

# Mexico Weekly Flash

## Next week...

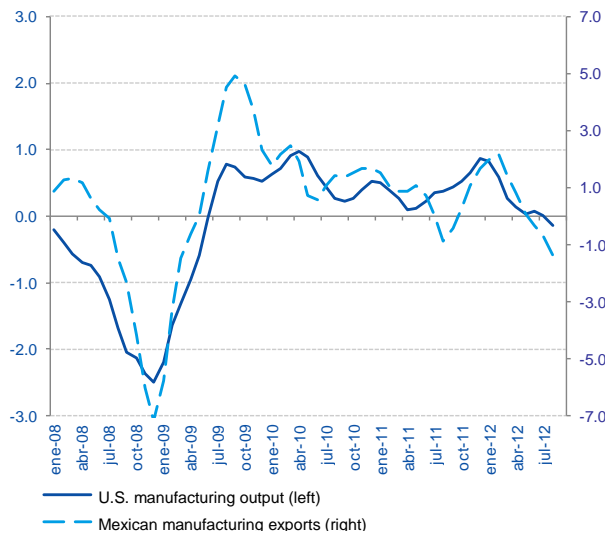
- Industrial output will make a difference to see if the US slowdown is affecting Mexico**

Next week sees the release of industrial output for August. This information will provide more insight into the effect the slowdown in US industrial output (-1.2% m/m in August) had on output in Mexico. It should be stated that said slowdown seems to be linked to a fall in manufacturing exports in Mexico of around 4.9% in August. In the face of this, we believe the level of Mexican industrial output should remain unchanged from July, hitting an annual rate of 5.2%. This slowdown in manufacturing is in line with our economic outlook where we maintain our 3.7% growth forecast for this year.

- MXN breaks 12.7 level with the chance of extending gains**

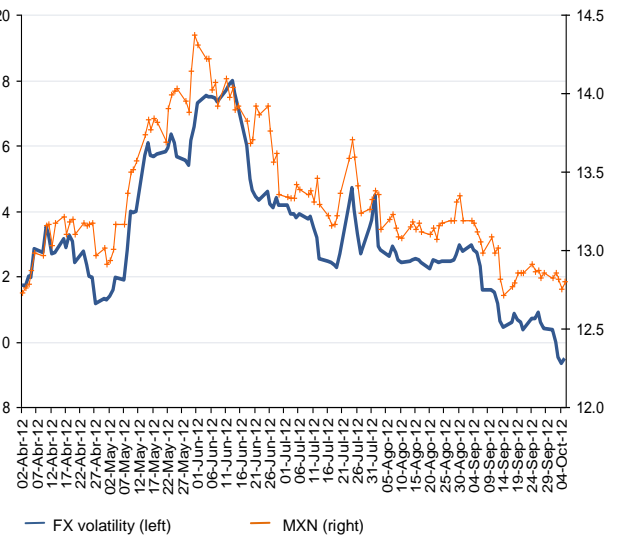
The MXN strengthened around 0.6% last week after hitting a low of 12.66 thanks to positive surprises in US indicators and risk appetite in the face of high liquidity. Next week events in Europe (Ecofin meeting, banking supervision and Troika meeting) will be the focus. The corporate reporting season is set to begin this week which could have an effect on markets.

Chart 1  
**Mexican manufacturing exports and US manufacturing output (% m/m, trend)**



Source: BBVA Research and INEGI

Chart 2  
**MXN and Implied Volatility (USDMX and %)**



Source: BBVA Research with Chicago Mercantile Exchange

# Calendar: Indicators

## Industrial output in August (October 12) seasonally adjusted series

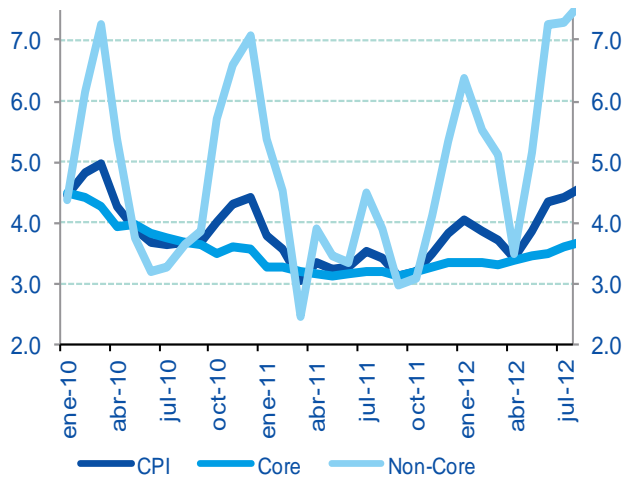
Forecast: 0.0% m/m (5.2% y/y)	Consensus: 0.2% m/m	Previous: 2.2% m/m (4.43% y/y)
-------------------------------	---------------------	--------------------------------

