BBVA | RESEARCH

Weekly Watch

Mexico

August 5, 2011

Economic Analysis

Pedro Uriz
pedro.uriz2@bbva.bancomer.com

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

Next week...

July Inflation and Quarterly Inflation Report.

Next week sees the release of July inflation figures which we expect to see an increase of 0.57% m/m (3.64% y/y). This slight upswing in inflation should mainly be down to non-core factors, specifically agricultural product prices. We estimate core inflation to see a 0.29% increase m/m and remain steady around 3.2% y/y thanks to slack on factor markets meaning demand avoids placing pressure on prices. Therefore, we repeat our forecast for inflation to close the year around 3.6%, without ruling out the existence of some upward risks such as an increase in commodity prices or fluctuations in agricultural product prices due to weather conditions.

With regard to the second quarter Banxico Inflation Report, special attention will need to be paid to the domestic output analysis, especially for coming months. This in view of the lower growth rate in recent months and downward revision to US output. We expect the proposed inflation scenario to be very similar to the last quarter and a mention of an improvement to the balance of risks in the face of economic moderation. Based on this, we do not expect major changes to monetary policy.

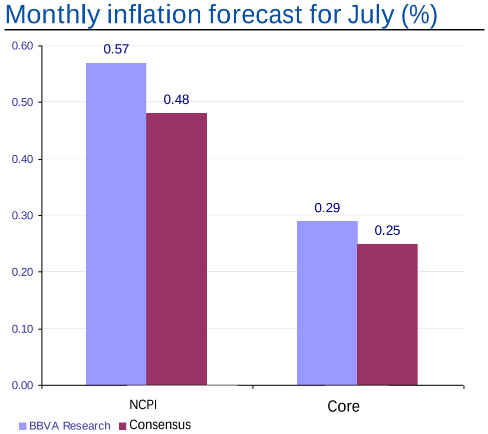
Market Analysis

Octavio Gutiérrez Engelmann
o.gutierrez3@bbva.bancomer.com

Upturn in cyclical risk aversion in the U.S., despite the fiscal and debt agreements. Uncertainty to continue

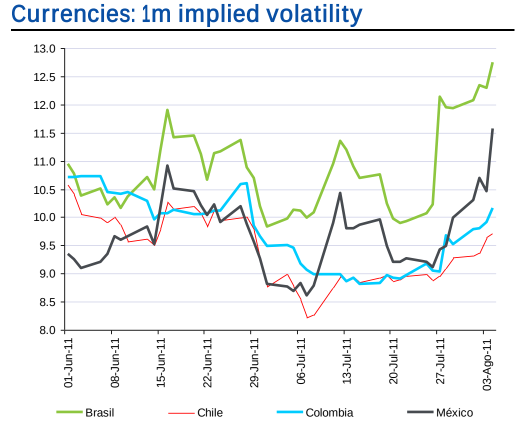
Major falls in risk assets in the face of uncertainty regarding the extent of U.S. slowdown. MXN with high weekly volatility, trading at 12.00 (vs. 11.73 at the start of the week) and with a fall in the IPC stock exchange of around 7%. The markets were focused on non-farm payroll data at the end of the week which did not support the pessimism over previous days. However, rumors of a US downgrade from S&P sparked fear. The bond markets saw a major downward move in the US curve and gains in domestic bonds. Given the current monetary stance, we believe that current levels are at lower limits.

Chart 1
Monthly inflation forecast for July (%)



Source: BBVA Research with Banamex Survey data

Chart 2
Currencies: 1m implied volatility



Source: BBVA Research with data from Bloomberg

Calendar: Indicators

Economic Analysis

Cecilia Posadas
c.posadas@bbva.bancomer.com

Industrial Output (June, August 11)

Forecast: 0.0% m/m (4.8)	Consensus: N.A.	Previous: 1.1% m/m (4.4)

This week, industrial output performance for last June will be released. It should be stated that after the pause in the recovery over previous months, May saw positive surprises with 1.1% growth over April, although mainly linked with a bounce in the automotive sector (11.3% m/m, -1.7% m/m on average for the previous three months), the improvement also included other manufacturing sectors such as machinery and equipment, and metal products

For June, according to AMIA data around 9% more automotive units were produced over June last year although nearly (-)2.7% less than the previous month. These automotive industry results alongside the slow improvement in the construction industry lead us to forecast total manufacturing to have remained almost unchanged over May, meaning annual growth of around 4.8% (seasonally adjusted).

