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MEXICO: RESILIENCE TO US ECONOMIC DOWNTURN

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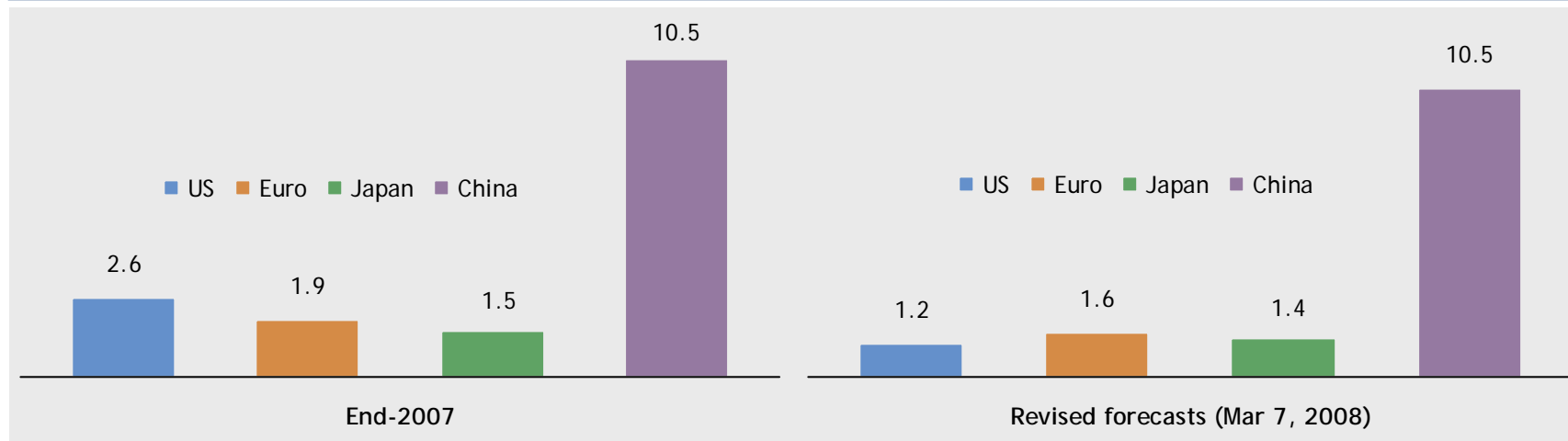
US is Now in Recession but China's Robust Growth and Commodity Strength Provides a Cushion for EM

Quarterly GDP and Fed funds forecasts

	1Q08	2Q08	3Q08	4Q08
Real GDP (%q/q, saar)	0.0	-1.0	3.0	1.5
Fed funds rate (%)	2.25	1.75	1.75	1.75

Source: JPMorgan

2008 Real GDP growth outlook: global growth outlook being revised down - but not yet China (%oya)



Source: JPMorgan

Latin America's Growth Will Decelerate but Not be Pushed into Recession—Mexico Likely to See a Sharp Decline

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Macro outlook						
	Argentina	Brazil	Chile	Colombia	Mexico	Peru
2008 Real GDP growth	6.5%	4.9%	4.0%	5.5%	2.7%	7.5%
Change from 2007	-1.8%	-0.5%	-1.2%	-1.3%	0.1%	-1.5%
Estimate of growth potential	4.5%	3.5%	5.3%	5.0%	3.5%	7.0%
Gap 2008 forecast versus potential	2.0%	1.2%	-1.3%	0.5%	-0.8%	0.5%
2008 Inflation forecast	10.0%	4.4%	3.4%	5.0%	3.7%	2.7%
Change from 2007	2.0%	-0.1%	-3.4%	-0.7%	0.0%	-1.2%
Inflation target	—	4.5%(±2%)	3%(±1%)	3.5%-4.5%	3%(±1%)	2%(±1%)
Deviation from mid-target point	—	-0.1%	0.4%	1.0%	0.9%	0.7%
2007 policy rate	—	11.25%	6.0%	9.5%	7.50%	5.00%
2008 policy rate change (bp)	—	—	-25	+25	-50	+25

GDP growth under alternative US growth scenarios		
Real GDP(%)	Year-end 2007	2008
Argentina	8.6	6.0
Brazil	5.4	4.4
Chile	5.2	3.5
Colombia	6.8	4.3
Ecuador	2.0	2.3
Mexico	3.3	1.0
Peru	9.0	6.5
Venezuela	8.4	5.5
Latin America	5.2	3.3

Source: JPMorgan

Mexico's Exposure to the Commodities Cycle is Relatively Low Compared to Other Latin Countries

Latin America: % of each country's exports

	% of each country exports			
	Commodities	Oil	Metals	Agriculture & other
Latin America				
Argentina	58.6	15.9	3.6	39.1
Brazil ¹	52.0	8.0	18.0	26.0
Mexico	23.9	20.0	0.6	3.2
Chile	77.9	0.0	64.1	8.3
Colombia	56.3	25.9	21.6	8.8
Ecuador	77.0	58.0	0.0	19.0
Peru	77.1	8.1	62.0	7.0
Venezuela	93.0	90.0	3.0	0.0

Source: Official sources and JPMorgan

¹ Brazil imports more oil than it sells abroad

Mexico is Less Dependent on High Oil Prices than Other Latin American Economies

Impact of higher oil prices in Latin America

Country	Oil exports ¹ % of total	Oil imports % of total	Impact of \$1 change in fiscal accounts % of GDP	Impact of \$1 change in exports		2008 oil price budget	2007 oil price budget
				% of GDP	US\$ million		
Argentina	12.2	6.3	0.01	0.04	95	-	-
Colombia	22.0	2.5	0.02	0.10	100	-	51.0
Ecuador	62.0	21.0	0.15	0.35	135	45.0	35.0
Mexico	17.8	0.5	0.12	0.09	700	49.0	42.8
Venezuela	91.0	9.0	0.30	0.60	1,100	35.0	29.0

