

Mexico Equity Strategy

Whistling past the green shoots in Mexico? A couple are showing

- **Don't look now, but a few green shoots have been sighted in Mexico** — Since the Mexican economy began to slow in 2013, markets have been looking for evidence of reacceleration. More recently, the search for green shoots has become more urgent, with investors despairing that 2014 was looking more and more like 2013, while corporates cling to the "2H14 will be better" mantra. We review the March data releases and find that a majority of the statistics were either better than expected or in-line. We also have indications of an acceleration in more recent data, such as March light vehicle production (most of which is for export). As well, we understand some soft drink companies may be comfortable enough with consumer behavior to take some pricing.
- **Might be too early to tell, but 2014 may be different from 2013** — Our economists argue for caution, urging us to wait for confirmation, in particular with post-Easter data. However, markets may have discounted the better data by then....then again, we may be wrong. In particular, we are aware that production data will likely show slippage in April (the reverse of Easter effect in retail sales), as people take vacation, thus an expected acceleration in 2Q will be somewhat muted. We are also aware that most of the better than expected data points in our list date from January and that today's gross fixed investment number was below expectations.
- **Nafta link alive and well, and manufacturing creates jobs, which pushes consumption, so we are cautiously and optimistically whistling past the green shoots** — The contribution from the external sector has been improving: in February exports to the US grew 9.6%, while exports to the rest of the world were weak. Although job creation has been anemic, a breakdown of employment figures shows the weakness is linked to a deep decline in the construction sector...where figures are improving, though still negative. And the relationship between retail sales and employment has been a positive and steady one over the years.
- **If green shoots hold, the implications for equities are bullish** — If these green shoots hold and the trend is confirmed, the implications for the equity market are positive. Job creation would push consumption and the consumption related sectors represent 38% of Mexico's IPC index. Mexico is trading at average long term multiples of 17x and 14x P/12 month forward earnings, respectively on the MSCI and the IPC. We are mindful that most companies will be facing easier comparisons in 2Q, as we cycle against the anniversary of the slowing economy.

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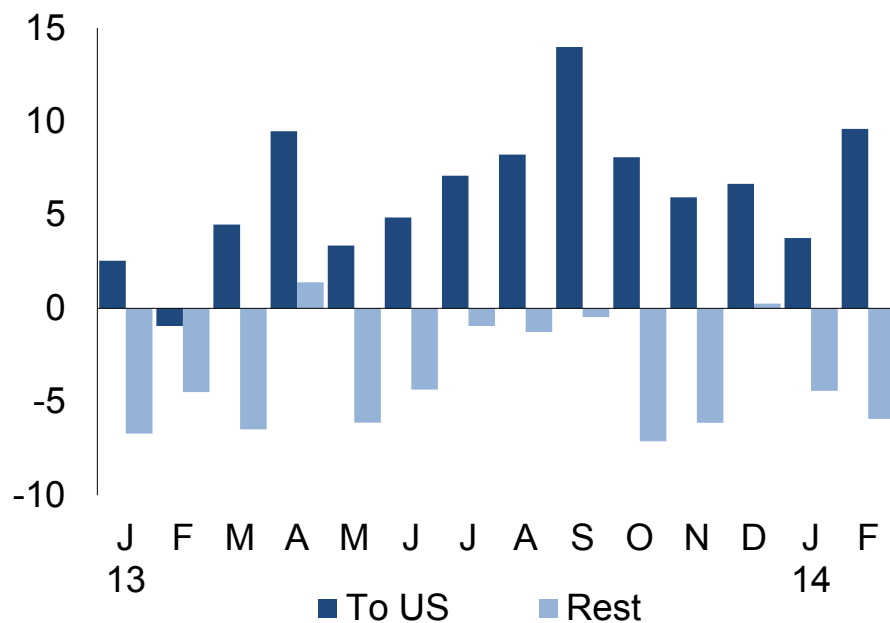
The table below groups March data releases in Mexico, not including inflation and monetary policy announcements, as better than expected, in-line, or worse than expected.