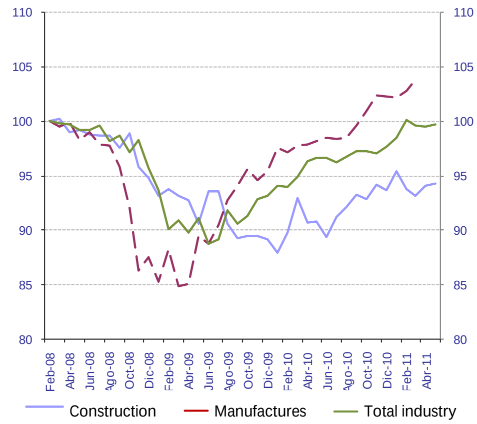
Structural Indicators for Occupation and Employment (2Q11, August 12)

Unemployment rate		
Forecast: 5.5%	Consensus: N.A.	Previous: 5.1%

Friday sees the release of employment performance in the second quarter of the year. Structural employment indicators will be important since they will provide a wider overview of the features of jobs created during the second quarter. Another major factor is the release of data based on expansion factors adjusted to final data from the Population and Housing Census 2010.

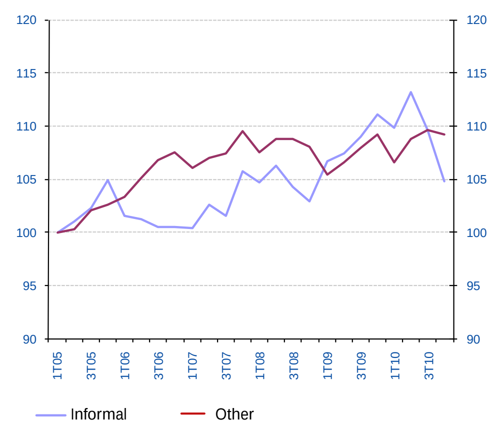
Knowing performance in the second quarter for indicators such as employment, under-employment, employment in critical conditions, the evolution in informal employment as well as population based on income level will be important to see the strength of the recovery. It should be stated that until present, the low salary level for new jobs has been one of the main weaknesses behind the recovery in household spending. We expect the unemployment rate to come in around 5.5% of the population (seasonally adjusted), above the 5.1% average in the 1Q11.

Chart 3
Industries: Construction and Manufacturing (100 at cycle maximum)



Source: BBVA Research with INEGI data

Chart 4
Employment: Informal and Other (1Q05=100)



Source: BBVA Research and INEGI

Markets

Global markets value what the level of economic adjustment in the U.S. will be; rising cyclical risks specifically affect Mexico

Although the fiscal and debt agreements in the U.S., together with good manufacturing figures (PMI) from China, put a positive bias on the start of last week, there was more risk aversion in the markets due to the greater than expected risk of an economic slowdown in the U.S. (disappointing GDP and manufacturing data); in addition, higher weekly adjustments were seen in Mexico due to its exposure to the US economy; the MXN saw increased volatility and trades up to 12.00 compared with 11.73 at the start of the week. The currency may continue extremely volatile within this broad corridor in response to economic news from the U.S.

Market Analysis

Macro LatAm Strategy
Octavio Gutiérrez Engelmann
o.gutierrez3@bbva.bancomer.com
+5255 5621 9245

LatAm Equity
Chief Analyst
Rodrigo Ortega
r.ortega@bbva.bancomer.com
+52 55 5621 9701

Latam Credit
Mexico
Chief Analyst
Edgar Cruz
edgar.cruz@bbva.bancomer.com
+52 55 5621 9774

Fixed-Income Analysis
Mexico/Brazil
Chief Strategist
Ociel Hernández
o.hernandez@bbva.bancomer.com
+5255 5621 9616

