# Mexico Weekly Flash

## Next week…

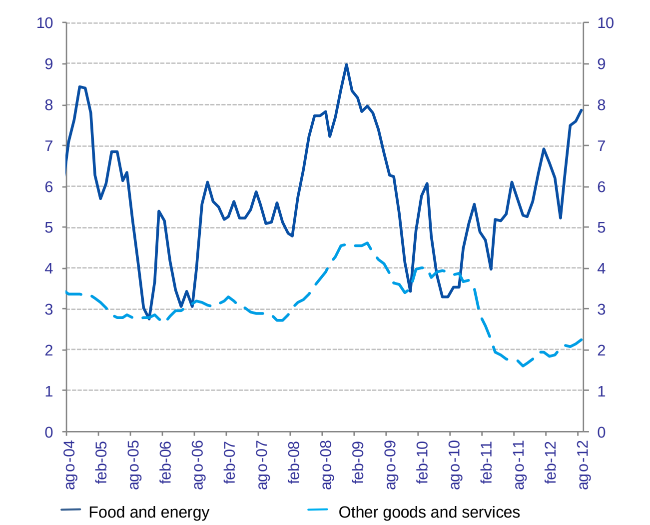
- **Output data will provide more information on the economy's growth rate**

Industrial output and GDP breakdown will contribute to an assessment of the economic activity situation allowing continued assessment of the risk balance for output and inflation. This in a context where central banks in developed nations seem to be more inclined to undertake measures to boost financial markets and reduce risks surrounding growth. In Mexico, the monetary rate is expected to remain unchanged despite the recent upturn in inflation now at 4.5%. This is due to the fact that the upswing in inflation continues to be deemed temporary with no demand pressures being seen to date. Nonetheless, as the central bank has stated, focus will need to be on supply shocks not having knock-on effects or influencing expectations.

**The situation favors a limited upward yield curve with the currency still seeing a margin to strengthen**

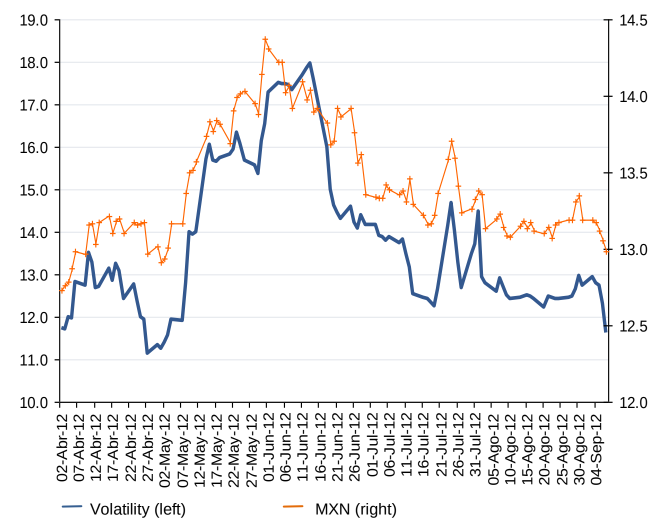
The domestic yield curve should remain contained upward and mainly see a flattening-out between the long and medium section. The above is due to a highly liquid context, weak global economic growth, strong economic output in Mexico compared to advanced and emerging economies, and higher albeit manageable inflation in the short-term. Despite the MXN tending to respond less to local factors than to those from overseas, we believe the less "soft" statement on Friday will be favorable. While global risks remain, there will be a margin for a stronger MXN.

Chart 1
**Food and energy and other goods and services inflation (% change y/y)**




Source: BBVA Research and INEGI

Chart 2
**MXN and Implied Volatility (USDMX and %)**




Source: BBVA Research with Chicago Mercantile Exchange

# Calendar: Indicators

## Industrial Output in July (September 11)

| Forecast: 0.6% m/m (4.3% y/y) | Consensus: N.A. | Previous: 1.3% m/m (4.2% y/y) |
|---|---|---|

This week sees the release of industrial output in July, as well as contributions from demand to the quarterly GDP change released a few weeks ago of 0.9%.

