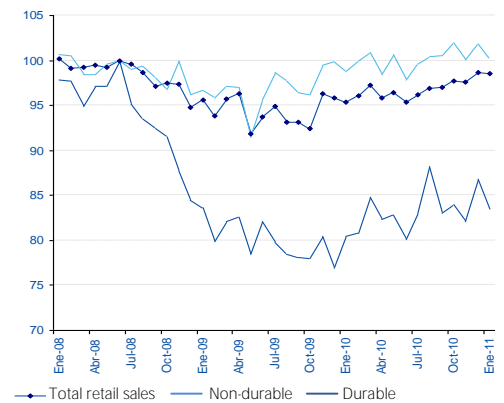
Source: BBVA Research and Banxico

Chart 5  
 Retail Sales and Consumer Confidence (y/y % change)



Source: BBVA Research and Banxico

Chart 6  
 Retail Sales (Jun 08 = 100)

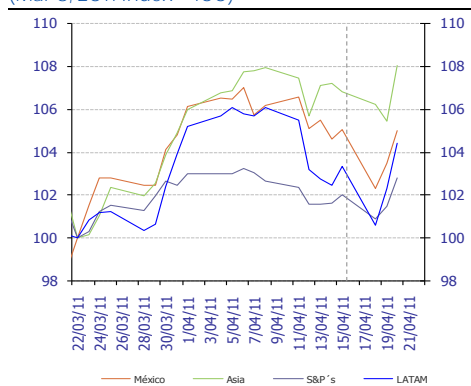


Source: BBVA Research and Banxico

### Markets

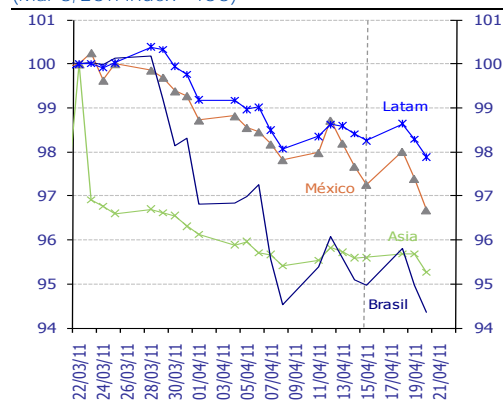
General upswing on share markets mid-week, after better-than-expected housing sector data in the US, as well as favorable reports from the technology sector. The peso appreciated in this scenario, also affected by the oil price increases.

Chart 7  
Stock Markets: MSCI Indices  
(Mar 8, 2011 index = 100)



Source: Bloomberg & BBVA Research

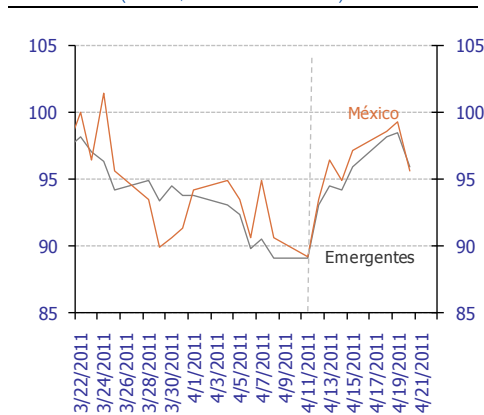
Chart 8  
Foreign exchange: dollar exchange rates  
(Mar 8, 2011 index = 100)



Source: Bloomberg and BBVA Research. Note: LATAM includes Argentina, Brazil, Chile, Colombia and Peru. Asia includes the Philippines, South Korea, Taiwan, Singapore, Indonesia and Thailand.  
Non-weighted averages

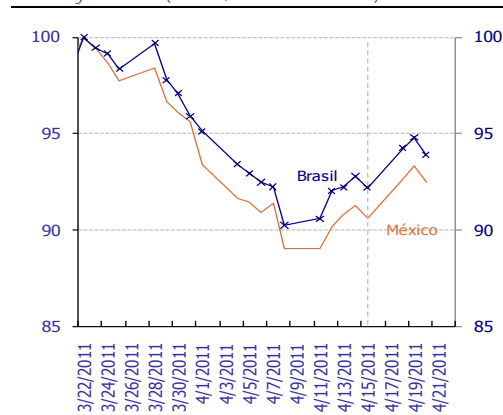
Drop in risk aversion influenced by higher than expected economic data in the US

Chart 9  
Risk: EMBI+ (Mar 9, 2011 index = 100)



Source: Bloomberg & BBVA Research

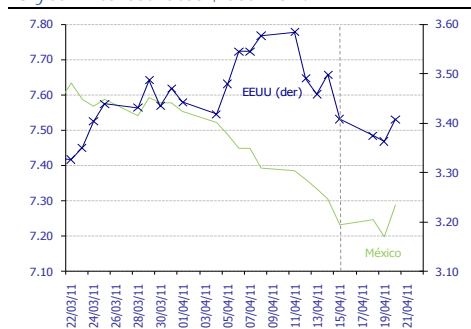
Chart 10  
Risk: 5 year CDS (Mar 8, 2011 index=100)



