Mexico Weekly Flash

Next week…

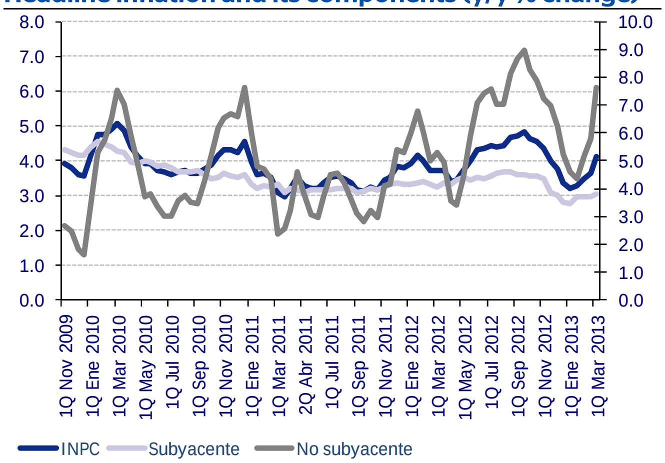
- **The negative data on domestic economic activity and exports reflect what will be a greater economic slowdown, a factor contributing in turn to lower inflation**

Data on the economic slowdown were released recently for the manufacturing and service sectors. The Central Bank has also warned of the outlook for slower growth and inflation, which contributed to a reduction in the monetary policy rate. As figures published today show core inflation anchored at 3.0%, and the rise in headline inflation should be temporary given the volatile nature of its increase (agricultural and livestock prices), the financial markets and Central Bank will set more store by economic variables, with the Central Bank maintaining a "wait and see" stance.

- **Mexican financial variables this week continued to stand out positively**

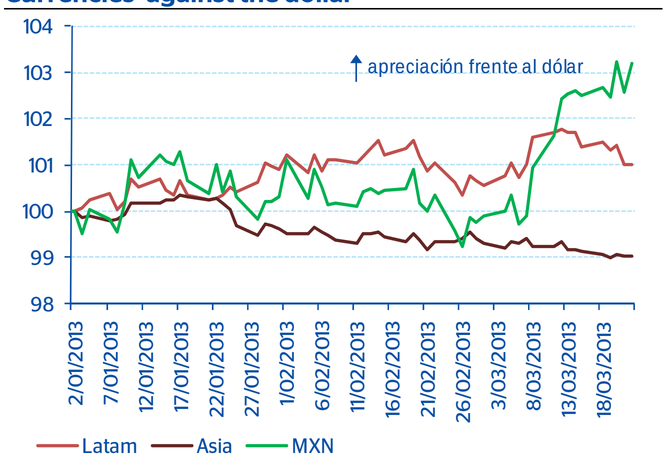
Although the MXN traded within a narrow range, it strengthened over the week to levels of 12.35 pesos/dollar in a constructive reform environment. More important is that these movements took place in a context of increased global risk aversion and a general trend for emerging market currencies to weaken against the dollar. The positive difference was also reflected in a relatively lower increase in Mexican credit default swaps and the positive performance of the stock market, contrasting with losses in other regions.

Chart 1
Headline inflation and its components (y/y % change)



Source: BBVA Research with INEGI data

Chart 2
Currencies[1] against the dollar



1 LACI Index (LATAM currencies) and ADXY Index (Asian currencies)
Source: BBVA Research with data from Bloomberg

Calendar: Indicators

January IGAE (March 25)

Forecast: 0.5% m/m (2.5% y/y)	Consensus: 2.5% y/y	Previous: -1.0% m/m (2.4% y/y)

