

Mexico: The year ahead

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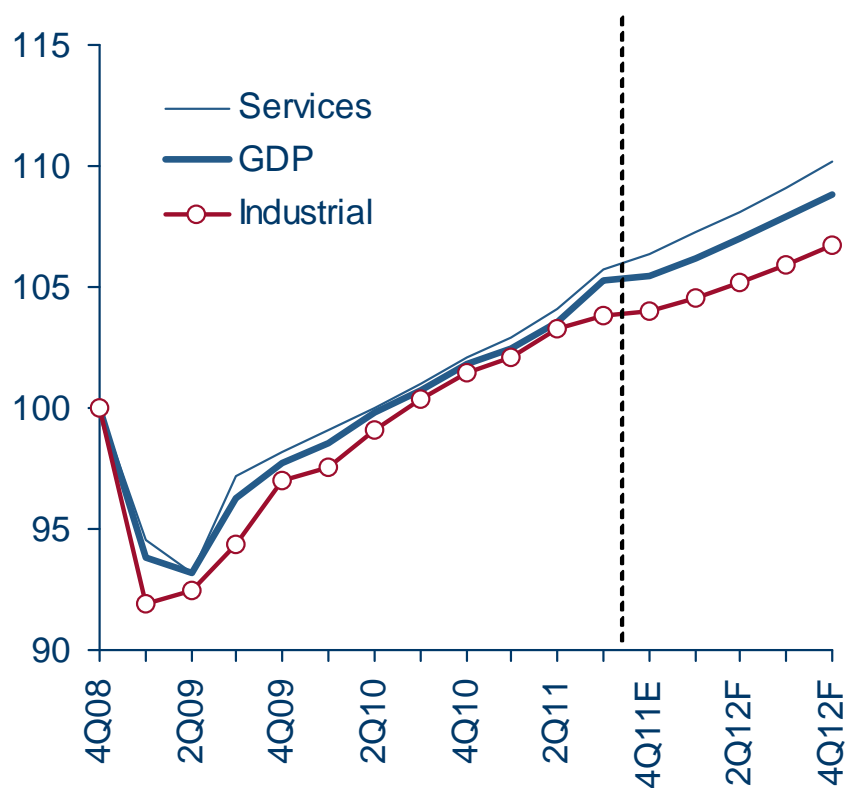
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We project that the economy will continue to expand in 2012, but at a more moderate pace than in 2011

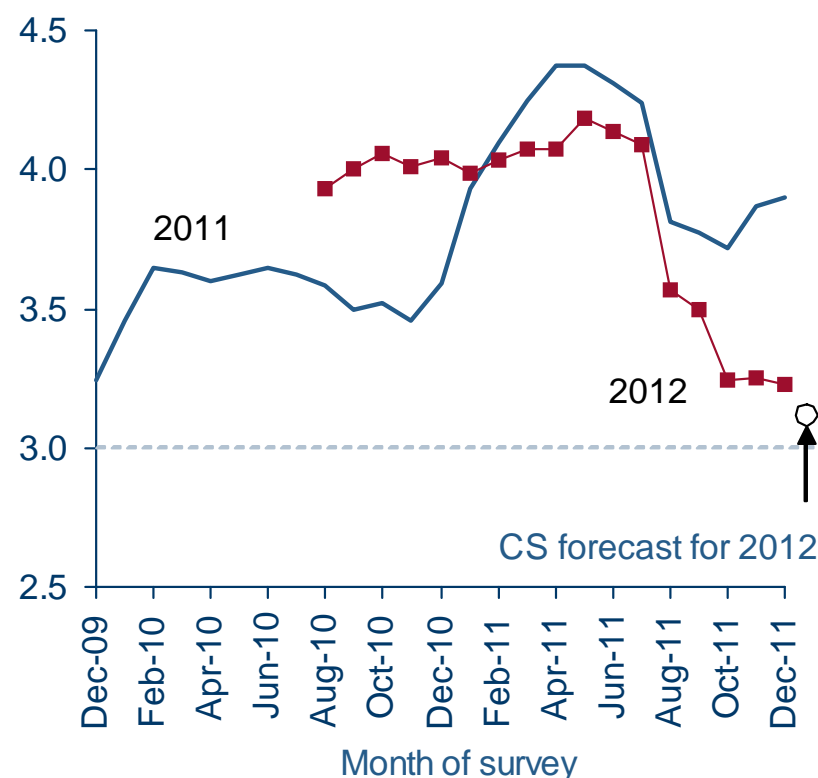
Real GDP

Seasonally adjusted indices



Real GDP growth forecasts

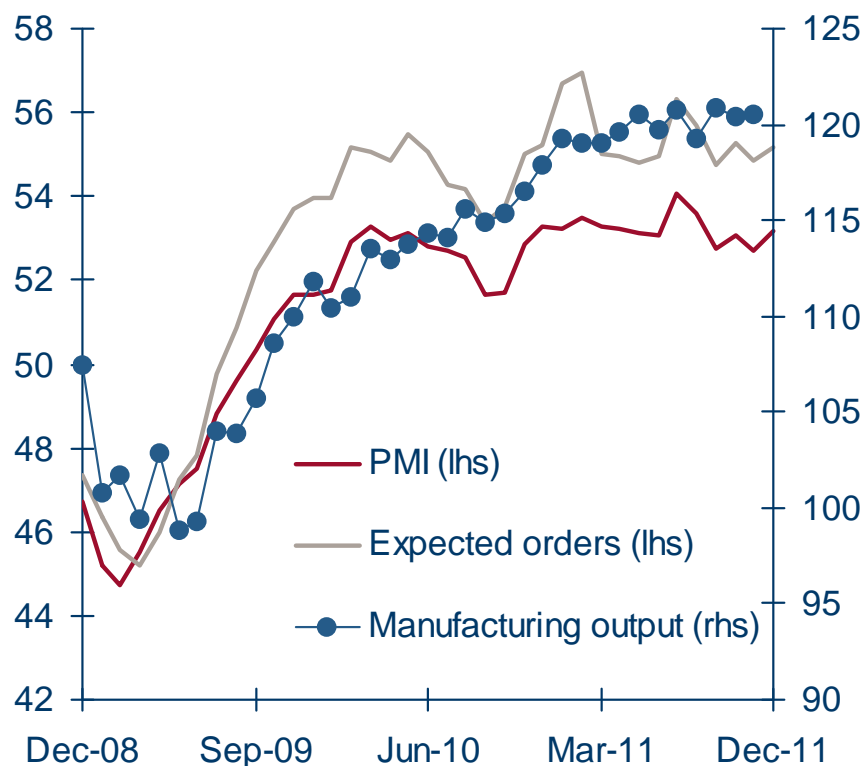
%, average forecast in central bank surveys



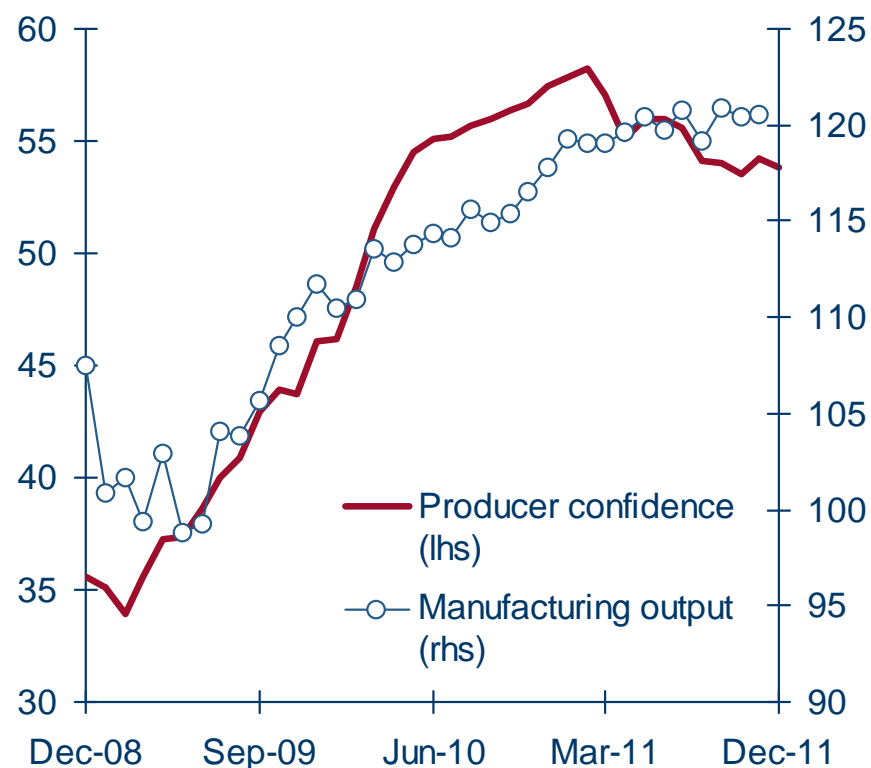
Source: INEGI, Central bank, Credit Suisse

Various indicators in the manufacturing sector were trendless in the second half of 2011 ...