With regard to industrial output, we believe this will have continued to see growth albeit at a slower rate than the previous month; the positive surprise of industrial performance last June (1.3% m/m) should be recalled, led by the good performance in the manufacturing sector. For July, one of the main manufacturing branches, the automotive industry, continued to see growth although at a slower rate than in the past. The construction industry will, in turn, continue to positively contribute to growth in the secondary sector having seen 1.5% m/m growth in the previous month. In short, we expect industry to see continued growth, benefitting from foreign demand. Nonetheless, signs of a slowdown in coming months remain, as evidenced by producer confidence indicators and those such as the US ISM trend indicator.

## GDP 2Q12 demand (September 14)

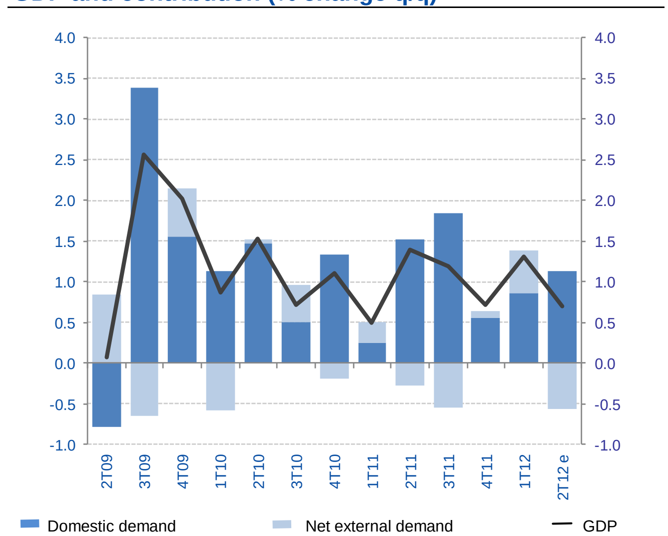
| Forecast: 1.1% q/q (5.3% y/y) | Consensus: N.A. | Previous: 2.1% q/q (5.4% y/y) |
|---|---|---|

In GDP contributions on the demand side from 2Q12 released a few months ago of 0.9%, we estimate the contribution from private demand will have continued to be very important, specifically private consumption where quarterly expansion remained around 1% in the last three months. In turn, capital formation stood out last quarter with 4.6%, largely thanks to increased private investment. Nevertheless, it should be stated that the stock change component saw the biggest decline since 2003. Finally, we believe the export component may continue to provide a major contribution to growth, albeit at a slower rate than in the previous quarter. .

Chart 3
**Industrial Output and Automotive Output (% change y/y)**


Source: BBVA Research with INEGI data

Chart 4
**GDP and contribution (% change q/q)**




Source: BBVA Research with INEGI data

## We remain long in the long part compared to the medium section

Despite an accommodating stance at the ECB and Fed possibly leading to yield rises, the global context of low rates will sure last longer (we do not expect the Fed to take monetary policy actions leading to an upward yield trend). As a result, the domestic curve should remain contained upward and mainly see a flattening-out between the long and medium section.

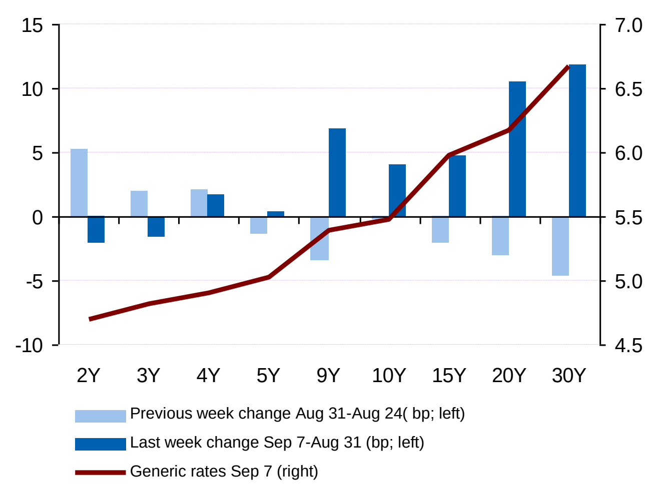
The bottom line is everything being down to a highly liquid context, weak global economic growth, strong economic output in Mexico compared to advanced and emerging economies, a fiscal context free from cyclical risks and higher albeit manageable inflation in the short-term. We continue to recommend extreme strategies (long M2042), short (M2022) and long (M2015). We also confirm our forecast for the 10Y/30Y slope moving toward 90bp. This strategy has provided good results thanks to good foreign investor appetite in the long terms recently and the equally defensive stance of domestic and foreign investors in the face of the gradual decline in the economic context. We remain long in the Udibonos curve (3 with entry at 1.25%).