¹ Including oil derivatives and in some cases natural gas

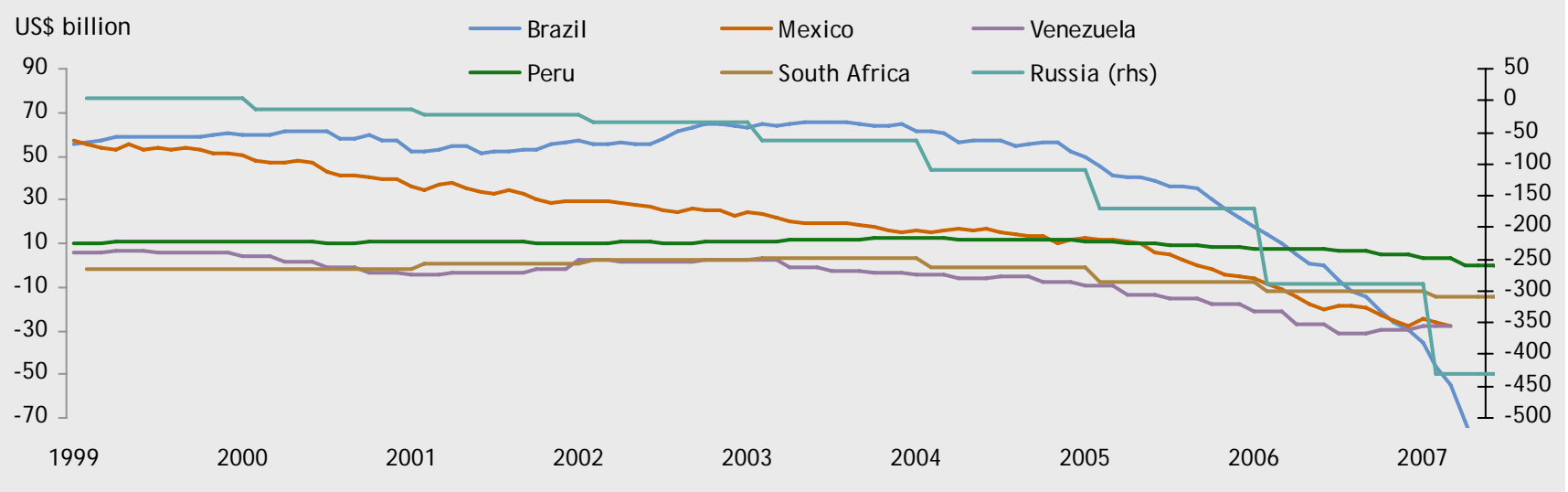
What happens to our economic forecasts if oil prices move higher?

	Current economic forecasts for 2008				Directional changes with higher oil prices			
	GDP growth	CPI Dec/Dec	CA % of GDP	Fiscal balance % of GDP	GDP growth	CPI Dec/Dec	CA % of GDP	Fiscal balance % of GDP
Argentina	6.5	10.0	2.6	1.0	=	↑	↑	↑
Brazil	4.9	4.4	(0.6)	(2.2)	↓	↑	=	↑
Chile	4.0	4.4	2.0	5.0	=	↑	↓	=
Colombia	5.5	5.0	(4.3)	(1.6)	↑	↑	↑	↑
Ecuador	2.5	3.0	3.9	1.5	↑	↑	↑	↑
Mexico	2.7	3.4	(2.4)	0.0	↓	↑	↑	↑
Venezuela	6.0	25.0	5.7	(4.0)	↑	=	↑	↑