PMI and manufacturing output
Seasonally adjusted; PMI and expected orders are two-month moving averages



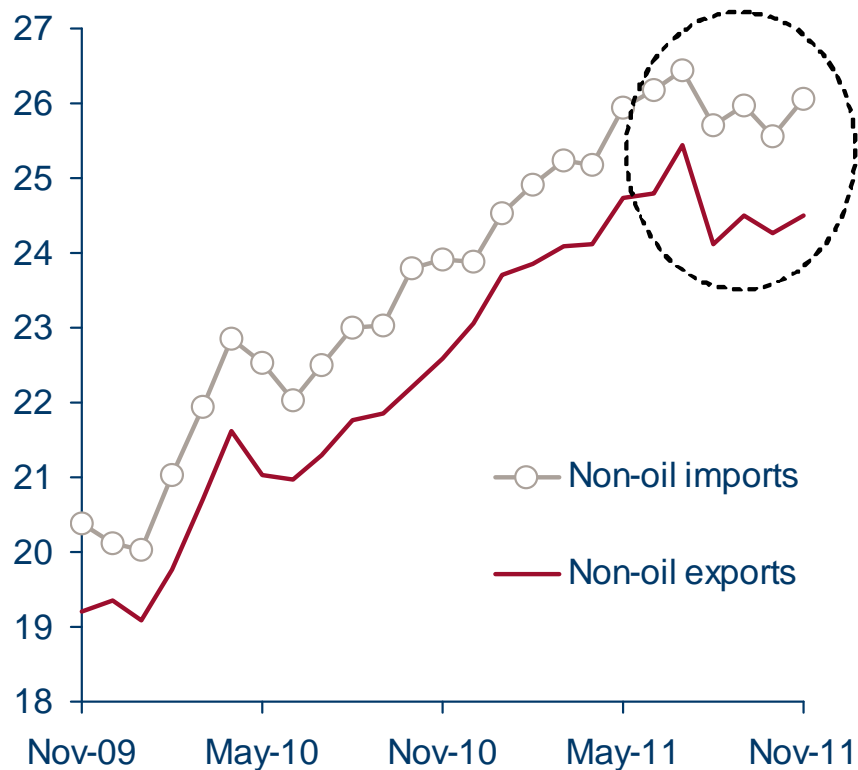
Producer confidence and manufacturing output
Seasonally adjusted



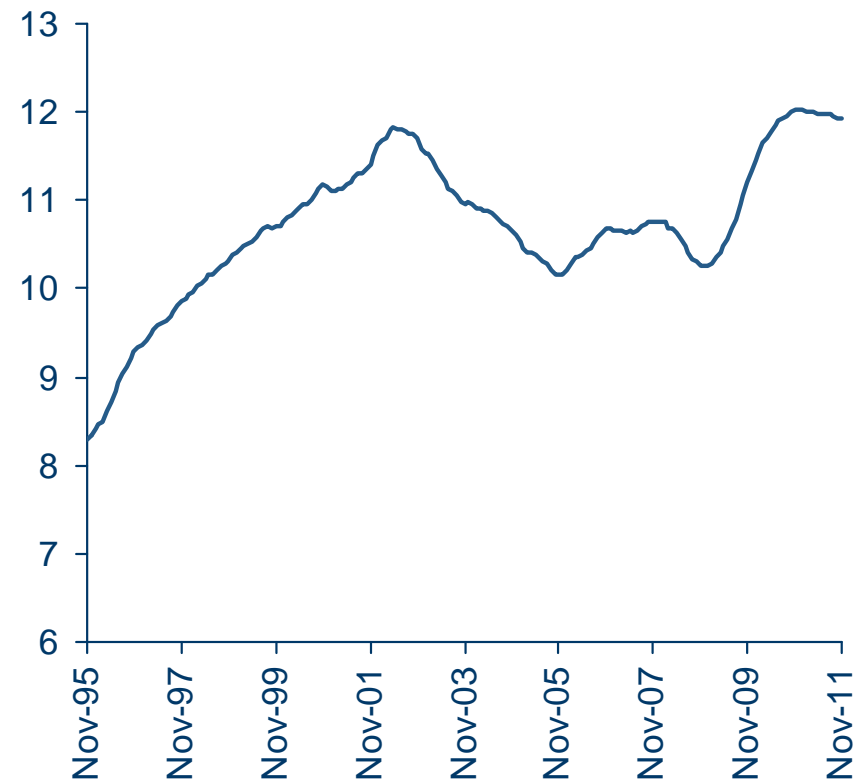
Source: INEGI, Credit Suisse

... likely reflecting the July 2011 peak in non-energy exports and imports; Mexico's share in the US import market seems to have peaked too

Non-energy exports and imports
\$bn, seasonally adjusted



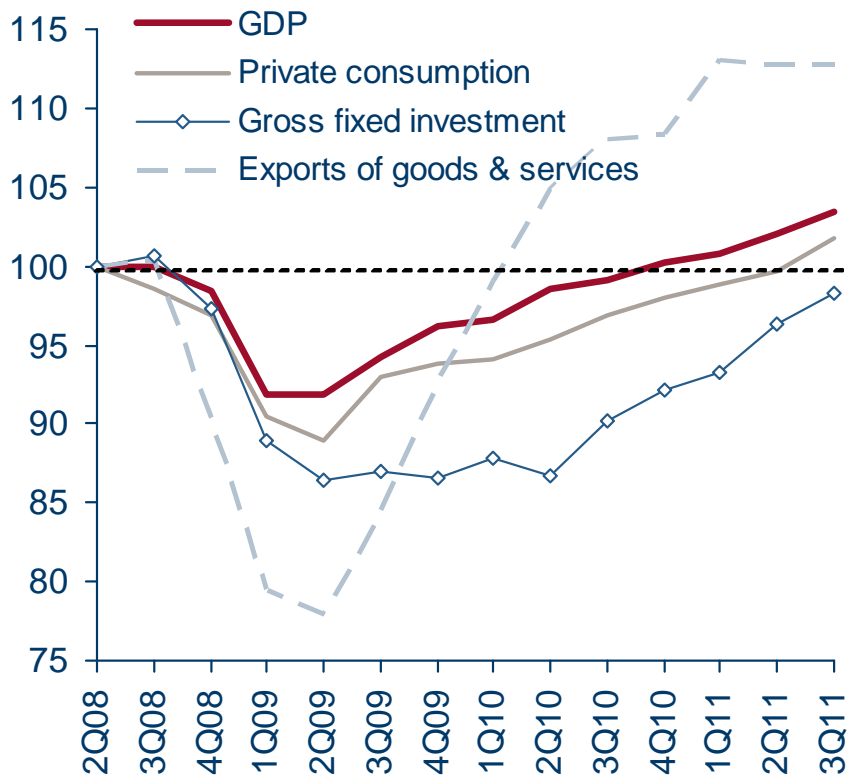
Market share of Mexican exports in the US import market
%, 12-month rolling basis



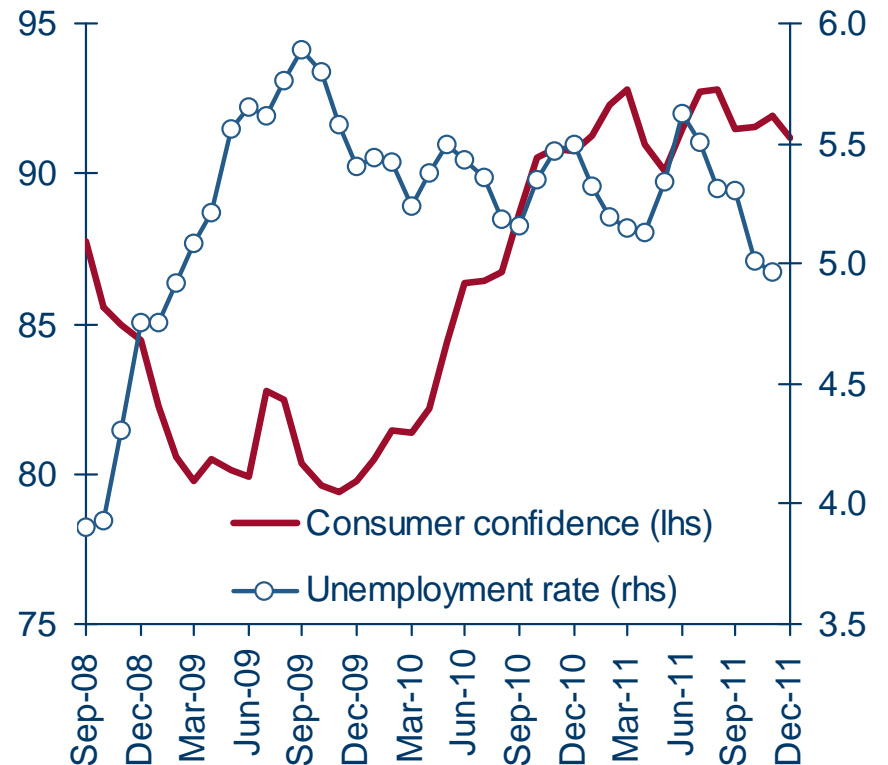
Source: INEGI, US Department of Commerce, Credit Suisse

Private consumption, now higher than pre-recession levels, is showing greater dynamism, thanks to higher consumer confidence levels ...

