

Banxico Watch

Mexico

August 10, 2011

Economic Analysis

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

Pedro Uriz Borrás
pedro.uriz.2@bbva.bancomer.com

No changes in monetary policy, with a more moderate tone on economic activity

April-June 2011 Inflation Report

- The Bank of Mexico (Banxico) has slightly lowered its GDP growth forecast for 2011 and 2012 in the light of the deterioration in the global economy
- It maintains its inflation forecast unchanged and states that the balance of inflationary risks has improved "moderately" thanks to lower commodity prices and the persistent risk of a weaker global economy
- On monetary policy it maintains the tone of its latest statements, so we consider that given recent events Banxico is awaiting clearer signs of strength in the global economy

Economic activity: Banxico has trimmed its growth forecast for 2011 and 2012 by 0.2% and 0.3% respectively. Growth in 2011 is now expected to be between 3.8% and 4.8%, with a figure of 3.5% to 4.5% for 2012. The revision is based on signs of weakness in the U.S. economy resulting from both temporary factors (the earthquake in Japan) and underlying structural problems (weakness of the labor and housing markets, as well as sluggish consumption). The output gap is closing slower than previously estimated, although the Banxico forecast considers it highly probable that it will close this year.

Inflation: Banxico maintains its forecast unchanged from the previous report. It mentions what it calls a moderate improvement in the balance of inflationary risks due to the fall in commodity prices since the middle of 2Q11 and expectations that a more sluggish global economy could affect the domestic economy. It insists that there is slack in the factor markets, which contributes to a lack of demand pressures on prices. It also stresses there is a strong possibility that core inflation will remain below 3% throughout 2012.

Risks: In terms of economic activity, it mentions the uncertainty regarding the sustainability of U.S. recovery, above all in the light of the future withdrawal of fiscal and monetary stimuli, the fiscal and financial problems in some European countries, and the reversal of capital flows as instability in the financial markets moves to the emerging economies. In the case of inflation, it does not rule out higher risks in the face of a falling currency on volatile financial markets, together with the chance of supply shocks in the agricultural markets.

Assessment: Banxico is more moderate in relation to the external environment, although its forecast of domestic activity is only slightly down. Thus with inflation being kept in check, the monetary pause can be expected to continue at least until June 2012, as forecast by the BBVA Research scenario.

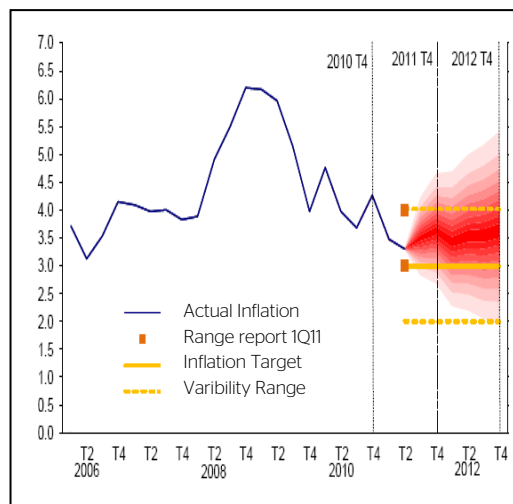
Table 1
Bank of Mexico macroeconomic framework

	4Q2010 Report		1Q2011 Report		2Q2011 Report	
	2011	2012	2011	2012	2011	2012
Growth US (annual %)*	3.2	3.3	2.7	3.2	1.8	2.5
Growth Mexico (annual %)	(3.8-4.8)	(3.8-4.8)	(4.0-5.0)	(3.8-4.8)	(3.8-4.8)	(3.5-4.5)
Employment (thousands of workers at IMSS)	(600-700)	(600-700)	(600-700)	(600-700)	(575-675)	(575-675)
Current Account (% of GDP)	1.2		1.0		1.1	
Memorandum growth forecast by BBVA Research GDP (annual %)	4.3	3.8	4.7	3.8	4.1	3.8

*Consensus of Blue Chip survey

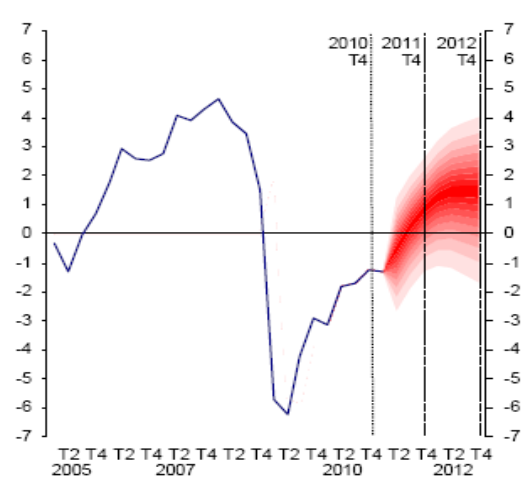
Source: BBVA Research and Banxico

Chart 1
Banxico inflation forecast (% y/y change)



Source: Banxico: April-June 2011 Inflation Report

Chart 2
Banxico output gap forecast (% potential GDP)



Source: Banxico: April-June 2011 Inflation Report

Disclaimer:

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research and BBVA Bancomer S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer on behalf of itself and is provided for information purposes only. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in 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 Bancomer, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness.

This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities