

# Mexico Weekly Flash

## Next week...

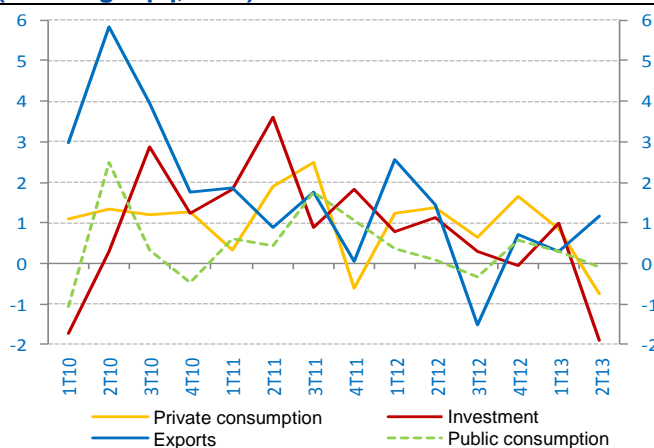
The GDP breakdown will be important to see how investment and consumption performed in the third quarter - key variables for future growth

Next week sees the publication of the GDP breakdown. It should be stated that monthly data on gross fixed investment seems to point to investment in the third quarter of the year seeing weak growth. In turn, monthly figures for wholesale and retail sales also point to consumer growth in the third quarter likely coming in weak. By contrast, exports seem to be seeing a better performance. In addition, occupation and job figures for November are also set for release. We will need to look closely at possible signs of a jobs recovery which would support consumption (see details on page 2).

## Perceptions on the Fed's decisions continue to guide the markets

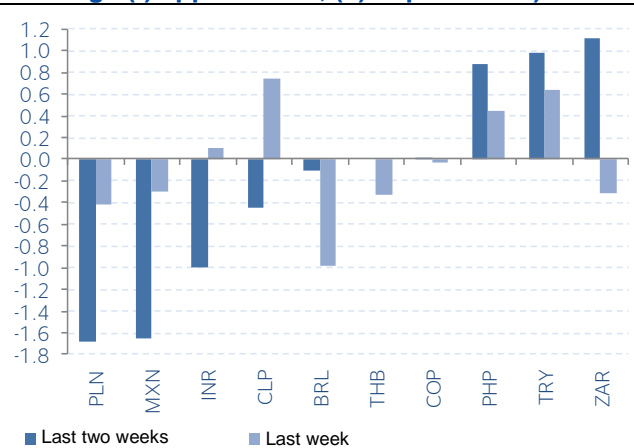
Markets are assigning greater likelihood to the Fed starting to gradually taper its asset purchase rate from the meeting to take place next week. Two factors are behind this change: i) the positive surprises in economic indicators in recent weeks, especially improvements on the labor market, with a solid job creation rate and steep drop in the unemployment rate (7%) and ii) the budget deal for the coming two years in the US senate (the first bi-partisan agreement in the last four years). In line with this change in probability, 10-year Treasury bond yields continued on this upward trend this week, closing just below 2.9%, their highest level since the Fed delayed the reduction in its quantitative easing rate on September 18. The 10-year MBond rate also hit its highest level since the start of September over the week (6.46%) before dropping back at the close to 6.40%. In this scenario where perceptions on the Fed's decisions continue to dominate moves in financial variables, there is a somewhat positive difference for Mexico on the FX market with the peso being one of the currencies to strengthen the most in the last two weeks (see chart 2), in part due to the approval of the energy reform and also to the expectations that Mexico will benefit the most from the apparent strengthening of the US economy.

Chart 1  
**Aggregate demand by components**  
(% change q/q, CSV)



Source: BBVA Research with INEGI data. CSV=Corrected for Seasonal Variation.