## September Inflation (October 9)

Forecast: 0.45% m/m (4.78% y/y)	Consensus: 0.45% m/m	Previous: -0.30% m/m, (3.7% y/y)
---------------------------------	----------------------	----------------------------------

Next week sees the release of September inflation figures saw a downward surprise in the first two weeks thanks to good performance in the core component and energy prices, particularly gas. We forecast a 0.48% m/m increase for the CPI and 0.19% m/m for core inflation meaning non-core prices are set to contribute more keenly to the upswing. We believe inflation will hit its annual high in September (4.78%) although some price pressures for livestock products could bring upward surprises due to the effects of the bird flu outbreak in Jalisco being more persistent than anticipated and global grain prices remaining very high. We see inflation in the fourth quarter falling considerably thanks to favorable statistics in comparison to 2011, the recent strengthening in the peso and the ongoing slack in the economy. We think inflation is set to come in around 4.0% at the end of the year although our forecast does have an upward bias since the appearance of new supply shocks cannot be ruled out that lead to inflation falling below expectations at the end of the year.

Chart 3  
Inflation Breakdown (% change y/y)



Source: BBVA Research with INEGI data

Chart 4  
Inflation for livestock products (% change y/y)



Source: BBVA Research with INEGI data

# Markets

- **The MXN breaks the 12.7 level thanks to positive surprises in the US.**

Over the week, the MXN strengthened around 0.6%, after hitting a low of 12.66. The series of positive surprises in US indicators (particularly the ISM and NFP), in addition to Federal Reserve minutes reiterating high liquidity for a prolonged period had a positive effect on the risk appetite among global investors. The scenario points to possible further gains in coming days with the calendar of economic data less charged in the near future and key events in the EMU taking place toward the middle of the month. In this way, room for strengthening toward 12.60 remains. Risk continues to focus on when Spain will ask for a bailout and the effect this would have on its credit rating. In addition, the risk of closing positions on the CME remains (with net contracts at all-time highs). In this way, we maintain the range expectation and make the most of moves toward the support to take long USDMXN positions.

Along this line, interest rates on the Mbond and TIIE market fell over the week. On average, Mbond curve yields fell 7bp, with the longer tranches seeing the highest demand. Global risk premiums stabilizing and slow economic growth is the ideal combination for long maturity demand thriving. In turn, in addition to the construction context in Mexico, President Calderón announced deep water oil finds with estimated reserves of 125 million barrels. According to the statement, it is the most important find for many years.

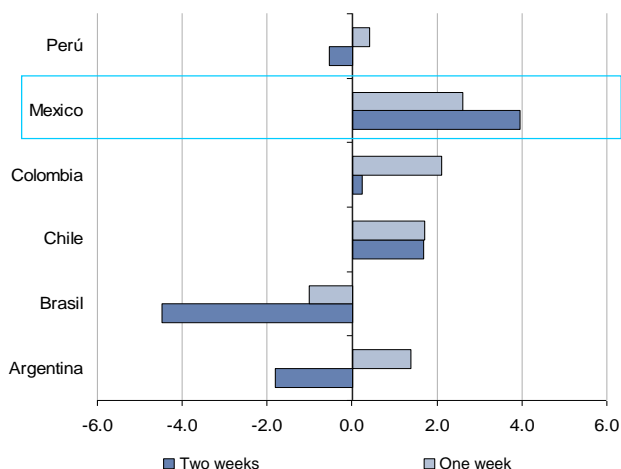
- **Minister and banking supervision meeting now in market spotlight**

The European Finance Ministers meeting to deal with sovereign issues (October 8 and 9) and the EU Parliament will discuss banking supervision proposals (October 10). The Ministers of Finance and Central Banks will meet with the IMF to discuss, among other things, global outlook. Lastly, markets will remain focused on a possible issue of Credit Enhancers from European rescue funds (EFSF / ESM) for initial losses in sovereign debt.