Source: JPMorgan

Many Latin American Countries are Now Net External Creditors

Brazil, Mexico and Venezuela: Net External Debt



Source: IBGE, Banxico, BCV and JPMorgan

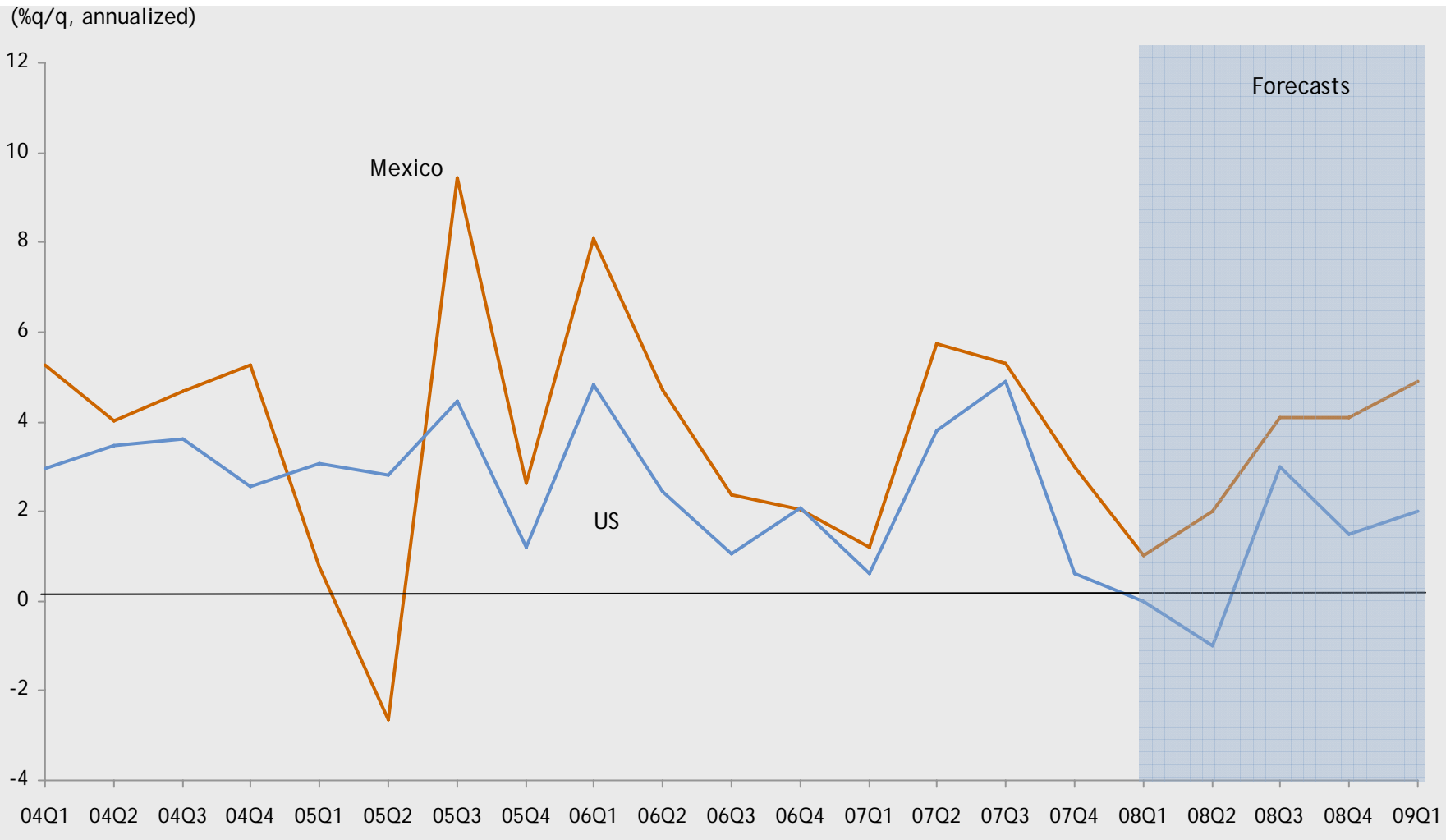
Debt ratios (% of GDP)

Country	Total External Sovereign Debt			Total Domestic Sovereign Debt			Total Sovereign Debt Service		
	2006	2007E	2008F	2006	2007E	2008F	2006	2007E	2008F
Mexico	6.5	6.1	5.7	18.4	21.2	22.7	19.4	17.6	18.6
Brazil	7.1	5.7	5.3	60.7	62.5	63.7	21.4	19.1	17.7
Poland	11.9	12.6	13.3	35.8	35.9	35.3	10.9	9.0	8.4
Russia	4.5	3.1	2.2	4.1	4.5	4.5	4.0	1.5	1.5
China	1.3	2.2	1.4	17.0	16.9	15.4	2.9	2.6	2.4
India	7.2	6.3	5.7	67.2	64.3	63.0	1.4	1.3	1.3

Source: JPMorgan

Mexico's 1H08 GDP Forecasts Revised Down in Sync with US GDP

GDP Mexico and US: Forecast



Source: JPMorgan

Mexico: Fed Easing in Response to Liquidity Crunch in 2007-08 Versus 1998—What is Different this Time?

1998

- Fed made three cut rates of 25bp beginning at the September 29 FOMC meeting
- Banxico tightened monetary policy via the “corto” several times since March in an attempt to control inflation running at double-digit levels
- Inflation overshoot and closed 6.6% points above the target at 18.6% in 1998; FX pass-through much more severe
- Peso depreciation; up to 31% in 1998
- Contagion from EM external debt spreads much more severe following Russia’s default and still following the effect of Asian crisis (1997); Mexico’s external sovereign debt 22% of GDP
- Mexican economy growing strongly at 5%, helped by the maquila boom of the 90s
- Sharp decline in oil prices (\$11/b) and weak global economy

2007-08

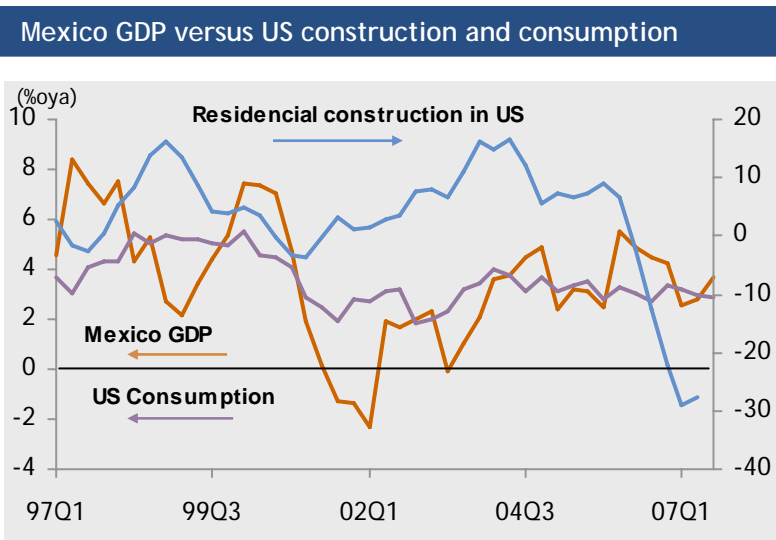
- The Fed has cut 225bp since September 2007, with JPMorgan forecasting 25bp more in March
- Banxico hiked “preemptively” 25bp in April and another 25bp hike in October
- Inflation is running at the top of Banxico’s 2-4% tolerance range (target 3%); FX depreciation pass-through no longer a major inflation driver
- Peso rangebound between 10.7 and 11.2 in 2007, ending almost flat in 2007; MXN 1.9% stronger YTD in 2008
- Contagion from EM external debt spreads less severe; Mexico’s external sovereign debt 5.9% of GDP
- Mexico expected to grow only 3.3% in 2007; 2.7% in 2008
- Oil prices close to historic highs (\$100/b) and thus-far resilient global economy (less US-centric)

