BBVA | RESEARCH

Weekly Watch

Mexico

August 19, 2011

Economic Analysis

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

Next week...

Monetary policy decision: no changes in the reference rate of 4.5%

After the slight downward revision of the economic growth expectations presented by Banxico in its last Inflation Report, we expect the reference rate to remain unchanged at its meeting next Friday. The change in the tone of the central bank regarding domestic activity will be particularly important, especially in a situation in which the derivatives market appears to be ruling out a decrease in the funding rate for certain periods. In that regard, though Banxico's inflation report for the second quarter indicated that the balance of risks for domestic growth has deteriorated, we believe that a downward movement in the rate should be preceded by clear signs in its communications. At the moment, these signs have not been present in the tone of recent communications (reports, minutes and inflation report). In addition, the recent economic growth data is maintained in line with our growth forecasts for 2011. Thus, we maintain our forecast for a prolonged pause until at least June 2012.

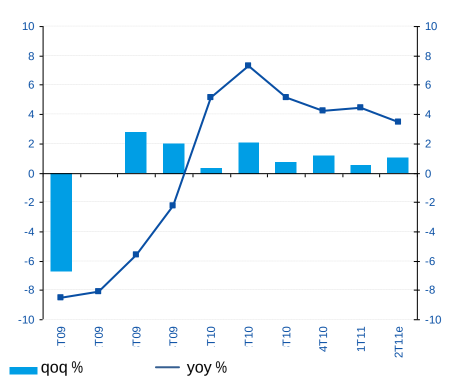
Market Analysis

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

Lack of fiscal agreements in developed economies will continue to trigger episodes of intense volatility. Markets awaiting Jackson Hole

In fixed-income, greater risk aversion predominated due to the publication of weak data for the USA that resuscitated fears of recession. Therefore, the USTs broadened their gains, with the 10-year bill at levels that have not been seen since 2008. Mexican bonds also followed this dynamic, and we believe the curve incorporates the scenario of a prolonged monetary pause and even has room for monetary easing. In the money market, the MXN will continue to be one of the currencies that is most sensitive to economic data in the US and, in particular, to Bernanke's speech at the Fed meeting in Jackson Hole on August 26th. The fluctuation ranges for the MXN this week could remain high at between 12.15 and 12.5.

Chart 1
Mexico: GDP (% change y/y and q/q)



Source: BBVA Research with INEGI data

Chart 2
10-Year Bond Performance: Mexico vs. USA (%)

Source: BBVA Research with data from Bloomberg

Calendar: Indicators

Economic Analysis

Pedro Uriz
pedro.uriz2@bbva.bancomer.com

Cecilia Posadas
c.posadas@bbva.bancomer.com

Inflation (1st two weeks of August, August 24)

Forecast: 0.16% bi-weekly (3.57% y/y)	Consensus: 0.21% bi-weekly.	Previous: 0.48% m/m (3.55% y/y)

The inflation for the first two weeks of August will be published next week. We estimate core inflation will rise 0.12% m/m and that within this category the upward pressure will be seen in processed foods, while the rest of their components will maintain their downward trend. Furthermore, non-core inflation will lose some of the impulse presented in July as the pressures on the prices of fruits and vegetables have eased in recent weeks. For year-end, we estimate that inflation will be situated at nearly 3.6%, although we should mark a downward bias in the event of deterioration of economic activity.

Balance of Payments (2Q11, August 25)

Current Account		
Forecast: -175 md	Consensus: N.A.	Previous: -1375.9 md

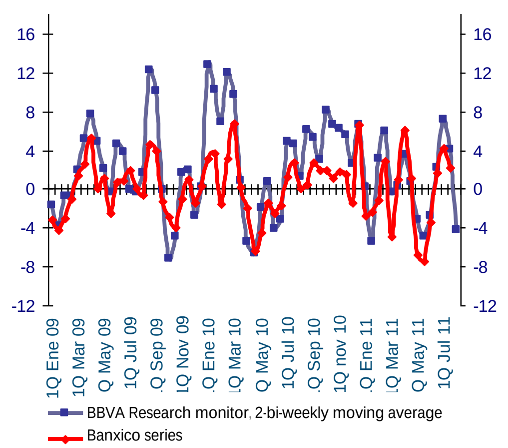
The 2Q11 balance of payments will be released next Thursday. Within this category, we estimate that the current account balance will record a slight deficit of nearly -0.1% of GDP. Throughout 2Q11, the surpluses in the balance of trade and transfers partially offset the deficits recorded in the service and income balance. The Current Account will continue to present positive performance to the extent that the dynamism of the export sector is greater than the domestic demand, which has recovered at a slower rate.