## MXN set to maintain positive bias

Despite the MXN tending to respond less to local factors than to those from overseas, we believe the *dovish* statement on Friday will be favorable. The fact that global conditions point to low interest rates for some time and continued (and even increased) abundant liquidity, as well as Banxico's stance, favor the attractive *carry* remaining and, therefore, capital inflows remaining positive. In turn, risk premiums have started to moderate due to recent ECB measures meaning the euphoria could continue in the short-term.

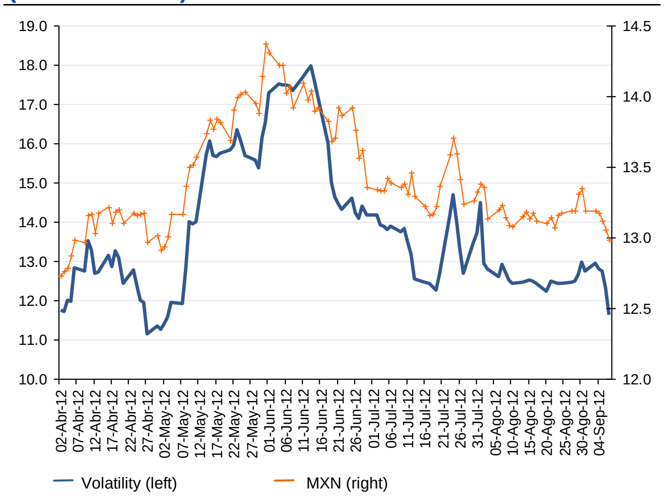
We continue to see some risk linked to the "fiscal cliff" and elections in the US and the EMU summit. However, if these event pass without anything new and the MXN maintains its attractive value, there will be a margin for more strengthening in the currency.

Chart 5
**Yield curve**
**(Fixed rate, generic % and bp)**




Source: BBVA Research and Bloomberg

Chart 6
**MXN and Implied Volatility**
**(USDMX and %)**




Source: BBVA Research and Bloomberg

# Technical Analysis

## IPC


The level providing a floor for the market was the 100-day rolling average, avoiding a fall to 38,500pts to the 200-day rolling average. In this way, we believe an initial upward move toward the 40,500pts level could take place without any problem. If the market is able to maintain the bounce and break through this level, we could be seeing a major signal since it would mean a return of the IPC trading above the 30-day rolling average. This would leave the path clear to a return to the all-time-high of 41,500pts. The new support is at 39,380pts (100-day rolling average).

Previous Rec. (9/3/12). Breaking this support downwards would be important in the short-term since it would set the next floor in the 38,500pts zone where the 200-day rolling average sits.

Source: BBVA, Bancomer, Bloomberg

## MXN


After the failed attempt to upturn the 200-day rolling average, the dollar maintained a clear downward trend. Already in the MXN13.00 range, we could consider an initial floor to take long positions aiming to a bounce toward MXN13.30. Stop loss below MXN13.00 since the next floor would be at MXN12.85.

Previous Rec. (9/3/12). We only recommend taking long positions if it manages to close above the 200-day rolling average (MXN13.35) looking to hit MXN13.75.

Source: BBVA, Bancomer, Bloomberg

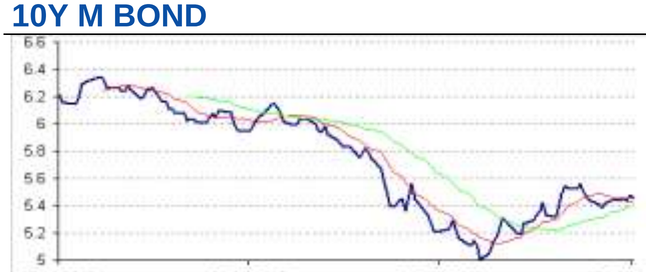
## 3Y M BOND


3Y M BOND (yield): Ends the week at the support right on the 30-day rolling average. We would only recommend closing positions if it breaks down through 4.75% since it may return to 4.6%. Upward targets at 4.85% and 5%.

