

# Mexico Weekly Flash

## Next week...

- **Confidence indicators in September set to provide clues on output performance in 3Q12**

Taking into account recent output indicators that point to lower growth rates linked to the cycle overseas, focus will need to be on indicators being timely released on manufacturing and consumer confidence in Mexico. It should be stated that domestic manufacturing exports, US industrial output and the ISM indicators continued to slow down in August, which could be an alert on a lower growth rate in Mexico toward the end of the year.

- **Economic uncertainty and an appetite for safe-haven assets set the pattern for domestic assets**

The MXN depreciated around 0.3% and, with this, lost nearly all the gains made on Thursday. In view of US economic indicators, we believe the MXN showed a certain resistance despite the devaluation. Economic data are set to be the focal point this coming week, starting with the PMI in different countries on Monday. If these continue to show high risks of a slowdown, the USDMXN will undoubtedly continue to fluctuate around 13.00, the upper part of the current range.

Nominal curves end the week with an average 4bp upturn. Nonetheless, an average 14bp rally in the Mbond curve was seen over the week. As we stated, domestic curves continue to be in demand as a favorable scenario for UST purchases is being perceived. In our opinion, beyond news from Europe, demand for curves will continue. The moderation in risk aversion is likely to lead to a correction but domestic curves continue to have support, especially in short maturities (risk hedging, positive carry and bias for economic weakness) and long maturities (constructive outlook for Mexico, monetary pause throughout 2013 and gradual investor appetite in the face of economic weakness and continuous unraveling regarding Europe). Overseas investors accumulated an inflow in September (up to the 27) of USD 5.3bn, a clearly high amount. 78% of this inflow was seen in the short section of the curve, especially in the Mbond 2012.

# Calendar: Indicators

## Producer Confidence in September (October 3)

Forecast: 0.0% m/m (54.6 points)	Consensus: N.A.	Previous: 2.2% m/m (54.6 points)
----------------------------------	-----------------	----------------------------------

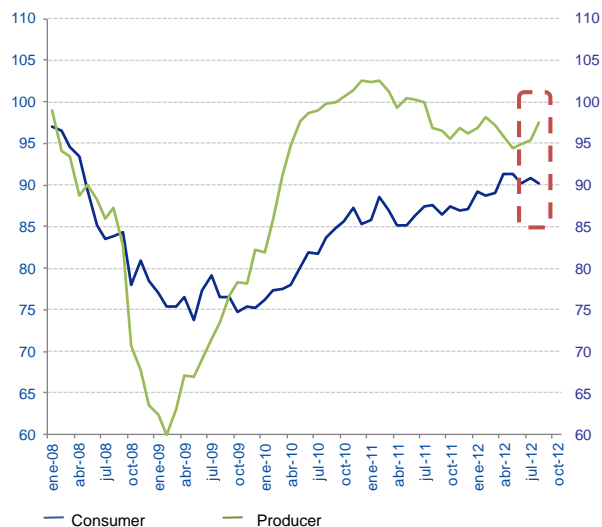
## Consumer Confidence in September (October 3)

Forecast: -1.0% m/m (94.5 points)	Consensus: N.A.	Previous: -0.8% m/m (95.4 points)
-----------------------------------	-----------------	-----------------------------------

The performance of producer and consumer confidence indicators for September will be published this week. It should be recalled that both indicators saw divergent moves in recent months: on the one hand, producer confidence showed optimism among manufacturers regarding the future economic situation in coming months. Specifically, the optimism in indicators on the right moment for investing and the positive opinion regarding the country's current economic situation stand out. With regard to business perception of domestic or foreign demand for products, opinions saw greater variation, with a slight trend to optimism about the future. We believe for September, however, manufacturers' sentiments could start to moderate slightly due to the uncertainty in the overseas cycle, partially reflected in indicators such as manufacturing output in the US where in August industry contracted (-)1.2% m/m, the change in Mexican manufacturing exports (-)4.9% m/m, and business sentiment indicators such as the ISM remaining in the contraction range in the last three months (June-August).

