

# Mexico Weekly Flash

## Next week...

- Remittances in September will help in assessing the strength of the US cycle**

The 2.0% y/y growth in the US economy for the third quarter, linked to better-than-expected retail sales figures, industrial output and housing created optimism surrounding the US recovery. Nonetheless, weak investment and lower sales and revenue recently reported by corporations should not be forgotten, especially in the face of their possible link to the so-called Fiscal Cliff. In this sense, an additional sector helping to provide further information on the US cycle is remittances, given their link to employment and flexibility.

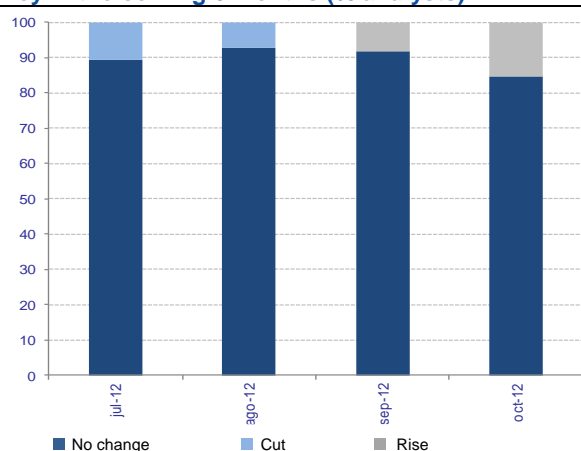
This is very important given the mixed figures on US economic performance and the outlook of a slowdown at the Bank of Mexico which sees a downward bias to inflation. Specifically today, Banxico adopted a more restrictive tone, warning that if inflationary shocks continue and the decline in the inflation curve is not confirmed, a higher rate would be likely. Notwithstanding the downturn in the short-term inflationary risk balance, the central bank stated that the downward risks for both domestic and global economic output increased, meaning medium-term inflationary pressures are declining. In this way, in a scenario of disappearing supply shocks, the monetary pause is likely to continue.

- Exchange rate: limited effect from the Banxico statement, risk aversion prevails**

Figures on higher unemployment in Spain and lower-than-expected corporate reports in the US prevailed over the positive growth data in the US and led to lower risk appetite. The Banxico statement could have a strengthening effect although it should not be taken as a factor leading to major currency appreciation. This considering that global risk was a heavyweight factor on the variable in recent months.

Chart 1

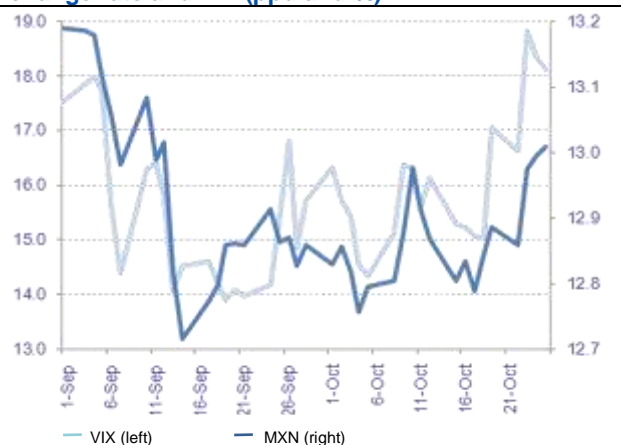
**Expectations regarding the next move in monetary policy in the coming 6 months (% analysts)**



