

Mexico Weekly Flash

Next week...

- **Looking back with 1Q12 GDP (0.5% q/q vs. 0.4% in 4Q11) and forward with the Banxico Inflation Report**

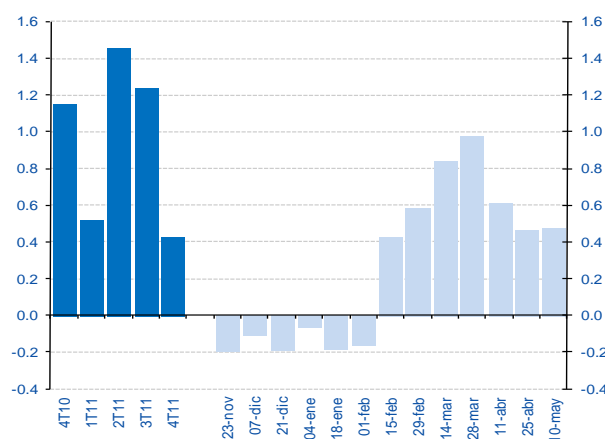
- This week will show what happened in 1Q12 in terms of Mexican economic growth (INEGI, Thursday 17) which, alongside available information to day, we predict to have come in at 0.5% per quarter, slightly above that recorded in 4Q11, 0.4%. This estimate has moderated in recent weeks with the arrival of new information for February. We believe this is due more to a statistical effect for the leap year adjustment than to an underlying slowdown in the growth rate. In all, attention will need to be paid to the performance in relevant US data (industrial output in April will come out next Wednesday 16) which seem to show some stabilization in growth and moderate job increases.
- Looking ahead, the 1Q12 Banxico Inflation Report (Wednesday 16) will set out the economic scenario and the inflation and risk balance forecasts will be especially important. Taking into account what was seen in the minutes released today from the last Board meeting, it is highly likely that the risk balance remains neutral on inflation given the signaled improvement in the risk balance for economic growth and lower-than-expected consumer price increases, especially in the non-core component.

- **Global risk aversion and prolonged pause outlook dominate local asset performance**

- The upswing in global risk premiums (sovereign and financial fears in Europe and slowdown rate in China), alongside forecasts of a prolonged monetary pause in Mexico, were the main drivers behind local markets over the last week. MXN will continue to be volatile. Meanwhile, defensive investments make 2- and 3-year interest rates more attractive.

Chart 1

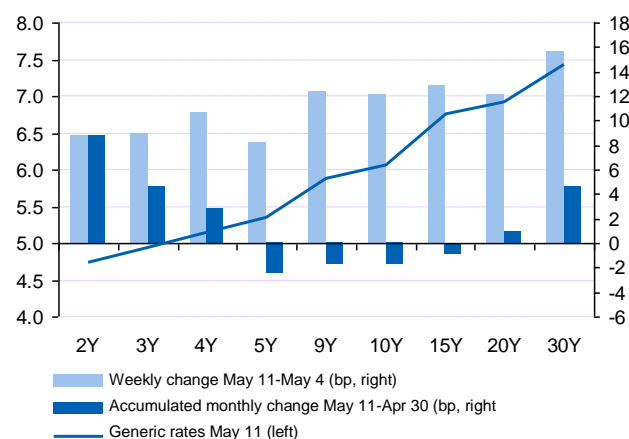
Bi-weekly GDP forecast for 1Q12, % q/q
Forecasts in line with the MICA BBVA Research model



Source: BBVA Research

Chart 2

Mexico: Interest rates and changes
(generic in % and bp)



Source: BBVA Research and Bloomberg

Calendar: Indicators

Real GDP 1Q12 (Thursday, May 17)

Forecast: 0.5 q/q 3.6% y/y

Consensus: 1% q/q

Previous: 0.4% q/q 3.7%

Industrial Output in March (Monday, May 14)

Appropriate: 0.8 m/m 2.5 y/y SA

Consensus: 1.9% q/q

Previous: 1.7% m/m 1.7 y/y SA

IGAE in March (Thursday, May 17)

Appropriate: 0.5 m/m 2.5 y/y SA

Consensus: N.A.