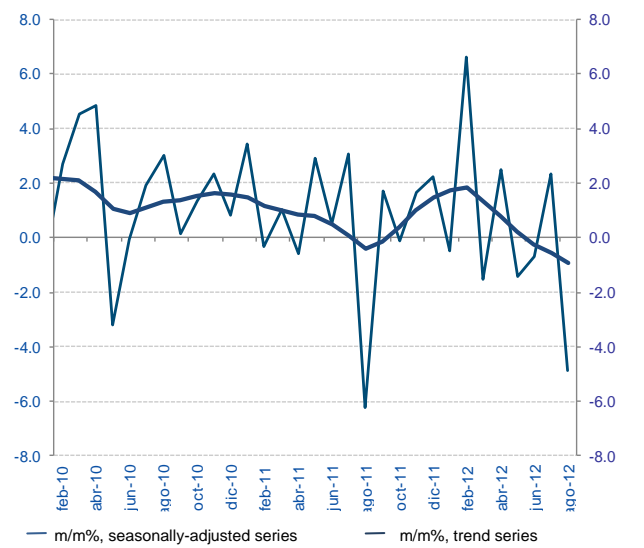
On the other hand, consumer confidence saw scant growth in recent months and we believe this situation is set to continue, even seeing some contraction in the September level in comparison to the previous month. It should be stated that although the employment level continues to expand at a good rate, the contribution of real wages to annual growth in wages was inexistent or slightly negative in recent months. We should also consider that the consumer confidence indicator level remains far below that seen before the 2009 recession.

Chart 3  
**Producer and Consumer Confidence Indicators (Jul07=100)**



Source: BBVA Research with INEGI data

Chart 4  
**Manufacturing Exports (% change m/m)**



Source: BBVA Research with INEGI data

# Technical Analysis

## IPC



The IPC managed to move up over the week after testing the 30-day rolling average and 3 consecutive upward sessions. It did not manage to go above the 41,000pts barrier in recent week but we believe it could have the necessary momentum this time to break through this level and seek out the 41,500pts zone. With the RSI at 57pts, we are not concerned with a major decline for coming days. Last week we commented on the high over-selling we were seeing in the Amx (an issuer accounting for 25% of the IPC) which we finally started to see bounce over the week. We believe this issuer still has a lot of upward room and should help the market to at least hit a major floor in the 40,000/40,200pts zone.

Previous Rec. (9/24/12): The positive technical signal remains valid while the support is 40,200pts (30-day rolling average).

Source: BBVA, Bancomer, Bloomberg

## MXN



Although the dollar tried an upward bounce over the week, it hit resistance at the MXN12.85 level. The dollar remained in the short-term downward channel and only an upward break through MXN13.00 would mark a trend change.

Previous Rec (9/24/12). For the moment, the main short-term trend continues to be negative and only an upward break through MXN13.00 would mark a trend change.

Source: BBVA, Bancomer, Bloomberg

## 3Y M BOND



3Y M BOND (yield): The bond maintained an adjustment move and hit the support at 4.7%. With the 30-day rolling average already passed and the RSI near 30pts, we believe it could see a bounce toward 4.8%. If it breaks down through 4.7%, the next floor is at 4.55%.

Previous Rec. (9/24/12). With the RSI at mid-channel, this break could indicate a return to the support at 4.7%.

Source: BBVA, Bancomer, Bloomberg

## 10Y M BOND



10Y M BOND (yield): Downward break through the support at 5.4%. It could maintain the adjustment toward a next floor at 5.2%. The 10-day rolling average crossed down through the 30-day meaning we could expect weakness. Resistencia en 5.45%.

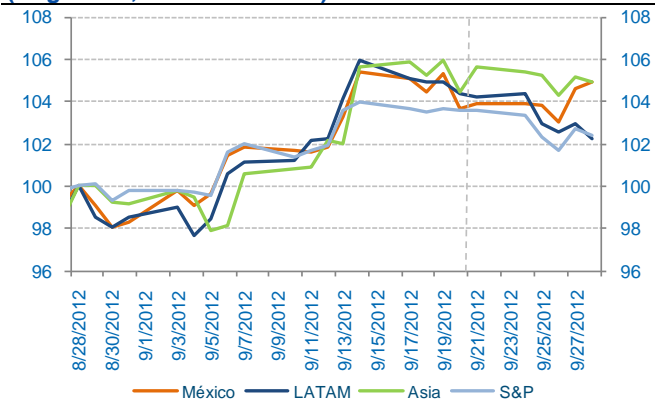
Previous Rec. (9/10/12). Maintaining position while there is no break of the 5.4% floor.