Source: BBVA Research with data from the Financial Market Analysts' Survey

Chart 2

**Exchange rate and VIX (ppd and %)**



Source: BBVA Research and Bloomberg

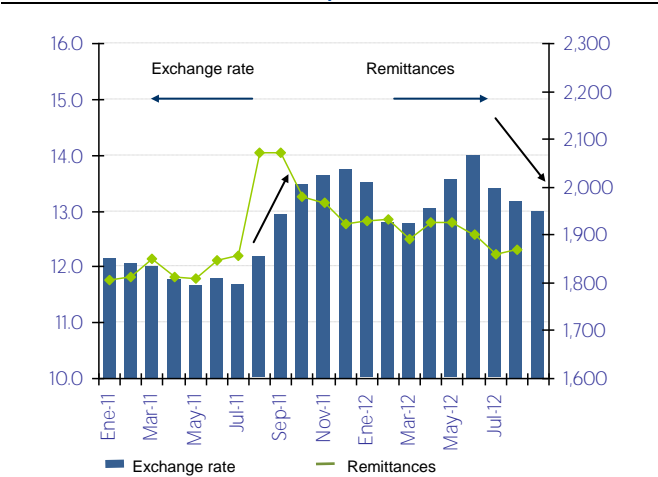
# Calendar: Indicators

## Remittances in September (October 24)

	Previous: 1,895.5 md
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On November 1, the Bank of Mexico will release figures on remittances received in Mexico for September this year. We expect to see a major contraction in the yearly rate in dollars which could be higher than that seen in August. The reasons behind this are: 1) *A comparative effect* due to the exchange rate (pesos per dollar) in September last year rose by over 6% compared to the month before, a situation which, linked to the positive trend in Mexican migrant employment in the US, led to extraordinary remittance levels that month with annual growth of 21.4%, the highest since 2007. 2) *A stronger exchange rate* in September 2012, recording an over 1% decline compared to the previous month. 3) *Weak Mexican migrant employment*. While preliminary figures from the *Current Population Survey* show that Mexican migrant employment in September in the US could have increased, it is still below levels seen in the first half of the year.

Chart 3  
**Exchange rate and remittances to Mexico (pesos per dollar and millions of dollars)**



Source: BBVA Research with Banxico figures  
Note: Remittance figures are seasonally-adjusted using TRAMO-SEATS

# Technical Analysis

## IPC



Source: BBVA, Bancomer, Bloomberg

The weekly adjustment in the IPC took it below the 10-day rolling average. With the RSI barely at 55pts, we can expect the adjustment to continue toward the 41,500/41,400pts range where the last resistance in the IPC sits, as well as the 30-day rolling average. In this way, we believe the market will be able to respect this floor and move upward again; however, it should be stated that a downward break through 41,400pts would point to a move beyond simple profit-taking and open the door to a return to the 40,500pts zone, or even 40,000pts where the upward trend base has remained since October last year.

Previous Rec. (10/22/12): We recommend maintaining a low investment level, cashing-in with issuers having seen good performance in recent weeks and waiting for the market to return to testing supports.

## MXN



Source: BBVA, Bancomer, Bloomberg

The dollar remained trading near the MXN13.00 resistance over the entire week. We believe it may see an upward break to this level and seek out MXN13.30, moving up the 30 cent accumulation between MXN12.70 and MXN13.00 it maintained in previous weeks.

Previous Rec. (10/22/12). It has traded between MXN12.70 and MXN13.00 over the last month. If it breaks through the high part of this range, it could move toward MXN13.30.

## 3Y M BOND



Source: BBVA, Bancomer, Bloomberg

3Y M BOND (yield): The bond bounced toward the 5% zone, slightly above the previous high. With the RSI at 77pts and a major opening-up between the bond and its 30-day rolling average, we believe the upswing could halt at this level and return to 4.85%.

Previous Rec. (10/22/12). With the positive upward cross through the 10- and 30-day averages, we could expect a return to the 4.9%-5% range. Floor at 4.75%.

## 10Y M BOND



Source: BBVA, Bancomer, Bloomberg

10Y M BOND (yield): The bond saw an upward week, hitting 5.5%. We still see some upward move in this bond, seeking out the 5.6% level.