Previous Rec. (9/3/12). Major support at 4.75%; if it manages to break through 4.85% it could maintain the move toward levels near 5%.

Source: BBVA, Bancomer, Bloomberg

## 10Y M BOND




10Y M BOND (yield): Maintaining positions while no break down through the 5.3% zone. Resistances at 5.6% and then 5.8%.

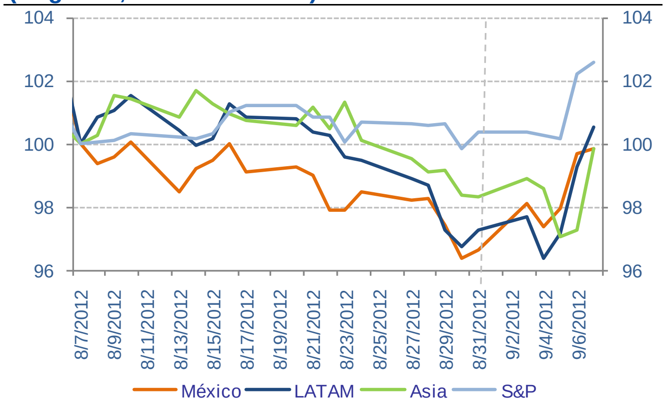
Previous Rec. (9/3/12). Floor at 5.3% and initial resistance at 5.6%. Above this level, it could test the 5.6/5.8% zone.

Source: BBVA, Bancomer, Bloomberg

# Markets

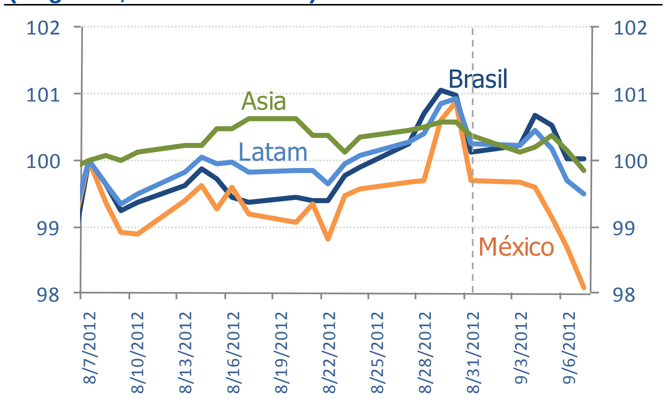
- **The announcement of a new sovereign bond purchase program at the ECB with restrictions leads to a fall in global risk aversion which strengthens currencies in emerging nations and leads to gains on stock markets. At the end of the week, US jobs figures coming in below expectations increased expectations of more monetary stimulus from the FED.**

Chart 7
**Stock Markets: MSCI Indices (August 7, 2012 index=100)**




Source: Bloomberg & BBVA Research

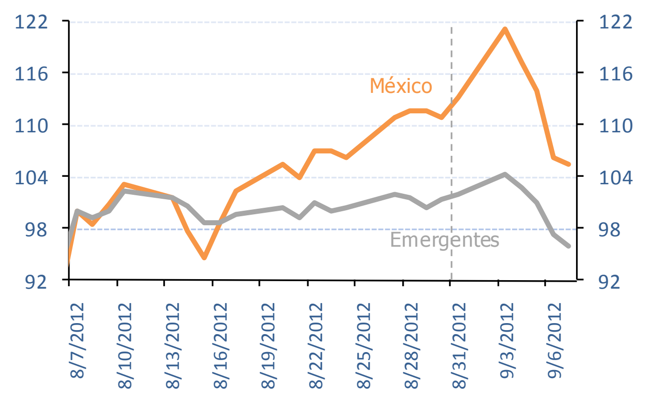
Chart 8
**Foreign exchange: dollar exchange rates (August 7, 2012 index=100)**