Previous: 0.8% m/m 2.3 y/y SA

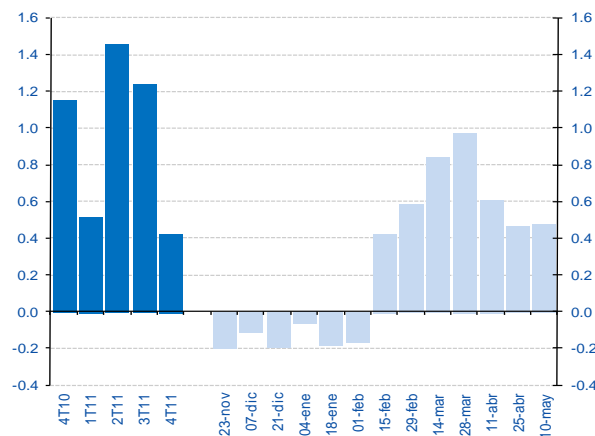
In terms of industrial output, due to the leap year, information to day is distorted and we expect this to have diluted in March. The level of fading for the negative effect on manufacturers and construction will be significant to see, both seeing major declines in the previous month. In any case, other recently released indicators point to a slight slowdown in economic output, especially in manufacturing. The adjustment in services, meanwhile, was lower. In this sense, retail sales continue to rise (0.5% per month on average in the first two months of the year), supported by job creation of around 0.4% per month (up to April) which has, in turn, driven consumer confidence. The latter increased 0.9% on average, more than in the last quarter of last year (0.3%).

In all, the real time MICA BBVA Research indicator for economic growth, incorporating output, forecast, spending, job market and financial market data, points to GDP quarterly growth possibly coming in at 0.5% for 1Q12, slightly above the previous quarter.

Chart 3

Bi-weekly GDP forecast for 1Q12, % q/q

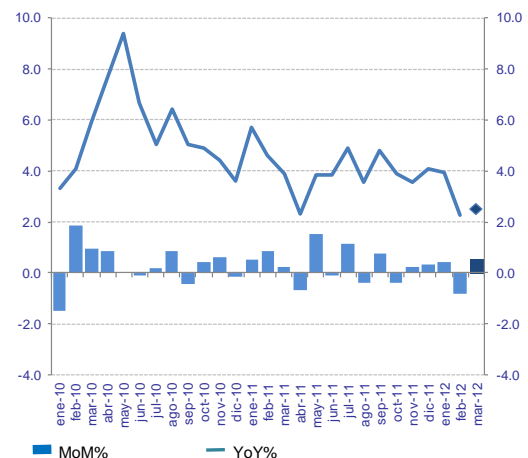
Forecasts in line with the MICA BBVA Research model



Source: BBVA Research with INEGI data

Chart 4

IGAE (y/y% and m/m%)



Source: BBVA Research with INEGI data

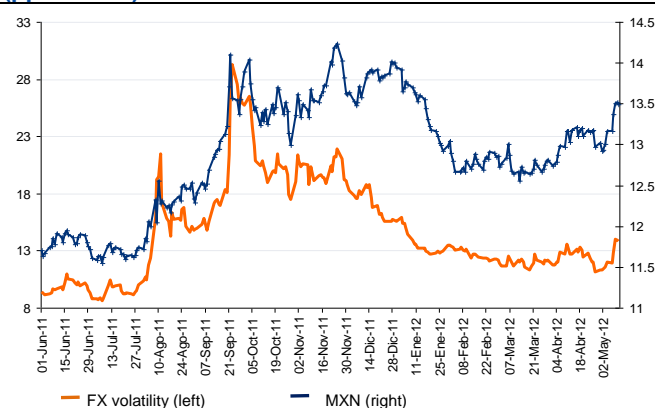
• Global risk aversion and prolonged pause outlook dominate local asset performance

- The upswing in global risk premiums (sovereign and financial fears in Europe and slowdown rate in China), alongside forecasts of a prolonged monetary pause in Mexico, were the main drivers behind local markets over the last week.
- Banxico minutes (released May 11) showed a more moderate debate around a quick cut to the policy rate, as well as the increase in global risk due to the situation in Europe. This is one of the main threats for the Mexican economy. Despite this, debate around a possible rate cut continues and it is likely to run across coming meetings given the current risk balance. In these circumstances, defensive investments in fixed income with 2- and 3-year bond interest rates are recommended in expectation of a possible moderation in risk allowing long positions in higher maturity tranches in the final part of the curve. This situation may become active toward summer depending on events in Europe.
- Global risk premiums continue to be the main determining factor for the MXN. Meanwhile, the domestic monetary debate is in the background. Over the week, the MXN fell around 3%, trading between 13.14 and 13.57. In turn, implied volatility for one month hit highs from the start of the year. Currency volatility is therefore likely to continue and MXN carry-trade will not settle until the global outlook improves.