Chart 2  
**Recent trading in emerging currencies**  
(% change (-) appreciation, (+) depreciation)



Source: BBVA Research and Bloomberg

# Calendar: Indicators

## Goods and services supply and demand, 3Q13 (December 18)

Forecast: AD 1.9% y/y

Consensus: 2.0% y/y

Previous: 1.8% y/y

INEGI will release the global goods and services supply and demand figures for the third quarter 2013 on Wednesday, December 18. This GDP information will be important to see the sectors that have driven the recovery in the third quarter of the year. Retail sales and the ANTAD sales indicator for the third quarter saw a negative performance. It is therefore possible that consumption saw a moderate performance. In turn, gross fixed investment remained weak, declining (-)2.4% in the third quarter compared to the previous one, with figures corrected for seasonal variation. In addition, based on the trade balance indicators, we know that foreign trade in goods saw a positive performance, especially in manufactured goods and oil exports. With figures corrected for seasonal variation, GDP increased 0.84% in the third quarter compared to the previous quarter. Tertiary Activities rose 1.3% and Secondary increased 0.9%, while Primary Activities declined 0.5% compared to the previous quarter. Thanks to all this, we forecast Aggregate Demand seeing growth of 1.9% y/y for 3Q13.

## Retail sales October (December 19)

Forecast: -1.7% y/y, CSV

Consensus: N/A

Previous: -3.8% y/y, CSV

INEGI will release the retail sales indicator for October on Thursday, December 19. With figures corrected for seasonal variation (CSV), retail sales in September declined (-)3.8% in annual terms (y/y) and (-)0.41% at a monthly rate. We expect retail sales to improve in October and hit a monthly rate of 0.6% which would reduce its decline in annual terms to -1.7%. This forecast is based on the ANTAD sales indicator which saw a slight recovery in October, hitting a monthly growth rate of 0.8%, CSV (-2.1% y/y in October vs. -3.1% y/y in September, CSV). In addition, 143,000 formal jobs were created in October leading to a higher total wage bill. An increase in consumer spending could therefore be expected.

## Occupation and employment in November (December 20)

Forecast: 4.93%

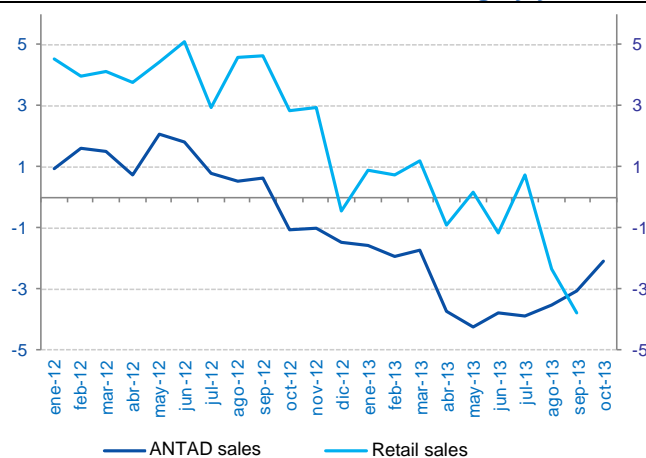
Consensus: 4.94%

Previous: 5.01%

INEGI is set to release structural employment figures for November on Friday, December 20, the second set of figures for the last quarter of 2013. The indicator will offer an assessment of the strength of the economic recovery, especially in consumption and, in general, the domestic market. Over 143,000 formal jobs were created in October and industrial output increased 0.8% y/y CSV, after a major decline in September (-1.15% m/m). We therefore estimate a slight drop in unemployment from 5.01% in October to 4.93% in November.

Chart 3

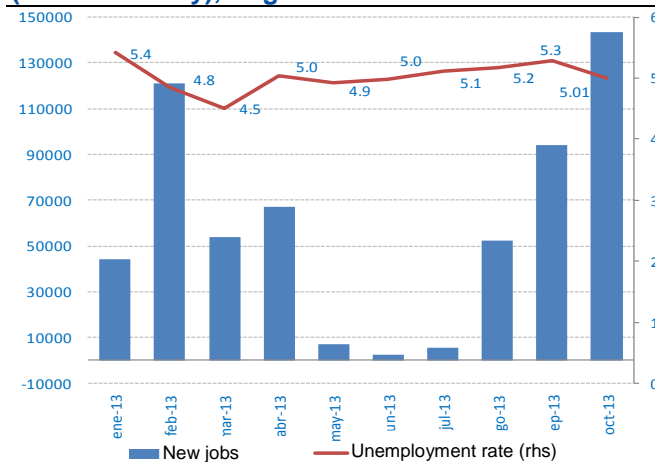
Retail sales and ANTAD sales, % change y/y, CSV



Source: BBVA Research with ANTAD and INEGI figures. CSV=Corrected for Seasonal Variation.