Figure 1. Data releases in the month of March

	Statistic	YoY change
Bullish Data	March Light vehicles production	16.3% (new record 277, 314)
Better than Expected	March Consumer Confidence	88.8 vs. 85.4
	January Gross Fixed Investment	2.4% vs. -1.5% E
	January Remittances	8% vs. 2.3% E
	January Industrial Production	0.7% vs. 0.4%
	January Retail Sales	0.35 vs. -0.3% E
In Line	February Consumer Confidence	84.5 vs. 84.7E
	February Contractual Wages	4.3% vs. 4.2% E
	Unemployment February	4.65% vs. 4.76% E
Worse than Expected	Supply and Final Demand 3Q13	0.4% vs. 1% E
	January IGAE	0.8% vs. 1.4% E
	February Remittances	5.7% vs. 6.3% E
	February Gross Fixed Investment	-2.4% vs. -1.2% E

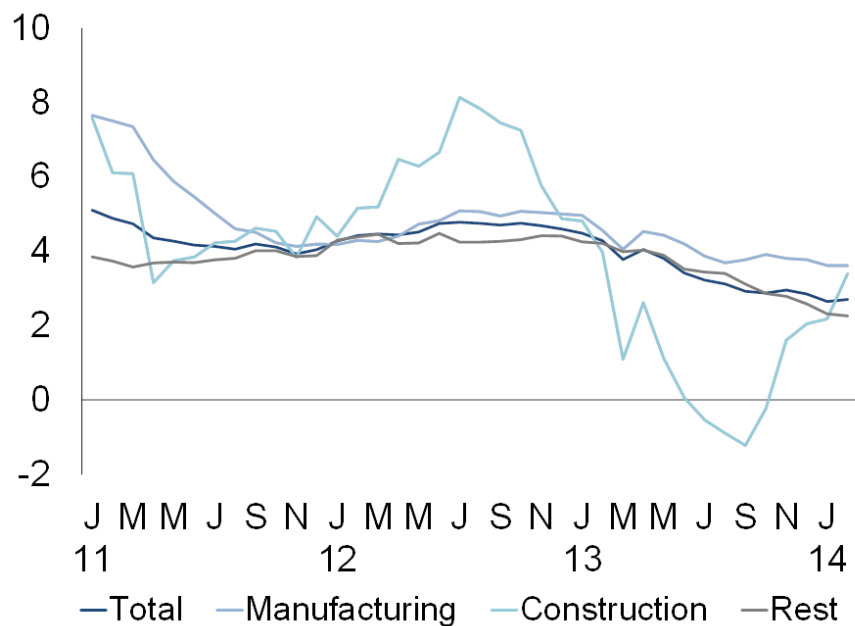
Source: Citi Research

Figure 2. Exports (YoY, %)



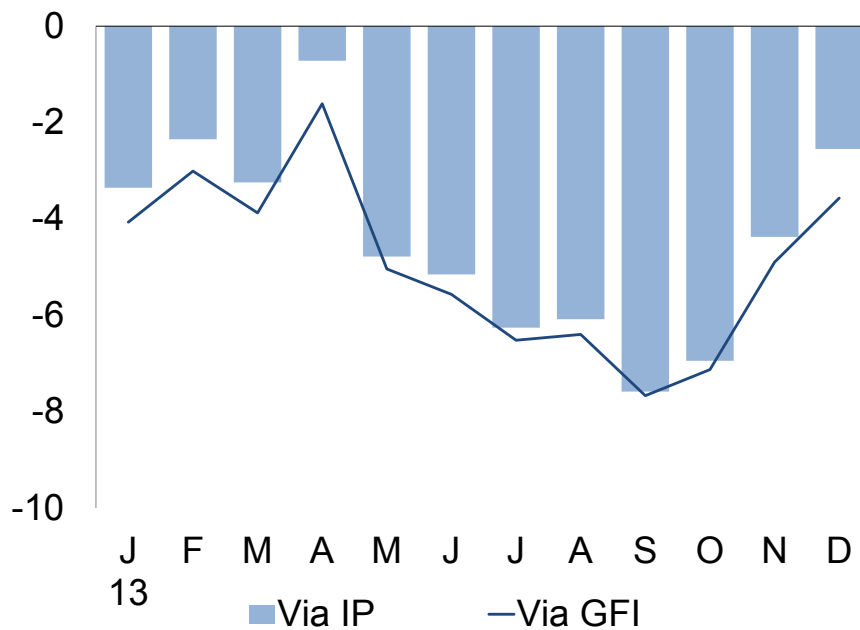
Source: INEGI and Banamex

Figure 3. Formal employment (YoY,%)