Liliana Solis
liliana.solis@bbva.bancomer.com
+5255 5621 9877

FX Mexico // Brazil
Claudia Ceja
claudia.ceja@bbva.bancomer.com
+5255 5621 9715

Technical Analysis
Alejandro Fuentes
a.fuentes@bbva.bancomer.com
+52 55 5621 9975

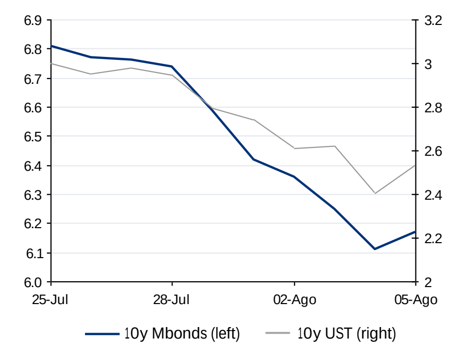
Major downward move in the US curve leading to gains in domestic bonds...

The increased cyclical uncertainty in the US and risk premiums for the European debt crisis (spreading to Italy and Spain) led to a higher appetite for debt curves which led to a major downward move in the US debt curve (the 10 year managed a major rally to 45bp since July 28). In line with this move, domestic bonds saw gains (although they partly reversed at the end of the week after the release of US job data). Given the current monetary pause, we believe that current levels are at lower limits. Therefore, there should be no further support although the current global scenario limits such a strong bounce as that seen last year.

...and the Stock Market sees a major downward weekly adjustment despite corporate earnings

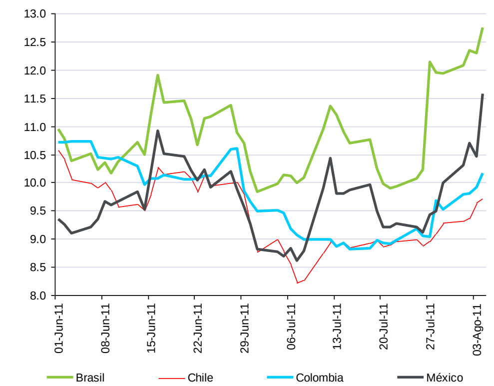
Global markets continue to be affected by the cyclical and sovereign balance of risks despite better-than-expected corporate earnings in the US and Mexico. In the US, with nearly 80% of company reports in, the level of positive surprises in EPS and sales comes in around 60%. Until the present, companies are seeing growth of 11.9% and 17.2% in sales and EPS respectively. Figures are 1.8% and 4.7% better than the consensus. In Mexico, after reports from Gmexico and Pe&oles, final growth was 12.5% in sales, 9.7% in EBITDA and -10.2% in net earnings, recalling that removing the sale of beer assets by Femsa the previous year, growth in net earnings came in at almost 40%. Earnings are, at the end of the season, 2.6% higher in sales, 1.9% better in EBITDA and 3.9% higher than expected in Net Earnings compared with our estimates. Despite this, falls in the IPC stock market (around -7% over the week) are down to doubts on US growth and the ability of the authorities to put counter-cyclical policies into effect.

Chart 5
Yield change in 10-year UST and Mbonds (%)



Source: BBVA Research with data from Bloomberg

Chart 6
Currencies: 1m implied volatility



Source: BBVA Research with data from Bloomberg

Market Analysis
Equities

Technical Analysis
Alejandro Fuentes Pérez (*)
a.fuentes @bbva.bancomer.com
+ 5255 5621 9705

(*) Writer(s) of the report

Technical Analysis

IPC Stock Market Index

Source: BBVA, Bancomer, Bloomberg

IPC: The week's move took short-term technical indicators to extremely high overselling zones for Mexico and the US. Only a few IPC issuers are not seeing a short-term buy opportunity. We believe that these forward conditions in the negative movement should lead to a technical bounce or a pull-back that discounts some of the weekly decline. The target levels we could consider for this move come in at 34,300pts and 34,700pts.

Previous rec.: With this break, the IPC should come in at its next resistance level of 36,600pts, where the 200-day rolling average sits. We see the first support at the 10-day rolling average over 35,660pts.