Chart 4

New workers registered with the IMSS (social security), original series

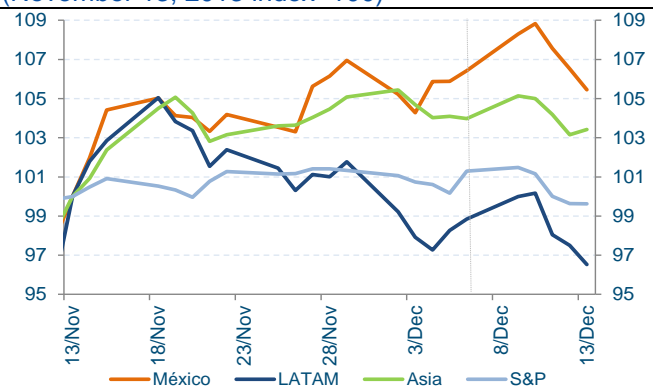


Source: BBVA Research with INEGI and STPS data.

# Markets, activity and inflation

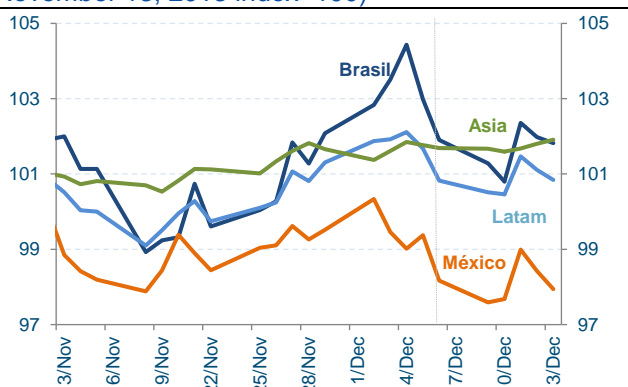
- Weaker emerging currencies and a decline on stock markets after the budget agreement in the US senate increased the likelihood of a cut to monetary stimulus.

Chart 5  
Stock markets: MSCI indices  
(November 13, 2013 index=100)



Source: BBVA Research with data from Bloomberg

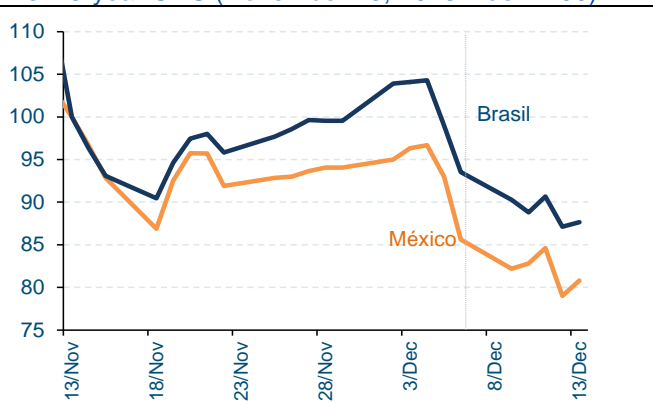
Chart 6  
Foreign exchange: dollar exchange rates  
(November 13, 2013 index=100)



Source: BBVA Research with Bloomberg data. NB: LATAM includes Argentina, Brazil, Chile, Colombia and Peru. Asia includes the Philippines, South Korea, Taiwan, Singapore, Indonesia and Thailand.

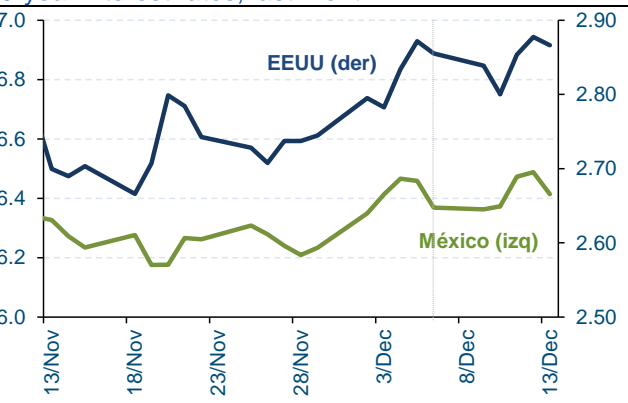
- Thanks to this budget agreement in the senate which could create more favorable conditions for the start of tapering in Fed bond purchases, rates in the US and Mexico increased.

