

Weekly Watch

Mexico

Next week...

December 30, 2011

Economic Analysis

Perspectives on the economy's performance deteriorated throughout 2011, particularly toward 2012...

Over the year just passed, the evolution in economic perspectives for 2011 and 2012 was characterized by increasing pessimism mainly related to uncertainty around the global economy and specifically the evolution of the sovereign debt crisis in Europe. In this sense, for the year just passed, forecasts for GDP growth of around 4% from several analysts at the start of the year look set to be confirmed in a few weeks with INEG data. Nonetheless, over the year there were months with greater optimism mainly linked to the better-than-expected performance in domestic demand components and employment. The global uncertainty is thus linked to the moderation in optimism toward 2012. The analysts' consensus points to 2012 seeing Mexican GDP growth of around 3.1% (3.3% BBVA Research).

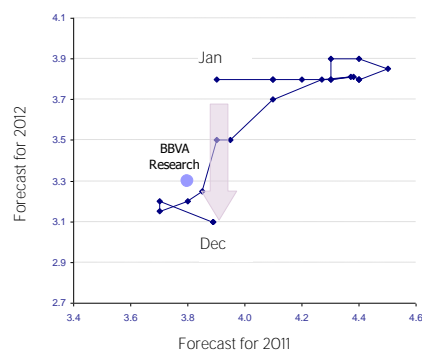
The uncertainties on global economic performance remain...

As we start 2012, uncertainty continues. The liquidity build-up by European banks and the high level in differentials for sovereign bonds from periphery countries suggest Eurozone debt and bank concerns are far from over and will remain an issue to be followed by the markets.

Economic data released this week confirm our viewpoint on an economic contraction in Q4 in the Eurozone as a whole. In this sense, the slowdown in loans to the private sector and more important concerns on ECB credit performance is confirmed. In the US, both consumer and manufacturing indicators saw slightly positive surprises.

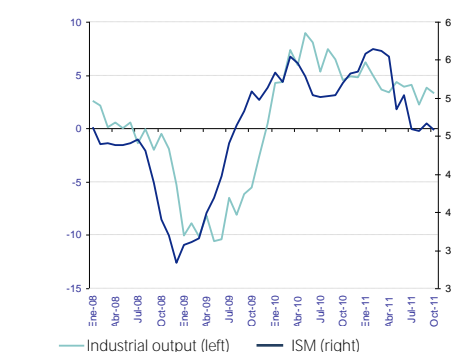
Specifically, the increase in US consumer confidence (from 56 to 64.5 pts) was led by sub-indices such as the current situation and expectations index. Meanwhile, perceptions on the job market saw even better improvements. In turn, manufacturing output indicators suggest a modest economic expansion in this sector. Both indicators are in line with our stronger economic growth forecast in 4Q11 than in the previous quarter.

Chart 1
GDP Forecasts Mexico (Analysts and BBVA Research)



Source: Analyst Consensus and BBVA Research

Chart 2
Industrial Output & ISM (levels)



Source: BBVA Research

Calendar: Indicators

Producer Confidence in December (Friday, January 6)

Forecast: N.A.	Consensus: N.A.	Previous:
0.5 (54.4 pts)	N/A	1.2 (54.2 pts.)

Consumer Confidence in December (Friday, January 6)

Forecast: N.A.	Consensus: N.A.	Previous:
-0.5 (90.9 pts)	N/A	-0.8 (91.7 pts)

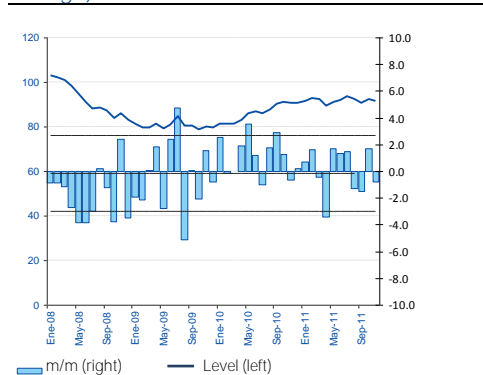
Economic Analysis

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We estimate that producer and consumer confidence should have seen some dynamic at the end of 2011. On the one hand, the good US manufacturing data which affect in a large measure Mexican producers should have influenced producer confidence growing around 0.5% over the previous month. It will be particularly important to monitor the sub-index linked to the "good time to invest" opinion. It should be stated that this indicator has fallen from 50% of those surveyed in March 2011 to 42% who thought the same in the November survey. This indicator, alongside recent reports on capital goods imports, with major slowdowns at the end of the year, point to the investment component possibly slowing at the end of the year.

