

Allocation Mexico

Drifting Toward Troubled Waters

Slow US economy decreases Mexican expectations

The structure of the Mexican economy is unchanged when it comes to the breakdown between local and export markets, and we base our expectation for Mexican economic growth on both markets. We continue to expect a 4.4% GDP growth for 2010 (growths of 4.3%, 7.6%, 4.0% and 1.9% for each quarter, sequentially) while other, more aggressive houses, have reduced this from 5% to nearly 4%.

Despite the most recent reduction in 2H10 growth expectations, we maintain our figure in the belief that the local market will compensate for a likely weaker export scenario that heavily depends on the US economy.

We have assumed since last month that the US would grow at a lower than previously expected pace. Locally, the Mexican construction segment has been the weakest in the industrial sector, while manufacturing has led the economy. We expect export companies, which have been suffering from the weaker foreign market, to recover by year-end, although car exports have performed well even during these tougher times.

Mexican tidbits

Mexico's inflation has been increasing and, from the current annualized 3.7%, we maintain our expectation of it reaching 4.7% by year-end. We believe that our expectation of interest rate hikes in 3Q11 might become market consensus soon.

The FX has moved negatively lately, after three months without definite direction. It has surpassed the P\$13/US\$ line, the worst level since the end of June. We still expect it to be at P\$12 by year end but, if we do not see a downward movement over the next weeks, we might change this expectation to a P\$12.25-12.35 range. We do not believe this potential change in the FX scenario would cause any change to Mexican exports, with the main driver here continuing to be the strength of the US economy (and demand).

For August, we have added Alsea and Femsal to our portfolio and increased the weights of America Movil (from 20% to 25%) and Walmex (from 10% to 15%). We also reduced the weights of GenomaLab and Geo (from 10% to 5%), and have withdrawn Cemex.

Suggested Portfolio – September/10

LONG/OVERWEIGHT

Stock	Ticker	Traded Vol.*	Weight %
Alsea	ALSEA*	12.3	5
America Movil	AMXL	1,083.8	25
Chedraui	CHDRAUIB	27.5	5
Femsal	FEMSAUBD	208.3	5
GenomaLab	LABB	89.8	5
Geo	GEOB	74.2	5
GMexico	GMEXICOB	468.4	15
Mexchem	MEXCHEM*	79.0	5
Peñoles	PE&OLES	68.3	10
Televisa	TLEVICPO	197.9	5
Walmex	WALMEXV	430.5	15
Total	-		100

Source: Banif - Ixe Securities Research

* Average daily trading volume (P\$ mn) in the past 90 days

Oswaldo Alcântara Telles Filho

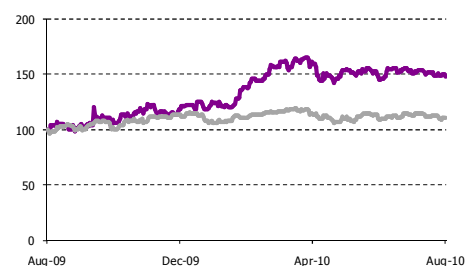
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“LONG”/Overweight – Suggested Portfolio

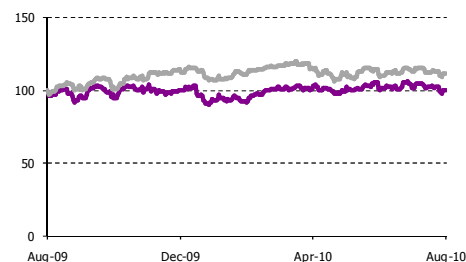
Company	Ticker	Current	52 - week		Performance	
		Price	High	Low	YTD	12M
Alsea	ALSEA*	12.37	13.4	7.7	26.4%	55.9%

Catalyst: The company has grown based on the casual dining business, which has proved to be very successful. The good performance of this segment has allowed for a positive SSS growth in the last quarter, a rebound from previous quarters. The company sold its minority stake in Starbucks Coffee Brazil, a business that had not been doing well, in order to concentrate its efforts on companies in which it has a controlling stake.



