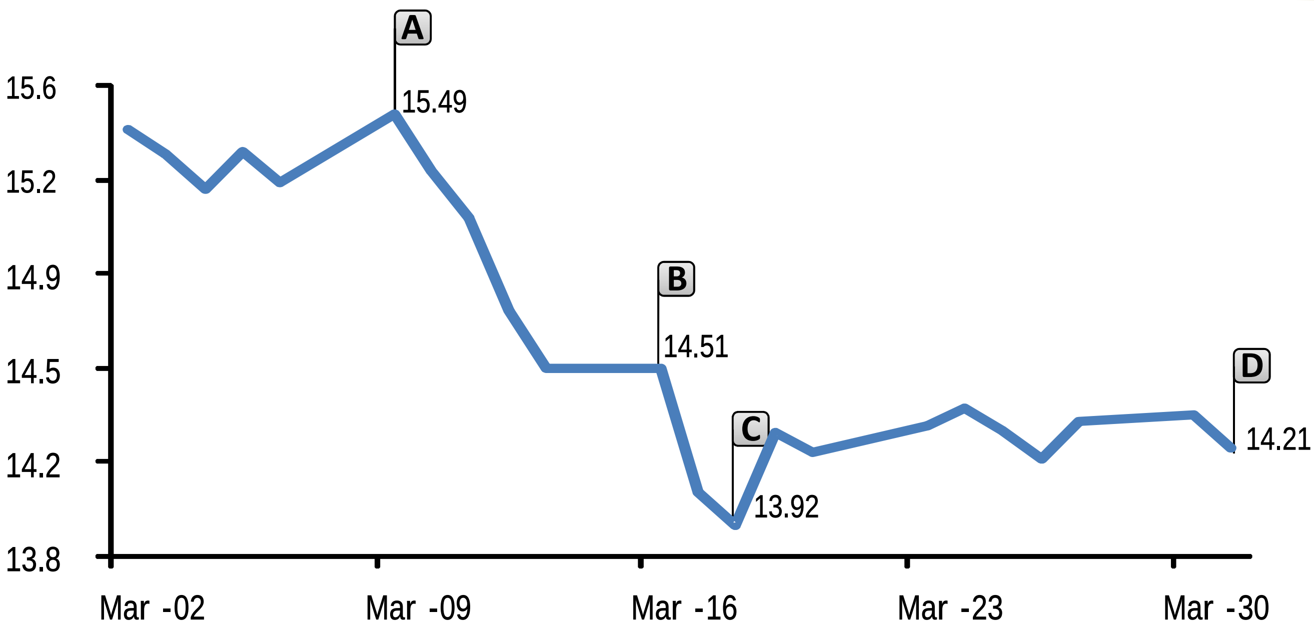
monthly exchange rate monitor

HARBOR intelligence

Peso evolution during March



Source: HARBOR intelligence with *Banxico* data

Please click on the letter for further details

A Growing global risk aversion From Mar 6 to 13	C Peso extends its rally and finds support at 13.90 pesos/dollar. From Mar 13 to 20
B Markets recovery and *Banxico* dollar selling From Mar 13 to 20	D Correction and then some gains after announcement of swap line From Mar 20 to 31

In March:

The Mexican currency gained 5.0% (from 15.10 to 14.21 pesos/dollar). In March, global risk aversion eased as US economic data suggested the worst of the global economic crisis could be behind us and as it was announced in the US a new public-private plan to buy toxic assets aiming to reestablish credit. The VIX index eased 5%, US and Mexican stock markets advanced slightly more than 10% and the peso registered its largest monthly appreciation since April ´95. During March, the peso also benefited from a daily Banxico´s auction of $100 million and a weakening US dollar across the board

Short term Fundamentals:

Indicator	Comments	Effect on exchange rate	Details
Technical indicators	Room to gain ground		
Seasonality	Annual tax obligations increase peso demand		Details
Risk aversion	Easing toward pre crisis normal levels		Details
Speculators	Have almost liquidated all their bet against the peso		Details
Market Intervention	Daily $100 million auction continues		
Higher dollar availability	Use of swap credit with the Fed and availability of new IMF line		Details
Conclusion	The peso could remain stable or even extend gains		

What we expect for the short term?