• Capital markets fall back due to global scenario and domestic corporate news

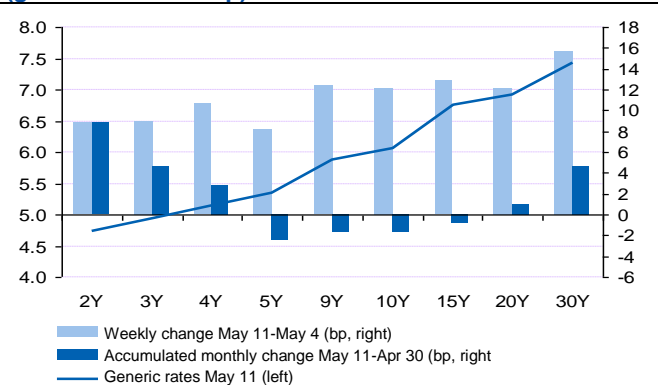
- In response to a more volatile global scenario (upswing in sovereign and financial risks in Greece and Spain), capital markets in Mexico saw a negative performance also due to Amx corporate output statements (acquisition of 28% of KPN and Simple Mobile). In the face of high global risk aversion, consumer companies (food, drinks and retail) saw the best performance in comparison to other cyclical businesses such as the mining sector - affected by the up to 6% drop in metal prices.

Chart 5
Mexico: MXN/USD and implied 1-month volatility (ppd and %)



Source: BBVA Research and Bloomberg

Chart 6
Mexico: Interest rates and changes (generic in % and bp)



Source: BBVA Research and Bloomberg

Technical Analysis

IPC



Source: BBVA, Bancomer, Bloomberg

The IPC may see a positive correlation with a possible bounce in the US market and again try a move to the 40,000pts mark, albeit this time not driven by Amx. We believe a triple A issuer reaction may begin which have remained with weak moves in recent sessions, such as Walmex, Cemex and Gmexico. The first step for the IPC is to hit above the 30-day rolling average, i.e. above 39,300pts.

Previous Rec.: We recommend maintaining a low investment level and expect a return to the floor or, otherwise, a break up through 40,000pts.

MXN



Source: BBVA, Bancomer, Bloomberg

The dollar recorded a strong gain over the week, finally breaking through the MXN13.20 mark and hitting MXN13.50, where it seems to be hitting short-term resistance. The over-purchasing in oscillating indicators does not suggest that it should return to MXN13.20 zone in the next few sessions.

Previous Rec.: It will again seek out the MXN13.20 level which it was unable to break in previous weeks. If it manages the break, MXN13.40 would be the next target.

3Y M BOND

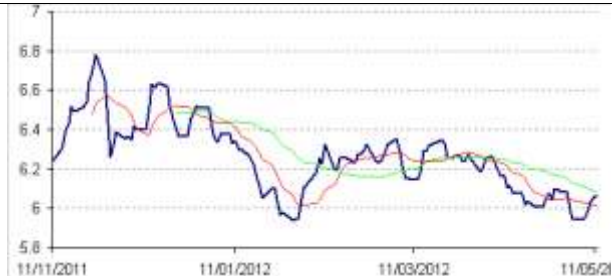


Source: BBVA, Bancomer, Bloomberg

3Y M BOND: (yield): No halt in move at 4.9% and aims to test the 5% - 5.05% zone. Given the over-purchasing in oscillating indicators, we see it breaking through this zone as difficult.

Previous Rec.: It may again test the 30-day moving average (4.75%)

10Y M BOND



Source: BBVA, Bancomer, Bloomberg

10Y M BOND (yield): Respecting the short-term over-selling, it started a reaction from 6%. It should at least seek out the 6.15% - 6.2% zone in the short-term. It should find resistance there at the 30- and 200-day rolling averages.

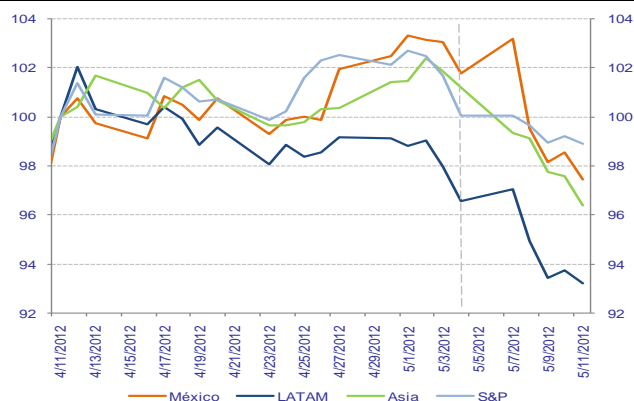
Previous Rec.: considering a bounce toward the 6.15% zone.