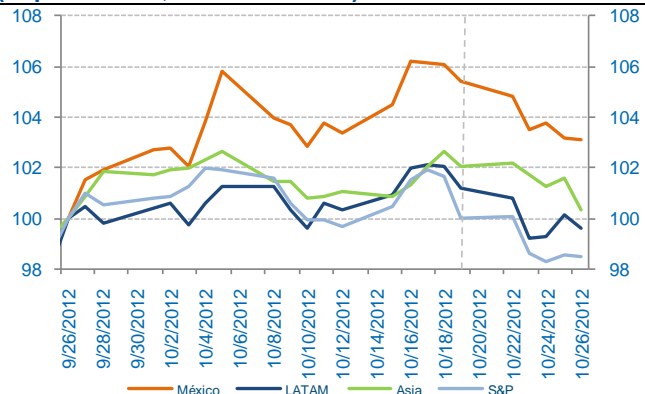
Previous Rec. (10/15/12). Only if it hits above 5.4% could we consider a trend change.

# Markets

- Figures on lower growth and higher unemployment in Spain, in addition to lower-than-expected corporate reports in the US, led to declines on stock markets and a lower peso.

Chart 7

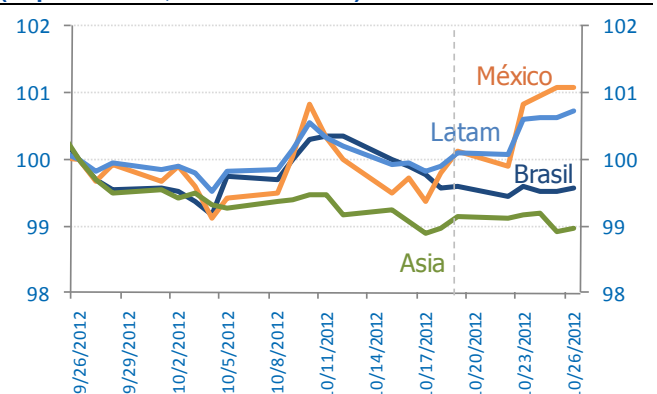
**Stock Markets: MSCI Indices**  
(September 26, 2012 index=100)



Source: Bloomberg & BBVA Research

Chart 8

**Foreign exchange: dollar exchange rates**  
(September 26, 2012 index=100)

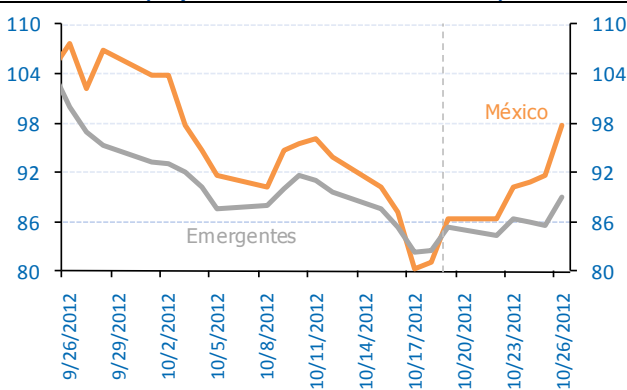


Source: Bloomberg and BBVA Research Note: LATAM includes Argentina, Brazil, Chile, Colombia and Peru. Asia includes the Philippines, South Korea, Taiwan, Singapore, Indonesia and Thailand. Non-weighted averages

- Higher global risk aversion after it was announced that the Spanish economy contracted for the fifth consecutive quarter and the unemployment rate continues to increase

Chart 9

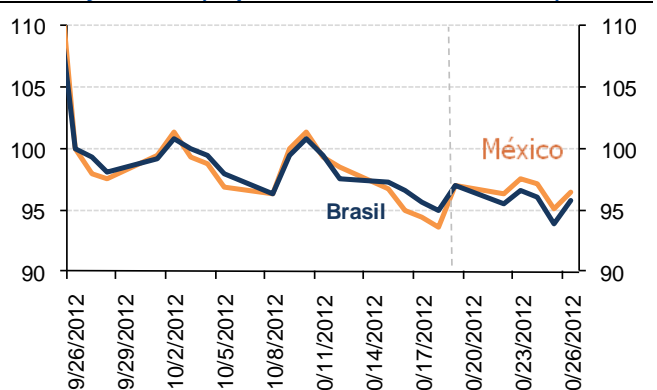
**Risk: EMBI+ (September 26, 2012 index=100)**



