Mexico Weekly Flash

Next week…

- **Monetary policy meeting minutes: Data support a more relaxed tone although caution prevails on the Board**

  This coming Friday sees the release of the minutes from the November 30 monetary policy meeting. The recent decline in inflation and the lack of evidence on second round effects currently favor the stance of those members who signaled out the temporary nature of supply shocks and the absence of knock-on effects for price setting. This fall in inflation was undoubtedly behind the more relaxed tone of the statement. Nonetheless, the fact that monetary policy remains tied to the continued downward inflation trend points to caution prevailing among board members regarding persistent recent shocks and their effects on prices and forecasts. Focus should be on statements about upward inflation risks, especially possible higher-than-expected increases in public sector prices, lower food production in Mexico and overseas, and a possible new episode of volatility in the exchange rate.

- **Scant appetite for risk that may continue**

  As 2012 draws to a close, market nervousness over the outcome of the fiscal cliff has led to a negative spread in US assets in comparison with other markets, both developed and emerging. This is in addition to fewer welcome surprises on the macroeconomic front (although data continue to come in positive on the whole) which, according to different authorities and central banks, is due to the fiscal uncertainty and its effect on investments, in addition to the impact from hurricane Sandy. At the end of the week, positive job figures in the US eased some of these concerns but greater calm did not lead to higher risk appetite.

  Markets do not currently see the US as likely to succumb to the problem and maintain its rise, supported by high volatility, complying with forecasts of hitting the current upper range limit for the last 3 months. Mexico again stands out in Latin American which, to many, could seem to be a contradiction given its trading links with the US. Global liquidity is a key factor for this performance although Mexico's relative strengths (growth, financial stability, fiscal discipline, low debt and scant exposure to external financing, among others) are, in our opinion, what support it. More so now that there is optimism surrounding blossoming structural reforms that could provide greater flexibility to the job market and mean the country increases its competitiveness. This performance could possibly continue until the FOMC's monetary decision on Wednesday.

Calendar: Indicators

Gross Fixed Capital Formation in September (December 10)

Forecast: 0.0% m/m, 3.8% y/y	Consensus: N.A.	Previous: -0.9%, 3.9% y/y

Goods and Services Supply and Demand, 3Q12 (Wednesday, December 14)

Forecast: 3.8% y/y	Consensus: N.A.	Previous: 4.0% y/y

With the GDP growth figure on the supply side in 3Q12 already released (0.5% q/q, 3.3% y/y seasonally-adjusted), Friday 14 sees the release of the breakdown for demand.

We estimate domestic demand components (especially investment and private consumption) will show good performance over the quarter. Relevant indicators point in that direction; retail sales and the aggregate service indicator continued to expand in terms of average monthly change for the quarter, albeit with lower growth than in the second quarter of the year. In this sense, higher employment in both the formal private sector and total employment was key, with respective annual growth at 4.7% and 4.1%. In turn, despite seeing a contraction in monthly investment on average in July and August, imports of capital goods (an indicator strongly linked to investment) saw significant growth in 3Q: from (-)1.4% m/m in the second quarter to 0.5% m/m in the third.

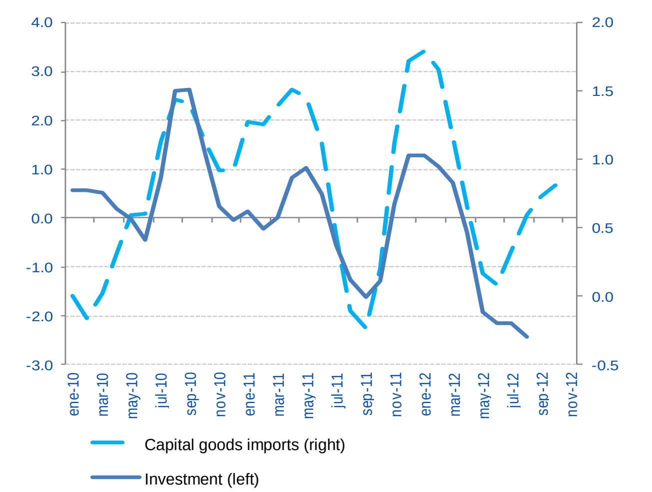
Further, foreign demand should show clearer signs of moderation, proof of this being the contraction in manufacturing exports performance going from average monthly growth of 0.2% in 2Q12 to a (-)0.8% decline in the third quarter of the year.