Retail Sales Index (June, August 22)

Forecast: 0.5% m/m (3.1% y/y)	Consensus: N.A.	Previous: -2.1% m/m (1.1% y/y)

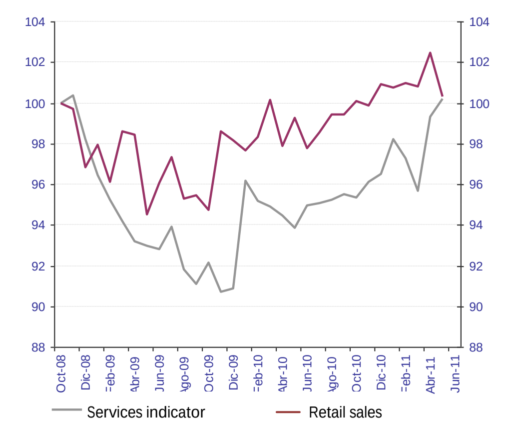
The performance of the services sector, as well as the indicator of retail sales for June will be published on Monday. For retail sales, we expect improvement following the negative surprise in the May data; in the aggregate service sector, we expect moderation since several of its components have presented a delayed reaction to external impulses, so that the positive data from May could be moderated towards June.

Chart 3
BBVA Research monitoring of agricultural prices and Agricultural product inflation (% Change, bi-weekly)



Source: BBVA Research with INEGI data

Chart 4
Domestic Market Indicators (Oct08=100)



Source: BBVA Research and INEGI

Market Analysis

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

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

Markets

The elevated volatility of the MXN persists due to the exposure to cyclical risks in the US. Fed meeting in Jackson Hole will be key

Though the MXN closed last week near its weekly opening (12.3), the ranges of fluctuation were broad (12.14 and 2.43) with implied volatility still high. The elements of risk continue to be linked to the economic cycle in the US and the fiscal situation in the EMU. In the US, the negative surprises in the economic indicators published over the week boosted a new search for safe-haven currencies (the CHF and JPY), though this effect continues to be countered in part by the interventionist language of their central banks. With respect to the fiscal situation of the EU, the lack of clear solutions offered at the press conference following the meeting between Merkel and Sarkozy led to a fall in the euro and in general of all the currencies exposed to the region.

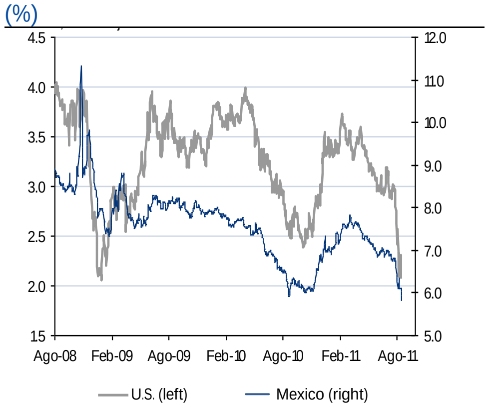
In this situation, the MXN will continue to be one of the currencies that is most sensitive to economic data in the US and, in particular, to Bernanke's speech at the Fed meeting in Jackson Hole on August 26th. The fluctuation range for the MXN this week could remain high at between 12.15 and 12.5.

Ten-year notes in the US are near 2008 levels and curves in Mexico incorporate a monetary backdrop of a more-prolonged pause and even easing

In fixed-income, greater risk aversion predominated due to the publication of weak data for the USA that resuscitated fears of recession; this was in addition to the uncertainty produced as a result of a potential lack of capital in European banks. This triggered a sale bias for assets with risk, and favored a strong demand for fixed-income instruments. Thus, the UST broadened their gains, with the 10-year bill at levels that have not been seen since 2008.

