Weekly Mexico Flash

Next week…

- **Occupation figures for September feel output slowdown**

  Occupation and employment figures for September will be released this week. It should be remembered that the unemployment rate showed major downward resistance in the pre-crisis period and eliminating season effects remained stable at around 5% of the EAP. Other job market indicators such as the underemployment rate also remain relatively constant at around 8.4%. We believe the job market in September will have felt the slowdown in output pointed to by available indicators for 3Q12, such as industrial output in August where the decline (-)0.8% m/m was above expectations (0% m/m) and is in line with a GDP expansion of near 0.5% q/q. We forecast the jobless rate to have remained at 5% of the EAP in September.

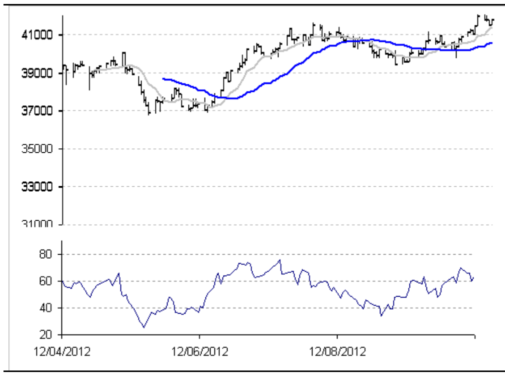
- **USDMXN: technical strategies prevail on rates markets and MXN**

  Over the week, the MXN fell around 0.6%, after a string of mixed events from the EMU and US. On the one hand, after non-farm payroll figures from the previous Friday, US indicators continued to see upward surprises, in turn encouraging lower concern surrounding the economic cycle. On the other, tensions in the EMU remained and, until the present, continue to be unclear regarding a bailout for Spain, bank recapitalization and support for Greece. In addition, the IMF made a downward revision in global growth forecasts. All this continues to favor a range dynamic where technical strategies prevail. For the moment, the risk of closing MXN long positions remains if resistance levels are broken (the net long position remained at USD 5.3bn to last Tuesday). If this happens (higher risks in the EMU), we would take advantage of levels above 13.0 to take long MXN positions again.

  The curve ended the week with marginal changes over the previous week - except for middle sections, long sections saw gains of around 2bp and short maturities remained practically unchanged. The 10-year bond rose 7bp while the 3Y went up by 3bp. In our opinion, the global and domestic scenario continues to support relative performance favoring long positions in the long sections, short in the middle and long in the 3 and 4 year maturities. In addition, and in line with our inflation forecast for the end of the year and the resistances we see for this to come down from 4.0% in the first few months of 2013, we maintain our long strategy in the Udibono for December 2014.

Technical Analysis

IPC



The weekly decline on the IPC meant a return to test the 41.500pts level which it had just broken at the end of the previous week. Since July, the market has hit difficulties in breaking up through this level. Therefore, it should now be a good support for a short-term move. In order to be able to continue respecting this support, the IPC is highly dependent on the US market not seeing a negative trend change. For the time being, we maintain our forecast of a move toward 43,000pts. A downward break through 41,500pts could cause the IPC to return toward the 30-day rolling average at 40,700pts.

Previous Rec. (10/08/12): Given the lag we could still be seeing at Amx and Walmex and the recent upward break through at Femsa, we believe these issuers are set to continue to be the main engine for short-term IPC trading.

Source: BBVA, Bancomer, Bloomberg

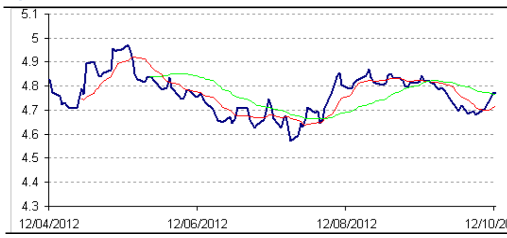
MXN

The dollar made a new attempt to set a trend change over the week. Nonetheless, it was not able to go above the MXN12.95 level where the 30-day rolling average now sits. Until it breaks this level at close, we will not see a short-term entry signal.

Previous Rec. (10/08/12). This was the point of the last dollar bounce. Nonetheless, we could see this floor being broken and it testing a next support toward MXN12.55/12.60, the minimum range of the year.