Demand-side real GDP indicators
2Q08 = 100; seasonally adjusted



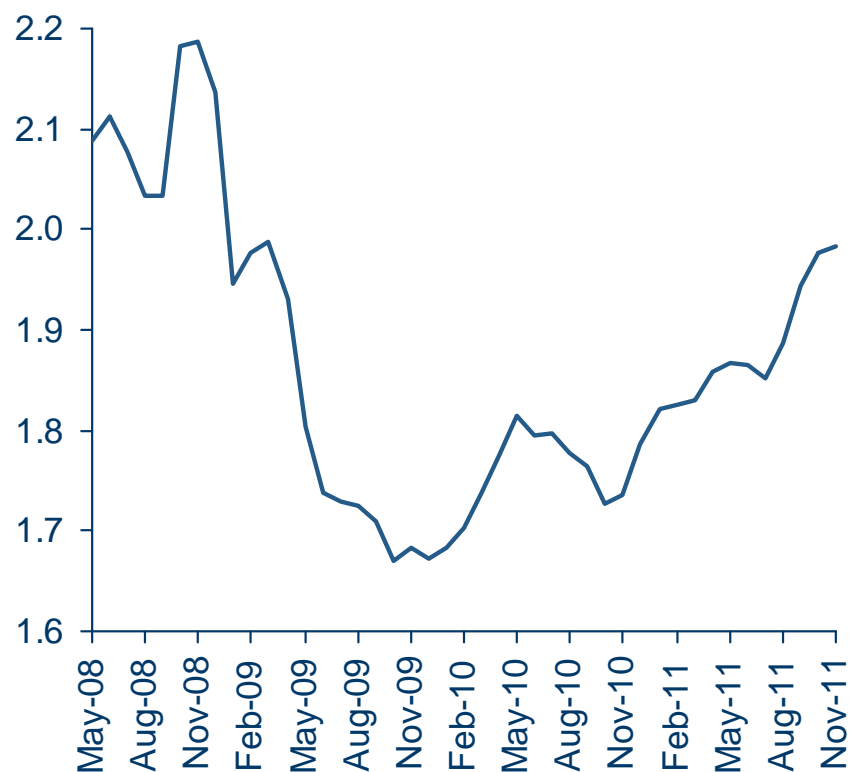
Consumer confidence and the unemployment rate
Seasonally adjusted



Source: INEGI, Credit Suisse

... as well as higher remittances and greater credit availability to the private sector

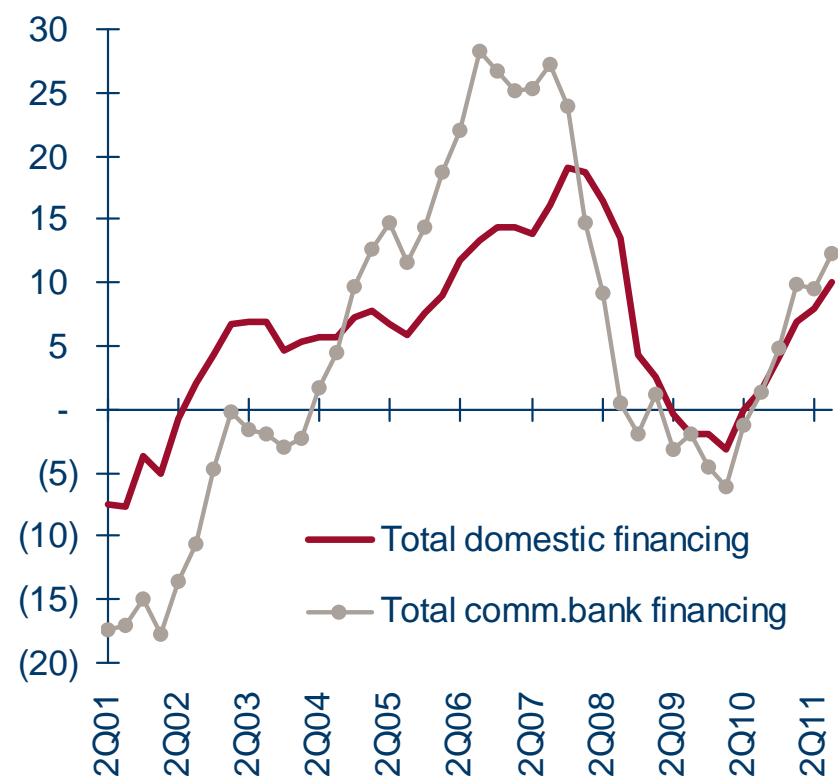
Monthly remittances*
\$bn, seasonally adjusted



* Two-month moving average

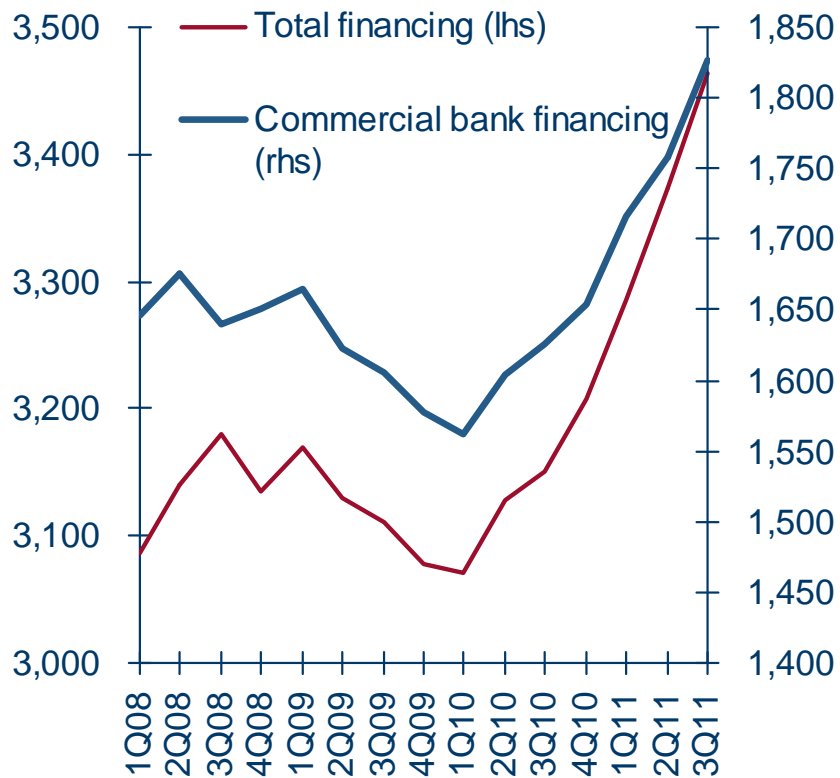
Source: Central bank, Credit Suisse

Dom. financing to the private sector
Year-on-year change in real terms, %

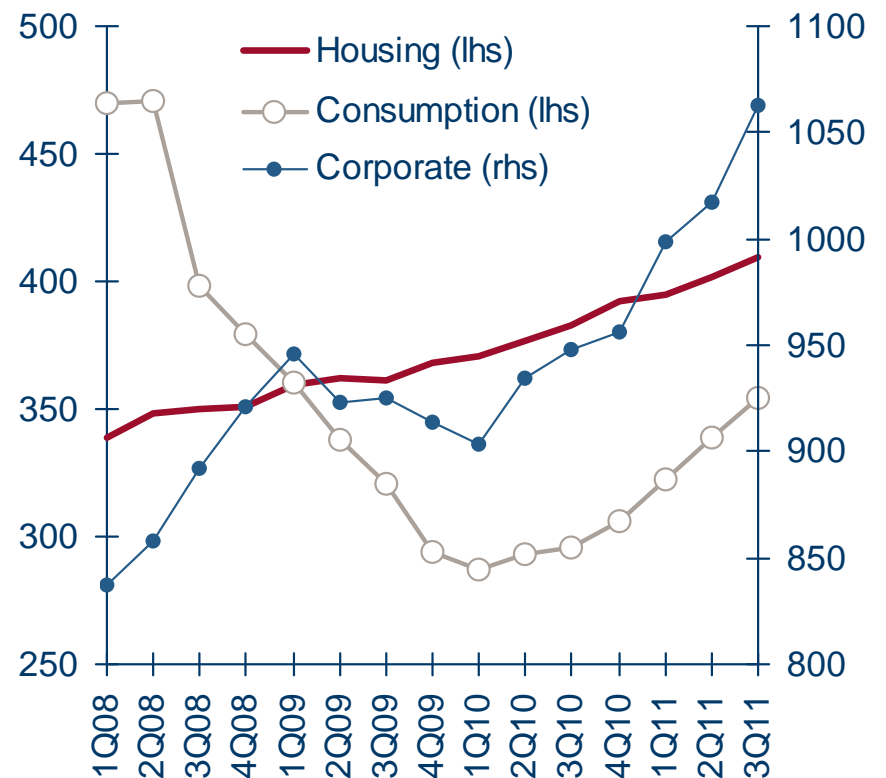


In the three-year period ending Sep-11, credit growth was stronger in the corporate segment (+19%), than in mortgage (+17%) and consumer loans (-11%)