Mexico is More Resilient this Time Around

- The economy is set to decelerate, but unlike previous downturns, this time it is more resilient. The forecast anticipates real GDP to ride alongside the US economic deceleration and to average 1.5%q/q, saar in 1H08 from 5.3% on average in 2Q07-3Q07
- US manufacturing is not leading the deceleration this time; rather it is private consumption and residential investment, to which Mexico is less exposed
- The approval of the fiscal reform together with high oil prices will enable the Mexican government to run a counter-cyclical fiscal policy in 2008
- The manufacturing sector has turned more competitive, in part due to the weaker MXN in real terms—together with the USD—versus Mexico’s main competitors in the US market. In addition, progress on reforms should be supportive for enhancing productivity growth and long term competitiveness
- The risk to our baseline forecast is that the US falls into a protracted recession, which would prompt a trimming in the full-2008 Mexico growth forecast to 1%oya from our current 2.7%oya estimate



Source: INEGI y FRB.

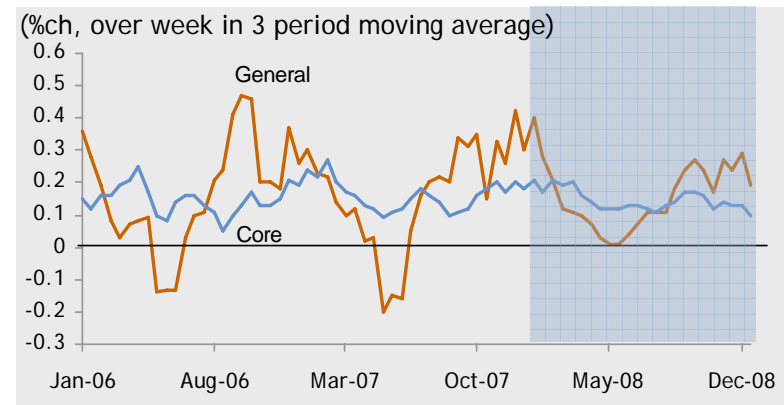


Source: INEGI y BEA.

Banxico has Turned More Dovish on Growth Concerns and Modest Inflation Prints

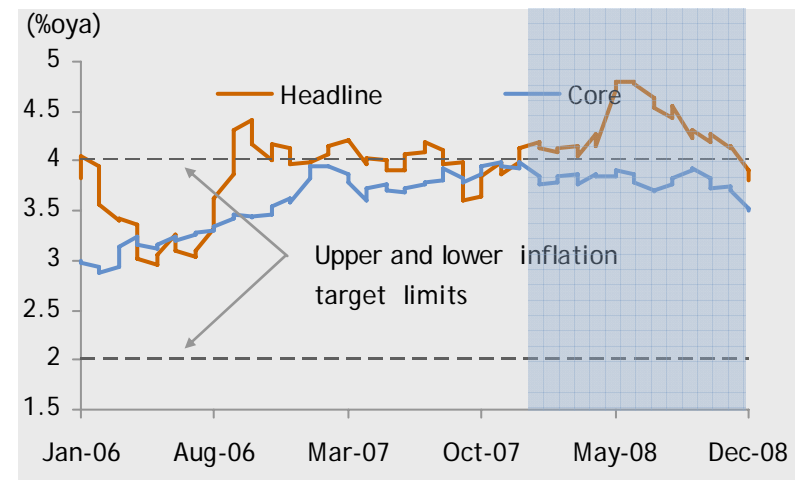
- Banxico's inflation concerns remain, but deceleration may prompt an easing cycle starting in 2H08. Since its 25bp preemptive hike in October aimed at anchoring expectations, Banxico's rhetoric has turned slightly 'dovish' mainly on the back of growth concerns
- Moreover, inflation has surprised on the low side. Headline inflation printed 0.13%*m/m* in 1H-February and the core rate 0.24%. This has prompted JPMorgan to revise down its full-month February CPI forecast to 0.20%*m/m* (previously, 0.27%) and the end-2008 forecast to 3.35%*oya* (from 3.42%)
- Against this backdrop, we decided to bring forward the timing of the two 25bp policy cuts to July 18 (from August 15) and September 19 (from October 17).

