

Latam

In-Depth Analysis

Mexico City, 6 August 2010

Market Analysis FX

Global FX

Chief Strategist
PABLO ZARAGOZA
pzaragoza@grupobbva.com
+34 91 374 38 64

FX LatAm
Chief Strategist
MOISES JUNCA, CFA, CMT
moises.junca@bbva.bancomer.com
+5255 5621 9380

Claudia Ceja
claudia.ceja@bbva.bancomer.com
+5255 5621 9715

USDCOP: towards a levelling off as factors supporting peso are easing

- **COP has outperformed its peers since the beginning of the year on different local factors such as positive expectations for domestic economy and for foreign inflows** as well as possible credit rating upgrades and optimism regarding the coming presidential period.
- **However, we believe that most of these elements are already priced in** and that the room for the peso to extend gains is limited.
- **This view also considers the possibility of a more interventionist language of the central bank in the short term** and a potential catch up of other currencies in the region such as the MXN.

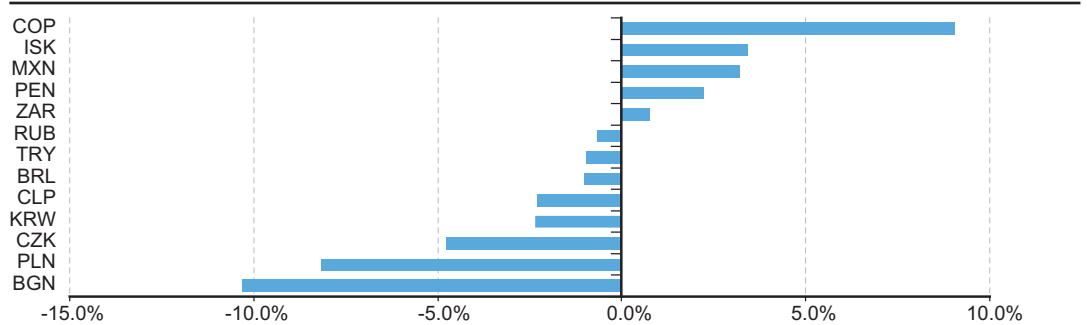
PLEASE SEE ANALYST CERTIFICATION AND OTHER IMPORTANT DISCLOSURES ON PAGE 6 OF THIS REPORT

This document has been produced by BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer. For further information please contact the areas listed in this document. No part of this report may be copied, conveyed or distributed into the countries in which distribution is prohibited by law, or furnished to any person or entity in those countries. The failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

COP has outperformed its peers since the beginning of the year on local factors

Opposite to what has happened in most of emerging currencies, local factors have been the main driver of the peso's behaviour. Hence, while emerging currencies have reacted negatively to spikes in risk premia (both global financial and cyclical) the currency has outperformed its peers since the beginning of the year by appreciating nearly 12% against the USD. The reasons behind this movement are: 1) Positive expectations for foreign inflows. This is considering that foreign direct investment, especially to energy sector, keeps a positive bias. In addition, commercial flows have shown an upward trend since the beginning of the year (however, it is important to pay attention to a possible impact of moderation in US growth and of conflicts with Venezuela). 2) Favorable outlook for the domestic economy (our GDP estimate for 2010 is 4.2%). 3) Expectations of Government monetizations have been important since the beginning of the year, but we expect them to ease as USDCOP approaches important support levels, (especially considering that they were abandoned by the Government in October, 2010 when USDCOP reached 1,812). 4) Possible credit rating upgrades (i.e. Moody's and S&P have already announced their positive expectations for the economy). 5) Optimism regarding the coming presidential period (which we believe are mostly priced in).