Source: Bloomberg & BBVA Research

Chart 10

**Risk: 5-year CDS (September 26, 2012 index=100)**

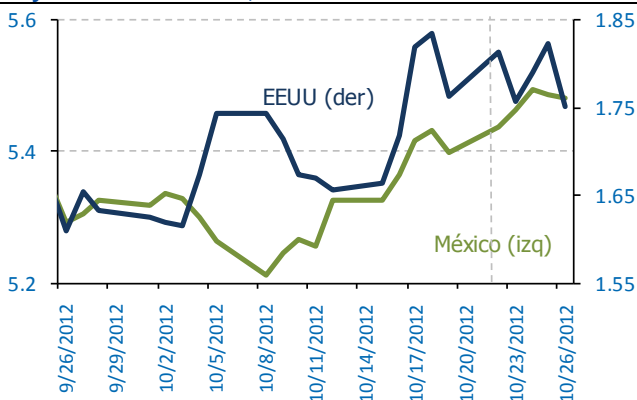


Source: Bloomberg & BBVA Research

- Decline in US interest rates due to renewed concern surrounding the debt crisis in Europe. Rates in Mexico increased.

Chart 11

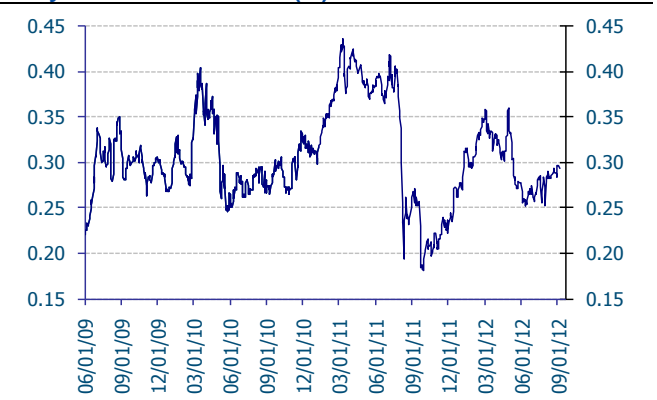
**10-year interest rates\*, last month**



Source: Bloomberg & BBVA Research

Chart 12

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



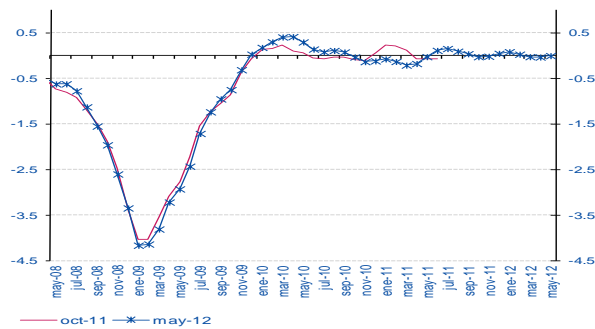
Source: BBVA Research with data from Bloomberg

# 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

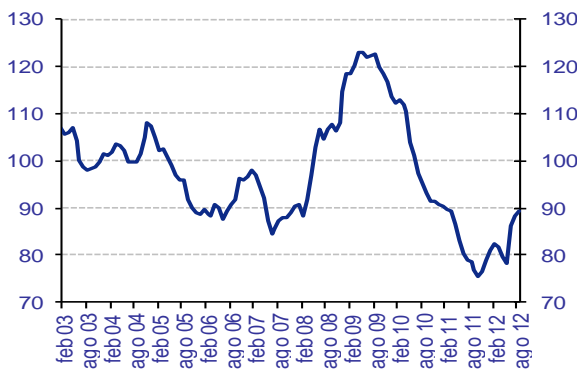


Source: BBVA Research with data from INEGI, AMIA and BEA. Weighted sum of 21 different indicators of activity, expenditure and expectation, based on trend series.