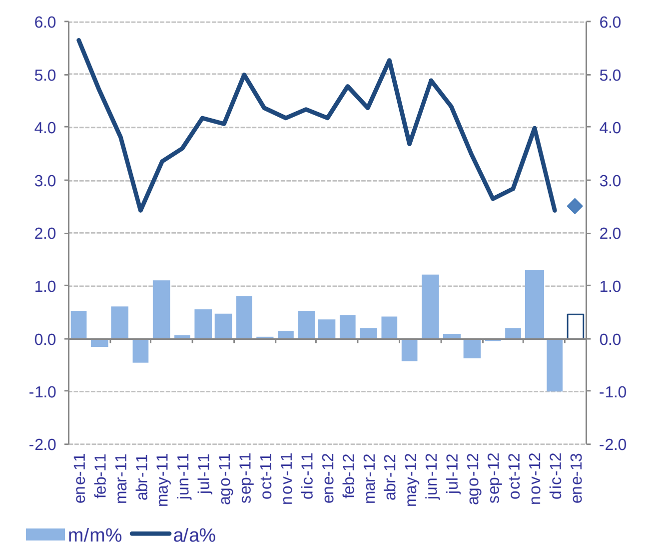
Given the 1.1% growth in industrial output in January, and based on information for retail sales and the indicator of revenues in the service sector, we estimate that the service sector would have posted zero growth in January, so the IGAE will have grown at around 0.5% m/m (in the seasonally adjusted series). This implies an annual rise of 2.5%, almost the same as the previous month. This result gives us the first negative data for economic activity in the early part of the year. Together with other published indicators such as automotive production, employment and consumer and producer confidence, they suggest that the slowdown in the economy will have continued at the start of the year.
It is worth noting that with the information available growth in the first quarter is probably somewhat below the expansion in the last quarter of 2012, and around 2% in annual terms.

February trade balance (March 27)

Forecast: USD -707m	Consensus: USD -1,240m	Previous: USD -2,866m

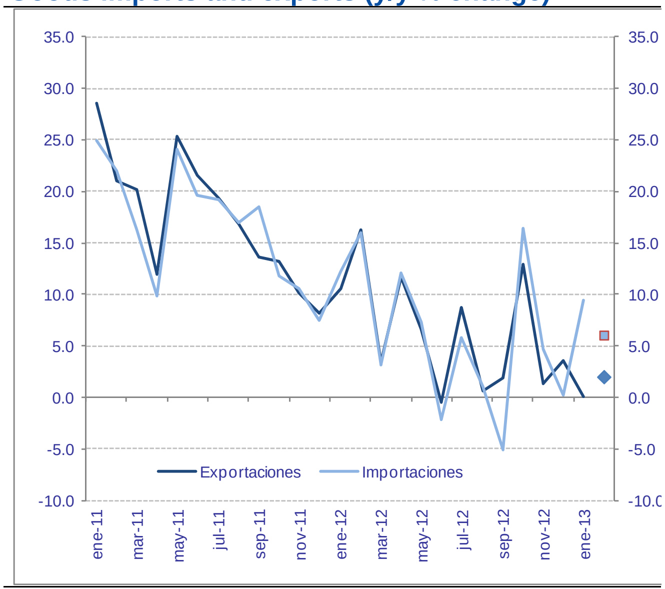
Exports will continue to moderate, as has been the case over recent months. Last month (January) non-oil exports experienced their biggest fall since January 2009. We expect a monthly improvement in non-oil exports (from -0.8% m/m to 0.1% m/m), in line with export growth of 2%. Imports of goods should continue their positive growth, particularly consumer goods and capital goods. The monthly increase in total imports could be 6.2%, in line with an expansion in the non-seasonally adjusted series of around an annual 6%. Overall, we expect a negative balance of trade for February of around USD -707 million.

Chart 3
IGAE (% change, y/y and m/m)



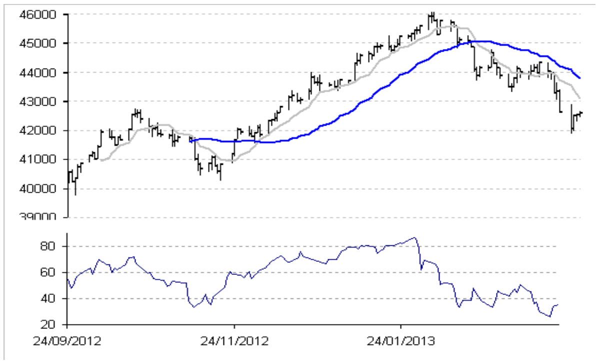
Source: BBVA Research with INEGI data

Chart 4
Goods imports and exports (y/y % change)