Industrial Output, October (December 12)

Forecast: 0.1% m/m, 3.9% y/y	Consensus: N.A.	Previous: 0.9% m/m, 3.8% y/y

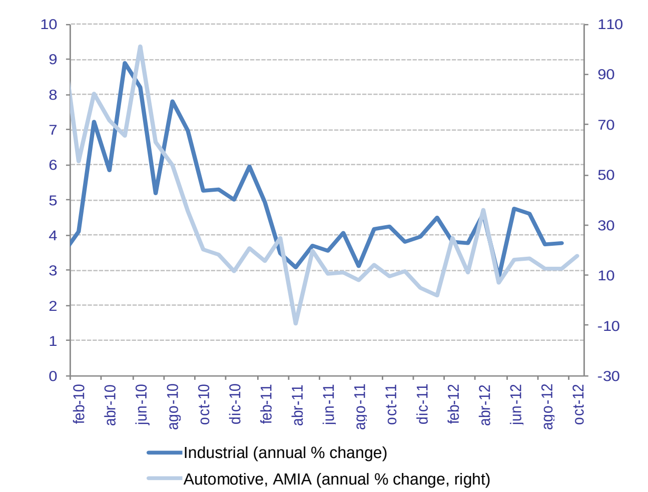
Industrial output saw excellent performance over recent months. It particularly stands out that while US manufacturing contracted by around (-)0.2% on average in 3Q12, Mexico expanded by 0.2% (4% and 4.6% on average y/y for US and Mexican manufacturing respectively). In this sense, exports, particularly manufacturing, suffered lower foreign demand as stated above. In October, US manufacturing declined 0.4% which is largely due to negative effects from hurricane Sandy in the north east of the country where output hit its lowest level for a year. According to AMIA figures, automotive output continued to expand, albeit at lower rates than in the previous month. This will continue to be a key support for domestic manufacturing. We expect output to have seen modest growth in October, confirming the slight slowdown toward the end of the year.

Chart 3
Investment and Capital Goods Imports (m/m % change, trend)



Source: BBVA Research with INEGI data

Chart 4
Industrial Output and Automotive Output (y/y % change, seasonally adjusted series)



Source: BBVA Research with data from INEGI and AMIA

Technical Analysis

IPC

The IPC ended the week just within the resistance zone under 42,700pts, an all-time-high, with the RSI oscillating indicator at 68pts, almost hitting the over-buying zone. We have been reducing our short-term positions and await the possible market reaction at the start of the week after several upward sessions. If the IPC is able to break this level and hit a new all-time-high, we could consider a short-term target of 43,500pts, corresponding to the flag pattern break level the market hit by closing above 42,000pts. Given the proximity to the over-buying zone, we prefer to wait for this break before again increasing our positions.

Previous Rec. (12/3/12): The weekly decline in the IPC means it is still in a favorable short-term technical position (flag), suggesting a return to the 42,700pts level, where the market was trading before the adjustment.

Source: BBVA, Bancomer, Bloomberg

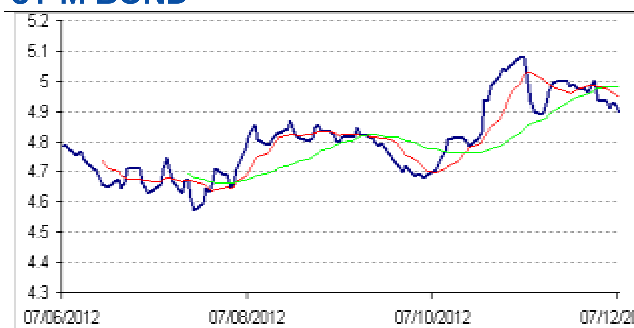
MXN

The dollar remained on a negative trend and broke two floors over the week, MXN13.00 and then MXN12.90. With the RSI already in the over-buying zone, we believe it could respect the MXN12.80 level where the floor sat during the week and seek out a technical bounce toward MXN12.90.

Previous Rec. (12/3/2012): Oscillating indicators are still at overselling levels meaning we cannot rule out a downward break through this floor.

Source: BBVA, Bancomer, Bloomberg

3Y M BOND

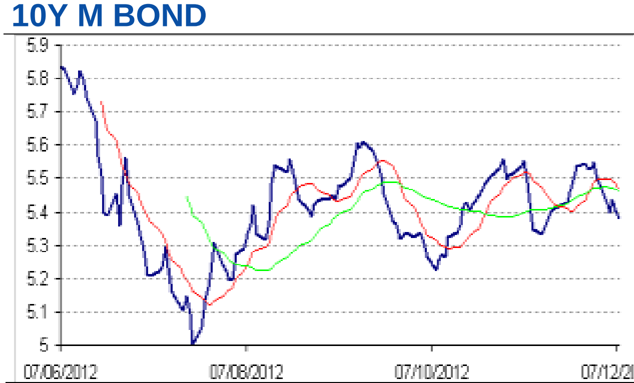


3Y M BOND (yield): The bond saw a negative weekly balance, closing at 4.9%. We recommend holding positions while this floor remains unbroken, awaiting a bounce toward 5.1%.