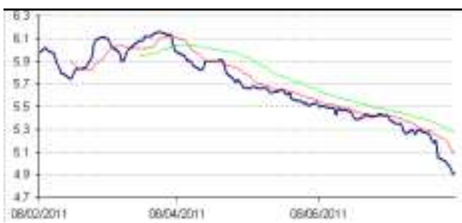
MXN

Source: BBVA, Bancomer, Bloomberg

The dollar moves up through the MXN 11.80 resistance and hits the next resistance zone around MXN 12.00. Sings of over-buying in the oscillating indicators, as well as the psychological level and 200-day rolling average should make breaking this zone difficult and favor a return to the first support now at MXN 11.80.

Previous rec.: The break of P$11.80 could place the next resistance at P$11.90 and P$12.00.

3Y M BOND

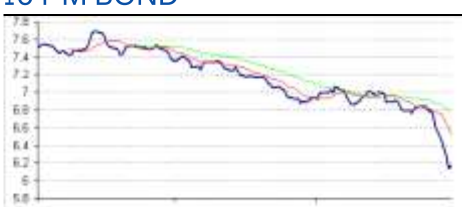


Source: BBVA, Bancomer, Bloomberg

3Y M BOND: (yield): Major fall over the week leads to high over-selling. Support at 4.8% and resistances at 5.07 and 5.26%. Likely to see a short-term bounce.

Previous rec.: Due to such high over-selling, it should see an upward bounce towards 5.25% again to the high part of the range.

10Y M BOND



Source: BBVA, Bancomer, Bloomberg

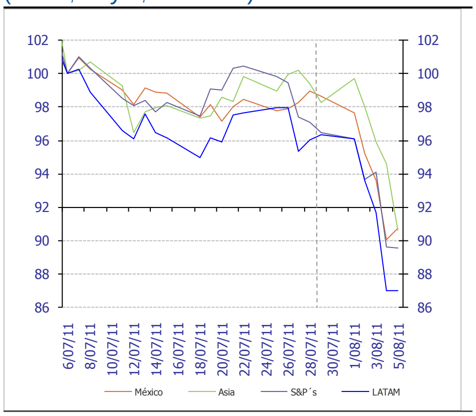
10Y M BOND (yield): Fall breaking the negative range base to fall near the 6% floor. Upturn toward resistances at 6.5 and 6.77%.

Previous rec.: We can expect a limited bounce to 6.88%. Only above this level does it start to set a change in the trend.

Markets

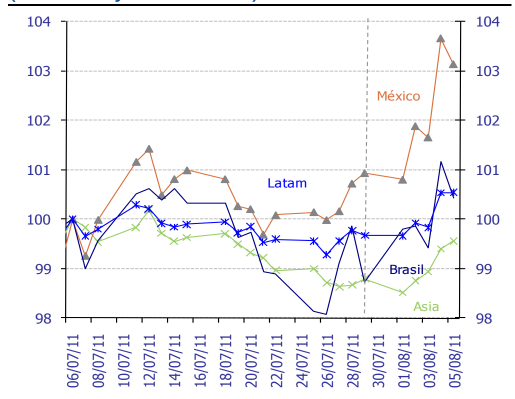
Personal spending and manufacturing output data in the US below expectations lead to declines on stock markets over the week, as well as a lower peso. Slight above-expectations US job data and an announcement on debt reduction in Italy halt falls at the end of the week

Chart 7
Stock Markets: MSCI Indices
(Index, July 6, 2011=100)



Source: Bloomberg & BBVA Research

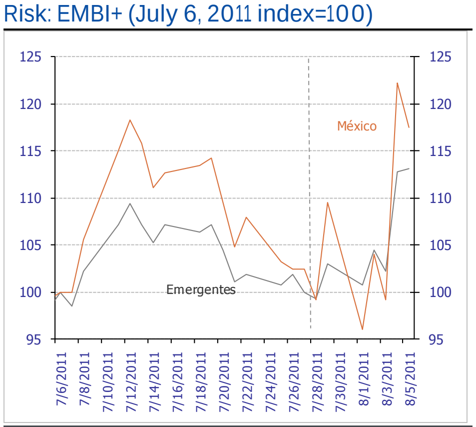
Chart 8
Foreign exchange: dollar exchange rates
(Index, July 6, 2011=100)



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

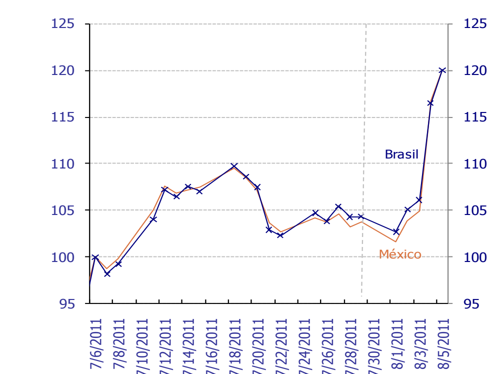
Increase in risk aversion after US data release pointing to a doubtful recovery. The possible downgrade in US debt and the debt problems in Europe increase volatility

Chart 9
Risk: EMBI+ (July 6, 2011 index=100)



Source: Bloomberg & BBVA Research

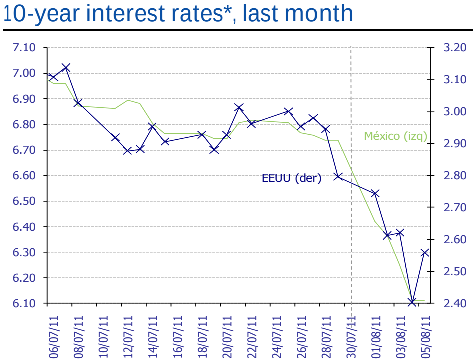
Chart 10
Risk: 5 year CDS (July 6, 2011 index=100)



Source: Bloomberg & BBVA Research

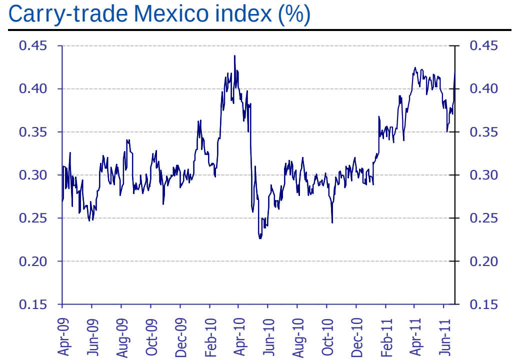
Fall in U.S. rates in the face of demand for safe-haven assets (flight to quality). Rates in Mexico dominated by correlation with US T-Bills

Chart 11
10-year interest rates*, last month



Source: Bloomberg & BBVA Research

Chart 12
Carry-trade Mexico index (%)

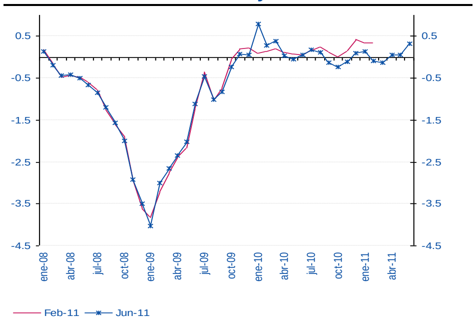


Source: BBVA Research with data from Bloomberg

Activity, inflation, monetary conditions

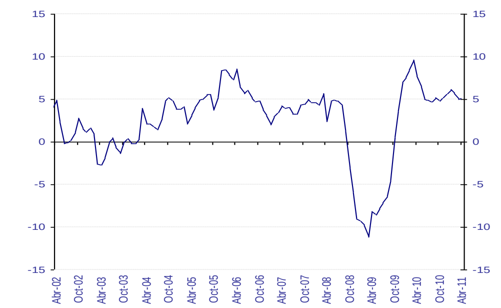
For the time being, recent output data point to moderation in April being temporary and linked to industrial output

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.