Financing to the private sector
Bn of Sep-11 pesos, seasonally adjusted



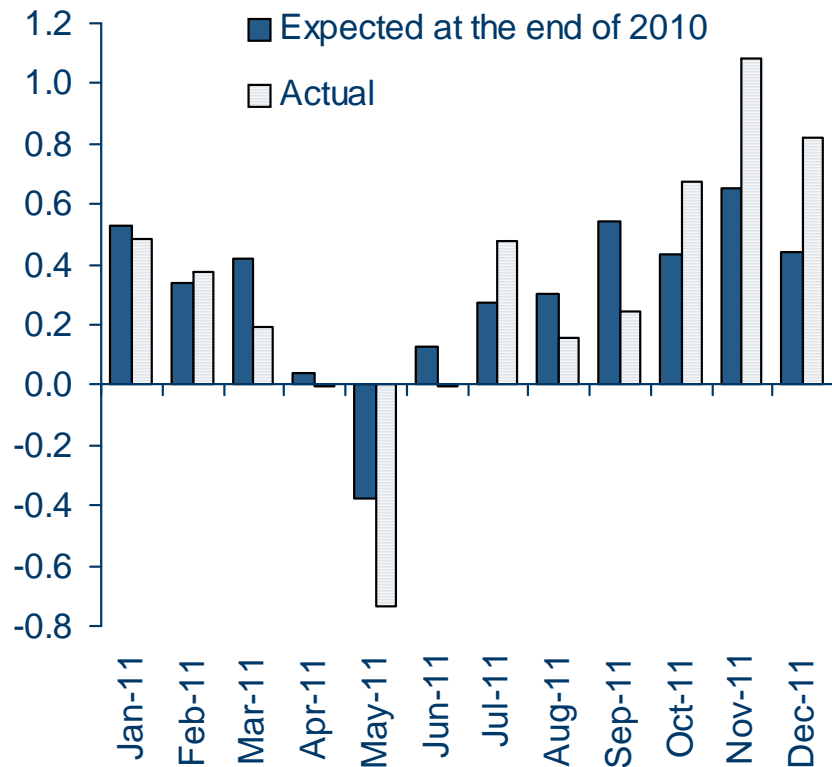
Commercial bank lending to the private sector by sector
Bn of Jun-11 pesos, seasonally adjusted



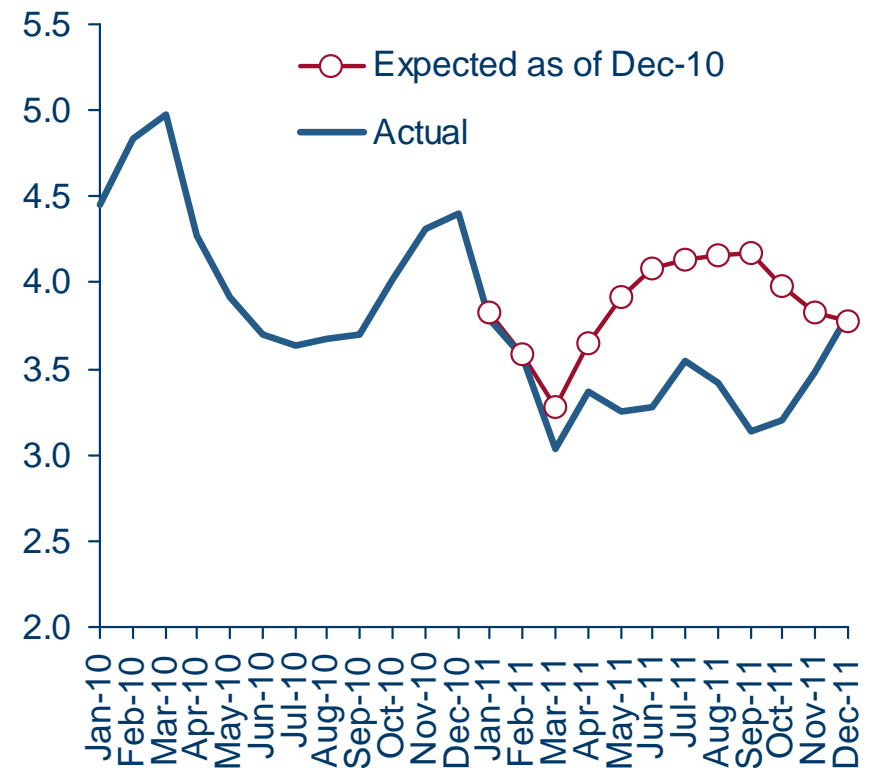
Source: Central bank, Credit Suisse

Inflation remains in-check, despite the ongoing recovery; it was surprisingly low most of last year

Monthly inflation in 2011
%



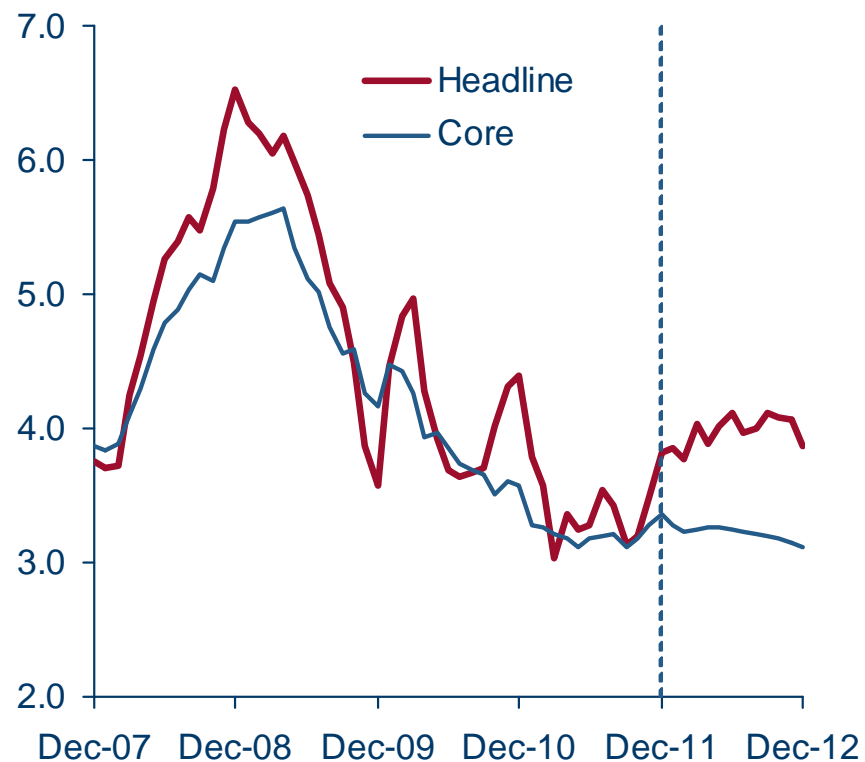
Annual consumer price inflation
%, Actual vs. expected



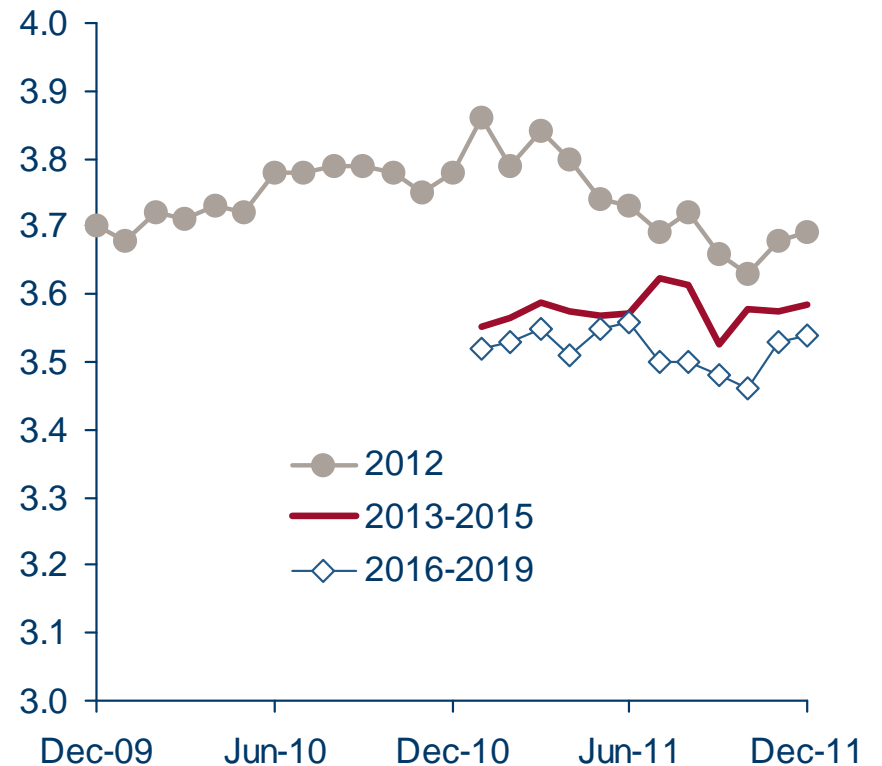
Source: Central bank, INEGI, Credit Suisse

Annual headline inflation will likely remain near 4.0% most of 2012, while annual core inflation should approach 3.0%; medium-term expectations are stable