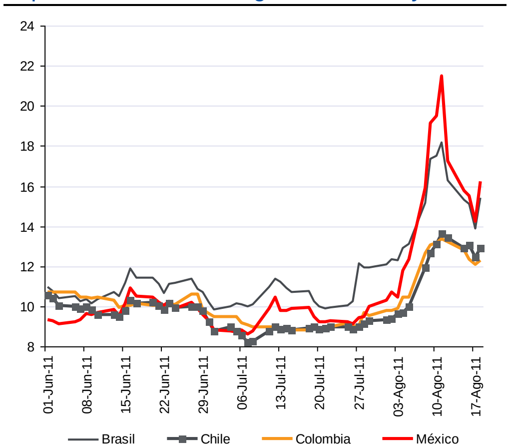
This context moved to domestic bonds, which also increased their gains over the week. We believe that the current level of the debt curve already incorporates the prolonged monetary pause scenario, and even has room for a 50bp movement of monetary easing. Thus, in spite of the fact that the context should not strongly boost the performance of the MBonds and UST curve upwards, we do believe that the level is already at its minimum and that the local curves will continue to increase their sensitivity, in line with the strong foreign demand in search of carry-trade.

Chart 5
10-Year Bond performance: Mexico vs. USA (%)



Source: BBVA Research with data from Bloomberg

Chart 6
Implied 1-month exchange-rate 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

CPI

An upturn of volatility in the last two sessions of the week have deteriorated the short-term forecast, opening the door for a return to the minimum levels for the month. Though the CPI has not closed under its 10-day rolling average (33,160 pts), the increase in volatility could lead to a fall to levels of between 32,000 and 31,700 pts.

The testing of those minimums will be important since it will determine if the CPI will be capable of forming a "double fund" that gives them the necessary strength for a rebound that is greater than the previous one or, otherwise, if it will mark a minimum lower than the previous one and reinforce the negative trend for the short-term.

Previous Rec.: We believe that a return of this nature should be used to take up new positions, as the short-term oscillators are still far from the overbuying zones, even with this upturn.

Source: BBVA Bancomer, Bloomberg

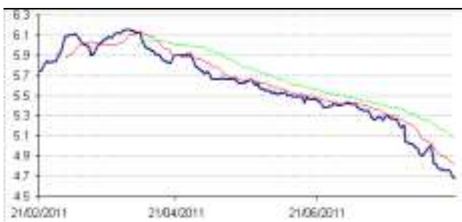
MXN

Though the dollar was already operating under its CPI 10-day rolling average and below the support level of MXN 12.20, the increase in volatility led it to be situated above those technical levels once again. Overbuying remains elevated and we believe that a new adjustment should come when nearing the MXN 12.50 zone.

Previous Rec.: With strong resistance at MXN 12.50, we believe that it should return to the MXN 12.20 area or even MXN 12.00 before breaking this resistance.

Source: BBVA Bancomer, Bloomberg

3Y M BOND

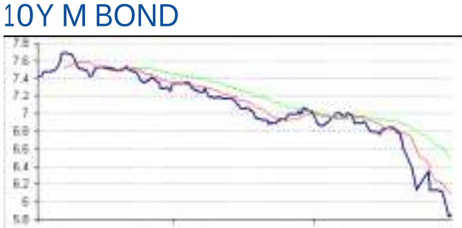


3 Y M BOND: (yield): Maintaining its strong downward move and surpassing the previous minimum of 4.85%. Overbuying increases, but a bounce might encounter resistance at 4.8% and 5.06%. Only above this level would it set a change in the trend.

Previous Rec.: Initial resistance at 4.92% and 5.17%.

Source: BBVA Bancomer, Bloomberg

10Y M BOND



10-YEAR M BOND (performance): Exceed the 2010 minimum of 6%. High overbuying but we can only consider a change in the trend if the resistance of 6.1% and 6.5% are exceeded.