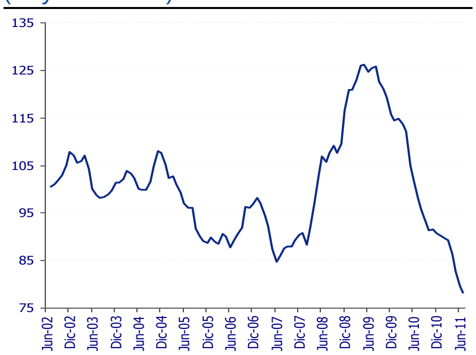
Chart 14
Advance Indicator of Activity (% change y/y)



Source: INEGI

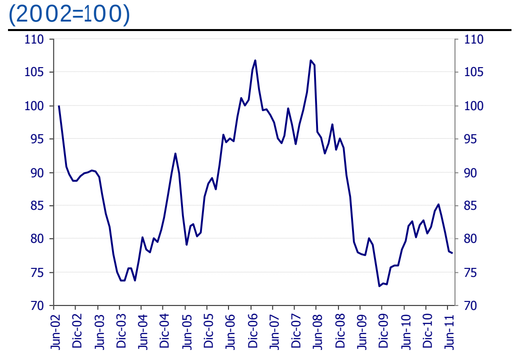
Recent inflationary surprises have been downward, while those concerning economic activity have been mixed.

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.

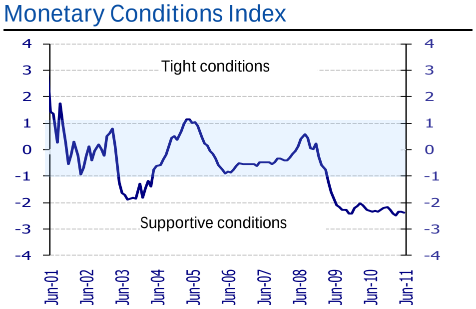
Chart 16
Activity Surprise Index (2002=100)



Source: BBVA Research with Bloomberg data. Difference between recorded data and the Bloomberg consensus for seven activity variables in Mexico. Standardized index. Rises (falls): positive (negative) surprises.

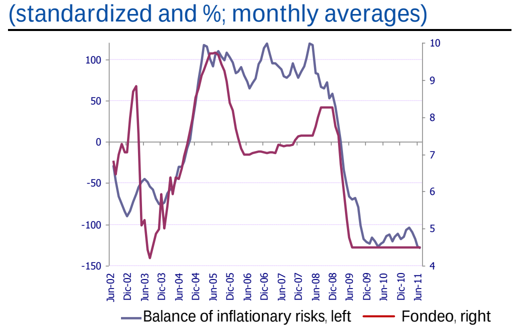
The monetary conditions have not changed and continue to be loose, with this loosening in fact increasing slightly in recent days.

Chart 17
Monetary Conditions Index



Source: BBVA Research

Chart 18
Balance of Inflationary Risks* and Lending Rate (standardized and %; monthly averages)



Source: BBVA Research. *Standardized, weighted index (between inflation and economic growth); uses economic indicators for activity and inflation. A rise in the index points to a greater weight of inflationary risks over growth risks and thus a greater likelihood of monetary restriction

IMPORTANT DISCLOSURES

Analysts' Certification

I, Octavio Gutiérrez, Rodrigo Ortega, Edgar Cruz, Claudia Ceja, Ociel Hernández, Liliana Solis and Alejandro Fuentes Pérez: hereby certify that the views expressed in this research report accurately reflect my personal views about the mentioned corporation(s) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for any specific recommendation in this report..

Rating, target price and price history information for the companies that are the subject of this report are available at www.bancomer.com

Receipt of Compensation / Provision of Services current as of 7/15/11

Management or Co- Management of Public Offering. Within the past twelve months, BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer ("BBVA Bancomer"), and/or its affiliates, have participated as manager or co-manager in public offerings, and received compensation for these services, of the company(ies), which is(are) the subject of this report: Actinver, Banco Interacciones, Banco Inbursa, BNP, Bimbo, Caterpillar Credito, Cemex, Comisión Federal de Electricidad, Corporación Interamericana de Inversiones, Chedraui, Daimler, Embotelladoras Arca, El Puerto de Liverpool, Ferrocarril Mexicano, Fonacot, GE Capital Bank, General Electric, GMAC, Hipotecaria su Casita, HSBC, Maxcom, Megacable, Nemak, NRF(Nissan), OHL, Paccar, Pemex, Posadas, Prudential Fiancial, Ruba, Telmex Internacional, Telefónica Móviles México, Toyota, Urbi, VWLease.