Markets

- General decline on stock markets and currency devaluations over the week after increased risk aversion due to political tensions in Greece that place compliance with austerity measures agreed with the Troika in exchange for bailouts in doubt.

Chart 7

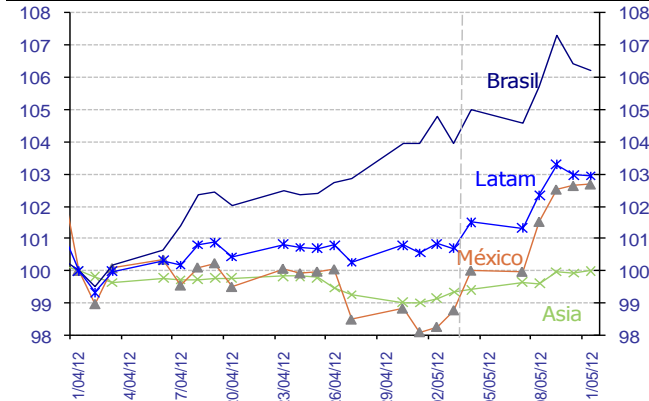
Stock Markets: MSCI Indices
(Apr 11, 2012 index = 100)



Source: Bloomberg & BBVA Research

Chart 8

Foreign exchange: dollar exchange rates
(Apr 11, 2012 index = 100)

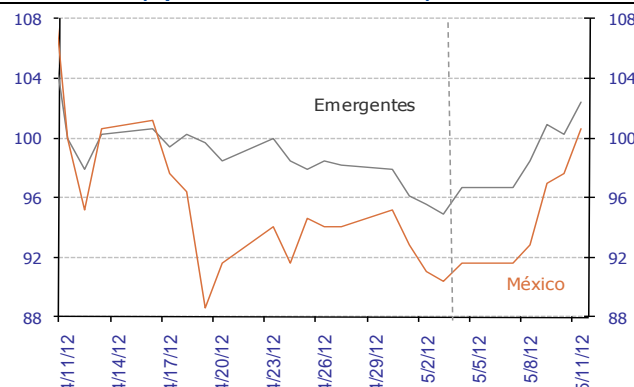


Source: Bloomberg and BBVA Research. Note: LATAM includes Argentina, Brazil, Chile, Colombia and Peru. Asia includes the Philippines, South Korea, Taiwan, Singapore, Indonesia and Thailand. Non-weighted averages

- Increase in risk aversion in the face of renewed fears over a lack of resources to face up to financial commitments in Greece after the initial attempt to form a coalition government fails

Chart 9

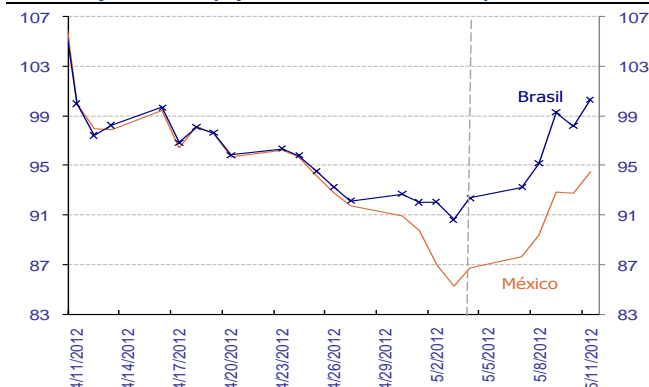
Risk: EMBI+ (Apr 11, 2012 index = 100)



Source: Bloomberg & BBVA Research

Chart 10

Risk: 5-year CDS (Apr 11, 2012 index=100)

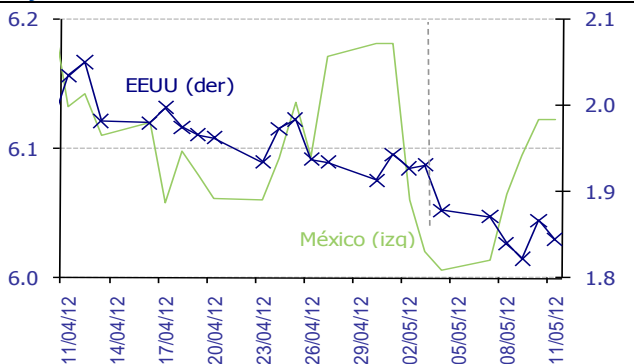


Source: Bloomberg & BBVA Research

- Rise in Mexican interest rates and a fall in US rates over the week due to investors searching for safe haven assets