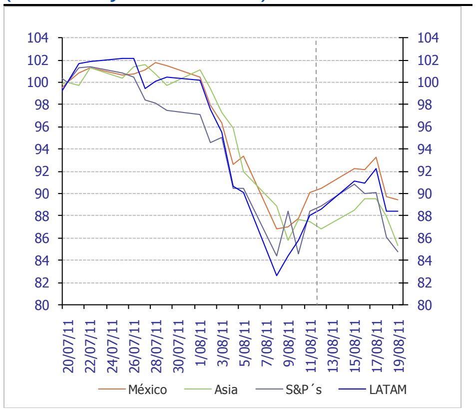
Previous Rec.: Can still find levels of 6% that are equivalent to the minimums of the previous year

Source: BBVA Bancomer, Bloomberg

Markets

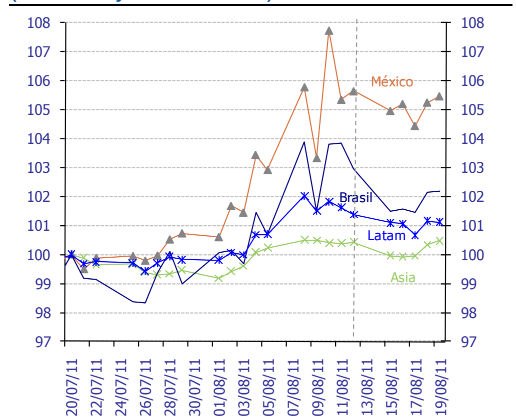
Losses and volatility in stock markets and foreign currency depreciation at the end of the week following the release of lower-than-expected U.S. job creation and manufacturing and European growth figures. Lack of definitive solutions to the debt problems in Europe increase the volatility.

Chart 7
Stock Markets: MSCI Indices
(Index, July 20, 2011=100)



Source: Bloomberg & BBVA Research

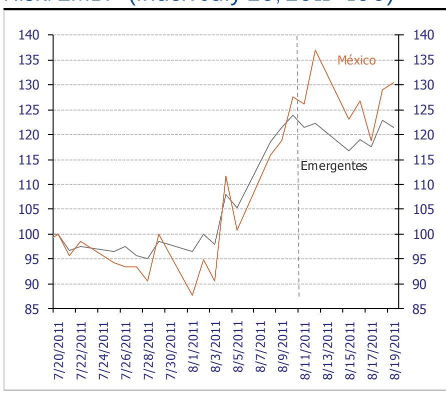
Chart 8
Foreign exchange: dollar exchange rates
(Index, July 20, 2011=100)



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

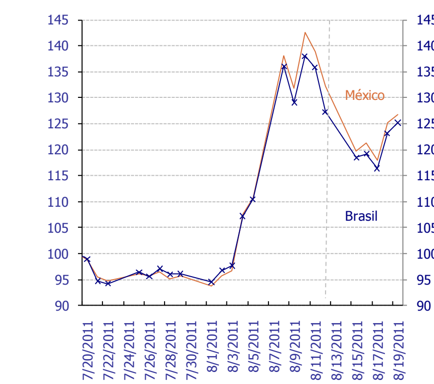
Rise in risk aversion in recent days due to the exacerbated fears of a recession in the US and the absence of agreement among European leaders to resolve their debt crisis.

Chart 9
Risk: EMBI+ (Index July 20, 2011 =100)



Source: Bloomberg & BBVA Research

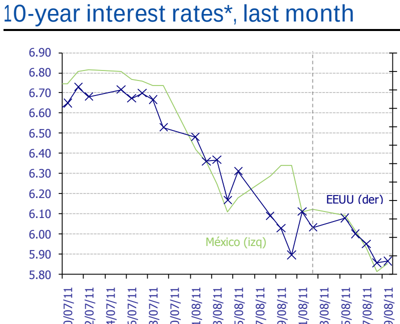
Chart 10
Risk: 5-year CDS (Index July 20, 2011 =100)