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

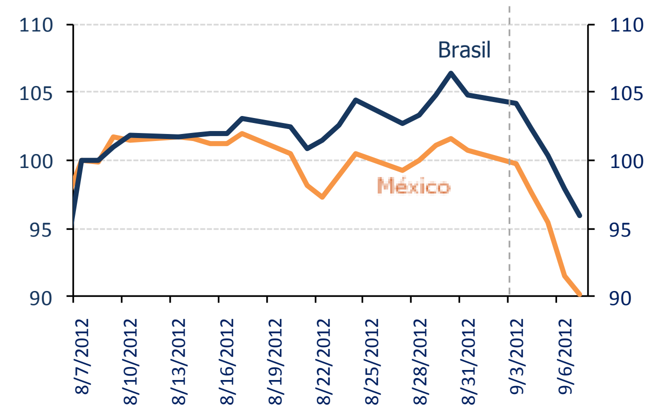
- **Fall in risk aversion after the ECB's statement.**

Chart 9
**Risk: EMBI+ (August 7, 2012 index=100)**




Source: Bloomberg & BBVA Research

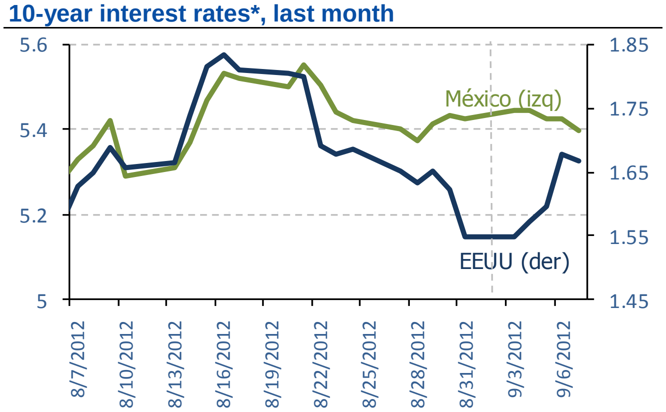
Chart 10
**Risk: 5 year CDS (August 7, 2012 index=100)**




Source: Bloomberg & BBVA Research

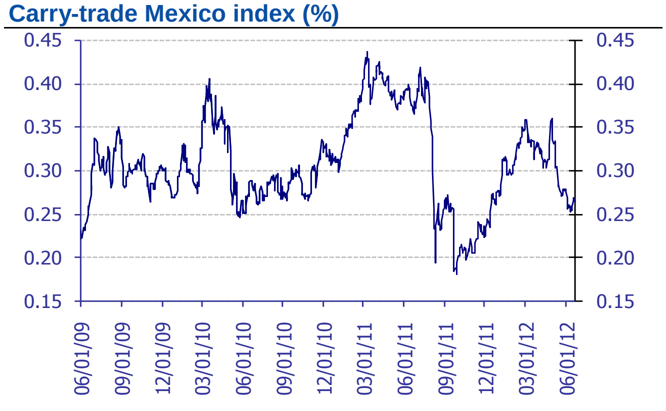
- **Increase in rates in the USA in light of lower risk aversion. Rates in Mexico record marginal changes over the week.**