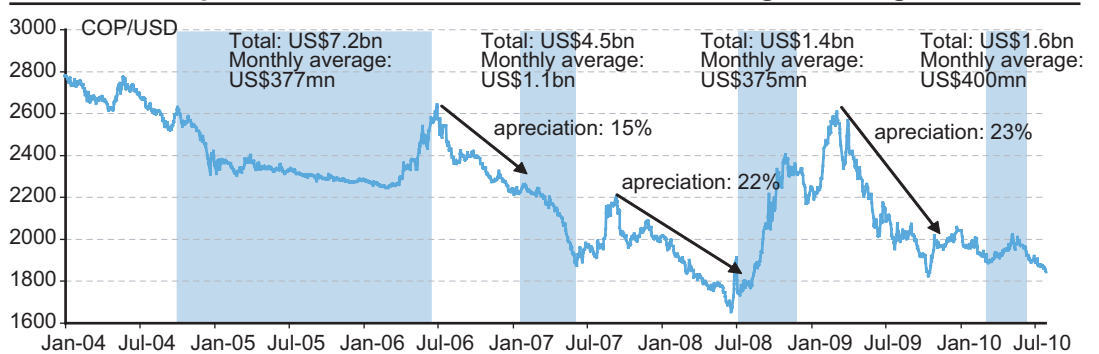
Chart 1
Emerging currencies, YTD % change



Source: Bloomberg and BBVA Research

In addition to these elements, the most recent appreciation movement has been explained by moderation of expectations regarding Central Bank interventions in the local foreign exchange market. Indeed, Banrep did not announce any more USD purchases in its last monetary policy meeting, which was broadly expected by the market. Moreover, the latest interventions proved to have no significant impact on the peso's behavior. That said, we do not rule out a more interventionist language from the Institution in the short term, especially as Banrep's next monetary policy approaches (August, 20).

Chart 2
Banco de la República dicretional interventios in local foreign exchange market



Source: Bloomberg, Banrep and BBVA Research

We see limited room for COP appreciation

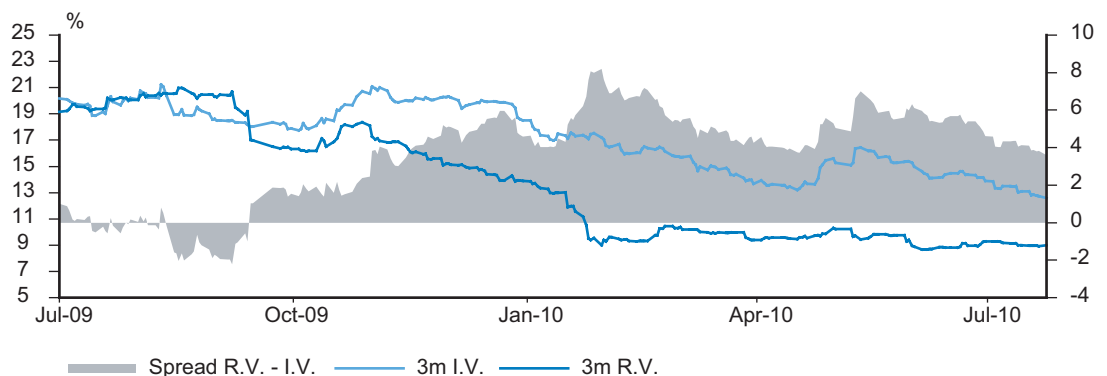
In spite of the above mentioned factors, we believe that the room for the peso to extend its gains is limited in the short term. This is considering that most of foreign inflows expectations are already priced in. In addition, slow recovery in external output would lead to decreasing remittances. Furthermore, we think that the euphoria regarding Juan Manuel Santos' victory will moderate once he starts his presidential period in August. Additionally, given that fundamentals point towards a positive scenario for growth with no inflationary pressures, monetary tightening is not expected to start until the first quarter of 2011. Thus, we do not see any upside in case of a renewed appetite for carry strategies in global markets. In addition, we would expect a catch up in other Latam crosses (especially in the MXN) which would limit additional portfolio flows to domestic assets. This is considering valuation factors (i.e. in terms of PPP, COP is a 46% overvalued while MXN is undervalued by 6.3%). Furthermore, according to EPFR, allocation of investment funds to Colombian assets as a percentage of total allocation to Latam has increased at a higher pace than that to Mexico's (which actually decreased in June), and hence –given the positive expectations for Mexican instruments–, we would expect a reversion from this phenomenon. Last but not least, technical factors signal strong support at the 1,812-1,820 zone.