Source: BBVA, Bancomer, Bloomberg

3Y M BOND

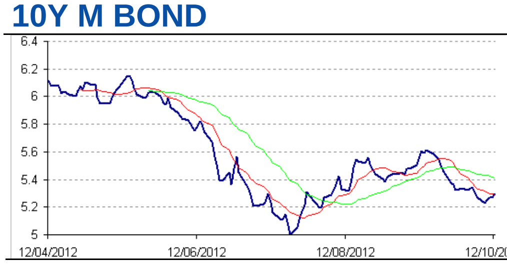


3Y M BOND (yield): The bond saw an upswing over the week but it was not enough to set a trend change. We recommend waiting an upward break through 4.8% to consider a move toward 5%.

Previous Rec. (10/08/12). The next floor would sit toward the 4.6%-4.55% range. The trend change would be marked by the upward break of 4.8%.

Source: BBVA, Bancomer, Bloomberg

10Y M BOND



10Y M BOND (yield): The bond hit an initial floor at 5.2% from where it started a bounce. Only if it hits above 5.4% could we consider a trend change.

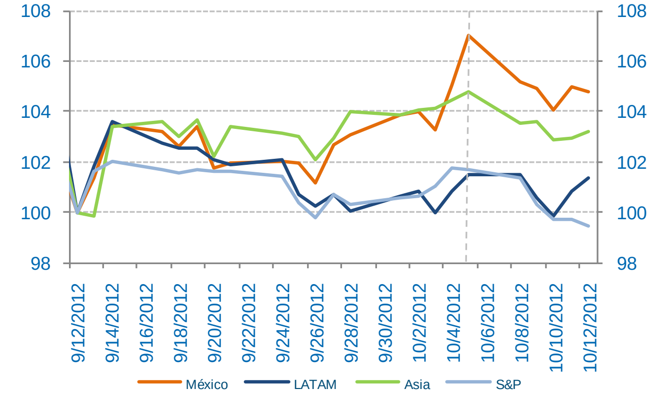
Previous Rec. (10/08/12). Floors at 5.2% and then toward 5%. Only if it bounces above 5.5% could we consider a trend change.

Source: BBVA, Bancomer, Bloomberg

Markets

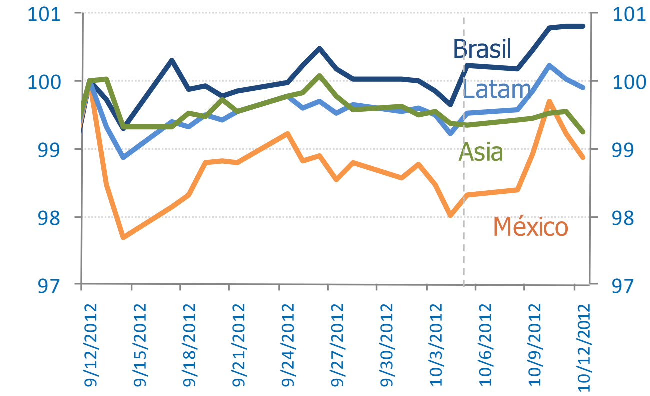
- **Fall on stock markets and currency declines over the week due to the lower IMF growth forecasts and the cut in Spain's credit rating. Better-than-expected U.S. figures for unemployment applications slow the decline at the end of the week.**

Chart 7
Stock Markets: MSCI Indices (September 12, 2012 index=100)



Source: Bloomberg & BBVA Research

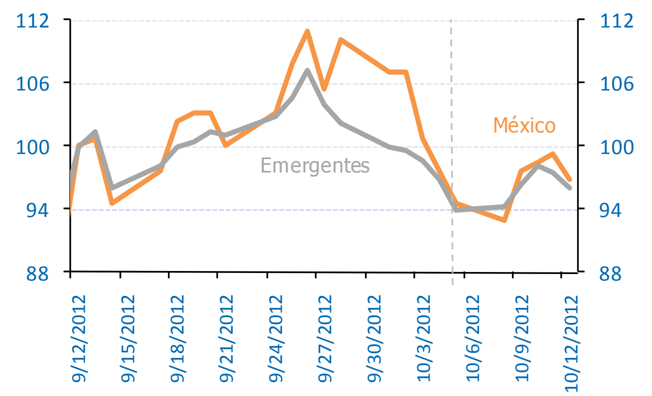
Chart 8
Foreign exchange: dollar exchange rates (September 12, 2012 index=100)