Investment Banking Compensation. Within the past twelve months, BBVA Bancomer, and/or its affiliates, have received compensation for investment banking, common representation and credit related services from the Company/ies, which is(are) the subject of this report: Acciona, Aeromexico, Agropecuaria Santa Genoveva, Alsea, América Móvil, Asur, Avicola Pilgrim´s Pride de Mexico, Axtel, Bancomext, Banco de Credito e Inversiones, Banorte, BMV, Cemex, Cencosud, CIE, Cintra, Colbun, Comercial Mexicana, Comisión Federal de Electricidad, Concesionaria Mexiquense, Consorcio Comex, CAF, Controladora de Farmacias, Copamex, Coppel, Corporación Geo, Corporativo Arca, Corporación Moctezuma, Credito Inmobiliario, Daimler Chrysler de México, Dine, El palacio de Hierro, Elementia, Empresas Cablevisión, Endesa (Chile), Facileasing, Factoring Corporativo, Farmacias Benavides, FCC, Femsa, Ferrosur, Fomento de Infraestructura Turistica Cancun, Gas Natural Mexico, GEO, Gruma, Grupo Alfa, Grupo Ara, Grupo Brescia, Grupo Bimbo, Grupo Carso, Grupo Casa Saba, Grupo Cementos de Chihuahua (GCC), GAP, Grupo Comercial Chedraui, Grupo Collado, Grupo Comercial Gomo, Grupo Dermet, Grupo Elektra, Grupo Famsa, Grupo Femsa, Ford Credit Mexico, Grupo Financiero Inbursa, Grupo R, Grupo Scotiabank, Grupo Herdez, Grupo ICA, Grupo La Moderna, GMAC, Grupo Maseca, Grupo México, Grupo Posadas, Grupo R, Grupo Sanborns, Grupo TMM, Grupo Videomax, Grupo Xignux, Hilasal Mexicana, Homex, HSBC, Holcim (Apasco), Hylsamex, Imsa/Tarida/Ternium, Industrias Bachoco, Hipotecaria Casa Mexicana, Hipotecaria su Casita, ICA, Industrias Aluprint, Industrias CH, Industrias Peñoles, Inmobiliaria Ruba, Interceramic, Kansas City Southern de México, Kaupthing Bank, Kimberly Clark México, Lamosa, Liverpool, Mabe, Manufacturas Kaltex, Medica Sur, Megacable, Mexichem, Minera los Pelambres, Molymet, Municipio de Aguascalientes, Nadro, Nafin, NRF México, Nemak, OHL, Paccar, Pasa, Pemex, Petrotemex, Pimsa, Plavicom, Prolec GE, Ruba, Sare, Sears, Sigma, Simec, Scotia Bank Inverlat, Techint, Telefónica CTC, Telefónica Móviles, Telint, Tenaris, Toyota, Urbi, Value, Volcan Cia Minera, VWLease.

Expected Investment Banking and services Compensation. In the next three months, BBVA Bancomer, and/or any of its affiliates, expects to receive or intends to seek compensation for investment banking, common representation and credit related services from the company (ies) discussed in this report.

BBVA Bancomer acts as market maker/specialist in: 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.

BBVA acts as market maker/specialist in Latibex: Alfa, AMX, Corporación Geo, Grupo Modelo, ICA, Sare, Telmex.

BBVA Bancomer, is recognized by Mexico´s Finance Ministry as a market improver and acts as a market maker/specialists in MEXDER, Mercado Mexicano de Derivados.

Ownership Positions

BBVA Bancomer, and/or its affiliates holds, directly or indirectly, at least 1 % of the equity capital of the following company/ies whose shares are open to negotiation in organized markets and which is(are) the subject of this report: BOLSA, CEMEX VENEZUELA, GAP, GRUPO TELEVISA, GRUPO VIDEOVISA, MAXCOM TELECOMUNICACIONES, PASA.

BBVA Bancomer, and/or its affiliates hold(s), directly or indirectly; as of the end of the last quarter, at least a 10 % of it´s investment portfolio, or 10% of the amount issued, of the securities or underlying investments issued by the companies which is(are) the subject of this report: AXTEL.