Chart 11

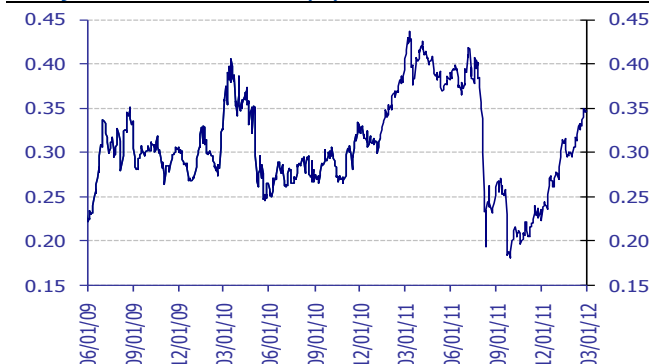
10-year interest rates*, last month



Source: Bloomberg & BBVA Research

Chart 12

Carry-trade Mexico index (%)



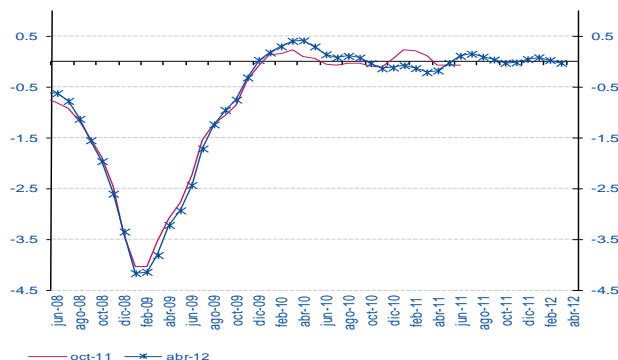
Source: BBVA Research with data from Bloomberg

Activity, inflation, monetary conditions

- Output holds positive performance, situation indicators point to 1Q12 with quarterly rates around 0.5%.

Chart 13

BBVA Research Synthetic Activity Indicator for the Mexican economy

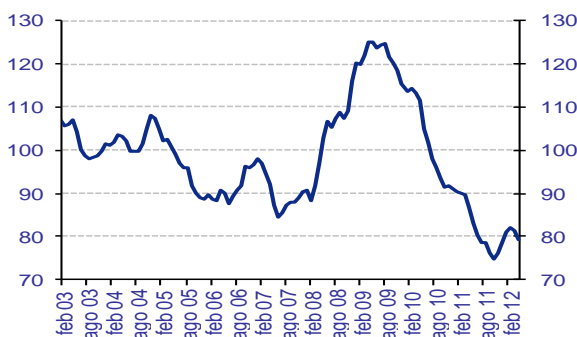


Source: BBVA Research with data from INEGI, AMIA and BEA
Weighted sum of 21 different indicators of activity, expenditure and expectation, based on trend series.

- Both the recent inflation and output surprises were downward.

Chart 15

Inflation Surprise Index (July 2002=100)

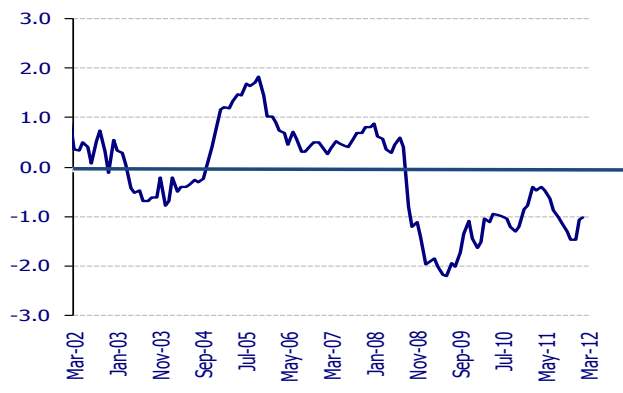


Source: BBVA Research with data from Banxico from the monthly surveys on the expectations of economic specialists in the private sector.