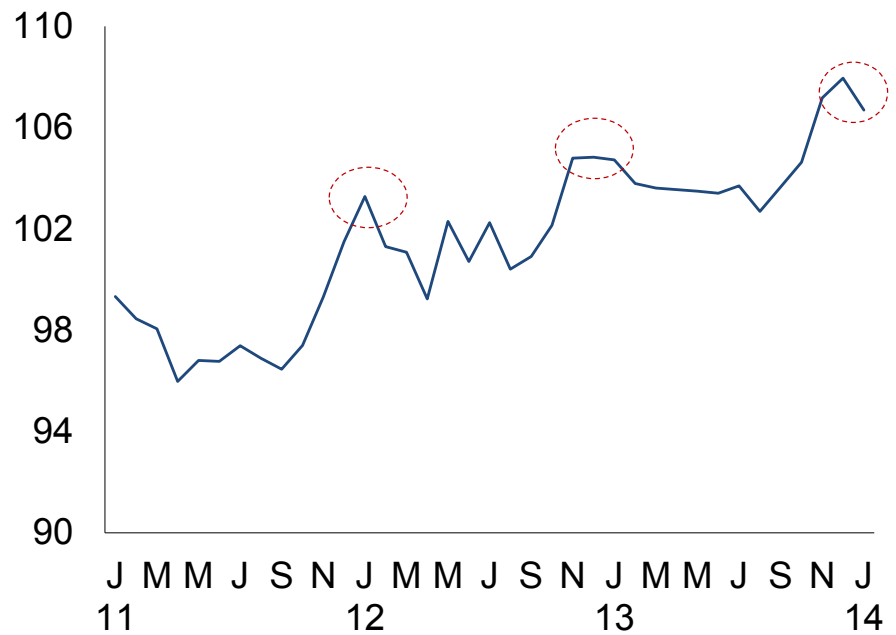
Source: IMSS and Banamex

Figure 4. Construction, according to different gauges (YoY, %)



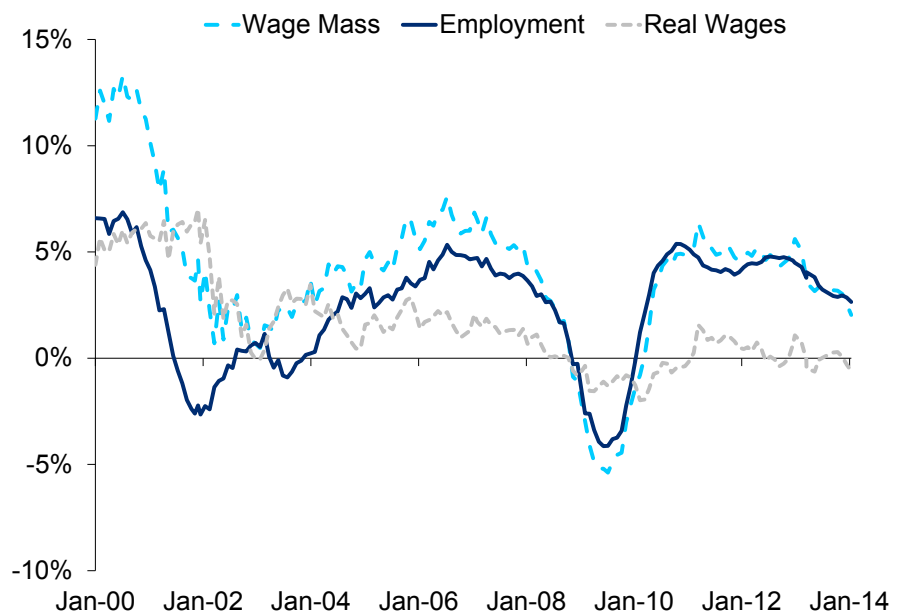
Source: INEGI and Banamex

Figure 5. Consumption: durables/ non durables (Index, 3m MA)



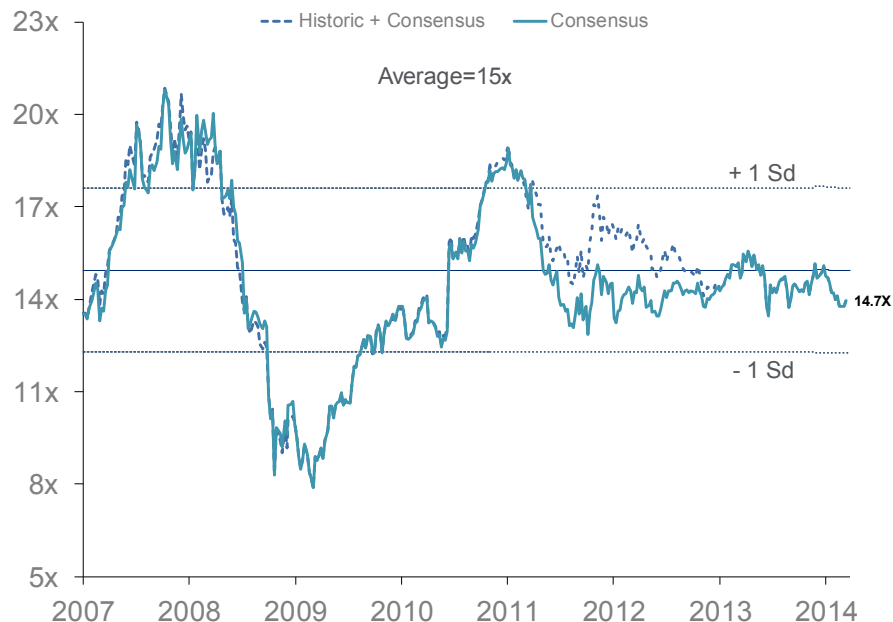
Source: Citi Research

Figure 6. Employment (YoY, %)



Source: INEGI, Citi Research

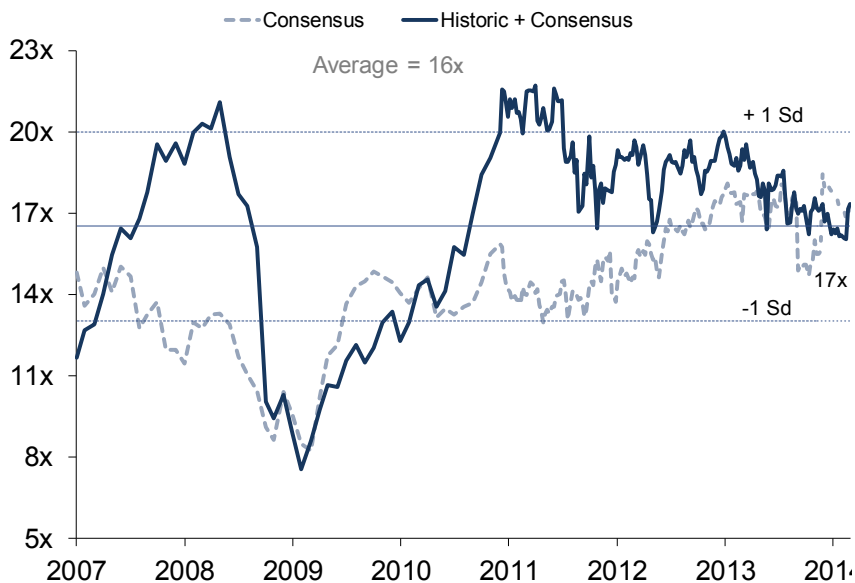
Figure 7. IPC Mexico PE 12 months forward



Source: Bloomberg and Citi Research

As of March 28, 2014

Figure 8. MSCI Mexico PE 12 months forward



Source: IBES, MSCI, Datastream and Citi Research

As of March 28, 2014

Appendix A-1

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Data current as of 31 Mar 2014

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