

Weekly Watch

Mexico

Next week...

January 27, 2012

Economic Analysis

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... The debate leading Banxico to maintain a neutral stance last January 20

Next Friday sees the release of Banxico's Board meeting minutes where the message remained neutral at the last monetary policy meeting. The minutes will set out the level of debate surrounding the inflationary balance risk after differences were noted at the previous meeting as well as higher-than-expected inflation figures for December and January. References to the effect the exchange rate is having on prices will also need to be looked at in detail after the Statement set out that there had been an increase in relative goods prices due to the rate. Finally, in terms of domestic activity, the opinions behind the signaling of a slowdown in domestic demand will be important - something that had not been seen in previous Statements.

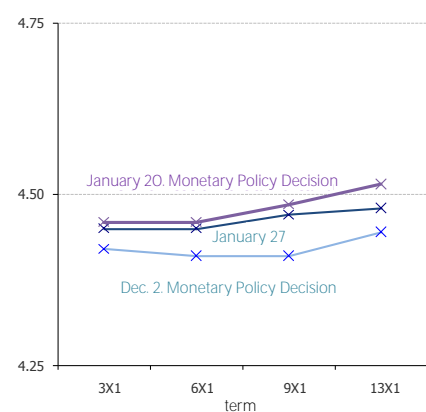
Markets banking on higher global liquidity forecasts, MXN strengthens 2%

Foreign investors remained with the Mbond curve, although this time around with a stronger strategy in long positions at ends of the curve and shorts for medium terms. Inflows over the week were not major but we should highlight two areas: 1) there were no outflows and 2) foreigners show greater activity throughout the curve. On the currency market, the 2% rise over the week and the long-net MXN positioning on futures markets stand out. There is room to see a peg at 12.73

Market Analysis

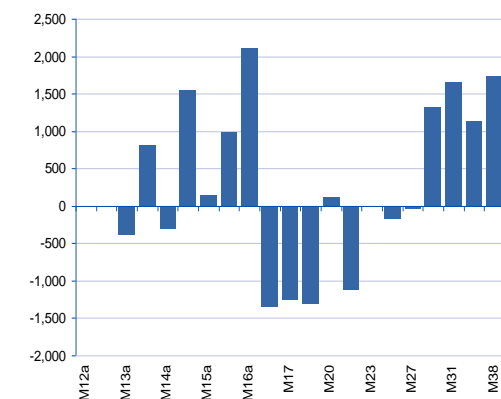
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Chart 1
Lending Rate implied in IR swap contracts



Source: BBVA Research and INEGI

Chart 2
Net Foreign Inflows to MBOND curve (millions of MXN)



Source: BBVA Research, Banxico and Indeval

Calendar: Indicators

Economic Analysis

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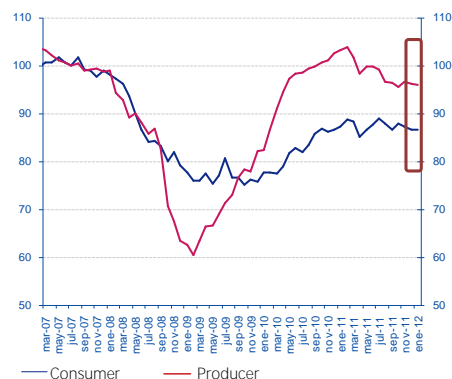
Consumer and producer confidence (Friday 3 February)

Forecast:	Consensus: N.A.	Previous: -0.7% (90.9 pts)
Consumer: -1% m/m (90.8pts)		
Producer: -0.1% m/m (53.8 pts)	Consensus: N.A.	Previous: -0.6% m/m (53.9 pts)

This Friday sees the release of confidence indicators for January. These are important as a sign to the size of the current activity slowdown in Mexico. Figures released from recent months include automotive output stabilizing its growth (0% in the last three month of last year vs. 4.6%, 1.6% and -0.1% on average per month in the first three months of 2011 respectively). This stability in automotive output was also seen in other manufacturing branches. In turn, this is seen in indicators such as manufacturing exports with average monthly changes of 1.5%, 1.0%, -0.6% and 1.1% in the four quarters of last year. In turn, manufacturer confidence has decreased in monthly terms in eight out of the last ten months. Some sub-indices have seen moderate decreases while some have seen bigger falls; those on forecasts for the nation's future situation and those on the number of people surveyed who believe it is a good time to invest have changed from 47% at the start of last year to 40% in the last month.