- Monetary conditions near neutral zone

Chart 17

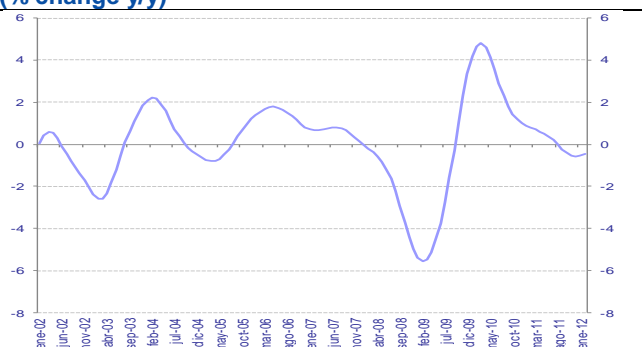
Monetary Conditions Index



Source: BBVA Research.

Chart 14

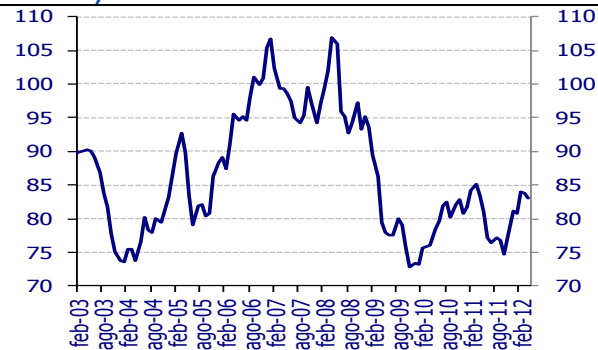
Advance Indicator of Activity (% change y/y)



Source: INEGI

Chart 16

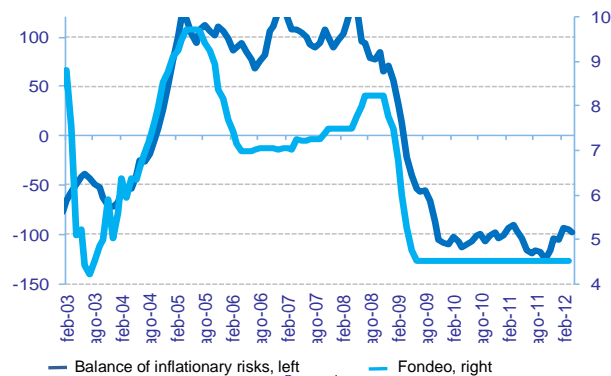
Activity Surprise Index (2002=100)



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

Chart 18

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



Source: BBVA Research. * Standardized and weighted index (of inflation and economic growth) based on economic indicators of economic activity and inflation. A rise in the index points to a greater weight of inflationary risks over growth risks and thus a greater possibility of monetary restriction

Claudia Ceja
claudia.ceja@bbva.bancomer.com
+5255 5621 9715
Octavio Gutiérrez Engemann
o.gutierrez3@bbva.bancomer.com
+5255 5621 9245
Iván Martínez
ivan.martinez.2@bbva.com

Pedro Uriz
pedro.uriz2@bbva.com

Julian Cubero
juan.cubero@bbva.com

Ociel Hernández
o.hernandez@bbva.bancomer.com
+5255 5621 9616
Rodrigo Ortega
r.ortega@bbva.bancomer.com
+52 55 5621 9701

Alejandro Fuentes Pérez
a.fuentes@bbva.bancomer.com
+52 55 5621 9705
Arnoldo López
arnoldo.lopez@bbva.com

Cecilia Posadas
c.posadas@bbva.com



RESEARCH

| Av. Universidad 1200, Col. Xoco, Mexico 03339 D.F. | researchmexico@bbva.bancomer.com | www.bbva.com/research

IMPORTANT DISCLOSURES

The BBVA Group companies identified by the research analysts' names included on page 7 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: **AXTEL, ALSEA, BACHOCO, CONSTRUCCION Y SERVICIOS INTEGRALES SIGMA, DAIMLER MEXICO, EL PALACIO DE HIERRO, FACILEASING, GCC CEMENTO, GENOMMA LAB INTERNACIONAL, GEO EDIFICACIONES, GRUPO CARSO, GRUPO CASA SABA, INDUSTRIAS IDEAL, PEMEX CORPORATIVO, RUBA DESARROLLOS, 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**

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, 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.

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.

All images and texts are the property of BBVA and may not be downloaded from the Internet, copied, distributed, stored, re-used, re-transmitted, modified or used in any way, except as specified in this document, without the express written consent of BBVA. BBVA reserves all intellectual property rights to the fullest extent of the law.