Source: BBVA Research with INEGI data

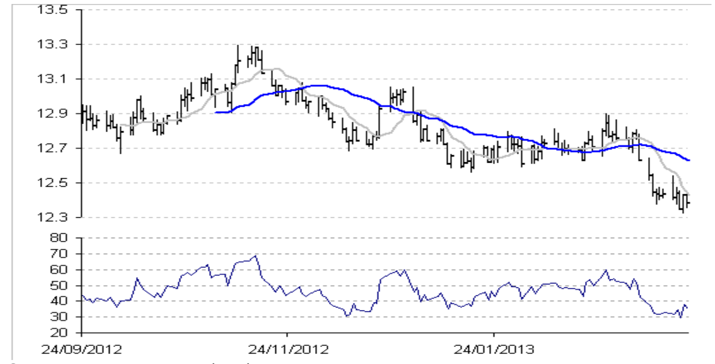
IPC



Source: BBVA, Bancomer, Bloomberg

With its drop to 42,000 points, the IPC has finally completed its move from the upper part of the channel in which it has operated since October 2011. We believe that the zone where it moved midweek should provide a strong support level for various reasons: the lower part of the channel is at this level; the moving 200-day average operates here; and it is the location of 68.2% of the retracement in a Fibonacci analysis using as a minimum the point where it began to pick up at the end of August last year. In addition, the RSI of the IPC stood at 26 points, indicating a high level of short-term overselling. Previous recommendation (18/3/13): We see 42,000 points as a stronger floor, since it is the lower band of the upward channel where the market has traded since October 2011. In addition, the IPC's 200-day rolling average trades at 41,850 pts, giving the technical level more strength.

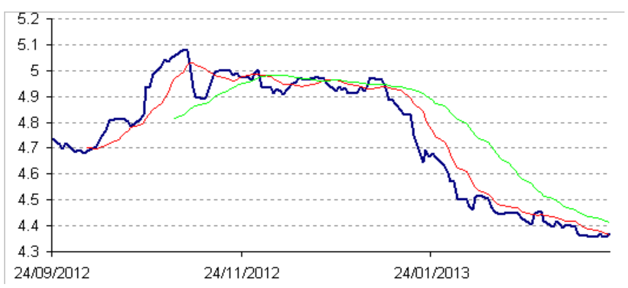
MXN



Source: BBVA, Bancomer, Bloomberg

The dollar breaks through the MXN 12.40 level it had respected for a number of sessions. After this breakthrough, the next support is in the MXN 12.20/12.15 zone. Previous Recommendation (18/3/2013): If it breaks through MXN 12.40, the next floor is between the MXN 12.20 and MXN 12.15 range.

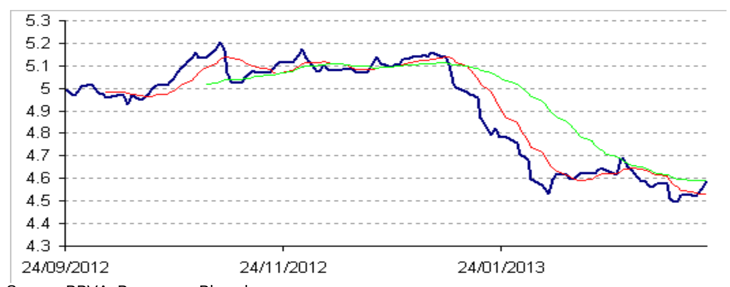
3Y M BOND



Source: BBVA, Bancomer, Bloomberg

3Y M BOND: (yield): the 3-year bond is beginning to move sideways, but has still not broken through any significant resistance as it is operating under the moving 10 and 30-day averages. Change of trend above 4.4%. Previous Recommendation (18/3/13). Major resistance at the 30-day moving average at 4.44%.

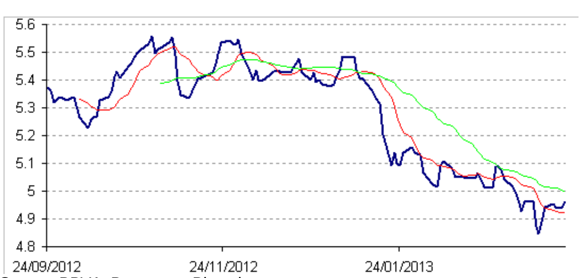
5Y M BOND



Source: BBVA, Bancomer, Bloomberg

5Y M BOND (yield): Weekly upturn, putting the 10-year bond above the 5-day moving average and reaching a stronger resistance at the 30-day moving average. . Important sign if it breaks thorough 4.6% to reach at least 4.7%. Previous Recommendation (18/3/2013: We can only consider it a major upward signal if it breaks through the 30-day moving average at 4.6%.