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

Chart 15

## Inflation Surprise Index (July 2002=100)

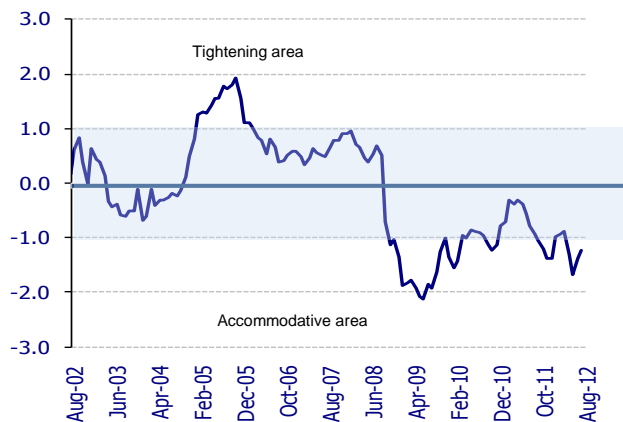


Source: BBVA Research with data from Banxico from the monthly surveys on the expectations of economic specialists in the private sector.

- Monetary conditions slightly reduced their looseness after currency appreciation.

Chart 17

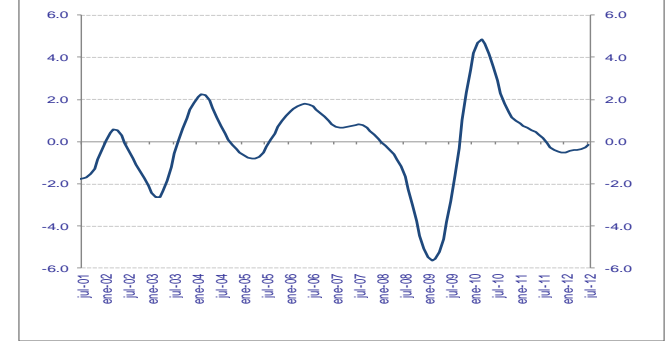
## Monetary Conditions Index



Source: BBVA Research

Chart 14

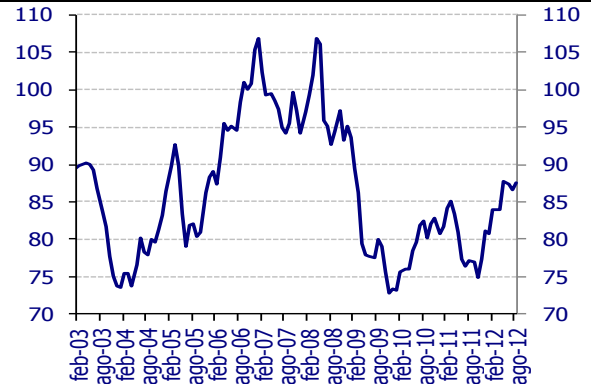
## Advance Indicator of Activity, trend (% change y/y)



Source: INEGI

Chart 16

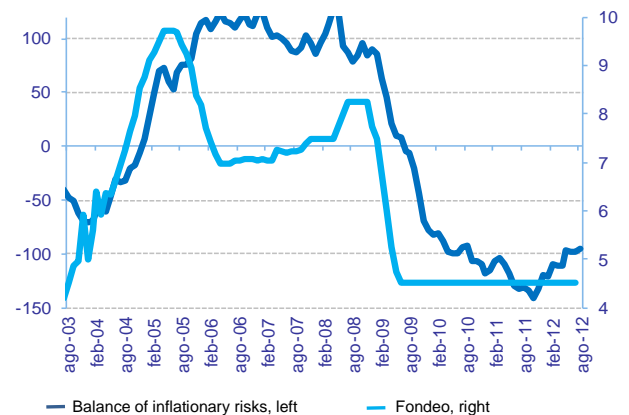
## Activity Surprise Index (2002=100)



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.

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 IBR signals greater weight of inflationary risks over those of growth and, therefore, more likelihood of monetary restriction

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