Source: Bloomberg & BBVA Research

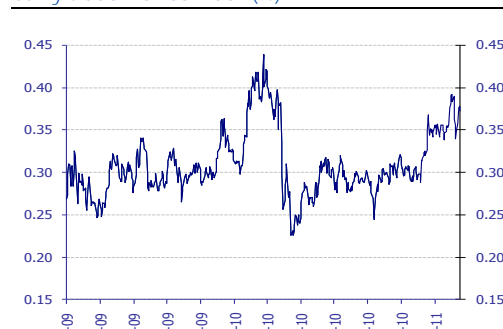
Increase in US interest rates due to the fall in risk aversion and increased inflation forecasts. Rates in Mexico move in line

Chart 11  
10-year interest rates\*, last month



Source: BBVA Research with Banxico data

Chart 12  
Carry-trade Mexico index (%)

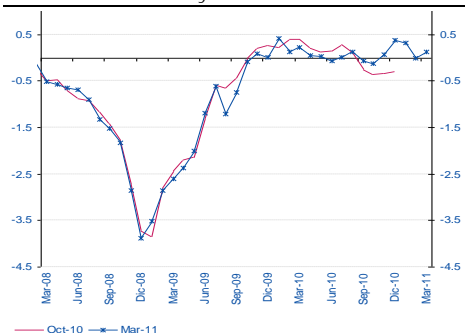


Source: BBVA Research with data from Bloomberg

## Activity, inflation, monetary conditions

Inflation surprises continue to be slightly downward. While surprises in output are slightly upward

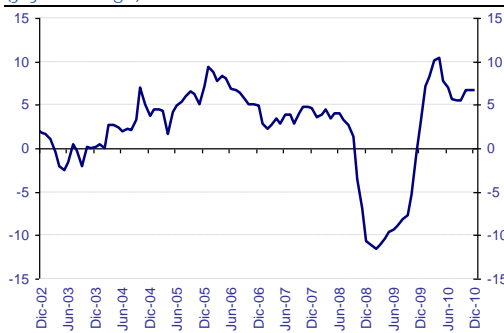
Chart 13  
BBVA Research Synthetic Activity Indicator for the Mexican economy



Source: BBVA Research with data from INEGI, AMIA and BEA

Weighted sum of 21 different indicators of activity, expenditure and expectation, based on trend series.

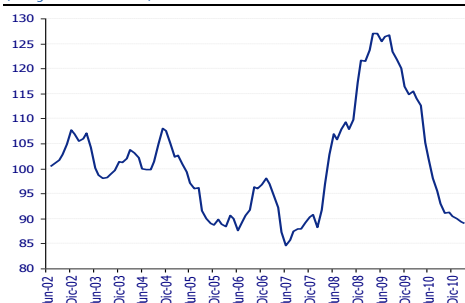
Chart 14  
Advance Indicator of Activity (y/y % change)



Source: INEGI

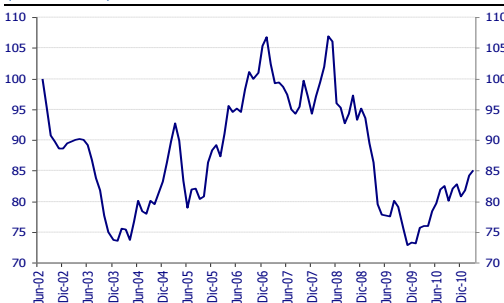
The monetary conditions in which the economy is moving continue to be helpful, although with a slight deterioration in the balance of inflationary risks

Chart 15  
Inflation Surprises Index (July 2002=100)



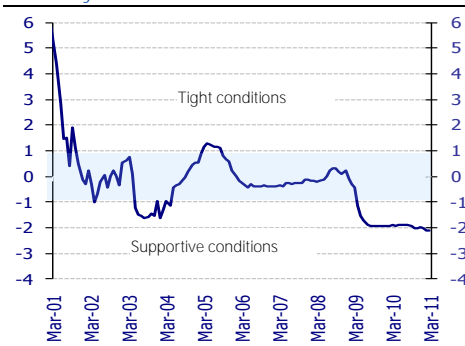
Source: BBVA Research with data from Banxico from the monthly surveys on the expectations of economic specialists in the private sector.

Chart 16  
Activity Surprise Index (2002=100)



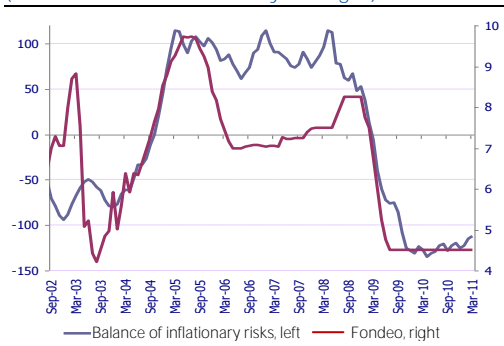
Source: BBVA Research with Bloomberg data. Difference between recorded data and the Bloomberg consensus for seven activity variables in Mexico. Standardized index. Rises (falls): positive (negative) surprises.

Chart 17  
Monetary Conditions Index



Source: BBVA Research

Chart 18  
Balance of Inflationary Risks\* and Lending Rate (standardized and %: monthly averages)



Source: BBVA Research. \*Standardized, weighted index (between inflation and economic growth): uses economic indicators for activity and inflation. A rise in the index points to a greater weight of inflationary risks over growth risks and thus a greater possibility of monetary restriction

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