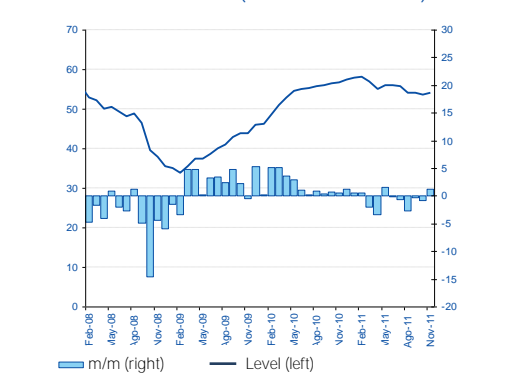
On the other, consumer confidence should have continued to slow, particularly in terms of the level, the confidence indicator remains at levels below those seen before the crisis in 2009. We will have to watch the change in the variable linked to the likelihood of purchasing durable goods related to the forecasts for the job market.

Chart 3
Consumer Confidence (Level and m/m % change)



Source: BBVA Research with INEGI data

Chart 4
Producer Confidence (Level and m/m%)



Source: BBVA Research with INEGI data

Markets

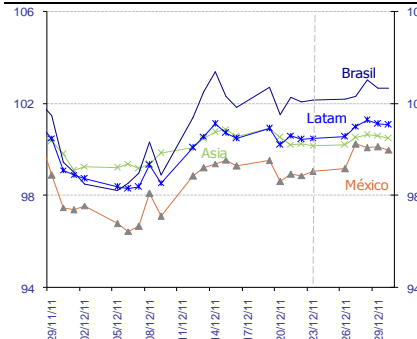
Falls on stock markets and slight currency devaluation in a week marked by low trading levels and fears as to the future of the crisis in Europe.

Chart 7
Stock Markets: MSCI Indices
(Nov 29, 2011 index=100)



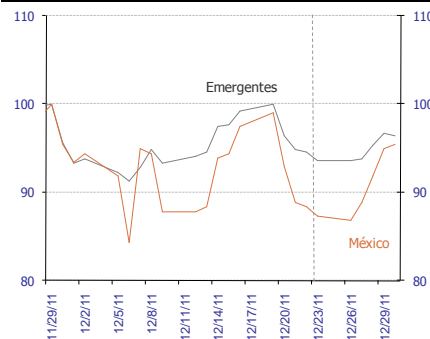
Source: Bloomberg & BBVA Research

Chart 8
Foreign exchange: dollar exchange rates
(Nov 29, 2011 index=100)



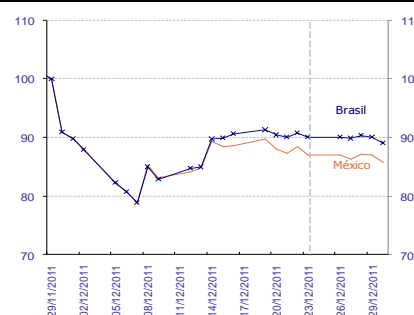
Source: Bloomberg and BBVA Research Note: LATAM includes Argentina, Brazil, Chile, Colombia and Peru. Asia includes the Philippines, South Korea, Taiwan, Singapore, Indonesia and Thailand.
Non-weighted averages

Chart 9
Risk: EMBI+ (Nov 29, 2011 index=100)



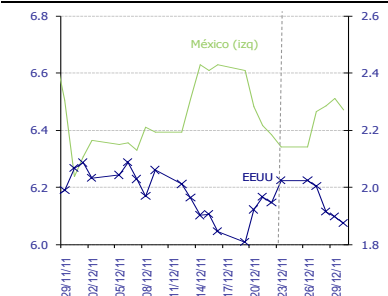
Source: Bloomberg & BBVA Research

Chart 10
Risk: 5-year CDS (November 29, 2011 index=100)



Source: Bloomberg & BBVA Research

Chart 11
10-year interest rates*, last month



Source: Bloomberg & BBVA Research

Chart 12
Carry-trade Mexico index (%)



Source: BBVA Research with data from Bloomberg

No major moves in risk aversion over the week

Rise in Mexican interest rates and a fall in US Treasury rates in the face of uncertainty surrounding the crisis in Europe.

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