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




Source: Bloomberg & BBVA Research

Chart 12
**Carry-trade Mexico index (%)**

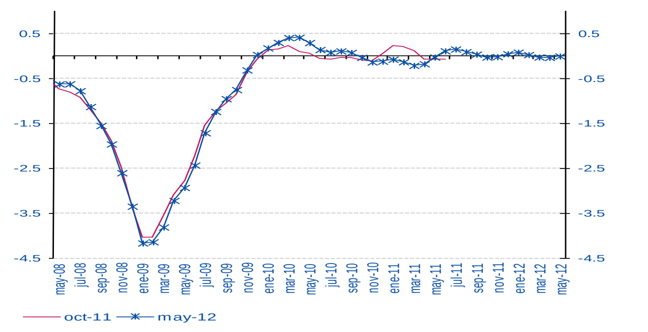


Source: BBVA Research with data from Bloomberg

# Activity, inflation, monetary conditions

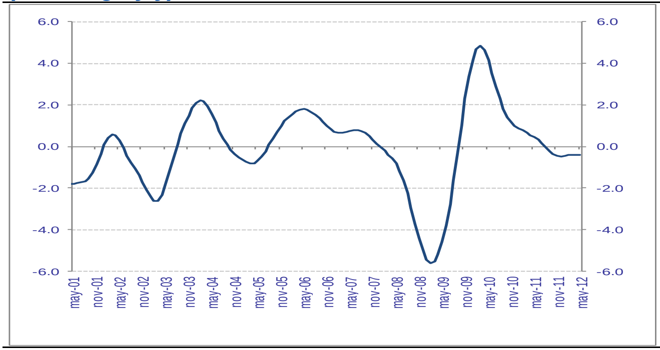
- **Output holds positive albeit moderate performance, situation indicators point to 3Q12 with quarterly rates above 0.5%.**

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.

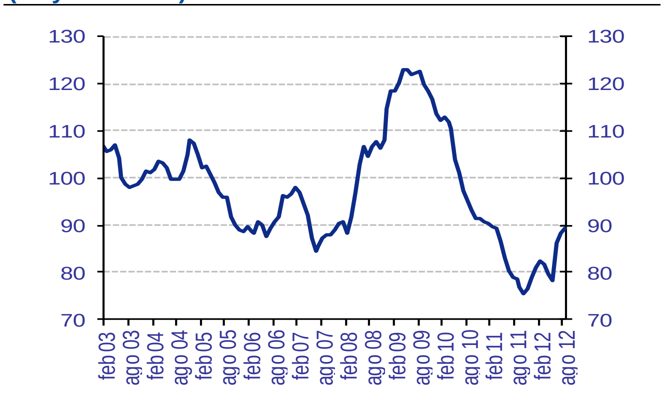
Chart 14
**Advance Indicator of Activity, trend (% change y/y)**



Source: INEGI

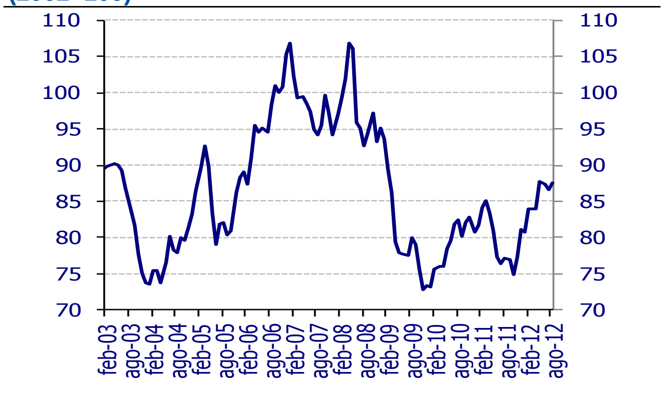
- **Recently we have seen upward surprises in inflation and output.**

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.

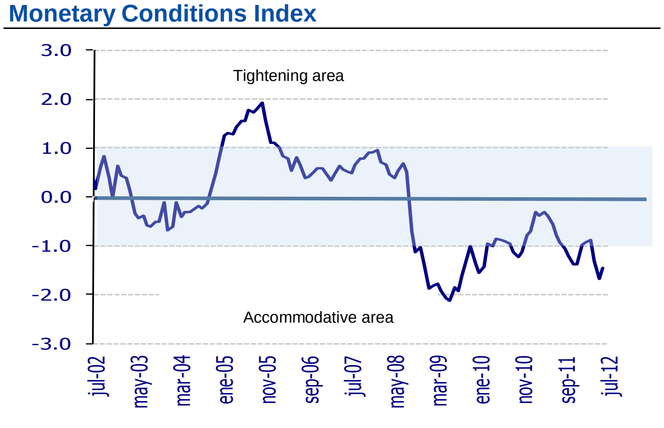
Chart 16
**Activity Surprise Index (2002=100)**