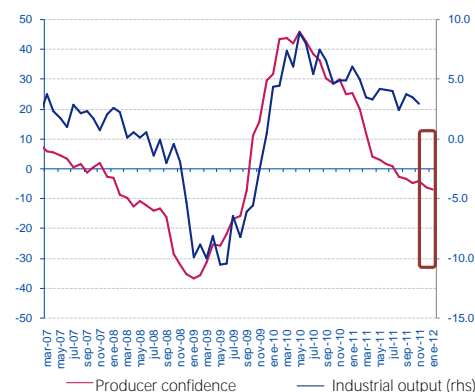
In turn, consumer confidence could have remained at very similar levels to those last month. It should be stated that consumer confidence again set off on a slight upward trend thanks to the improvement in formal private employment in recent months.

Chart 3
Confidence: Consumer and Producer
(July 07 = 100)



Source: BBVA Research with INEGI data

Chart 4
Industrial Output and Producer Confidence (y/y % change)



Source: BBVA Research with INEGI data

Markets

Market Analysis

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The MXN ended the week up by over 2%

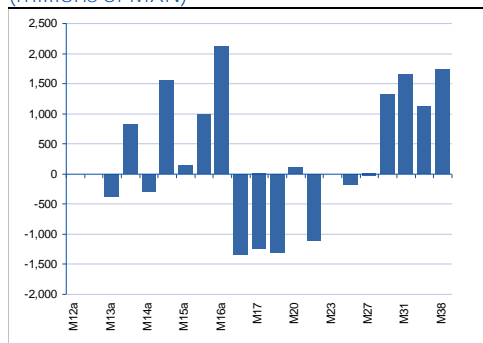
The MXN strengthened by over 2.0% last week in response to a greater appetite for risk from global investors based on the sign that the Fed being set to continue with its slack policy for a longer time. This calmed uncertainty surrounding the Eurozone crisis. In this way, the USDMXN broke down through the reference support at 13.0 and we believe it could widen gains in the short-term. This is subject to news from the European summit at the start of the week. Further, the futures market report (CFTC) showed a change in the long-net MXN position (to USD 283mn) for the first time in 19 weeks. This does not include the higher strength in rises over the last three days of the week. Room for the MXN long-net position to continue is still wide. This means the currency could move toward 12.73 (its 200-day rolling average). We continue to expect profit-taking but with lower strength due to high liquidity conditions set to remain on markets.

Favorable markets banking on higher global liquidity forecasts: a week with strategy diversification

Last week, foreign investors remained with the Mbond curve, although this time around with a stronger strategy in long positions at ends of the curve and shorts for medium terms ("Butterfly"). Inflows over the week, and for the month so far, were not major but we should highlight two areas: 1) there were no outflows and 2) foreigners show greater activity throughout the curve.

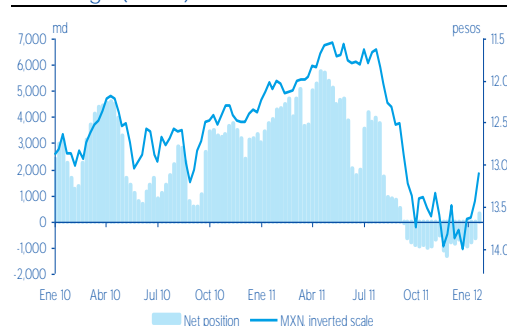
In turn, the Siefors missed part of the rally and continue to solely take positions in long tranches although with a fairly irregular behavior and with much lower flows. As a result, these investors continue to provide support to long maturities.

Chart 5
Net Foreign Inflows to MBOND curve
(millions of MXN)



Source: BBVA Research, Banxico, Indeval

Chart 6
Net MXN long positions on the Chicago Futures Exchange (CFTC)



Source: BBVA Research with CFTC

Market Analysis
Equities

Technical Analysis

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Technical Analysis

IPC Stock Market Index



The IPC had a marginally negative weekly balance, maintaining trade above the 30-day rolling average (37,000pts) which is positioned as the first short-term support. Although readings on IPC oscillating indicators are neutral, we see some risk in the face of over-purchase oscillators for the US market. A downward break through the 30-day rolling average could lead to a return toward 36,500pts (previous minimum) and then toward the 200-day rolling average, around 35,600pts. The main short-term resistance sits at 38,000pts.

Previous Rec.: This may help the over-sell of AAA issuers such as Amx, Femsa and Tlevisa which could start to pick up at any time.