We recommend a selling a USDCOP put spread

The spread between implied and realized volatility has decreased consistently, however the term structure remains in the lowest percentiles of the year, which inclines us towards low vega strategies. On the other hand, the skew shows attractive prices for USD puts respect to the ATM. Therefore we would take advantage of the skew by **selling a 2M Put Spread**. (Buy 2M put with a strike price of 1,800, sell 2M put with a strike price of 1,815) previous recommendation does not apply.

Chart 3

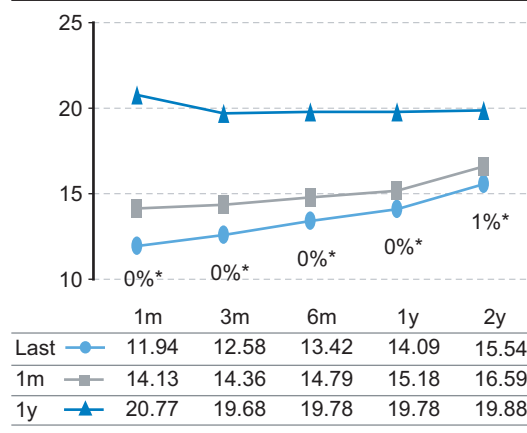
Implied vs. realized volatility spread



Source: BBVA Research

Chart 4

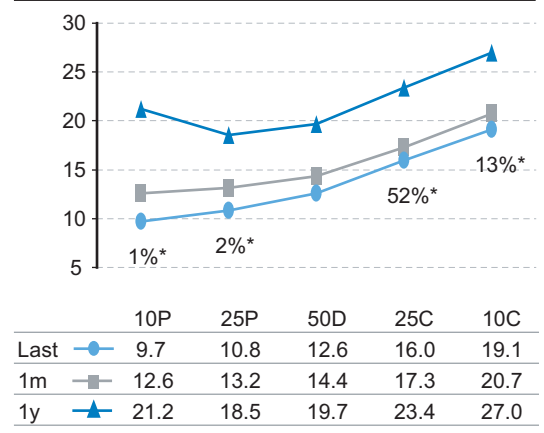
Volatility term Structure



* 1y Percentile of the last value
Source: Company data

Chart 5

3M volatility skew



* 1y Percentile of the last value against the ATM
Source: Company data

Chart 6

Technical Analysis



Source: BBVA Research

Market & Client Strategy

*Director***ANTONIO PULIDO**

ant.pulido@grupobbva.com

+34 91 374 31 81

Global Fixed Income

*Director***LUIS ENRIQUE RODRIGUEZ, CFA**

luisen.rodriguez@grupobbva.com

+34 91 537 35 87

Global FX*Chief Strategist***PABLO ZARAGOZA**

pzaragoza@grupobbva.com

+34 91 374 38 64

*FX LatAm**Chief Strategist***MOISES JUNCA**

moises.junca@bbva.bancomer.com

+5255 5621 9380

Claudia Ceja

claudia.ceja@bbva.bancomer.com

+5255 5621 9715

Global Interest Rates*Interest Rates LatAm***Liliana Solis**

liliana.solis@bbva.bancomer.com

+5255 5621 98 77

IMPORTANT DISCLOSURES**Analyst Certification**

We, **Moises Junca Acebedo, Rodrigo Ortega Salazar, Claudia Ceja Gonzalez:**

Hereby certify that the views expressed in this research report accurately reflect our personal views about the mentioned corporation(s) and its (their) securities. We also certify that we have not been, are not, and will not be receiving direct or indirect compensation in exchange for any specific recommendation in this report.

Rating, target price and price history information for the companies that are the subject of this report are available at www.bancomer.com.