Chart 7  
Risk: 5-year CDS (November 13, 2013 index=100)



Source: BBVA Research with data from Bloomberg

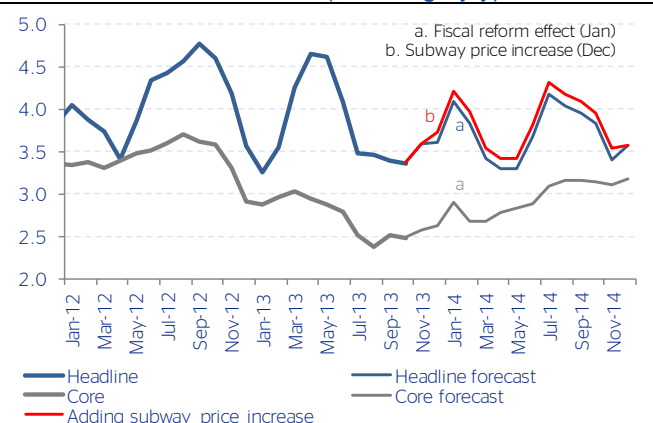
Chart 8  
10-year interest rates, last month



Source: BBVA Research with data from Bloomberg

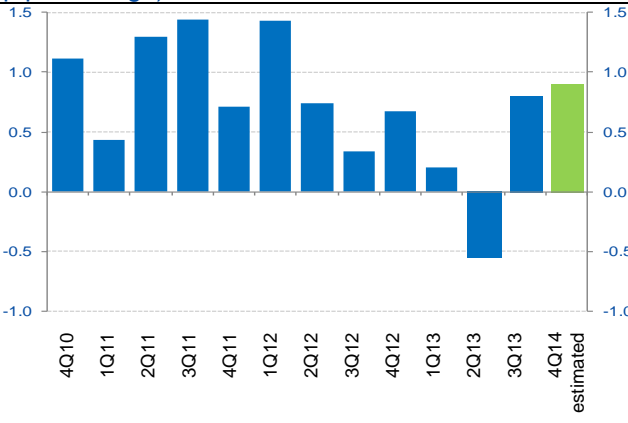
- Wholesale prices point to new rises in agricultural prices in the first two weeks of December which could lead inflation to close the year at 3.8%.

Chart 9  
Headline and core inflation (% change y/y)



Source: INEGI, BBVA Research

Chart 10  
Observed and estimated GDP 4Q13  
(q/q % change)



Source: BBVA Research with INEGI data.

Arnoldo López Marmolejo  
arnoldo.lopez@bbva.com

Juan Carlos Rivas Valdivia  
Juancarlos.rivas.valdivia@bbva.com

Iván Martínez Urquijo  
ivan.martinez.2@bbva.com

Javier Amador Díaz  
javier.amadord@bbva.com

Javier Morales Ercambrack  
fj.morales@bbva.com



| Av. Universidad 1200, Col. Xoco, Mexico 03339 D.F. | [researchmexico@bbva.bancomer.com](mailto:researchmexico@bbva.bancomer.com) | [www.bbva.com](http://www.bbva.com)

#### Legal Notice

This document was prepared by Banco Bilbao Vizcaya Argentaria, S.A.'s BBVA Research Department (BBVA) and by BBVA Bancomer S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, on its own behalf, and is provided for information purposes only. The opinions, estimates, predictions, and recommendations appearing in this document refer to the date shown herein, and may therefore change as a result of market fluctuations. The opinions, estimates, forecasts and recommendations included herein are based on information obtained from reliable sources; however, BBVA gives no guarantee, whether express or implicit, about the accuracy, completeness or correctness of such information. This document is not an offer, an invitation, or an incitement to subscribe or buy shares.