Annual consumer price inflation %



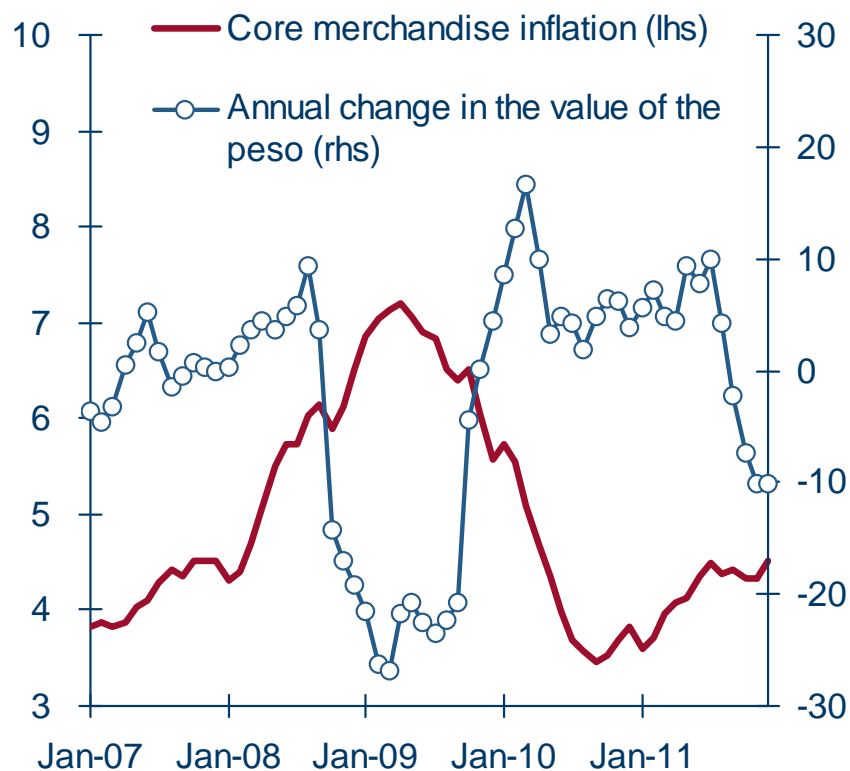
Consensus expectations on inflation %



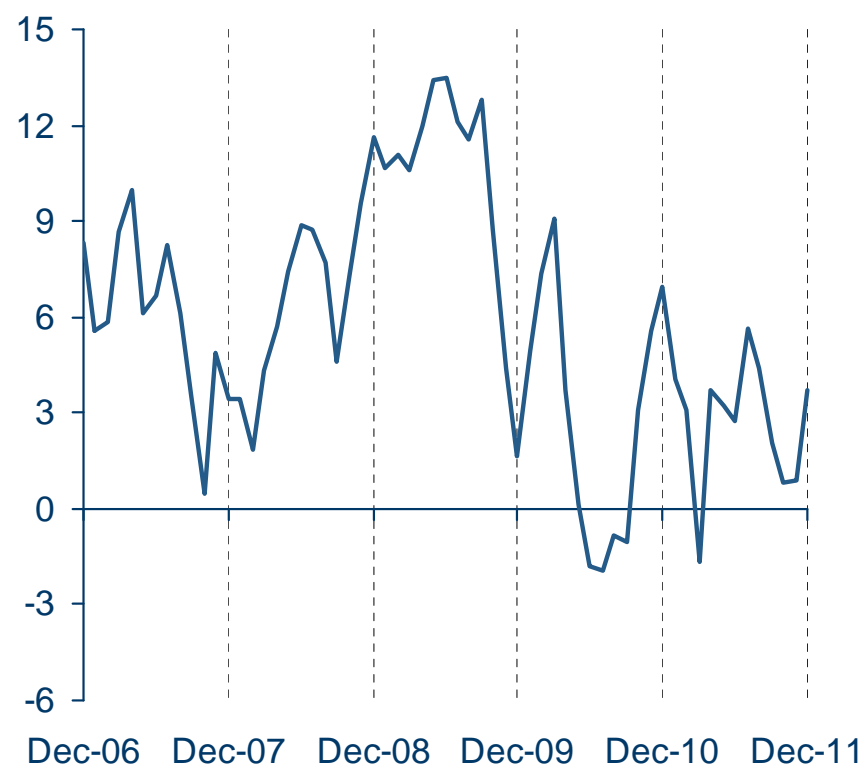
Source: Central bank, INEGI, Credit Suisse

The main sources of risk to inflation are the pass-through from FX weakness and agricultural prices

Core goods inflation vs. changes in the value of the Mexican peso %



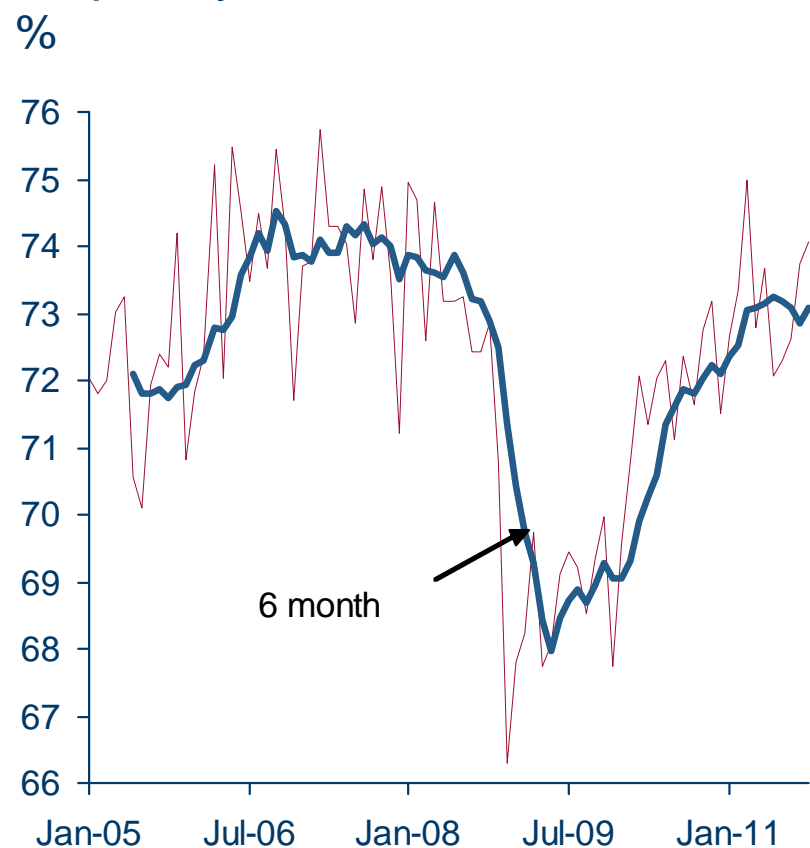
Annual agricultural price inflation %



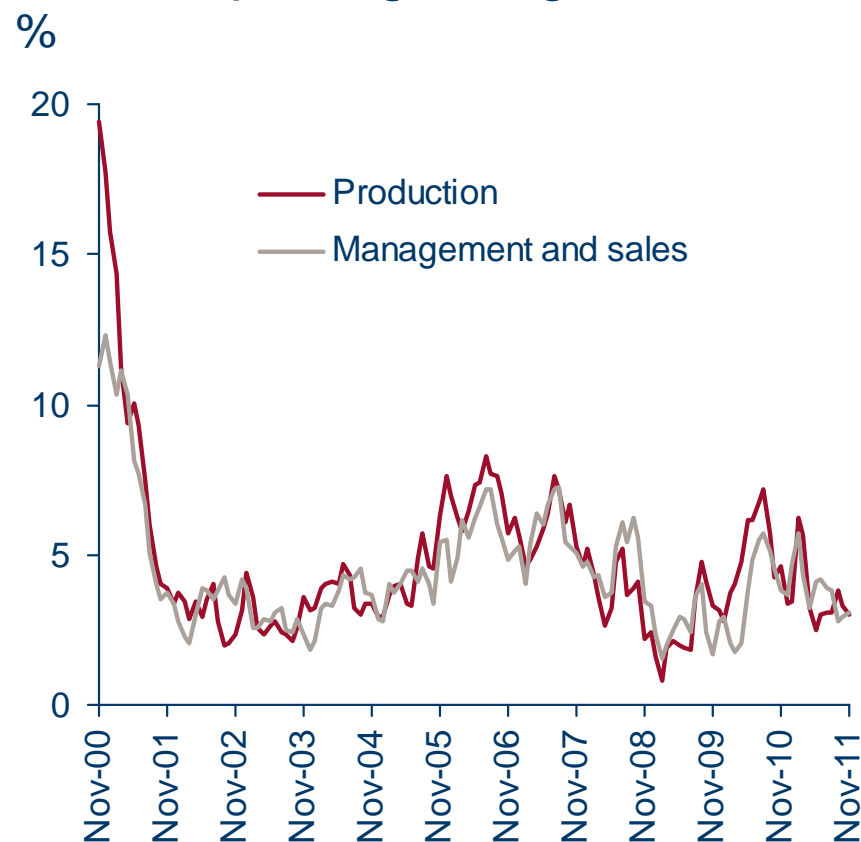
Source: INEGI, Central bank, Credit Suisse

There do not appear major bottlenecks in the economy, judging from capacity utilization levels and from various labor market indicators