Receipt of Compensation / Provision of Services current as of 7/21/10

Management or Co- Management of Public Offering. Within the past twelve months, BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer ("BBVA Bancomer"), and/or its affiliates, have participated as manager or co-manager in public offerings, and received compensation for these services, of the company(ies), which is(are) the subject of this report: **Actinver, Banco Interacciones, BNP, Bimbo, Cemex, Comision Federal de Electricidad, Corporación Interamericana de Inversiones, Chedraui, Daimler, Embotelladoras Arca, El Puerto de Liverpool, Ferrocarril Mexicano, Fonacot, GE Capital Bank, GMAC, Hipotecaria su Casita, ICA, Maxcom, Megacable, Nemak, NRF(Nissan), Paccar, Pemex, Posadas, Ruba, Telmex Internacional, Toyota, Urbi, VWLease.**

Investment Banking Compensation. Within the past twelve months, **BBVA Bancomer**, and/or its affiliates, have received compensation for investment banking, common representation and credit related services from the Company/ies, which is(are) the subject of this report: **Acciona, Aeromexico, Alesa, América Móvil, Avicola Pilgrim's Pride de Mexico, Axtel, Bancomext, Banco de Credito e Inversiones, Banorte, Cemex, Cencosud, Central Puerto, Cintra, Colbun, Comercial Mexicana, Comisión Federal de Electricidad, Compañía de Telecomunicaciones de Chile, Concesionaria Mexiquense, Consorcio Comex, Consultatio, Controladora de Farmacias, Copamex, Coppel, Corporacion Geo, Corporativo Arca, Corporación Moctezuma, Credito Inmobiliario, Daimler Chrysler de México, DIA, Dine, El puerto de Liverpool, El palacio de Hierro, Empresas Cablevisión, Endesa (Chile), Facileasing, Factoring Corporativo, Farmacias Benavides, FCC, Femsa, Ferrosur, GEO, Gruma, Grupo Alfa, Grupo Ara, Grupo Brescia, Grupo Bimbo, Grupo Casa Saba, Grupo Cementos de Chihuahua (GCC), GAP, Grupo Comercial Chedraui, Grupo Collado, Grupo Comercial Gomo, Grupo Dermet, Grupo Elektra, Grupo Famsa, Grupo Famsa, Grupo Financiero Inbursa, Grupo Scotiabank, Grupo Herdez, Grupo ICA, Grupo La Moderna, GMAC, Grupo Maseca, Grupo México, Grupo Posadas, Grupo R, Grupo Sanborns, Grupo TMM, Grupo Videomax, Grupo Xignux, Hilasal Mexicana, Homex, HSBC, Holcim (Apasco), Hylsamex, Imsa/Tarida/Ternium, Industrias Bachoco, Hipotecaria Casa Mexicana, Hipotecaria su Casita, Industrias Aluprint, Industrias CH, Industrias Peñoles, Inmobiliaria Ruba, Interceramic, Kansas City Southern de México, Kaupthing Bank, Lamosa, Liverpool, Mabe, Manufacturas Kaltex, Medica Sur, Megacable, Mexichem, Molinos Rio de la Plata, Molytmet, Municipio de Aguascalientes, Nadro, Nafin, OHL, Nemak, NRF Mexico, Paccar, Pemex, Petrotemex, Pimsa, Plavicom, Prolec GE, QQQ, Ruba, Sare, Sears, Siderar, Sigma, Simec, SPY, Scotia Bank Inverlat, Techint, Telefónica CTC, Telefonica de España, Teléfonos de México, Telint, Tenaris, Terra, Toyota, Urbi, Value, Volcan Cia Minera, VWLease.**

Expected Investment Banking and services Compensation. In the next three months, BBVA Bancomer, and/or any of its affiliates, expects to receive or intends to seek compensation for investment banking, common representation and credit related services from the company (ies) discussed in this report.