Mexico: Inflation and JPMorgan forecasts



Source: JPMorgan

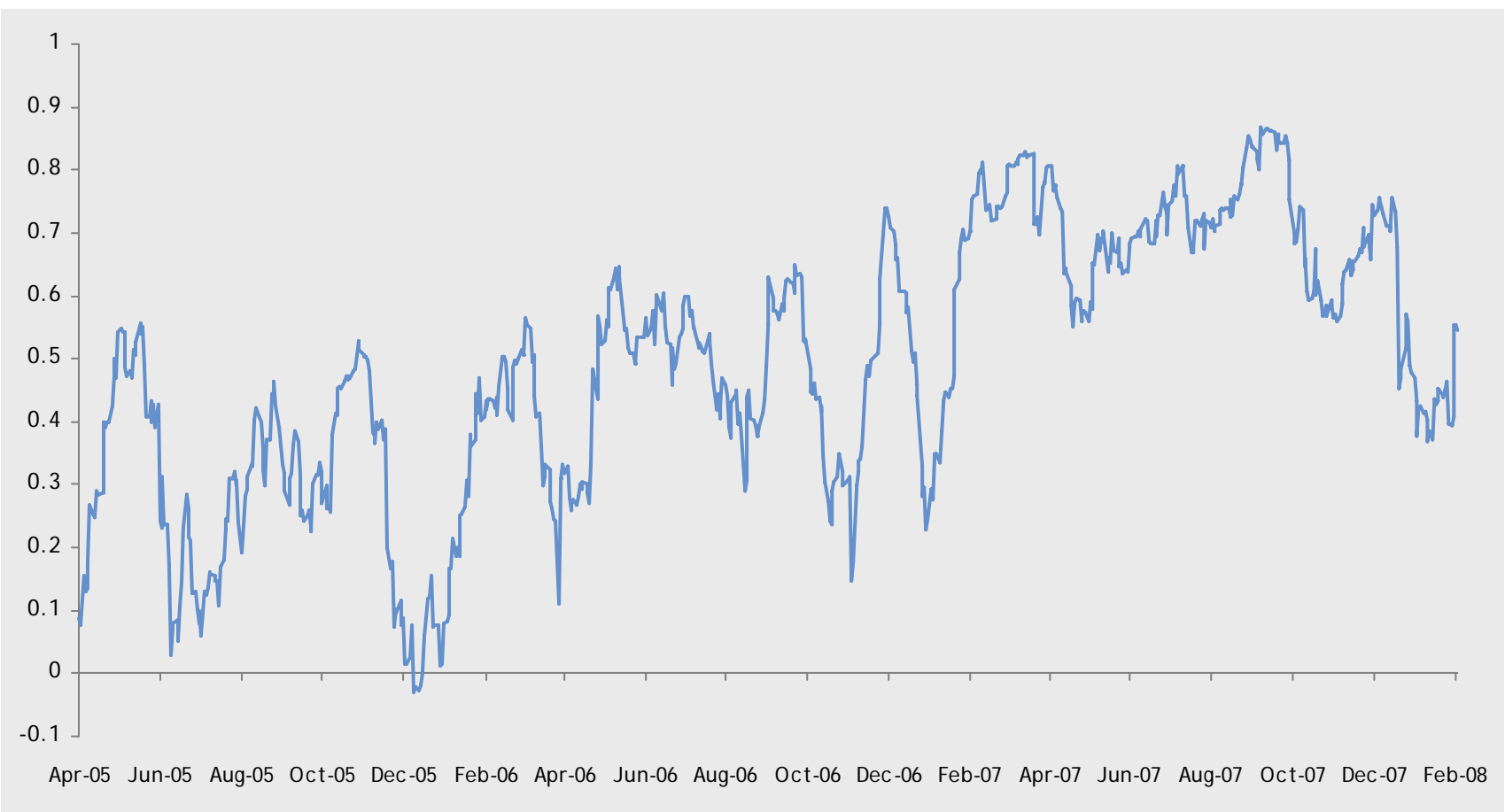
Mexico: Inflation forecast and target



Source: JP Morgan

USD/MXN Correlation with S&P Dropped Sharply Since the End of Last Year

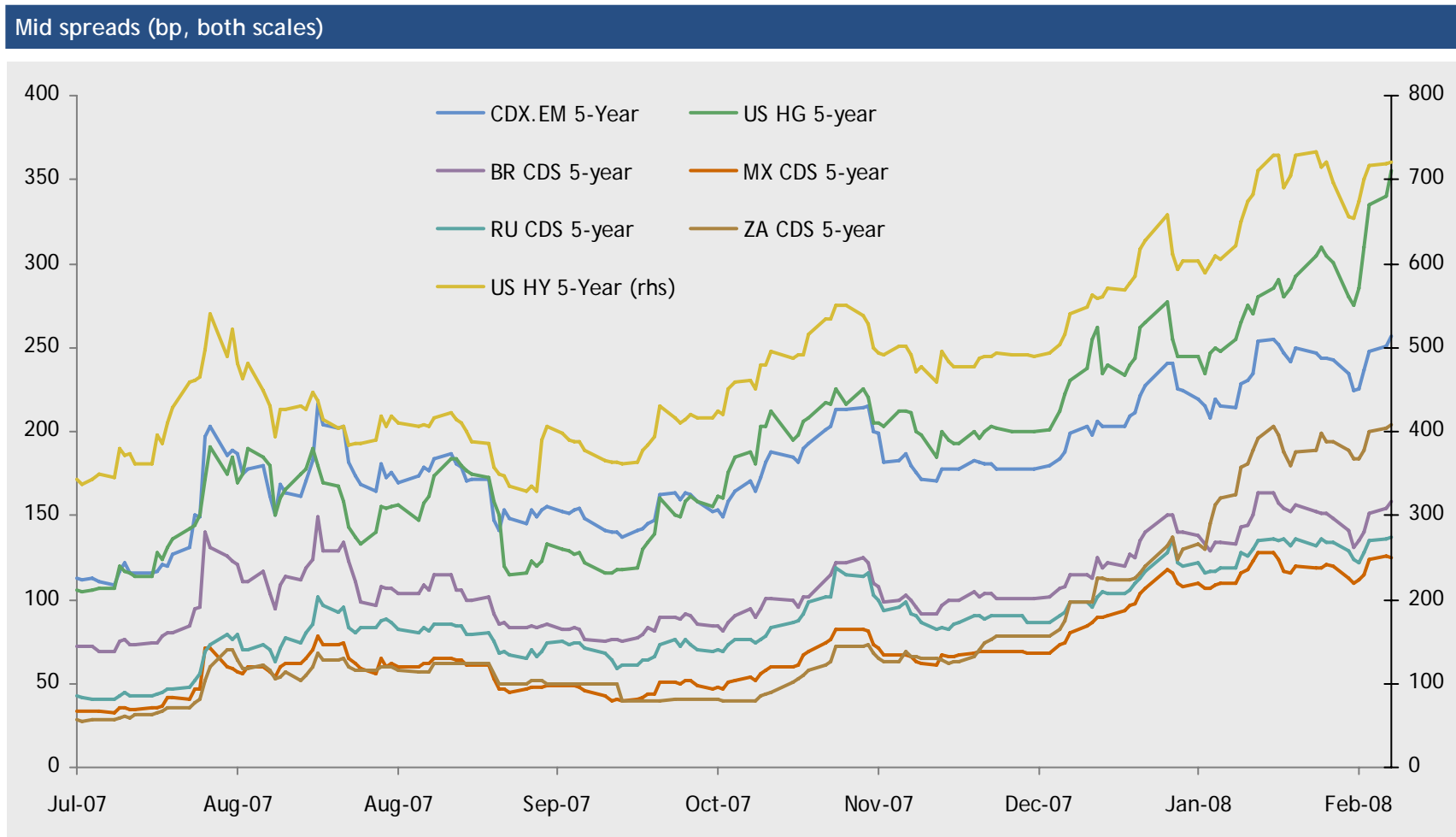
30-day rolling correlation of daily change (%)