Source: BBVA, Bancomer, Bloomberg

# Markets

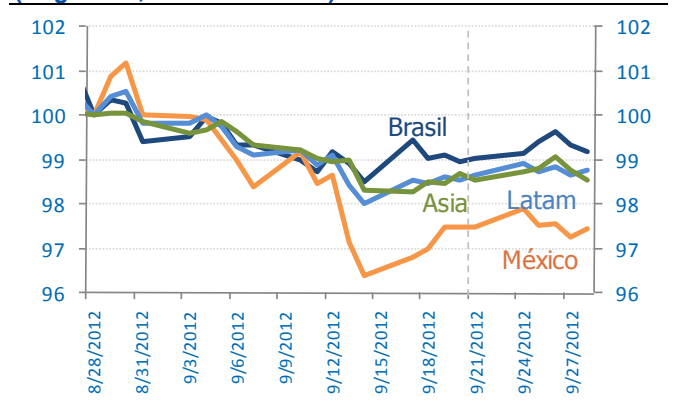
- Protests against the austerity measures in Spain and Greece led to increased risk aversion. At the end of the week, lower-than-expected economic data on consumer spending, manufacturing output and US consumer confidence led to slight falls on stock markets and in currencies.

Chart 7  
**Stock Markets: MSCI Indices**  
 (August 28, 2012 index=100)



Source: Bloomberg & BBVA Research

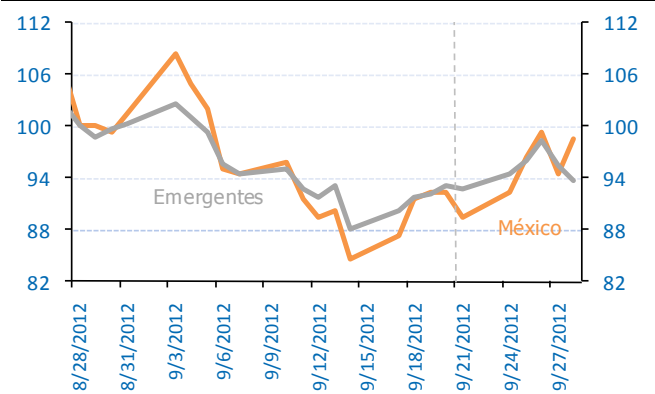
Chart 8  
**Foreign exchange: dollar exchange rates**  
 (August 28, 2012 index=100)



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

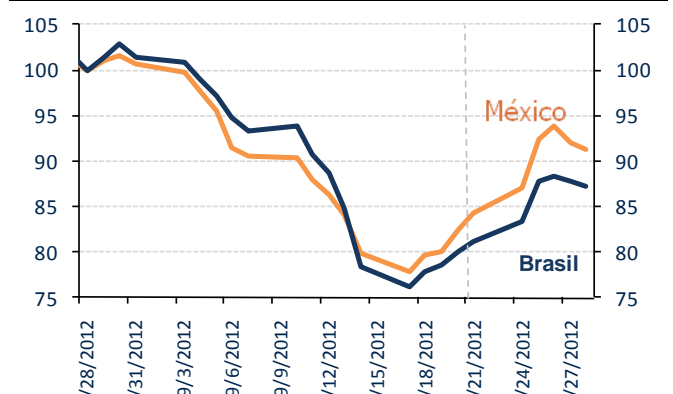
- Protests in Spain and Greece again lead days of risk aversion.