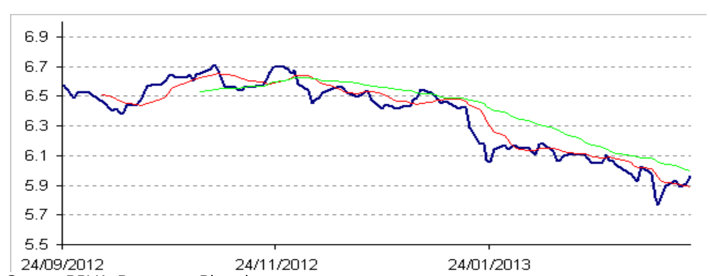
10Y M BOND



Source: BBVA, Bancomer, Bloomberg

10Y M BOND (yield): The 10-year bond is already trading at above the 10-day moving average and appears likely to break through the 30-day moving average at 5% toward the previous maximum of 5.1%. Previous Recommendation (18/3/13). We can only consider a trend change when it moves above 5.02%.

30Y M BOND



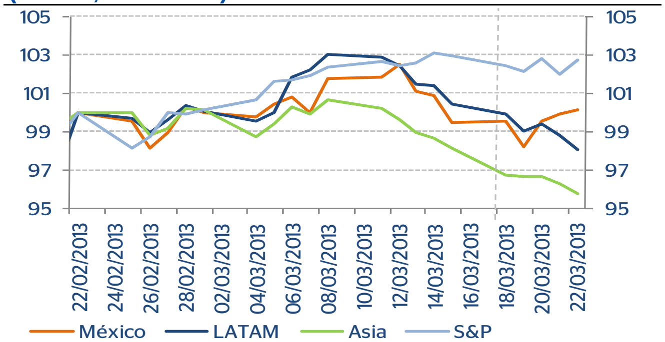
Source: BBVA, Bancomer, Bloomberg

30Y M BOND (yield): The 30-year bond is also likely to break through the resistance of the 30-day moving average at 6%, with the next resistance at 6.1%.Previous Recommendation (18/3/13). It will have to exceed 6.04% before a stronger upswing can be considered.

Markets, activity and inflation

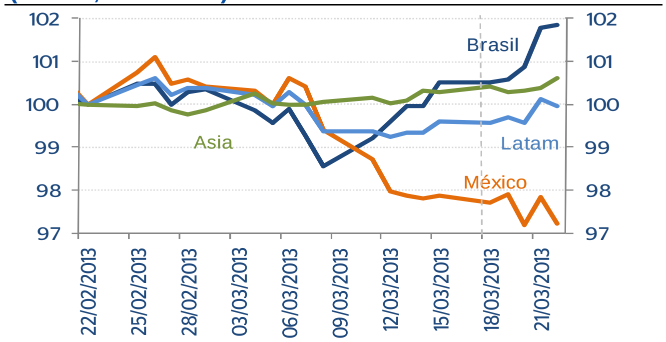
- **Following the falls in the shares of telecommunications companies last week, driven down by the reform initiative for the sector, this week the market recovered some of the losses and closed the week on a positive note, in contrast with the movements of markets in other regions. Meanwhile, the peso continued to appreciate.**

Chart 7
Stock Markets: MSCI indices (Feb 22, 2013 =100)



Source: Bloomberg & BBVA Research

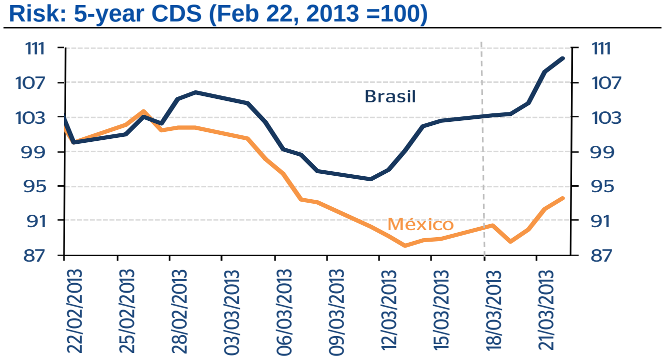
Chart 8
Foreign exchange: dollar exchange rates (Feb 22, 2013 =100)



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.