- **Corporate reporting season in the U.S.**

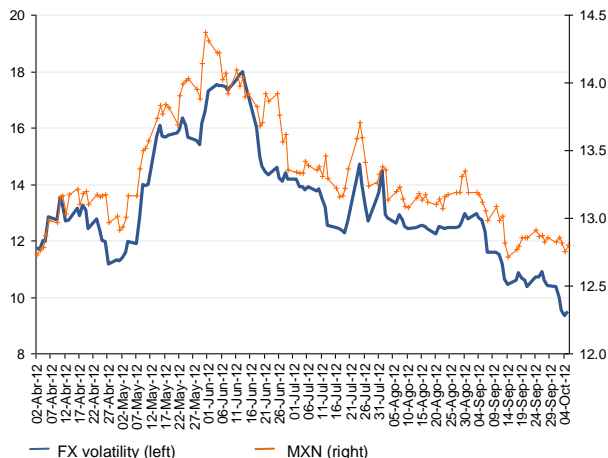
Furthermore, the corporate reporting season will be starting in the US with Alcoa (Tuesday) and financial institutions JP Morgan and Wells Fargo (Friday). We remind readers that the consensus forecast a 1% fall in revenue and -2% in EPS. In turn, revenues in Mexico are expected to see around 14% growth with EBITDA increasing by 8.2%.

Chart 5  
**Stock Market Yields in LatAm**  
(% change of main index)



Source: BBVA Research and Bloomberg

Chart 6  
**MXN and Implied Volatility**  
(USDMX and %)



Source: BBVA Research and Bloomberg

# Technical Analysis

## IPC



Source: BBVA, Bancomer, Bloomberg

The weekly market balance meant the IPC hit a new all-time high, breaking the 41,500pts resistance level. By trading at levels never hit before, we could set a new target projecting the points from the last bounce level (40,000pts) to 41,500pts, giving a new short-term target of 43,000pts. This level matches the high section of the upward channel the market has traded in since August 2011 for over a year already. The market benefitted from the AAA issuer bounce over the week. 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.

Previous Rec. (10/01/12): 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.

## MXN



Source: BBVA, Bancomer, Bloomberg

After several lateral sessions, the dollar started an adjustment taking it to the initial support at MXN12.70. 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.

Previous Rec. (10/01/12). The dollar remained in the short-term downward channel and only an upward break through MXN13.00 would mark a trend change.

## 3Y M BOND



Source: BBVA, Bancomer, Bloomberg

3Y M BOND (yield): The bond could not materialize a bounce from the 4.7% floor. 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%.

Previous Rec. (10/01/12). If it breaks down through 4.7%, the next floor is at 4.55%.

## 10Y M BOND



Source: BBVA, Bancomer, Bloomberg

10Y M BOND: (yield): The bond maintained its downward move after the negative intersection of the 10- and 30-day rolling averages. Floors at 5.2% and then toward 5%. Only if it bounces above 5.5% could we consider a trend change.

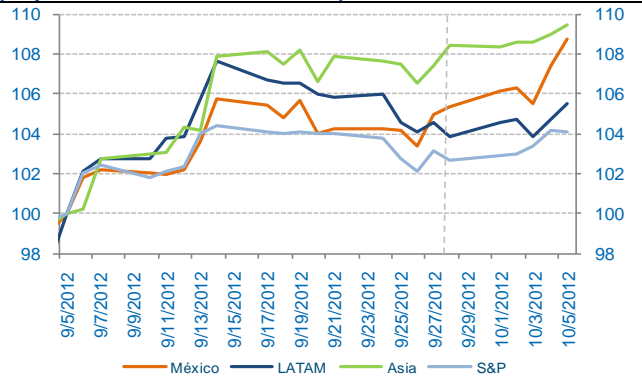
Previous Rec. (10/01/12). The 10-day rolling average crossed down through the 30-day meaning we could expect weakness. Floor at 5.2%

# Markets

- **Upswing on stock markets and emerging currency rises over the week after better-than-expected US employment and manufacturing figures. The peso fell on the last day of the week after the postponement of Spain asking for a bailout dominated over US non-farm payroll figures which were in line with expectations.**

Chart 7

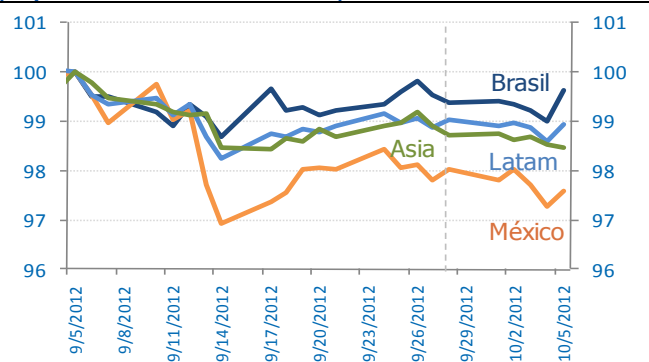
**Stock Markets: MSCI Indices (September 5, 2012 index=100)**