Previous Rec (12/3/12). We maintain our forecast of resistance at 5.1% and support at 4.9%.

Source: BBVA, Bancomer, Bloomberg

10Y M BOND



10Y M BOND (yield): The bond was unable to break through the 5.6% resistance level. Positions again to be taken when it hits 5.35%.

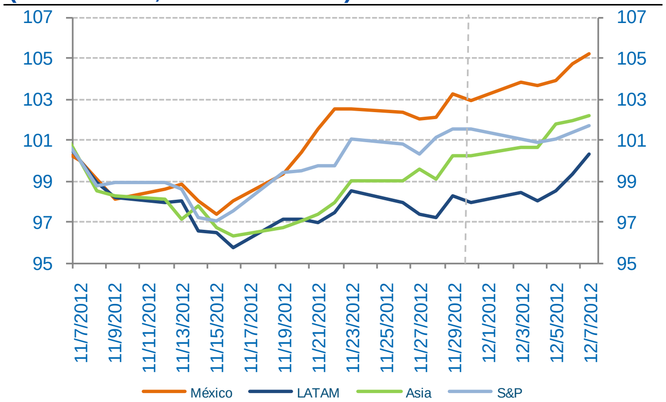
Previous Rec (12/3/12). An upward break through 5.6% is the only entry signal.

Source: BBVA, Bancomer, Bloomberg

Markets

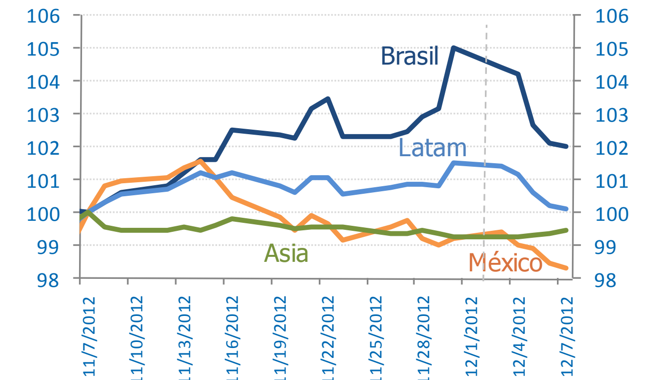
- **An above expectations increase in non-farm payroll in the US at the end of the week led to gains on stock markets and stronger emerging currencies. Nonetheless, these gains weakened after the Republican speaker in the US House of Representatives stated no progress was made in talks to avoid the "*fiscal cliff*".**

Chart 7
Stock Markets: MSCI indices (November 7, 2012 index=100)



Source: Bloomberg & BBVA Research

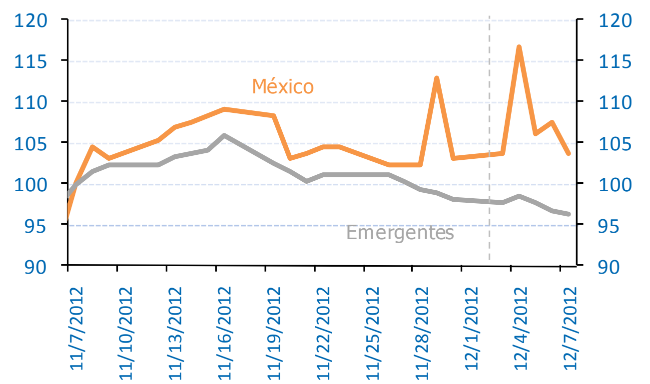
Chart 8
Foreign exchange: dollar exchange rates (November 7, 2012 index=100)