Capacity utilization



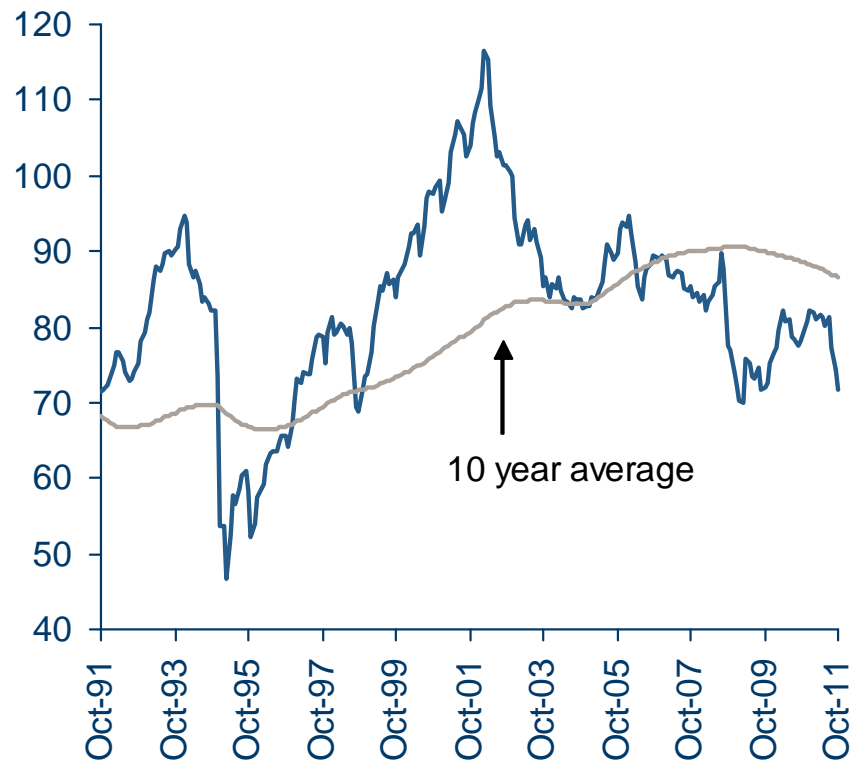
Firms reporting hiring difficulties



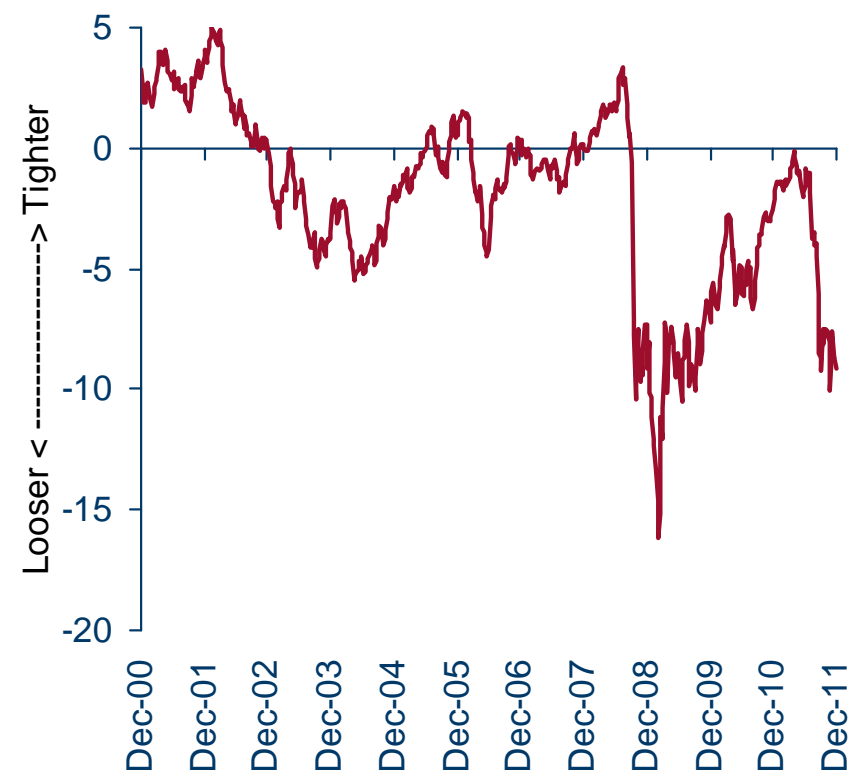
Source: INEGI, Central bank, Credit Suisse

The sell-off in the peso has made the export sector more competitive and has done part of the easing work for the central bank

Real effective exchange rate
Increase denotes appreciation



Monetary conditions index
Increase denotes appreciation



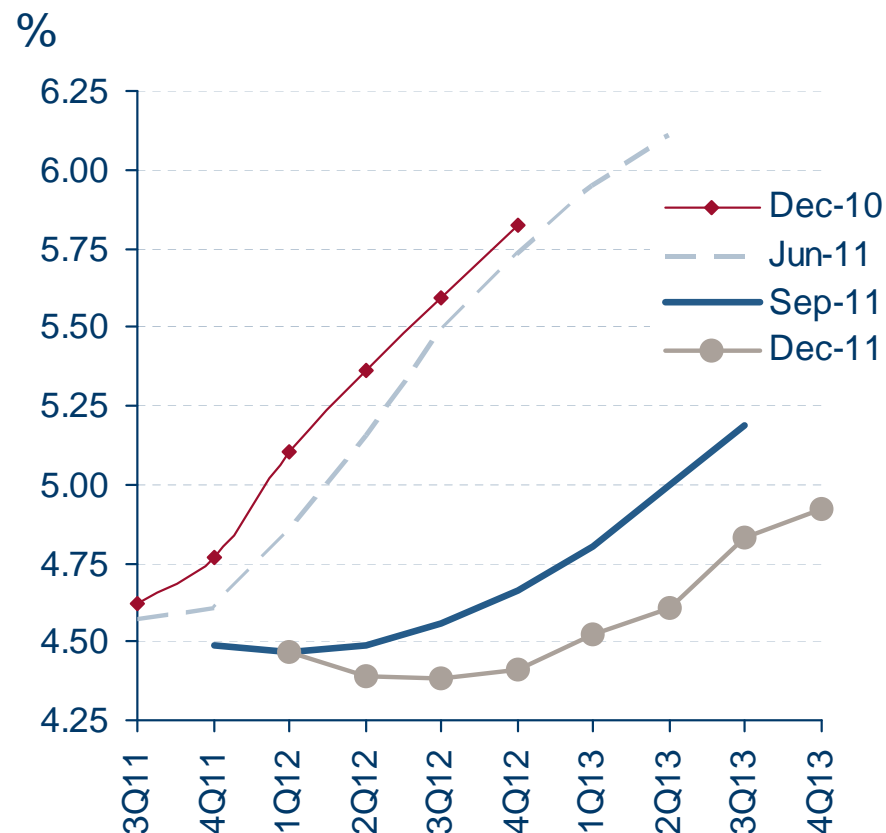
Source: INEGI, Central bank, Credit Suisse

The swaps curve is no longer pricing in rate cuts for 2012-13; however, analysts polled by the central bank see some scope for interest rate cuts in 2011-12

Swaps curve in selected dates



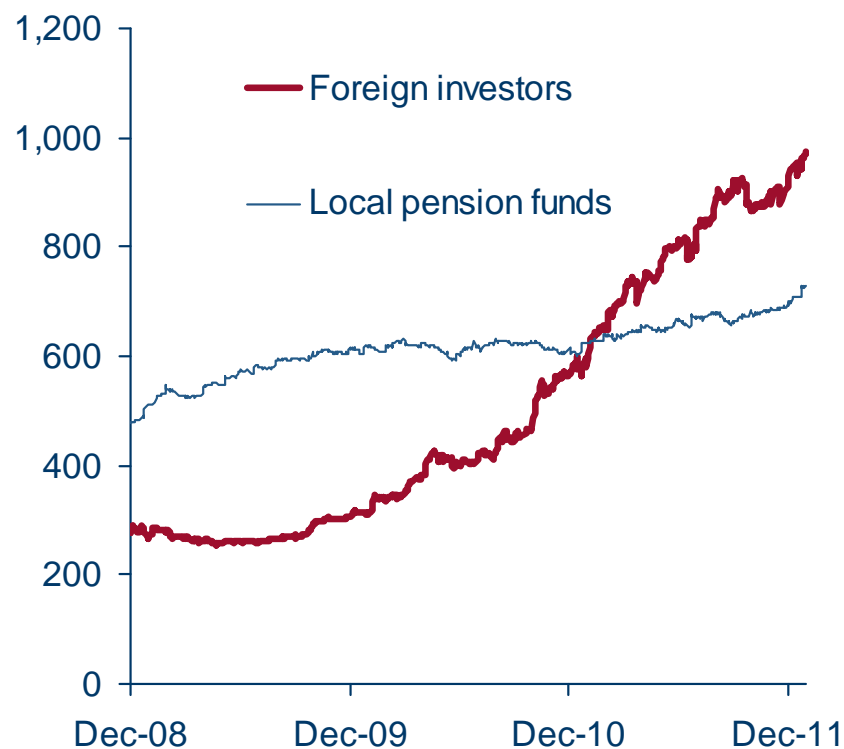
Overnight rate forecasts



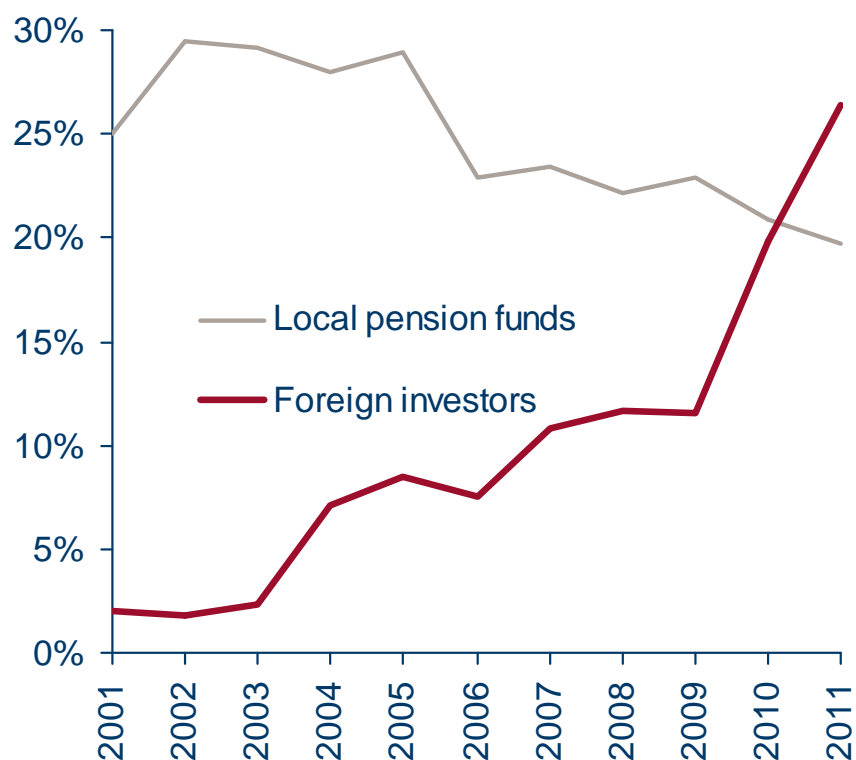
Source: Central bank, Credit Suisse

Holdings of government securities by foreign investors have been resilient to the sell-off in the Mexican peso