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

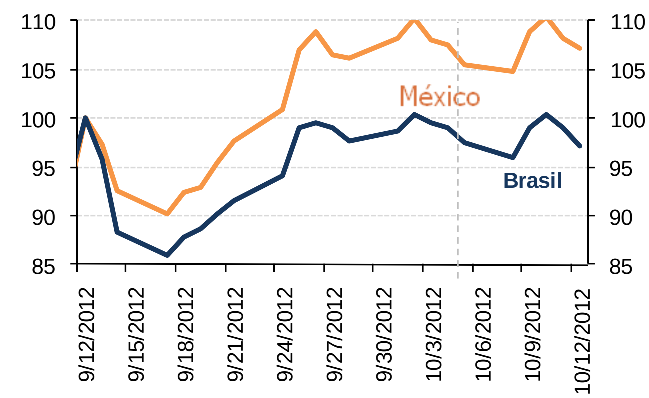
- **The cut in Spain's credit rating to the minimum investment grade level led to increased risk aversion mid-week.**

Chart 9
Risk: EMBI+ (September 12, 2012 index=100)



Source: Bloomberg & BBVA Research

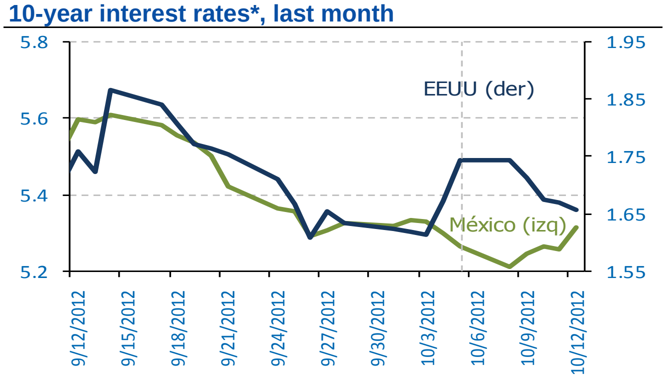
Chart 10
Risk: 5-year CDS (September 12, 2012 index=100)



Source: Bloomberg & BBVA Research

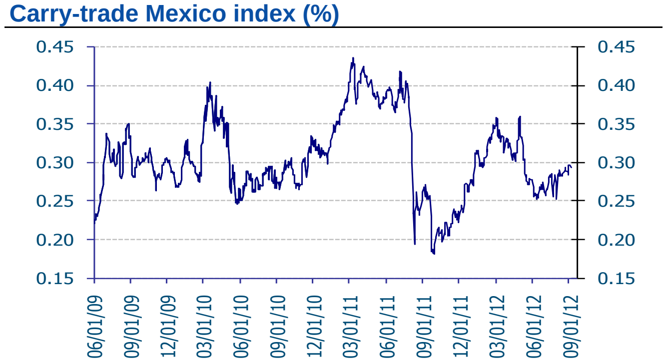
- **Fall in rates in the US due to increased risk aversion. Rates in Mexico rise over the week.**

Chart 11
10-year interest rates*, last month



Source: Bloomberg & BBVA Research

Chart 12
Carry-trade Mexico index (%)