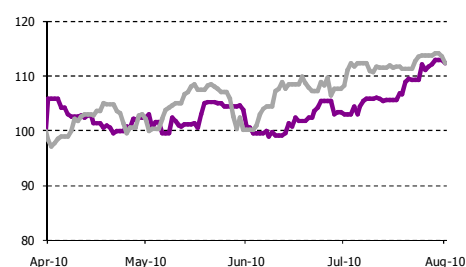
Company	Ticker	Current	52 - week		Performance	
		Price	High	Low	YTD	12M
America Movil	AMXL	30.82	32.8	27.3	0.6%	4.6%

Catalyst: Under the current economic scenario, we believe this stock could be defensive, as it has a strong balance sheet, generates free cash flow and has a solid management. AMX is in the process of integrating its fixed and cellular operations. Specifically in Brazil, we expect to see some selling of quadruple play packages at the end of 2010. Although management did not provide any guidance for synergies, we estimate some synergy gains could benefit FCF as soon as in 4Q10.



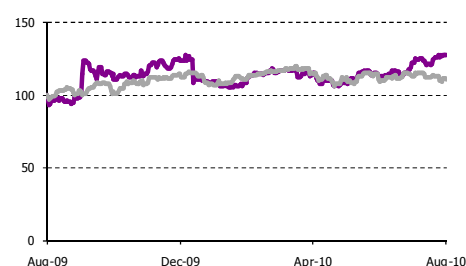
Company	Ticker	Current	52 - week		Performance	
		Price	High	Low	YTD	12M
Chedraui	CHDRAUIB	36.40	38.5	33.5	-	-

Catalyst: The company will be included in the Mexican Index in September and the Board of Directors has just authorized the use of P\$500 mn in a buyback program, a value equivalent to the trade in 15 full sessions. Additionally, the company continues to grow at a high pace, with plans to open 29 stores in the year.



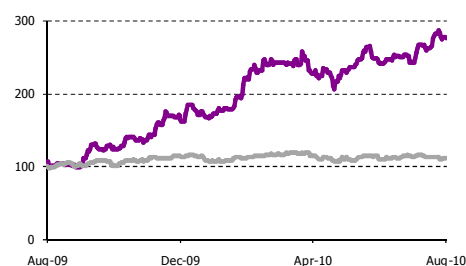
Company	Ticker	Current	52 - week		Performance	
		Price	High	Low	YTD	12M
Femsa	FEMSAUBD	64.64	65.1	46.1	3.2%	36.1%

Catalyst: We recommend a 5% participation in FEMSA. The stock is defensive and is in an internationally attractive sector, pending news on mergers and acquisitions.



Company	Ticker	Current	52 - week		Performance	
		Price	High	Low	YTD	12M
GenomaLab	LABB	24.27	26.3	8.6	68.6%	157.6%

Catalyst: The company will be included in the Mexican Index in September. Additionally, expectations are for quarterly results for the remainder of the year to be strong, as 2H is usually the strongest due to seasonal effects. Moreover, the market is awaiting a distribution agreement with Wal-Mart USA.



“LONG”/Overweight – Suggested Portfolio

Company	Ticker	Current Price	52 – week		Performance	
			High	Low	YTD	12M
Geo	GEOB	34.07	41.7	30.2	-2.0%	8.1%

Catalyst: Recently, the company started operations in Chiapas with a new development called “Montebello”. This includes building 7,700 homes with an estimated investment of P\$2,400 mn over the next 5 years. In addition, with this new development the company extends its presence to 57 cities in the country. The performance of this industry in general has lagged behind the IPyC during August. However, we still have positive expectations for 2H10.

Company	Ticker	Current Price	52 – week		Performance	
			High	Low	YTD	12M
GMexico	GMEXICOB	33.84	36.6	21.3	13.9%	77.6%

Catalyst: We have positive expectations for the copper market, with demand growing faster than supply and a potential deficit by year-end. Therefore, we expect higher prices (vs. 2009 average) and volume sales (incorporation of Asarco’s operations) to boost Sales revenue and EBITDA by 62.8% and 80.1%, respectively.