Source: JPMorgan

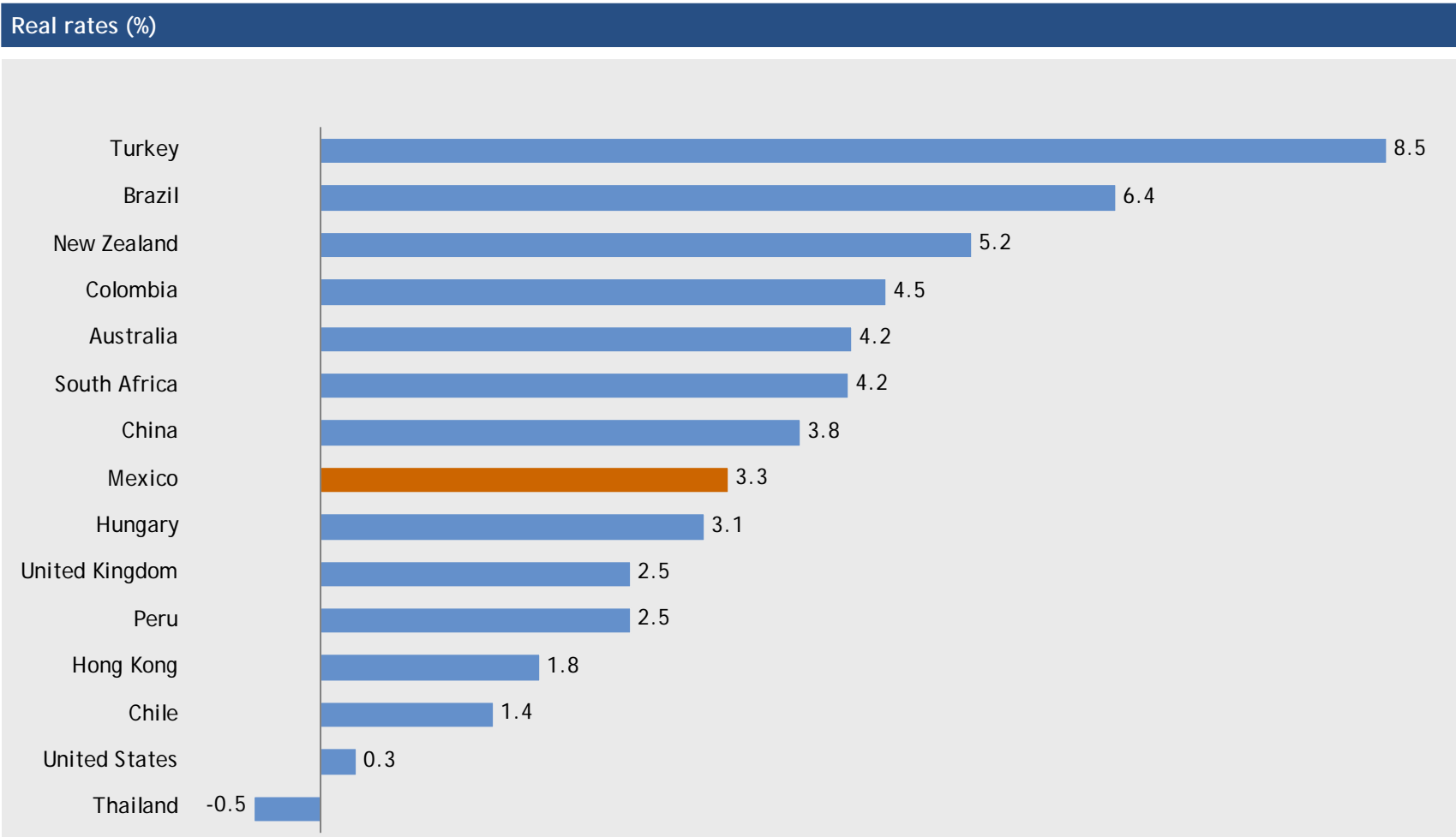
Mexico Now Trades Through US Investment Grade and Emerging Markets CDS