Holdings of government securities by Afores and foreign investors Bn pesos



Holdings of government securities by Afores and foreign investors % of total outstanding

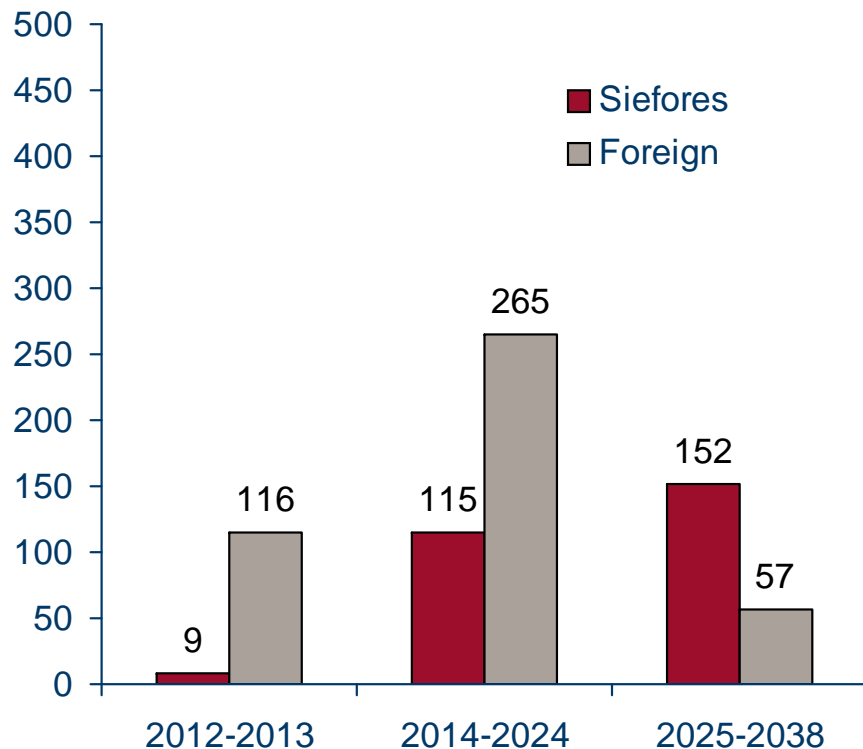


Source: Central bank, Credit Suisse

In 2011, foreign investors boosted their Bonos holdings across maturities, particularly in maturities 2014 to 2024