Company	Ticker	Current Price	52 – week		Performance	
			High	Low	YTD	12M
Mexchem	MEXCHEM*	33.98	38.7	16.5	36.7%	97.3%

Catalyst: Local authorities have just ruled in favor of the acquisition of Polycyd and Plásticos Rex, transactions that had been pending for more than a year. This will allow Mexchem to be the only PVC producer in Mexico. There has been no price announced, but strategically this is an important step because it will add to already existing PVC operations, and synergies (not disclosed) should develop from the purchase.

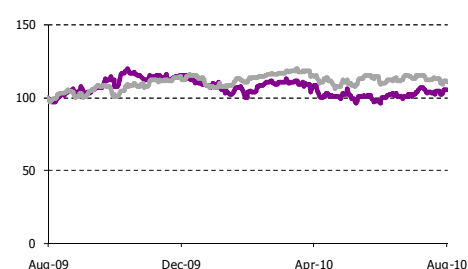
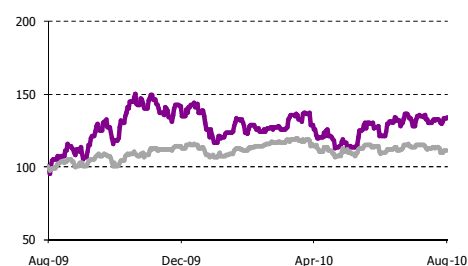
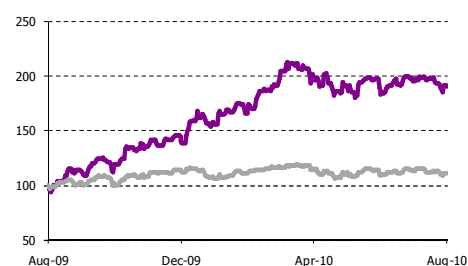
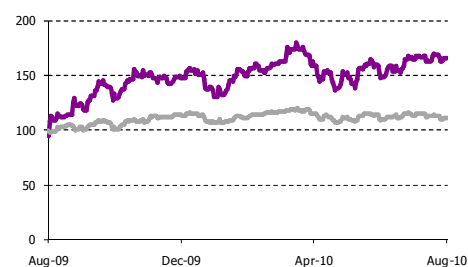
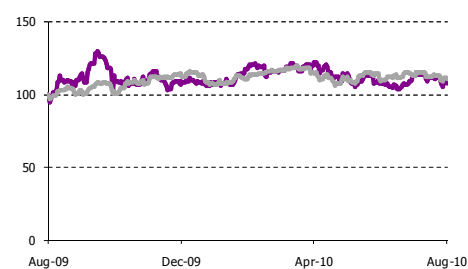
Company	Ticker	Current Price	52 - week		Performance	
			High	Low	YTD	12M
Peñoles	PE&OLES	278.56	309.5	189.1	2.0%	38.7%

Catalyst: In general terms, we have a positive outlook for precious metals, reinforced by the fact that demand usually increases strongly from September to December. Additionally, higher prices and increased sales volume will improve financial results. For 2010, we are expecting YoY growths in Sales and EBITDA of 27.5% and 47.1%, respectively.

Company	Ticker	Current Price	52 – week		Performance	
			High	Low	YTD	12M
Televisa	TLEVICPO	48.96	57.0	44.8	-9.7%	4.9%

Catalyst: This stock has underperformed the IPyC for no specific reason. We expect that in 2H10 more spending in advertising, due to economic recovery, could benefit the company. Televisa’s cable subsidiaries play an important role in Mexico’s telecom industry through the aggressive sale of triple play packages. Televisa has positioned itself as a clear competitor against fixed line companies.