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

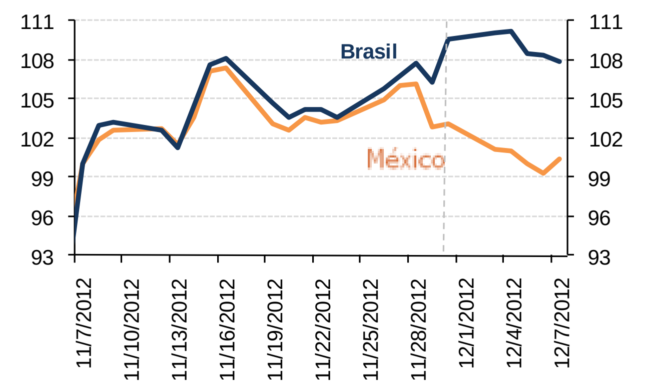
- **Lower risk aversion over the week due to optimism generated by the US president mid-week concerning the "*fiscal cliff*", as well as better-than-expected US figures for the service sector and job.**

Chart 9
Risk: EMBI+ (November 7, 2012 index=100)



Source: Bloomberg & BBVA Research

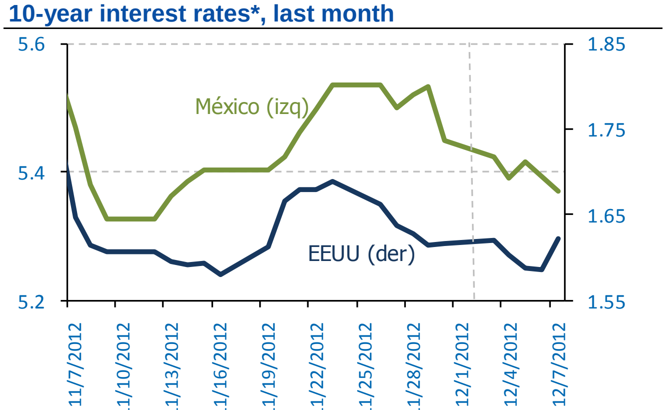
Chart 10
Risk: 5-year CDS (November 7, 2012 index=100)



Source: Bloomberg & BBVA Research

- **Rise in US interest rates due to higher risk appetite. The better-than-expected fall in inflation in Mexico impacted the slight decline in interest rates at the end of the week.**

Chart 11
10-year interest rates*, last month



Source: Bloomberg & BBVA Research

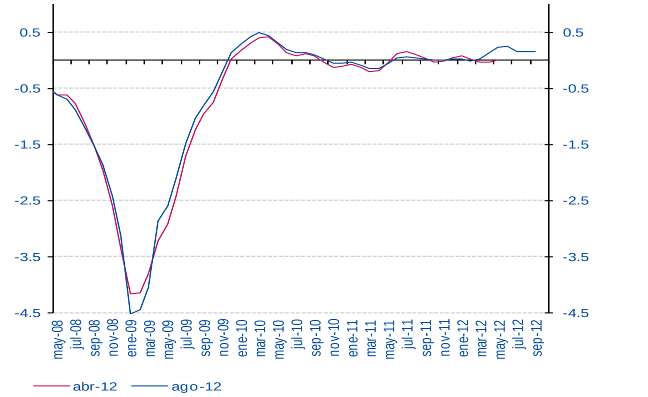
Chart 12
Carry-trade Mexico index (%)

Source: BBVA Research with data from Bloomberg

Activity, inflation, monetary conditions

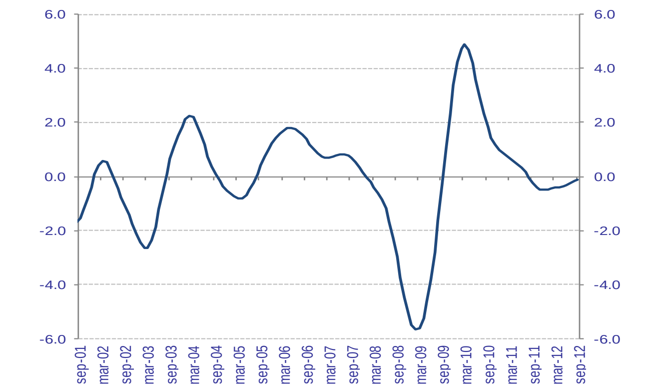
- **Output slowed in the third quarter; timely indicators from the last quarter suggest this trend will continue with a soft slowdown**

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.