Other Disclosures

To the best of BBVA Bancomer´s knowledge, a Member of it´s Board, it´s CEO or Senior Manager holding a direct reporting position to BBVA Bancomer´s CEO holds a similar position in any of the following company/ies which is(are) the subject of this report: Alfa, Alsea, Amx, Asur, Bimbo, CMR, Dine, Femsa, GAP, Gmodelo, Grupo financiero Inbursa, Grupo Carso, Grupo Posadas, Hogar, Invex, Kof, Kuo, Liverpool, Maseca, Oma, Peñoles, Sanborns Hermanos, Sears Roebuck, Telecom, Telefónica Móviles México, Telmex, Tenaris, Tlevisa, Urbi, Vitro.

Additional Information and Disclaimer

Ratings and Price Targets

As of March 31, 2011, for the whole universe of companies which BBVA Bancomer, has under coverage there are 53% Buy ratings (including "Buy" and "Outperform"), 4% Neutral ratings and 43% Sell ratings (including "Sell" and "Underperform"). BBVA Bancomer or any of its affiliates has rendered Investment Banking services or participated as manager and/or co-manager in public offerings in 57% of the Buy ratings, 14% of the Neutral ratings and in 29% of the Sell ratings.

Ratings are set on a six-month or year-end basis against the relevant benchmark. BBVA Bancomer issues three equity recommendations: Outperform: Upside potential of more than 5% vs. the market. Neutral: Stock is expected to perform in line with the market (+/-5%). Underperform: Expected downside of at least 5% vs. the market:

Recommendations reflect the stock´s expected performance vs the market, within a specified period. This performance may be explained by the fundamental stock valuation method and other factors. The fundamental stock valuation method used by BBVA Bancomer S.A., is based on a combination of one or more generally accepted financial analysis methodologies, which may include, multiples, discounted cash flows, sum of parts or any other methodology that applies to the particular case. Notwithstanding other factors include newsflows, benefit timing, M & A´s and market´s appetite in a given sector. These factors can lead to a recommendation contrary to that indicated by the simple fundamental valuation results and its comparison with direct quotations.

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by BBVA Global Markets Research an affiliate of Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) and/or BBVA Bancomer, to provide their or its customers with general information as of the date of the report and are subject to changes without prior notice. BBVA Bancomer is not liable 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, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind. For more information please contact the persons included in the directory of this document.

The determination of a price target does not imply any warranty that it will be attained. For a discussion of the risks associated with the attainment of price targets, which depend on intrinsic and extrinsic factors that affect both the performance and trends prevailing in the market on which the recommended securities is traded and/or offered, please refer to our recently published documents, which are available via e-mail, contact our analysts or visit our internet site www.bancomer.com.

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 goal, financial position or risk profile, for these have not been taken into account in the preparation of this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. 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.

BBVA Bancomer, as web as its executives and employees have adopted the Código de Conducta de Grupo Financiero BBVA Bancomer, which is available in our internet site www.bancomer.com.

BBVA Bancomer, BBVA and the entities of the BBVA Group, including BBVA Global Markets Research, are subject to BBVA Group Policy on Conduct in the Securities Markets. In each entity where the Group Conducts Businesses in the Security Markets, the Policy is supplemented with the Internal Standards of Conduct which, among other regulations, include rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance / Conduct in the Securities Markets.

BBVA Bancomer is regulated by the Comisión Nacional Bancaria y de Valores.

“Banco Bilbao Vizcaya Argentaria S.A. (CE number AFR194) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission in Hong Kong”

BBVA Bancomer BBVA Brazil, BBVA Continental, BBVA Banco Frances, BBVA Chile as well as other entities in the BBVA Group that are not members of the *FINRA* (Financial Industry Regulatory Authority), are not subject to the rules of disclosure affecting such members.

This material is being distributed into the United States in reliance on an exemption from broker-dealer registration under Rule 15a-6 of the Rules under the Securities Exchange Act of 1934. Any trades in the securities discussed in this report must be effected through a U.S. registered broker/dealer as we are not authorized to accept any order to effect trades in any security discussed in this report within the U.S.