BBVA Bancomer acts as market maker/specialist in: **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).**

BBVA acts as market maker/specialist in Latibex: **Alfa, AMX, Corporación Geo, Grupo Modelo, ICA, Sare, Telmex.**

Ownership Positions

BBVA Bancomer, and/or its affiliates holds, directly or indirectly, at least 1 % of the equity capital of the following company/ies whose shares are open to negotiation in organized markets and which is(are) the subject of this report: **BOLSA DE VALORES DE CARACAS, BOLSA, CAMARA DE RIESGO CENTRAL DE CONTRAPARTE DE COLOMBIA, CEMEX VENEZUELA, DECEVAL, GAP, GRUPO AEROPORTUARIO CENTRO NORTE, GRUPO SIMEC, GRUPO VIDEOVISA, PASA.**

BBVA Bancomer, and/or its affiliates, may hold from time to time, directly or indirectly, as of the end of the last quarter, at least 10% of its investment portfolio, or 10% of the amount issued, of the securities or underlying investments issued by the companies which are the subject of this report. **AXTEL.**

Other Disclosures

To the best of BBVA Bancomer's knowledge, a Member of its Board, its CEO or Senior Manager holding a direct reporting position to BBVA Bancomer's CEO holds a similar position in any of the following company/ies which is(are) the subject of this report: **Alfa, Alesa, Amx, Asur, Bimbo, CMR, Dine, Femsa, GAP, Gmodelo, Grupo financiero Inbursa, Grupo Carso, Grupo Posadas, Hogar, Invex, Kof, Kuo, Liverpool, Maseca, Oma, Peñoles, Sanborns Hermanos, Sears Roebuck, Telecom, Telmex, Tenaris, Tlevisa, Urbi, Vitro.**

Additional Information and Disclaimer**Ratings and Price Targets**

As of June 30, 2010, for the whole universe of companies which BBVA Bancomer, has under coverage there are **50%** Buy ratings (including "Buy" and "Outperform"), **4%** Neutral ratings and **46%** Sell ratings (including "Sell" and "Underperform"). BBVA Bancomer or any of its affiliates has rendered Investment Banking services or participated as manager and/or co-manager in public offerings in **45%** of the Buy ratings, **11%** of the Neutral ratings and in **44%** of the Sell ratings.

Ratings are set on a six-month or year-end basis against the relevant benchmark. BBVA Bancomer issues three equity recommendations: **Outperform:** Upside potential of more than 5% vs. the market. **Neutral:** Stock is expected to perform in line with the market (+/-5%). **Underperform:** Expected downside of at least 5% vs. the market:

Recommendations reflect the stock's expected performance vs the market, within a specified period. This performance may be explained by the fundamental stock valuation method and other factors. The fundamental stock valuation method used by BBVA Bancomer, is based on a combination of one or more generally accepted financial analysis methodologies, which may include, multiples, discounted cash flows, sum of parts or any other methodology that applies to the particular case. Other factors include newsflows, benefit timing, M & A's and market's appetite in a given sector. Notwithstanding these factors can lead to a recommendation contrary to that indicated by the simple fundamental valuation results and its comparison with direct quotations.

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by BBVA Global Markets Research an affiliate of Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) and/or BBVA Bancomer, to provide their or its customers with general information as of the date of the report and are subject to changes without prior notice. BBVA Bancomer is not liable 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, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind. For more information please contact the persons included in the directory of this document.

The determination of a price target does not imply any warranty that it will be attained. For a discussion of the risks associated with the attainment of price targets, which depend on intrinsic and extrinsic factors that affect both the performance and trends prevailing in the market on which the recommended securities is traded and/or offered, please refer to our recently published documents, which are available via e-mail, contact our analysts or visit our internet site www.bancomer.com.

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 goal, financial position or risk profile, for these have not been taken into account in the preparation of this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. 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.

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 Bancomer, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA Bancomer, accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents.

Transactions in futures, options or high-yield securities can involve high risk and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of the initial investment; in such circumstance, 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 characteristics, as well as the rights, liabilities and risks associated with these securities and their underlying investments. Investors should also be aware that secondary markets for the said instruments may be limited or may not exist.