Source: Bloomberg & BBVA Research

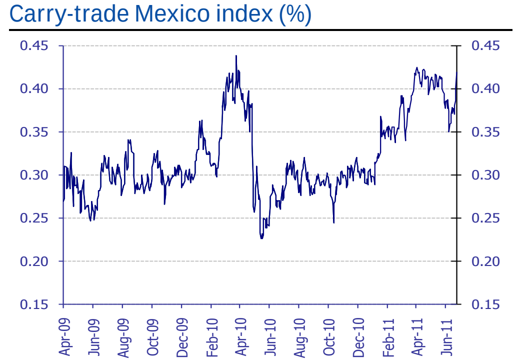
Fall in U.S. rates to historic levels in the face of demand for safe-haven assets (flight to quality). Rates in Mexico in a downward trend as a result of their correlation with US T-Bills

Chart 11
10-year interest rates*, last month



Source: Bloomberg & BBVA Research

Chart 12
Carry-trade Mexico index (%)



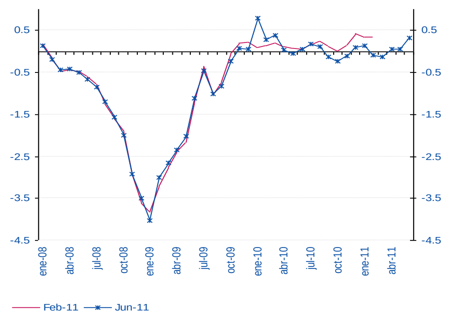
Source: BBVA Research with data from Bloomberg

Activity, inflation, monetary conditions

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

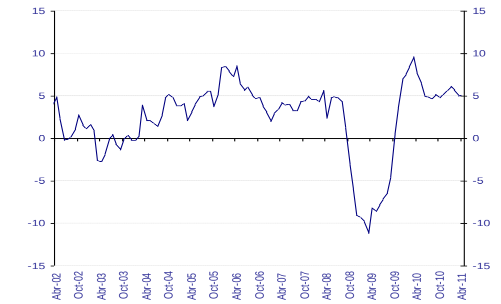
Recent inflationary surprises have been downward, while those concerning economic activity have been mixed.

Chart 13
BBVA Research Synthetic Activity Indicator for the Mexican economy



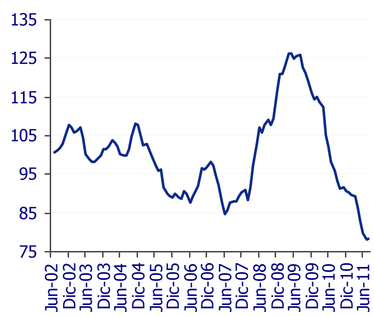
Source: BBVA Research with data from INEGI, AMIA & BEA Weighted sum of 21 different indicators of activity, expenditure and expectation, based on trend series.

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



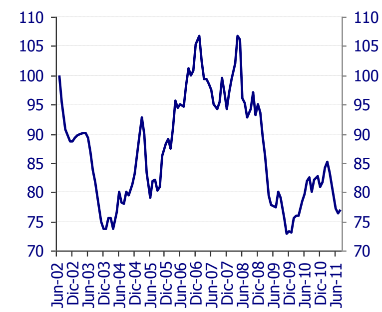
Source: INEGI

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.

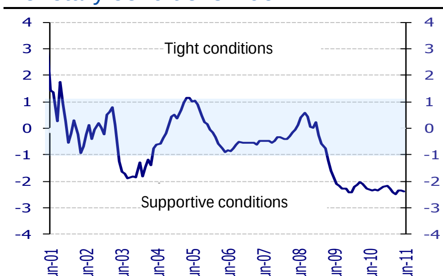
Chart 16
Activity Surprise Index (2002=100)



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.

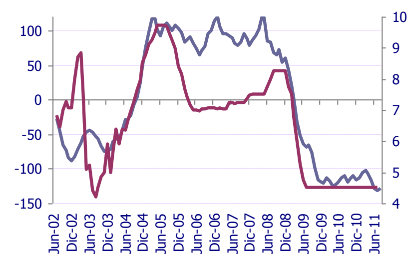
The monetary conditions have not changed and continue to be loose, with this loosening in fact increasing slightly in recent days.

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 8/12/11

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, Banregio, 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 June 30, 2011, for the whole universe of companies which BBVA Bancomer, has under coverage there are 48% Buy ratings (including "Buy" and "Outperform"), 4% Neutral ratings and 48% 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.