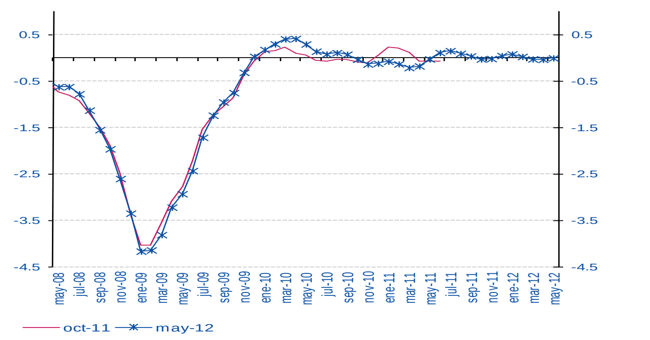


Source: BBVA Research with data from Bloomberg

Activity, inflation, monetary conditions

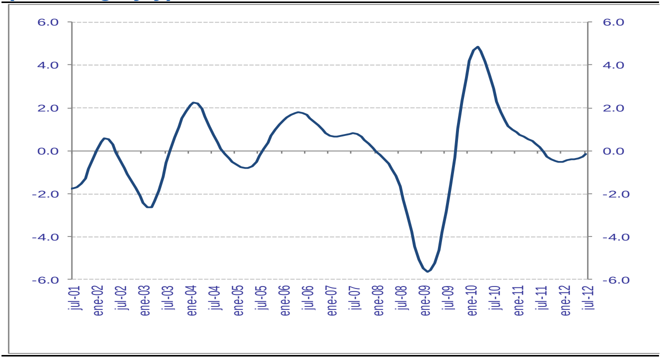
- **Output holds positive albeit moderate performance, situation indicators point to 3Q12 with quarterly rates above 0.5%.**

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.

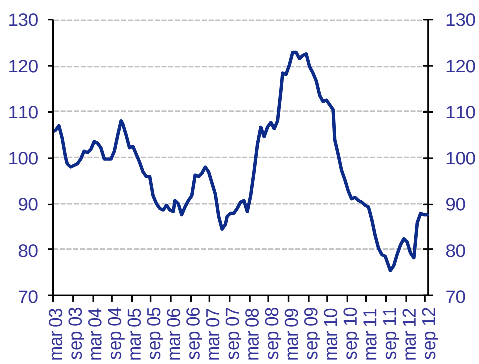
Chart 14
Advance Indicator of Activity, trend (% change y/y)



Source: INEGI

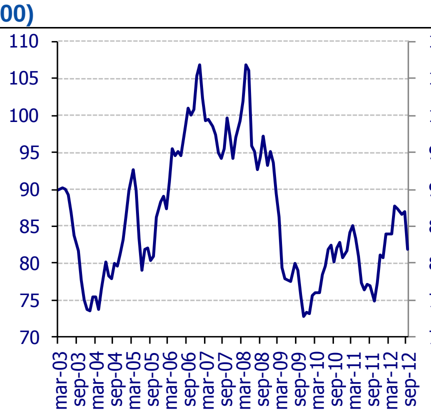
- **Recently we have seen upward surprises in inflation and output.**

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.

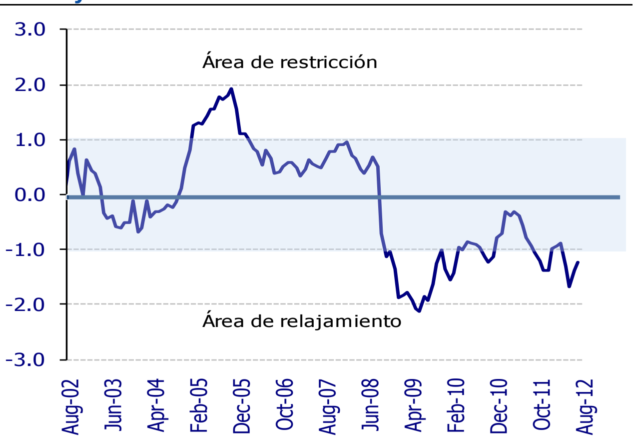
Chart 16
Activity Surprise Index (2002=100)



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.

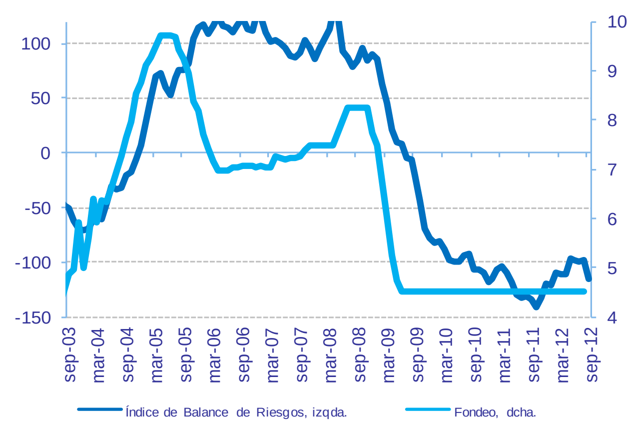
- **Monetary conditions slightly reduced their looseness after currency appreciation.**

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 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

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