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Source: JPMorgan

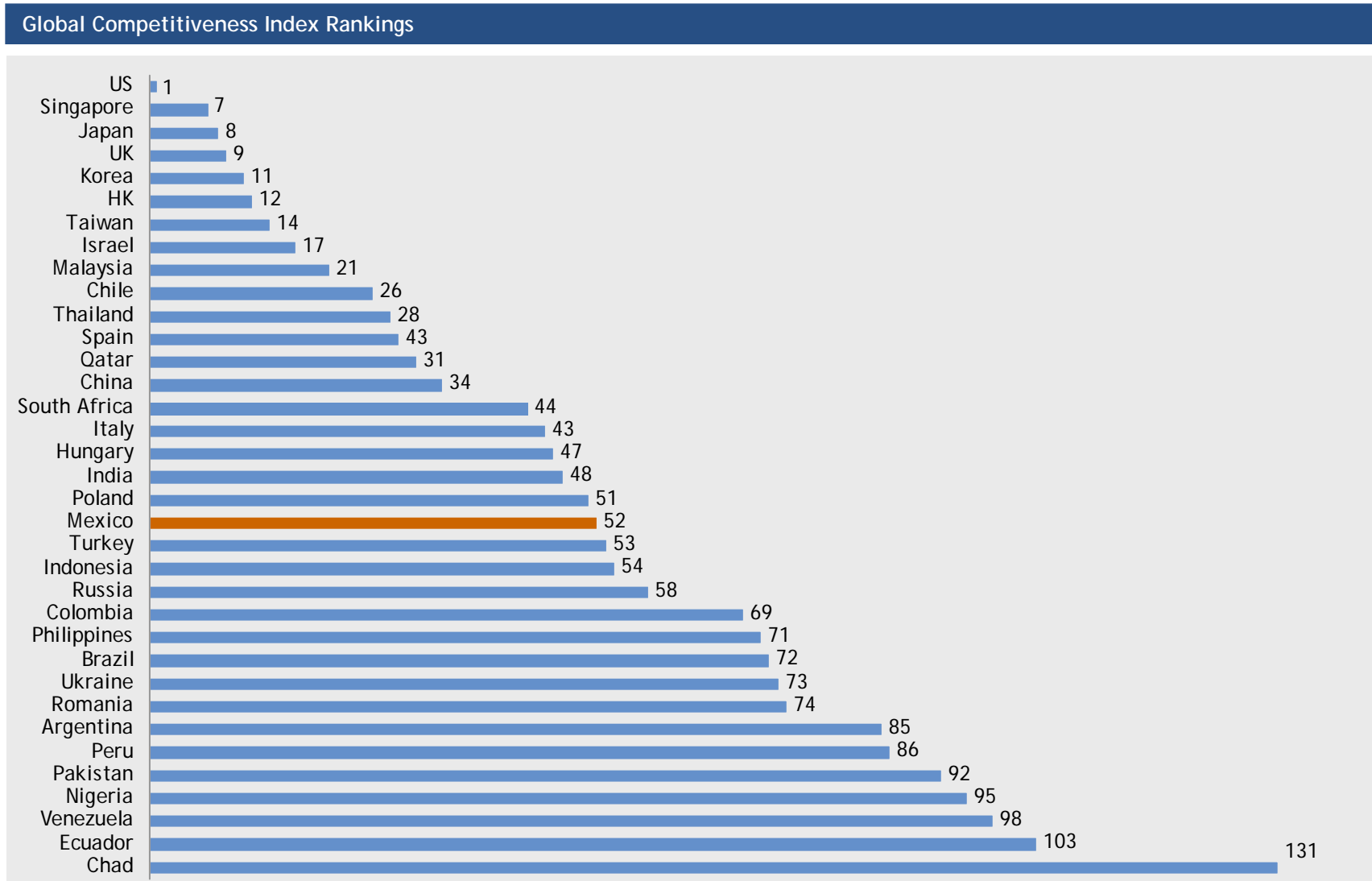
Real Rates in Mexico have Declined



Source: JPMorgan

Mexico's Competitiveness Ranks Higher than Russia or Brazil but Below China and India

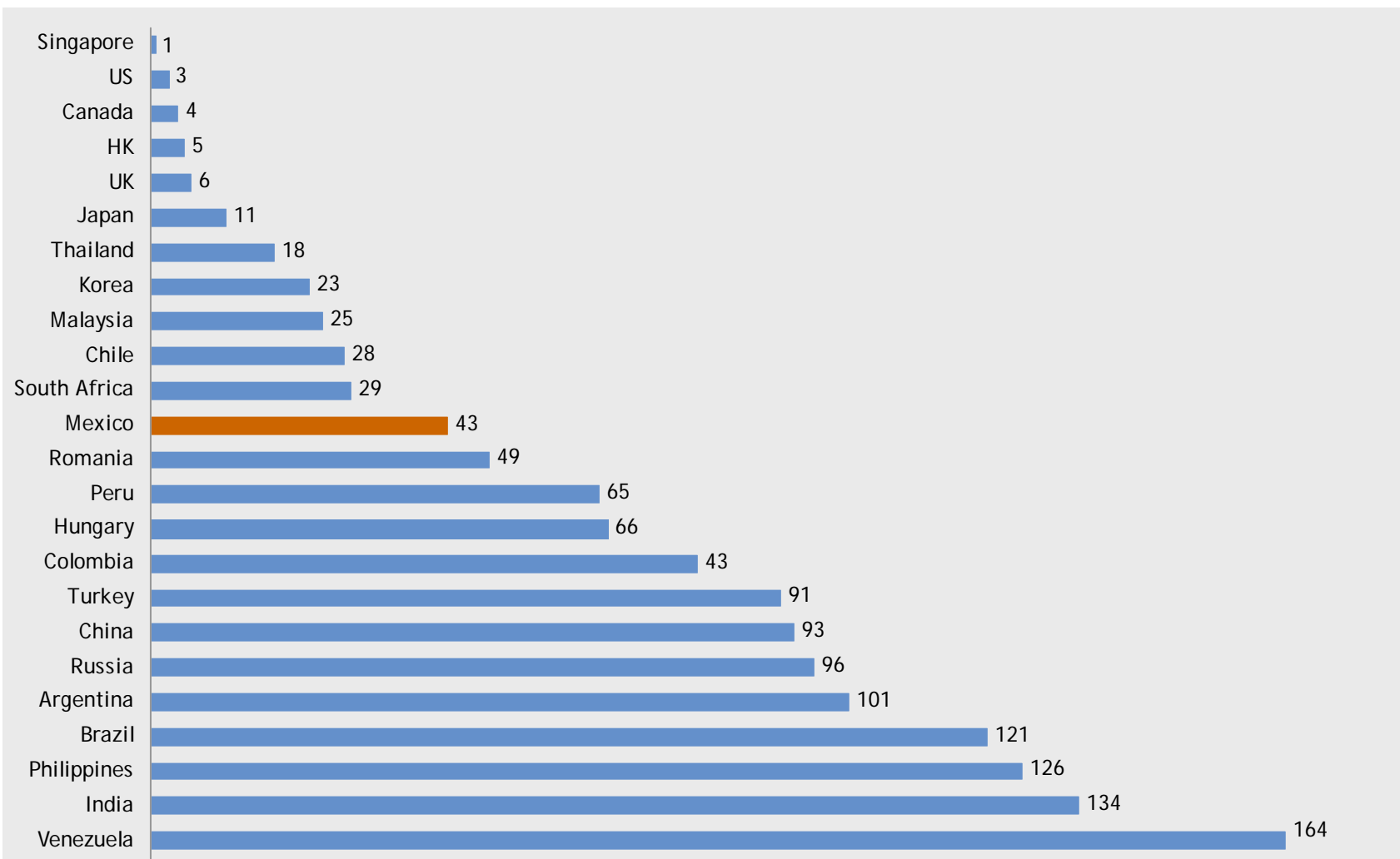
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Note: The index ranks economies on their global competitiveness, from 1-131, with 1 being the most competitive economy
 Source: World Economic Forum, JPMorgan