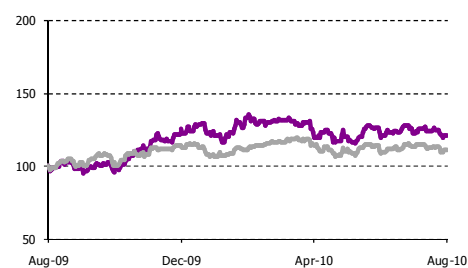
Stock x IPyC



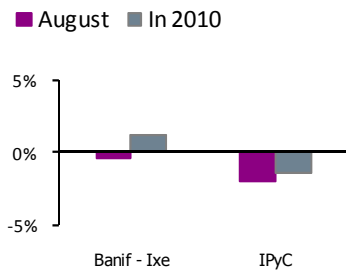
“LONG”/Overweight – Suggested Portfolio

Company	Ticker	52 – week		Performance	
		Current Price	High	Low	YTD 12M
Walmex	WALMEXV	29.51	32.2	22.2	1.7% 26.1%

Catalyst: The company’s sales concentrate mainly in the domestic market, with a small percentage in Central America, where it has a lot of room for margin improvement. We believe Walmex is a defensive option in a scenario where the economy in the US is starting to face some problems.

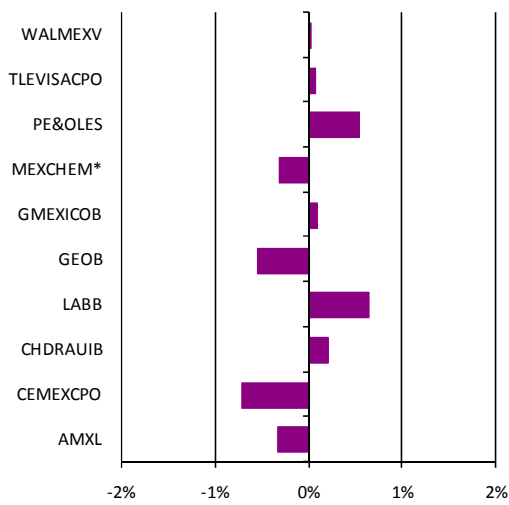
Stock x IPyC

Banif - Ixe (LONG) x IPyC



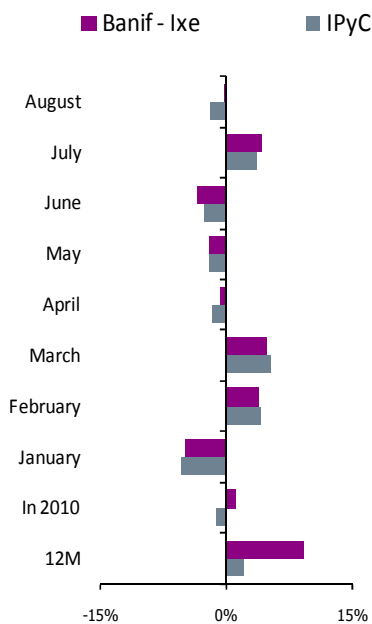
Source: Economática

Weighted performance in August 10



Source: Economática, weighted performance of the stocks from the recommended portfolio

Banif-Ixe x IPyC



<u>2009</u>	Banif-Ixe	IPyC
Jan-09	-8.1%	-12.6%
Feb-09	-8.7%	-9.3%
Mar-09	4.3%	10.6%
Apr-09	13.4%	11.6%
May-09	15.6%	11.1%
Jun-09	3.6%	0.2%
Jul-09	11.6%	11.0%
Aug-09	6.6%	4.0%
Sep-09	8.7%	3.9%
Oct-09	0.2%	-2.0%
Nov-09	-1.7%	-2.0%
Dec-09	0.8%	3.8%
<u>2010</u>	Banif-Ixe	IPyC
Jan-10	-4.9%	-5.4%
Feb-10	3.9%	4.1%
Mar-10	4.9%	5.2%
Apr-10	-0.7%	-1.7%
May-10	-2.0%	-2.0%
Jun-10	-3.4%	-2.8%
Jul-10	4.3%	3.7%
Aug-10	-0.4%	-2.0%
In 2010	1.2%	-1.3%
12M	9.3%	2.2%
18M	84.2%	61.9%

Source: Economática and Banif - Ixe Securities Research

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Rating	Coverage	Banking Relationship Last 12 Months
BUY	51.0%	2.0%
NEUTRAL	21.0%	0%
SELL	28.0%	0%

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