Chart 9  
**Risk: EMBI+ (August 28, 2012 index=100)**



Source: Bloomberg & BBVA Research

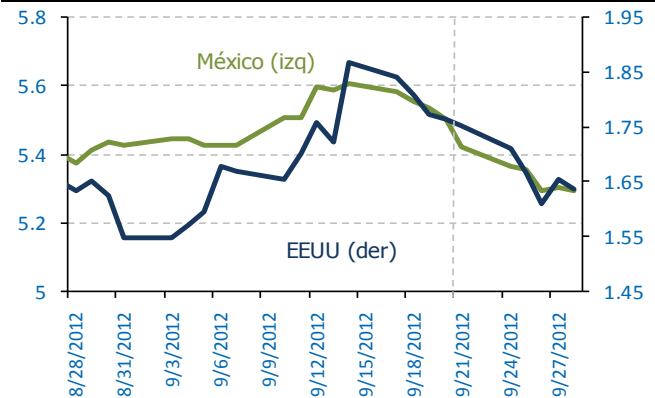
Chart 10  
**Risk: 5 year CDS (August 28, 2012 index=100)**



Source: Bloomberg & BBVA Research

- Fall in rates in the US due to some days with higher risk aversion. Rates in Mexico continue in high correlation with US Treasury bond rates.

Chart 11  
**10-year interest rates\*, last month**



Source: Bloomberg & BBVA Research

Chart 12  
**Carry-trade Mexico index (%)**

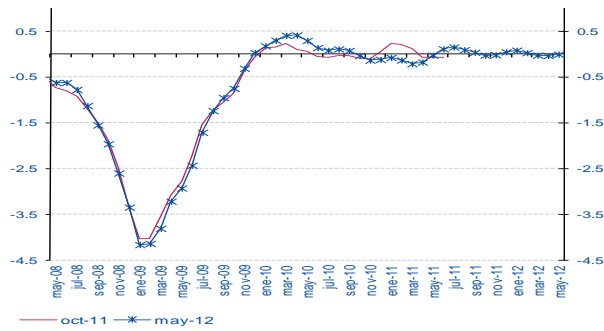


Source: BBVA Research with data from Bloomberg

# Activity, inflation, monetary conditions

- Output holds positive albeit moderate performance, situation indicators point to 3Q12 with quarterly rates above 0.5%.

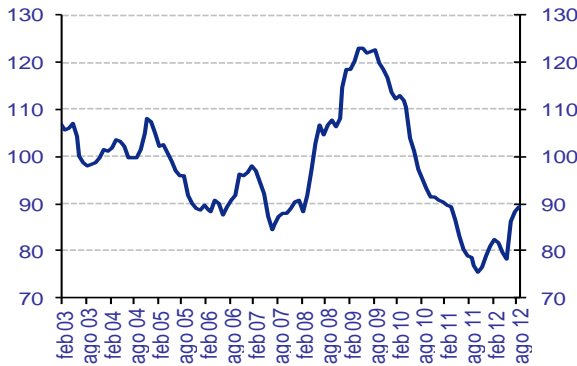
Chart 13  
**BBVA Research Synthetic Activity Indicator for the Mexican economy**



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.

- Recently we have seen upward surprises in inflation and output.

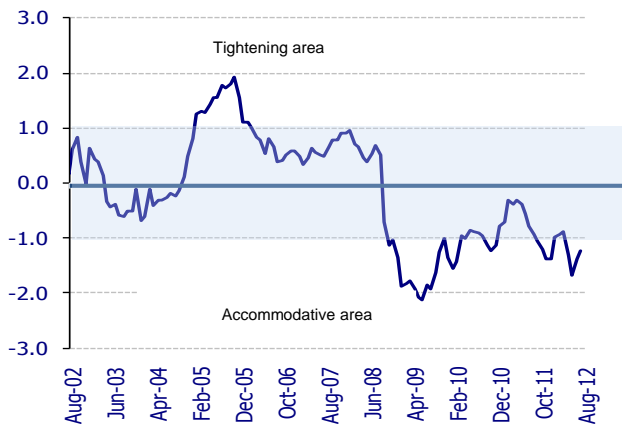
Chart 15  
**Inflation Surprise Index (July 2002=100)**