BBVA Bancomer, BBVA Securities Inc., BBVA Brazil, BBVA Continental, BBVA Banco Frances, BBVA Chile or any affiliate of the BBVA Group, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA Bancomer, BBVA Securities Inc., BBVA Brazil, BBVA Continental, BBVA Banco Frances, BBVA Chile or any affiliate of the BBVA Group, its 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 Bancomer BBVA Securities Inc., BBVA Brazil, BBVA Continental, BBVA Banco Frances, BBVA Chile or any affiliate of the BBVA Group's proprietary trading and investment 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 forwarded; or (iii) quoted, without the prior written consent of BBVA Bancomer. 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. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

This document is provided in the United Kingdom solely to those persons to whom it may be addressed according to the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and it is not to be directly or indirectly delivered to or distributed among any other type of persons or entities. In particular, this document is only aimed at and can be delivered to the following persons or entities (i) those outside the United Kingdom (ii) those with expertise regarding investments as mentioned under Section 19(5) of Order 2001, (iii) high net-worth entities; and (iv) any other person or entity under Section 49(1) of Order 2001 to whom the contents hereof can be legally revealed.

This document is being distributed for BBVA BANCOMER in Singapore by Banco Bilbao Vizcaya Argentaria (BBVA), Singapore Branch purely as a resource and for general informational purposes only, and is intended for general circulation. Accordingly, this research document does not take into account the specific investment objectives, financial situation, or needs of any particular person and is exempted from the same by Regulation 34 of the Financial Advisers Regulations ("FAR") (as required under Section 27 of the Financial Advisers Act (Cap. 110) of Singapore ("FAA")).

Please note Banco Bilbao Vizcaya Argentaria (BBVA) is not an Authorised Deposit taking Institution within the meaning of the Banking Act 1959 nor is it regulated by the Australian Prudential Regulatory Authority (APRA).

The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the results obtained by BBVA Bancomer BBVA Securities Inc., BBVA Brazil, BBVA Continental, BBVA Banco Frances, BBVA Chile and by BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business, common representation or credit related services; nevertheless, they do not receive any remuneration based on revenues from the mentioned areas or a specific transaction in investment banking, common representation or credit related services.

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. Changes in regulations and the risks inherent in electronic communication 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. As such, it should not be considered a substitute for the direct advice provided by accounting and fiscal advisors or other competent consultants.

All images and texts and texts are the property of BBVA Bancomer and may not be downloaded from the Internet, 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 Bancomer. BBVA Bancomer reserves all intellectual property rights to the fullest extent of the law. None of the information contained herein may be interpreted as a concession by implication, exclusion or any other means, of any patent or brand of BBVA Bancomer or of any third party. Nothing established herein should be interpreted as a concession of any license or right under any BBVA Bancomer copyright.

BBVA Bancomer, as well as its executives and employees have adopted the Código de Conducta de Grupo Financiero BBVA Bancomer, which is available in our internet site www.bancomer.com.

BBVA Bancomer, BBVA and the entities of the BBVA Group, including BBVA Global Markets Research, are subject to BBVA Group Policy on Conduct in the Securities Markets. In each entity where the Group Conducts Businesses in the Security Markets, the Policy is supplemented with the Internal Standards of Conduct which, among other regulations, include rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance / Conduct in the Securities Markets.

BBVA Bancomer is regulated by the Comisión Nacional Bancaria y de Valores.

“Banco Bilbao Vizcaya Argentaria S.A. (CE number AFR194) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission in Hong Kong”

BBVA Bancomer, BBVA Brazil, BBVA Continental, BBVA Banco Frances, BBVA Chile as well as other entities in the FINRA (Financial Industry Regulatory Authority), are not subject to the rules of disclosure affecting such members.

This material is being distributed into the United States in reliance on an exemption from broker-dealer registration under Rule 15a-6 of the Rules under the Securities Exchange Act of 1934. Any trades in the securities discussed in this report must be effected through a U.S. registered broker/dealer as we are not authorized to accept any order to effect trades in any security discussed in this report within the U.S.