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

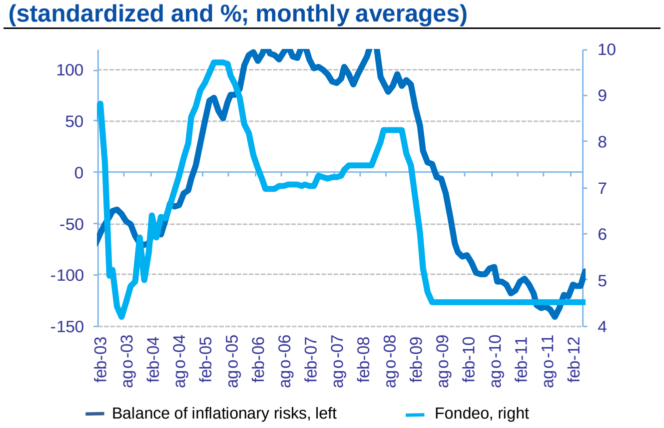
- **Monetary Conditions relax after higher inflation.**

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 and weighted index (of inflation and economic growth) based on economic indicators of economic 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

Claudia Ceja
claudia.ceja@bbva.bancomer.com

Octavio Gutiérrez Engelmann
o.gutierrez3@bbva.bancomer.com
+5255 5621 9245

Iván Martínez
ivan.martinez.2@bbva.com

Pedro Uriz
pedro.uriz2@bbva.com

Ociel Hernández
o.hernandez@bbva.bancomer.com
+5255 5621 9616

Rodrigo Ortega
r.ortega@bbva.bancomer.com
+52 55 5621 9701

Alejandro Fuentes Pérez
a.fuentes@bbva.bancomer.com

Arnoldo López
arnoldo.lopez@bbva.com

Cecilia Posadas
c.posadas@bbva.com

| Av. Universidad 1200, Col. Xoco, Mexico 03339 D.F. | researchmexico@bbva.bancomer.com | www.bbvaresearch.com

## DISCLAIMER

This document and the information, opinions, estimates, forecasts and recommendations expressed herein have been prepared to provide BBVA Group's customers with general information and are current as of the date hereof and subject to changes without prior notice. Neither BBVA nor any of its affiliates is responsible for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, to undertake or divest investments, or to participate in any trading strategy. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

**Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report.** Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. Other than the disclosures relating to BBVA Group, the contents of 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 or any of its affiliates and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. To the extent permitted by law, **BBVA and its affiliates accept no liability of any type for any direct or indirect losses or damages arising from the use of this document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.**

**The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, derivatives, options on securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying securities. Investors should also be aware that secondary markets for the said instruments may not exist.**

BBVA or any of its affiliates´ salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. More specifically, this document is in no way intended for, or to be distributed or used by an entity or person resident or located in a jurisdiction in which the said distribution, publication, use of or access to the document contravenes the law which requires BBVA or any of its affiliates to obtain a licence or be registered. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

The remuneration system concerning the analysts responsible for the preparation of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

BBVA Hong Kong Branch (CE number AFR194) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission of Hong Kong.

This document is distributed in Singapore by the BBVA's office in this country for general information purposes and it is generally accessible. In this respect, this document does not take into account the specific investment goals, the financial situation or the need of any particular person and it is exempted from Regulation 34 of the Financial Advisors Regulation ("FAR") (as required in Section 27 of the Financial Advisors Act (Chapter 110) of Singapore ("FAA"))

BBVA, BBVA Bancomer or BBVA Securities are not authorised deposit institutions in accordance with the definition of the Banking Act 1959 nor are they regulated by the Australian Prudential Regulatory Authority (APRA)

---

**GENERAL DISCLAIMER FOR THE EVENT THAT THE READERS HAVE ACCESSED TO THE REPORT THROUGH THE INTERNET**

Internet Access

In the event that this document has been accessed via the internet or via any other electronic means which allows its contents to be viewed, the following information should be read carefully:

The information contained in this document should be taken only a general guide on matters that may be of interest. The application and impact of the laws may vary substantially depending on specific circumstances. BBVA does not warrant that this report and/or its contents published on the Internet are appropriate for use in all geographic areas, or that the financial instruments, securities, products or services that can be referenced on it are available or appropriate for sale or use in all jurisdictions or to all investors or counterparties. Recipients of this report acceding to it through the Internet are acceding on their own initiative and are responsible for compliance with local regulations applicable to them.

Changes in regulations and the risks inherent in electronic communications may cause delays, omissions, or inaccuracy in the information contained in this site. Accordingly, the information contained in the site is supplied on the understanding that the authors and editors do not hereby intend to supply any form of consulting, legal, accounting or other advice.