Source: Bloomberg & BBVA Research

Chart 8

**Foreign exchange: dollar exchange rates (September 5, 2012 index=100)**

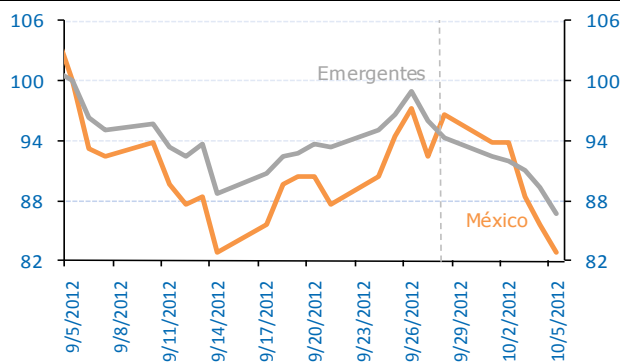


Source: Bloomberg and BBVA Research Note: LATAM includes Argentina, Brazil, Chile, Colombia and Peru. Asia includes the Philippines, South Korea, Taiwan, Singapore, Indonesia and Thailand. Non-weighted averages

- **Slight upswing in risk aversion midweek due to the Spanish authorities denying rumors that it could ask for a bailout in coming days. US jobs figures ease risk aversion at the end of the week.**

Chart 9

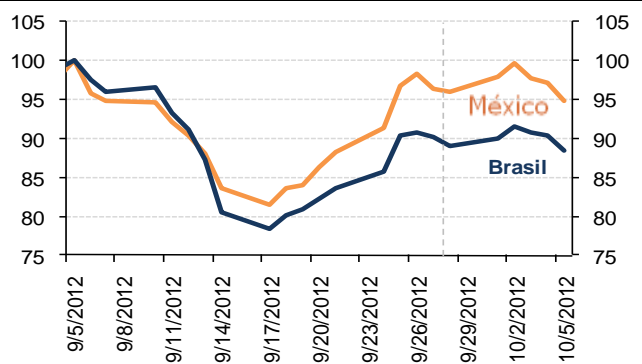
**Risk: EMBI+ (September 5, 2012 index=100)**



Source: Bloomberg & BBVA Research

Chart 10

**Risk: 5-year CDS (September 5, 2012 index=100)**

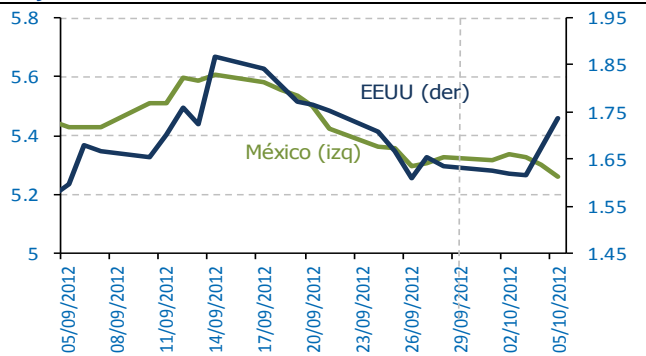


Source: Bloomberg & BBVA Research

- **Increase in rates in the US in light of better-than-expected economic data. Mexican rates fall on final day after maintaining high correlation with US rates.**

Chart 11

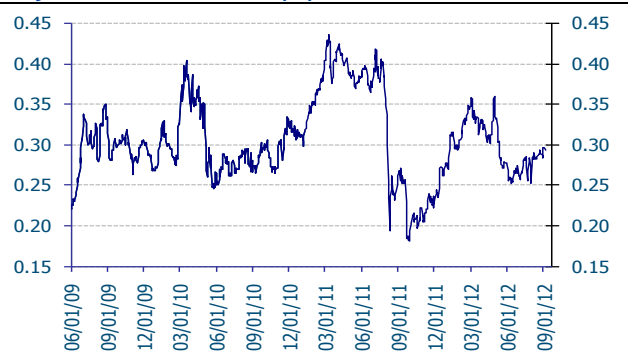
**10-year interest rates\*, last month**