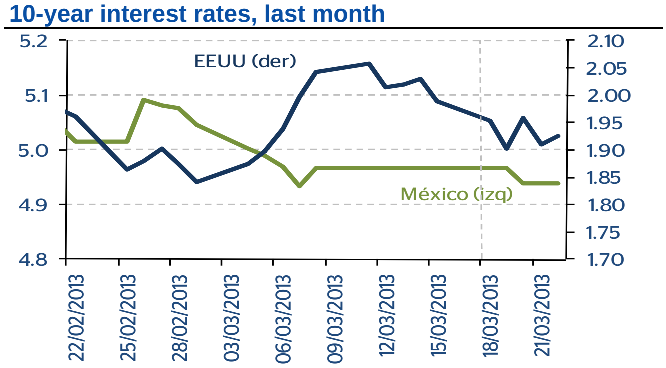
- **Although the increase in global risk aversion heightened this week due to the situation in Cyprus, in relative terms Mexico continued to stand out positively. Long-term rates in Mexico remained relatively stable during the week, despite the global shift toward risk-free assets.**

Chart 9
Risk: 5-year CDS (Feb 22, 2013 =100)



Source: Bloomberg & BBVA Research

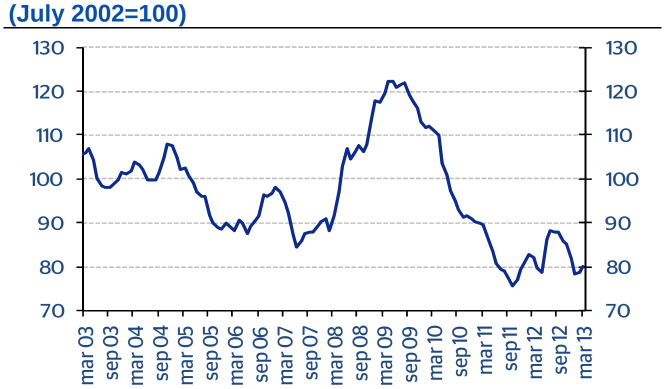
Chart 10
10-year interest rates, last month



Source: Bloomberg & BBVA Research

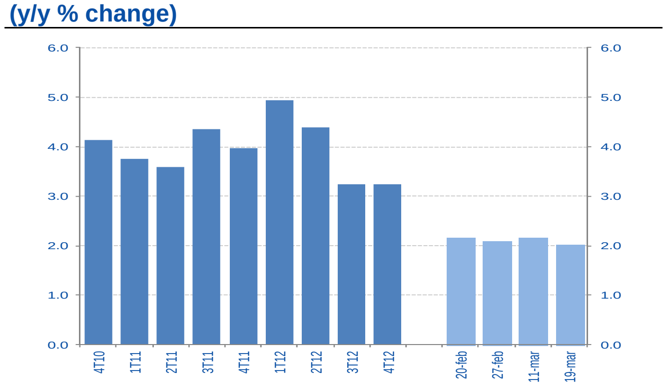
- **Inflation bounced back in the first half of March above the expected level. However, we consider that the upturn will be temporary and reach its high in April, after which it will moderate mid-way through the year.**

Chart 11
***Inflation Surprise Index (July 2002=100)**



Source: Bloomberg and BBVA Research
*This measures the deviations in inflation in comparison to market-forecast figures, adjusting for inflation volatility. When it trends down, this implies a lower-than-expected inflationary surprise; when it trends up, this indicates a higher-than-expected inflationary surprise.

Chart 12
Observed and estimated GDP (y/y % change)



Source: BBVA Research with data from Bloomberg

Claudia Ceja
claudia.ceja@bbva.com

Cecilia Posadas
c.posadas@bbva.com

Alejandro Fuentes Pérez
a.fuentes@bbva.com

Octavio Gutiérrez Engelmann
o.gutierrez3@bbva.com

+Ociel Hernández
ociel.hernandez@bbva.com

Pedro Uriz Borrás
pedro.uriz2@bbva.com

Iván Martínez
ivan.martinez.2@bbva.com

Rodrigo Ortega
r.ortega@bbva.com

Arnoldo López Marmolejo
arnoldo.lopez@bbva.com

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

IMPORTANT DISCLOSURES

The BBVA Group companies identified by the research analysts' names included on the page number 6 of this report have participated in or contributed to its preparation, including the information, opinions, estimates, forecasts and recommendations therein.

For recipients in the European Union, this document is distributed by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA"). BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.

For recipients in Mexico, this document is distributed by BBVA Bancomer, S.A. Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer (hereinafter called "BBVA Bancomer"). BBVA Bancomer is a bank supervised by the Comisión Nacional Bancaria y de Valores de México.

For recipients in USA, this document is being distributed by BBVA Securities Inc. (hereinafter called "BBVA Securities"), a subsidiary of Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") registered with and supervised by the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation. U.S. persons wishing to execute any transactions should do so only by contacting a representative of BBVA Securities in the U.S. Unless local regulations provide otherwise, non-U.S. persons should contact and execute transactions through a BBVA branch or affiliate in their home jurisdiction.

BBVA and BBVA Group companies or affiliates (art. 42 of the Royal Decree of 22 August 1885 Code of Commerce), are subject to the BBVA Group Policy on Conduct for Security Market Operations which establishes common standards for activity in these entities' markets, but also specifically for analysis and analysts. This BBVA policy is available for reference at the following web site: www.bbva.com.

Analysts residing outside the U.S. who have contributed to this report are not registered with or qualified as research analysts by FINRA or the New York Stock Exchange and may not be considered "associated persons" of BBVA Securities (as such term is construed by the rules of FINRA). As such, they are not subject to NASD Rule 2711 restrictions on communications with subject companies, public appearances and trading of securities held in research analysts' accounts.

BBVA is subject to a Code of Conduct for Security Market Operations, which details the standards of the above-mentioned overall policy for the EU. Among other regulations, it includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. This Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance.

BBVA Bancomer is subject to a Code of Conduct and to Internal Standards of Conduct for Security Market Operations, which details the standards of the above-mentioned overall policy for Mexico. Among other regulations, it includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. These Code and the Internal Standards is available for reference at the following web site: www.bancomer.com/GrupoBBVABancomer/Conócenos.

BBVA Securities is subject to a Capital Markets Code of Conduct, which details the standards of the above-mentioned overall policy for USA. Among other regulations, it includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers.

EXCLUSIVELY FOR RECIPIENTS RESIDENT IN MEXICO

In the past twelve months, BBVA Bancomer has granted banking credits to the following companies covered in this report: **ALFA, AXTEL, CONSTRUCCION Y SERVICIOS INTEGRALES SIGMA, CORPORACION GEO, DAIMLER MEXICO, FACILEASING, GENOMMA LAB INTERNACIONAL, GEO EDIFICACIONES, GRUPO CARSO, GRUPO CASA SABA, GRUPO CEMENTOS DE CHIHUAHUA, GRUPO COMERCIAL CHEDRAUI, GRUPO PALACIO DE HIERRO, IMPULSORA DEL DESARROLLO Y EL EMPLEO EN AMERICA LATINA, INDUSTRIAS BACHOCO, INMOBILIARIA RUBA, PEMEX CORPORATIVO, TIENDAS CHEDRAUI, URBI DESARROLLOS URBANOS, VOLKSWAGEN LEASING.**

In the past twelve months, BBVA Bancomer has granted *Representación Común* services to the following companies covered in this report: **N/A**

BBVA or one or more of its affiliates makes a market/provides liquidity in the securities of the following companies covered in this report: Casa de Bolsa BBVA Bancomer, MexDer Contrato de Futuros (Dólar de Estados Unidos de América (DEUA), TIIE de 28 días (TE28), Swap de TIIE, CETES de 91 días (CE91)), Bonos M, Bonos M3, Bonos M10, Indice de Precios y Cotizaciones de la BMV (IPC), Contrato de Opciones (IPC, Acciones América Móvil, Cemex, CPO, Femsa UBD, Gcarso A1, Telmex L), Udibonos.

As far as it is known, a Director, Executive Manager or Manager reporting directly to the BBVA Bancomer General Manager has the same position in the following companies that may be covered in this report: **Alfa, Alsea, America Movil, AMX, Asur, CMR, Coca-Cola Femsa, Consorcio Hogar, Dine, El Puerto de Liverpool, Fomento Economico Mexicano, Gruma, Grupo Aeroportuario del Pacifico, Grupo Aeroportuario del Sureste, Grupo Bimbo, Grupo Carso, Grupo Financiero Inbursa, Grupo Kuo, Grupo Maseca, Grupo Modelo, Grupo Posadas, Grupo Televisa, Industrias Peñoles, Invex Controladora, KOF, México, Grupo Aeroportuario del Centro Norte, Sanborns Hermanos, Sears Roebuck de México, Telecom, Telefonos de México, Tenaris, Urbi Desarrollos Urbanos, Vitro.**

BBVA Bancomer, and, as applicable, its affiliates within BBVA Bancomer Financial Group, may hold from time to time investments in the securities or derivatives financial instruments with underlying securities covered in this report, which represents 10% or more of its securities or investment portfolio, or 10% or more of the issue or underlying of the securities covered.

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.