Mexico Ranks Ahead of the BRICs but Below Countries Like Korea, Chile, and South Africa

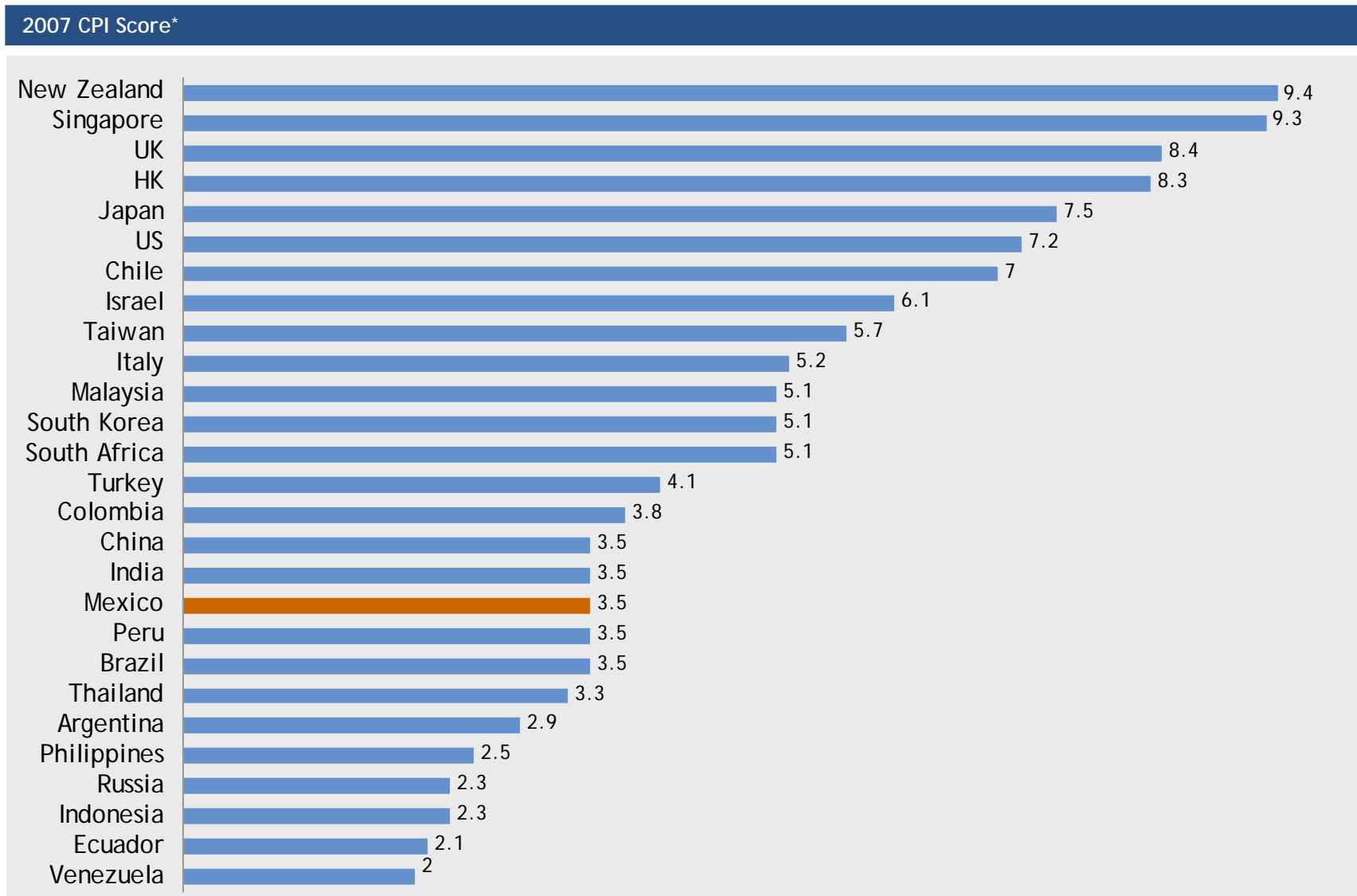
Rankings in the "Doing Business in 2007" Annual Report



Note: The index ranks economies on their ease of doing business, from 1-175, with 1 being the best
Source: World Bank, JPMorgan

Corruption Levels Remain High in Mexico

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*CPI Score relates to perceptions of the degree of corruption as seen by business people and country analysts and ranges between 10 (highly clean) and 0 (highly corrupt)
Source: Transparency International, JPMorgan