Source: BBVA Bancomer, Bloomberg

MXN

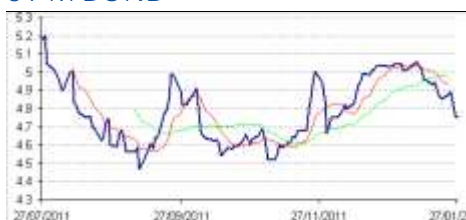


The dollar maintains major downward movement and ends the week below the MXN13.00 floor. The next support sits at MXN12.75 where the 200-day rolling average trades. The short-term oscillating indicators, in a high over-sell range, suggest a technical bounce could occur at any time. Any close above MXN13.00 would mean a return to MXN13.40.

Previous Rec.: We could see technical bounces albeit limited to the MXN13.40 range. The downward movement would be limited to MXN1 under the MXN13.20 level

Source: BBVA Bancomer, Bloomberg

3Y M BOND

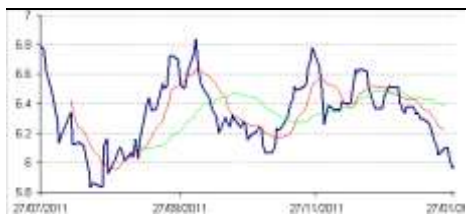


3 YEAR M BOND: (yield): We maintain initial support at 4.7%. Dead cross over the week in the 10-day rolling average with the 30-day which maintains a negative tone. If the 4.7% range is not held, the next floor sits at 4.5%.

Previous Rec.: This break marks a return to the 4.7% zone.

Source: BBVA Bancomer, Bloomberg

10 YEAR M BOND



10 Y M BOND: (yield): A break of the 6.1% floor and maintaining a downward move. After this break, the next floor sits at 5.9%.

Previous Rec.: We believe it could halt the fall at 6.1%.

Source: BBVA Bancomer, Bloomberg

Markets

The FED's statement on federal rates remaining "exceptionally" low until the end of 2014 leads to upswings on stock markets and rises on currency markets.

Chart 7
Stock Markets: MSCI Indices
(Dec 27, 2011 index = 100)

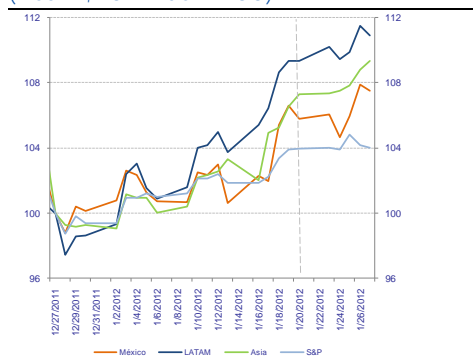
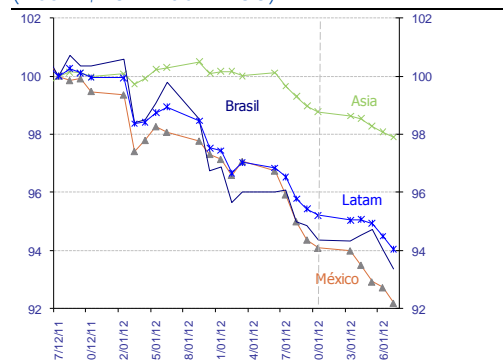


Chart 8
Foreign exchange: dollar exchange rates
(Dec 27, 2011 index = 100)



Fall in risk aversion after the FED's statement

Chart 9
Risk: EMBI+ (December 27, 2011 index=100)

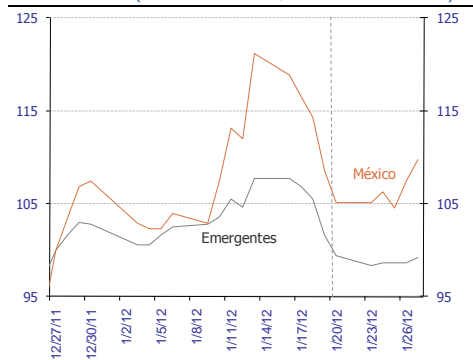
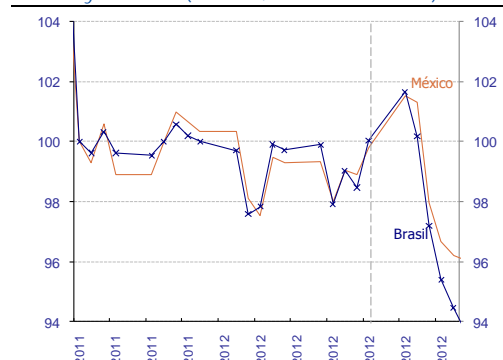


Chart 10
Risk: 5-year CDS (Dec 27, 2011 index=100)



Fall in U.S. interest rates toward the end of the week due to lower-than-expected GDP growth. Rates in Mexico fall due to the increase in risk appetite.