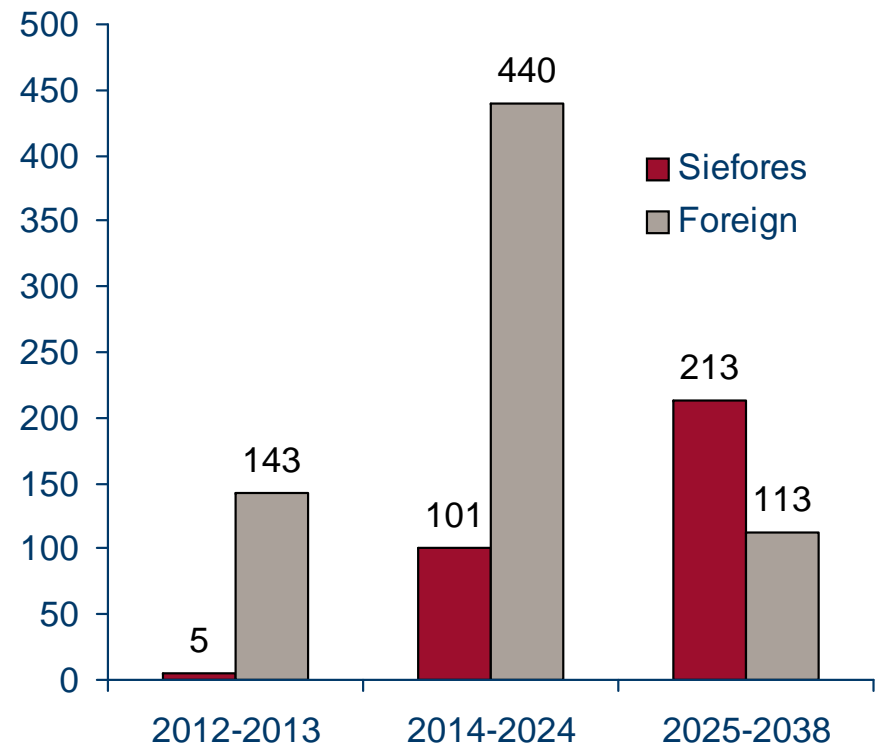
Bono holdings at the end of 2010

Bn pesos



Bono holdings at the end of 2011

Bn pesos

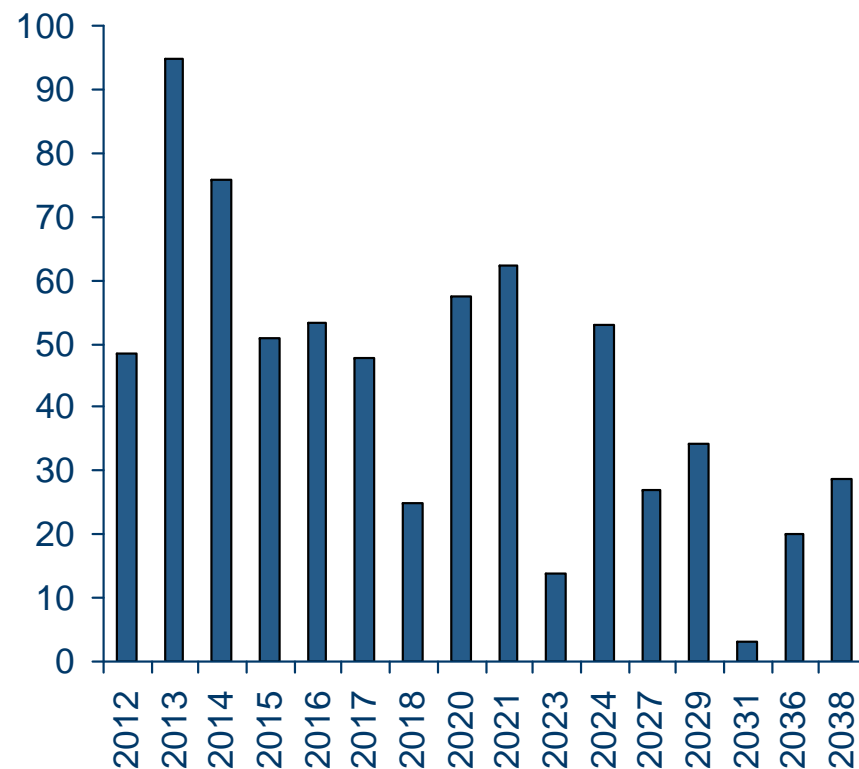


Source: Central bank, Credit Suisse

Foreign holdings of Bonos are spread out across the curve

Foreign holdings of Bonos by maturity as of the end of 2011

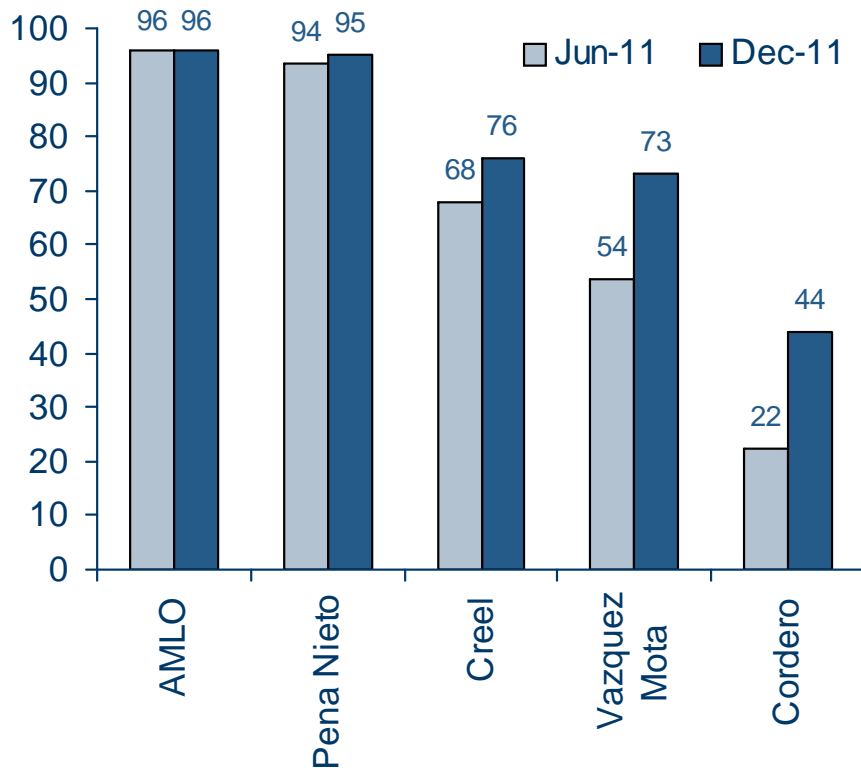
Bn pesos



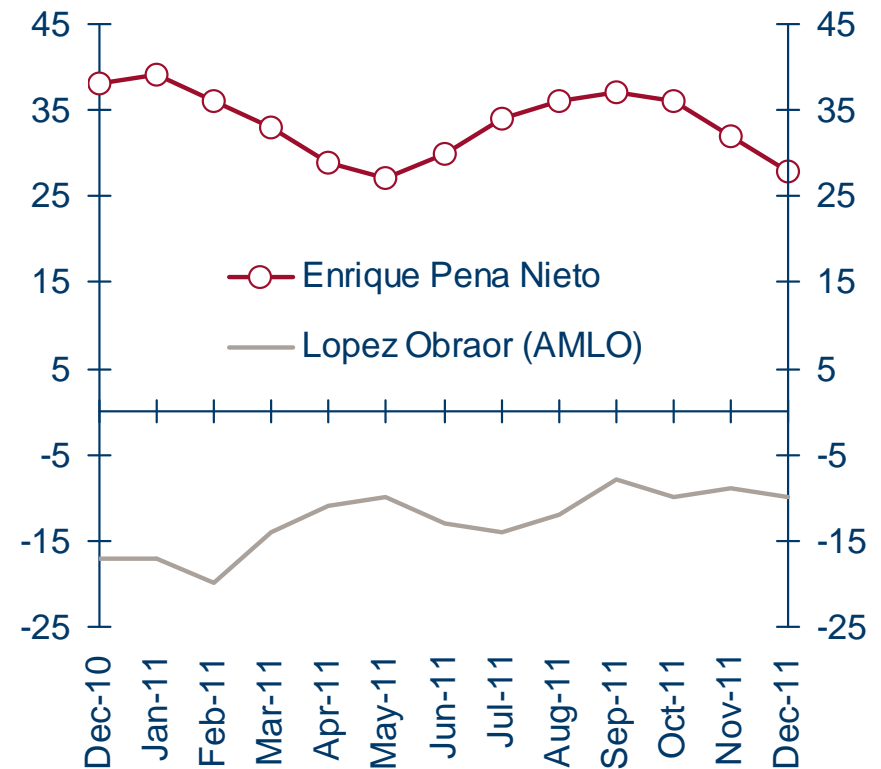
Source: Central bank, Credit Suisse

Enrique Peña Nieto (PRI) is the early and strong favorite to win the presidential elections in July 2012; he is well-known and well-liked by Mexican voters

Name recognition of potential presidential candidates*
%



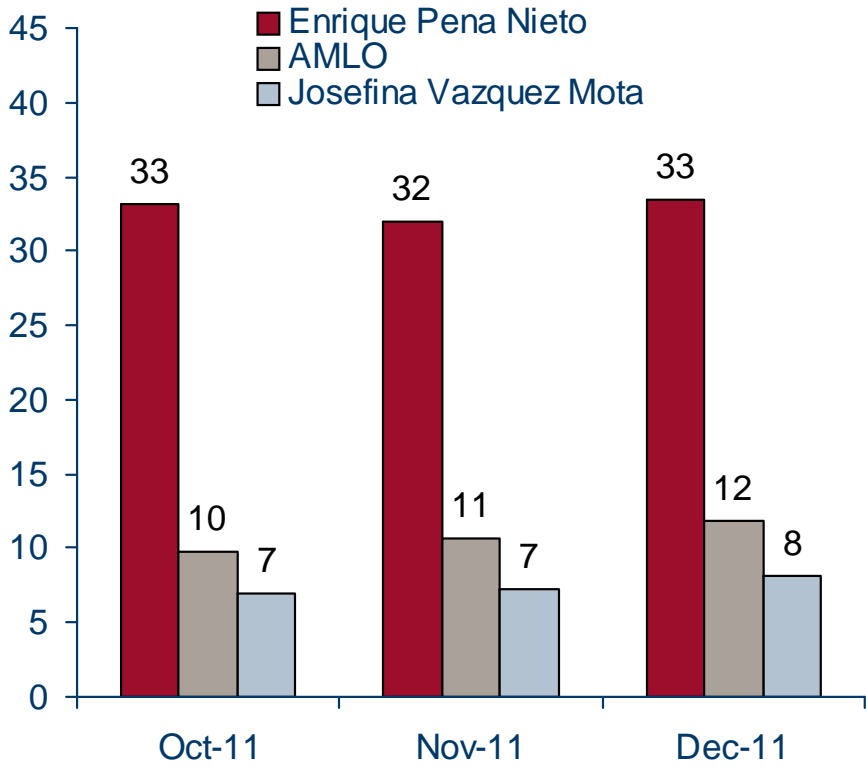
Balance of opinions
%, positives minus negatives



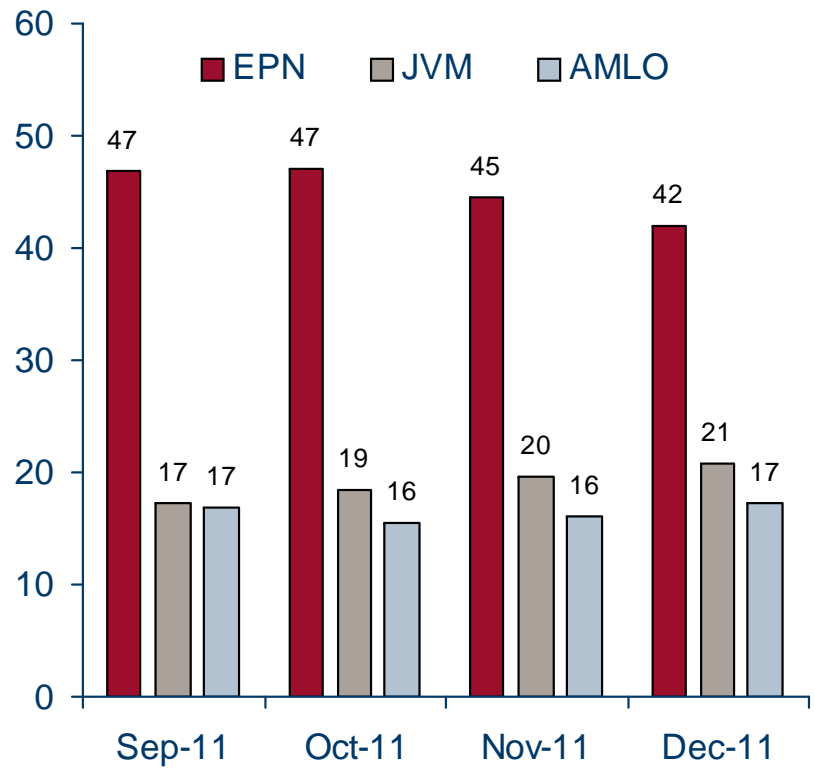
Source: Consulta Mitofsky, Credit Suisse

In spontaneous responses, one-third of Mexicans say they would like him to be the next president

Who would you like the next president to be?
% of responses



Vote simulations*
% of responses

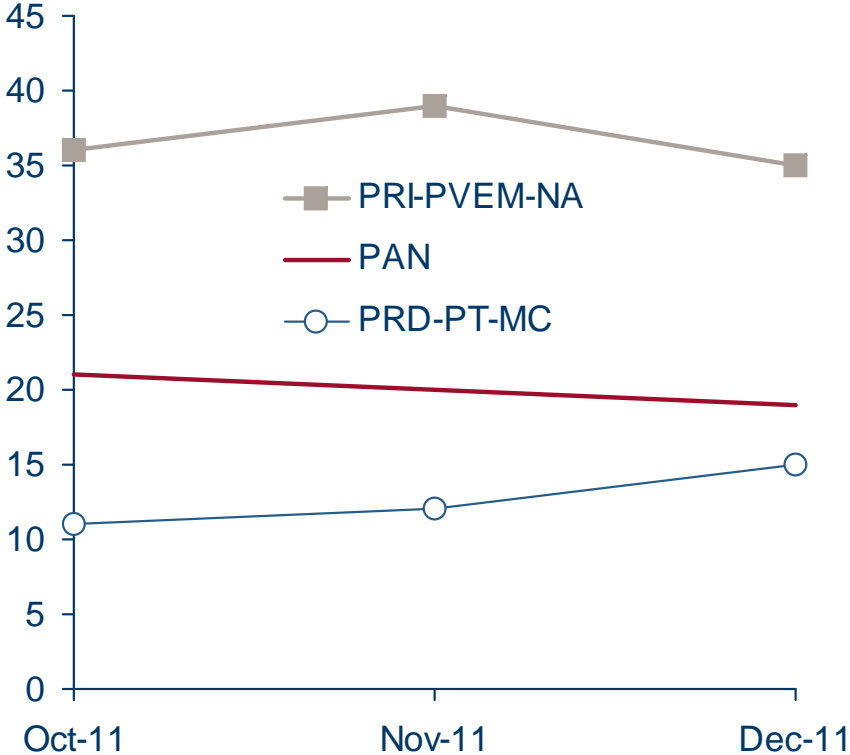


Source: Consulta Mitofsky, Credit Suisse

*JVM is Josefina Vazquez Mota (PAN); AMLO is Andres M. Lopez Obrador (PRD) and EPN is Enrique Pena Nieto (PRI)

The PRI-led alliance also leads other political parties by a wide margin in the lower house race

Voter preferences for the Lower House
% of responses



Source: Consulta Mitofsky, Credit Suisse

Disclosure Appendix

Analyst Certification

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