Source: Bloomberg & BBVA Research

Chart 12

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

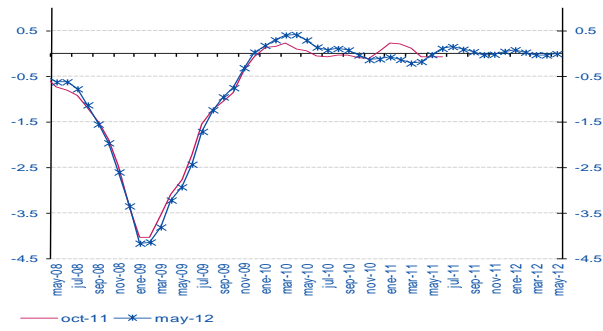


Source: BBVA Research with data from Bloomberg

# 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.

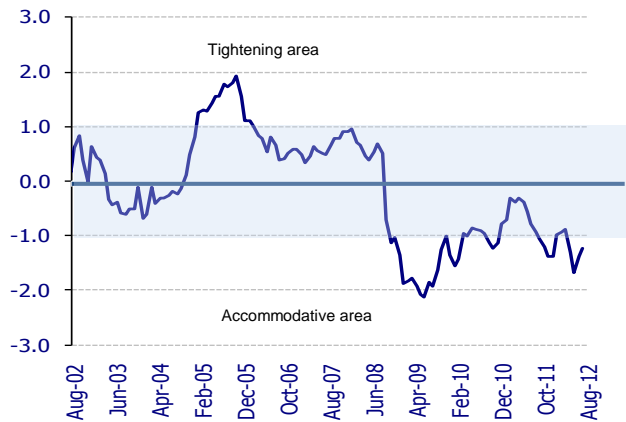
Chart 15  
**Inflation Surprise Index (July 2002=100)**



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

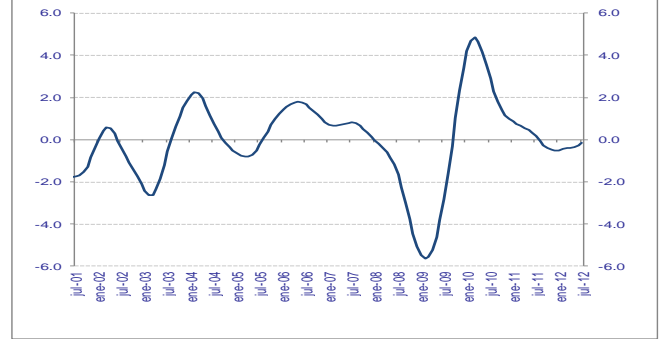
- Monetary conditions slightly reduced their looseness after currency appreciation.

Chart 17  
**Monetary Conditions Index**



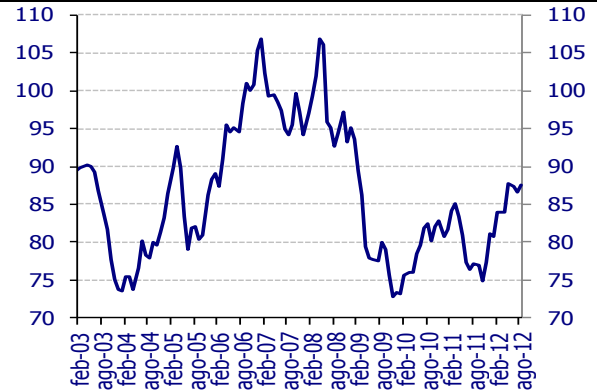
Source: BBVA Research

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



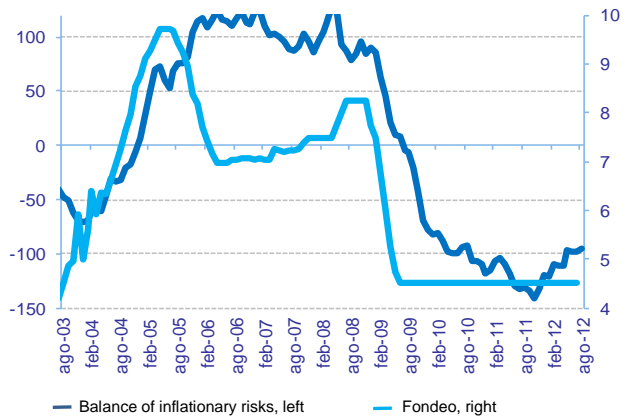
Source: INEGI

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/Conócenos](http://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, 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.