Chart 11
10-year interest rates*, last month

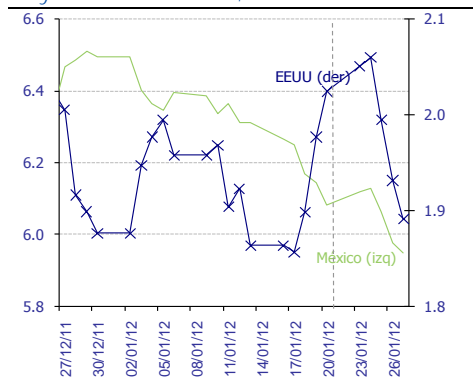
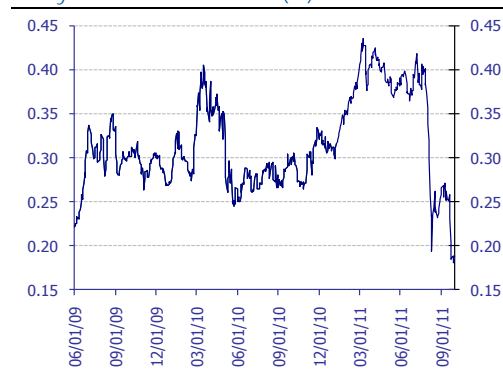


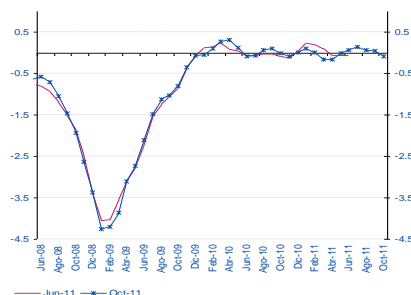
Chart 12
Carry-trade Mexico index (%)



Activity, inflation, monetary conditions

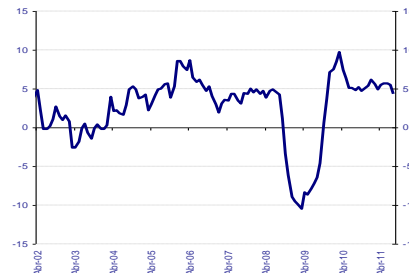
Recent inflationary surprises have been downward, while those concerning economic activity have been mixed.

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.

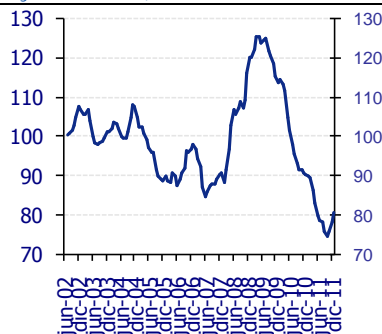
Chart 14
Advance Indicator of Activity (% change y/y)



Source: INEGI

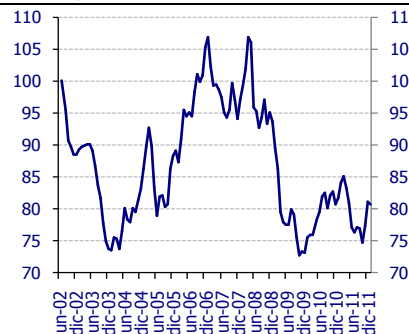
Output holds positive performance, situation indicators point to 3Q11 with quarterly rates around 1%

Chart 15
Inflation Surprise 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.

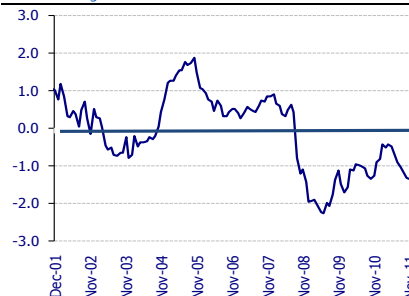
Chart 16
Activity Surprise Index (2002=100)



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.

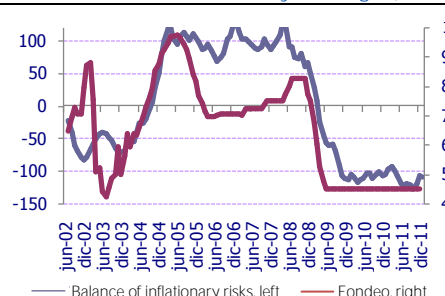
Monetary Conditions relax due to exchange rate depreciation.

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 likelihood of monetary restriction

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