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

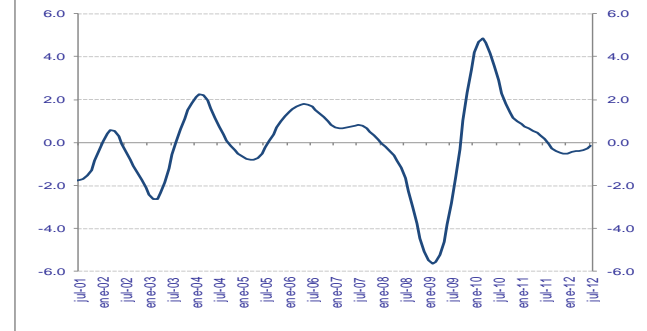
- Monetary conditions slightly reduced their looseness after currency appreciation.

Chart 17  
**Monetary Conditions Index**



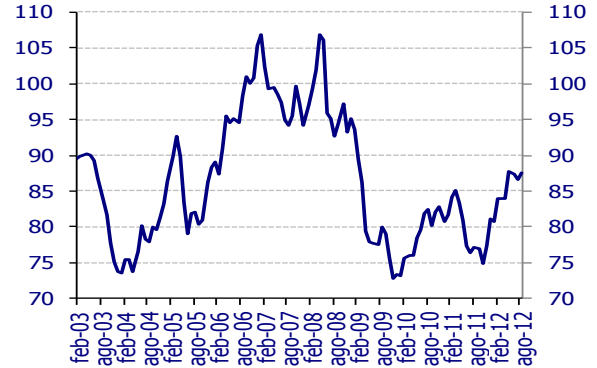
Source: BBVA Research

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



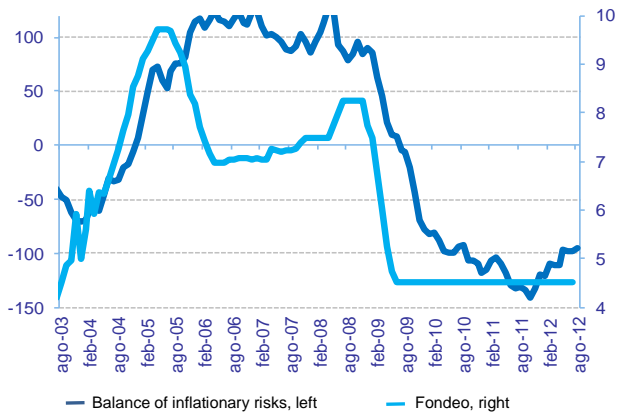
Source: INEGI

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 IBR signals greater weight of inflationary risks over those of growth and, therefore, more likelihood of monetary restriction

Claudia Ceja  
claudia.ceja@bbva.bancomer.com

Pedro Uriz  
pedro.uriz2@bbva.com

Alejandro Fuentes Pérez  
a.fuentes@bbva.bancomer.com

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

Ociel Hernández  
o.hernandez@bbva.bancomer.com

Arnoldo López  
arnoldo.lopez@bbva.com

Iván Martínez  
ivan.martinez.2@bbva.com

Rodrigo Ortega  
r.ortega@bbva.bancomer.com

Cecilia Posadas  
c.posadas@bbva.com



| Av. Universidad 1200, Col. Xoco, Mexico 03339 D.F. | [researchmexico@bbva.bancomer.com](mailto:researchmexico@bbva.bancomer.com) | [www.bbva.com/research](http://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](http://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](http://www.bbva.com/CorporateGovernance).**

**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/Conocenos](http://www.bancomer.com/GrupoBBVABancomer/Conocenos).**

**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, 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:** 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, Índice 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, Aisea, America Movil, Asur, CMR, Coca-Cola Femsa, Consorcio Hogar, Dine, El Puerto de Liverpool, Fomento Económico Mexicano, Gruma, Grupo Aeroportuario del Pacífico, Grupo Aeroportuario del Sureste, Grupo Bimbo, Grupo Carso, Grupo Financiero Inbursa, Grupo Kuo, Grupo Modelo, Grupo Posadas, Grupo Televisa, Industrias Peñoles, Invex Controladora, 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.

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.