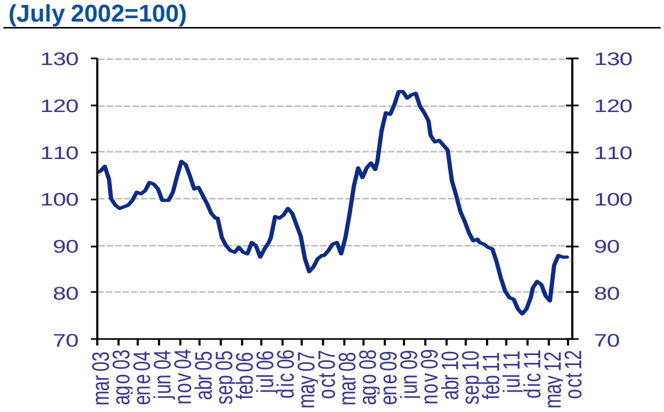
Chart 14
Advance Indicator of Activity, trend (y/y % change)



Source: INEGI

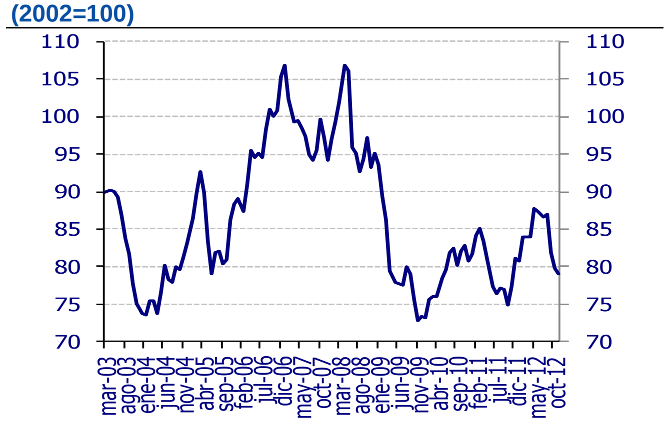
- **Both output and inflation have moderated recently.**

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.

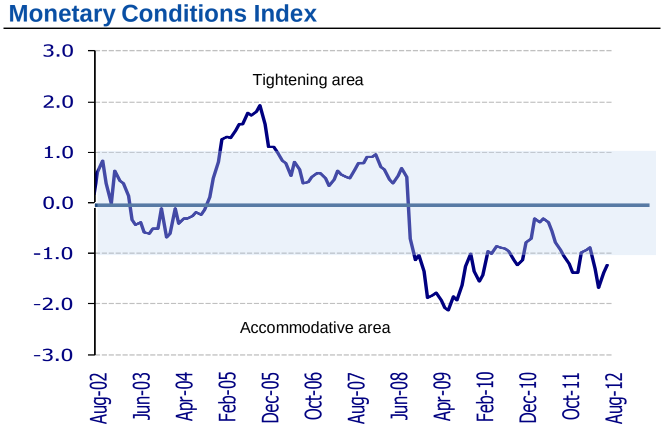
Chart 16
Activity Surprise Index (2002=100)



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.

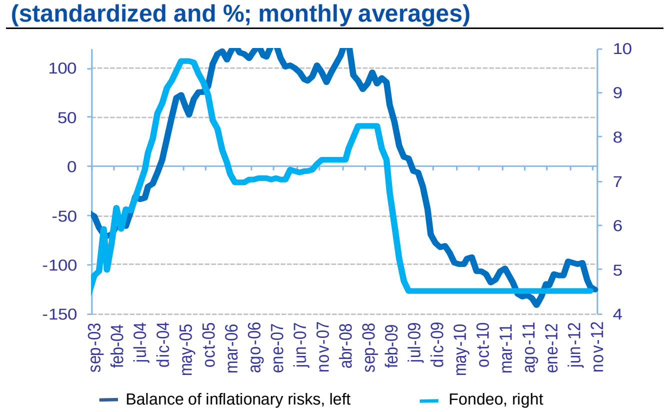
- **Monetary conditions slightly reduced their looseness after the currency gains.**

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

Claudia Ceja
claudia.ceja@bbva.bancomer.com

Cecilia Posadas
c.posadas@bbva.com

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

Octavio Gutiérrez Engelmann
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

| Av. Universidad 1200, Col. Xoco, México 03339 D.F. | researchmexico@bbva.bancomer.com | www.bbvaresearch.com

IMPORTANT DISCLOSURES

The BBVA Group companies identified by the research analysts' names included on page 6 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: **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, 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.

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, America Movil, AMX, Asur, CMR, Coca-Cola Femsa, Consorcio Hogar, Dine, El Puerto de Liverpool, Fomento Economico Mexicano, Gruma, Grupo Aeroportuario del Pacifico, Grupo Aeroportuario del Sureste, Grupo Bimbo, Grupo Carso, Grupo Financiero Inbursa, Grupo Kuo, Grupo Maseca, Grupo Modelo, Grupo Posadas, Grupo Televisa, Industrias Peñoles, Invex Controladora, KOF, 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.