HARBOR intelligence Strategy

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Structural Fundamentals (Mid and Long Term):

Indicator	Comments	Effect on exchange rate	Details
Technical indicators	Room for renewed losses		
Interest rates spread between Mexico and the US	Falling, but still favorable for Mexico		Details
Risk aversion	Will continue to ease in coming months		Details
Dollar inflows to Mexico	The fall in oil exports will be more than compensated by a higher capital account surplus		Details
Market intervention	New scheme will continue until June ´09		
Dollar availability	*Banxico* has more than $160 billion available		Details
Conclusion	Appreciation bias for the peso ending the year around 12.80		

What we expect for the end of the year?

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Perspective 2009

	Base 45%	Favorable 40%	Unfavorable 15%	HARBOR Weighted*
Jul-08	10.04	10.04	10.04	10.04
Aug-08	10.29	10.29	10.29	10.29
Sep-08	10.95	10.95	10.95	10.95
Oct-08	12.86	12.86	12.86	12.86
Nov-08	13.42	13.42	13.42	13.42
Dec-08	13.82	13.82	13.82	13.82
Jan-09	14.28	14.28	14.28	14.28
Feb-09	15.10	15.10	15.10	15.10
Mar-09	14.21	14.21	14.21	14.21
[redacted]				

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* Weighted by odds of occurrence

Source: HARBOR intelligence with *Banxico* data

Peso Evolution during March:

A Global risk aversion soared as US February's ISM manufacturing index registered a worst than expected reading. In this context, the peso depreciated even to 15.49 pesos/dollar, its weakest level in recent history. *Banxico* stopped this depreciation with the beginning of the ongoing $100 million daily auction.

Back to Peso Evolution

B Daily *Banxico* dollar sells and rallying global equity markets benefited most of world currencies and prompted the peso to gain 98 cents against the dollar in just five trading days (from 15.49 to 14.51 pesos/dollar). The Mexican stock market (IPC) gained 5.0% and the peso posted its largest weekly appreciation since Oct ´08 (when the peso temporarily paused its sharp depreciation trend)

Back to Peso Evolution

C The Mexican currency extended its rally to intraday levels around 13.78 pesos/dollar. A strong technical floor of 13.90 along with an aggressive cut in Mexico's reference interest rates (*Banxico´s* target interest rates fell from 7.50% to 6.75% limited peso gains and pushed it to levels above 14.00 pesos/dollar again.

Back to Peso Evolution

D The peso began to trade in a predominant range of 14.15-14.40 pesos/dollar and lost some ground amid a broad based US dollar appreciation. The last day of the month the peso gained 13 cents vs the dollar after *Banxico* announced it will use its swap credit line with the *Fed.*

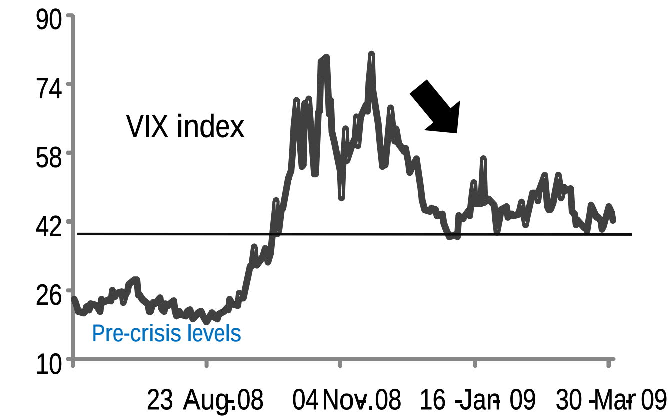
Back to Peso Evolution

Short Term Fundamentals

Higher demand for pesos as individuals have to cover their annual tax obligations in Mexico

Favorable Seasonality

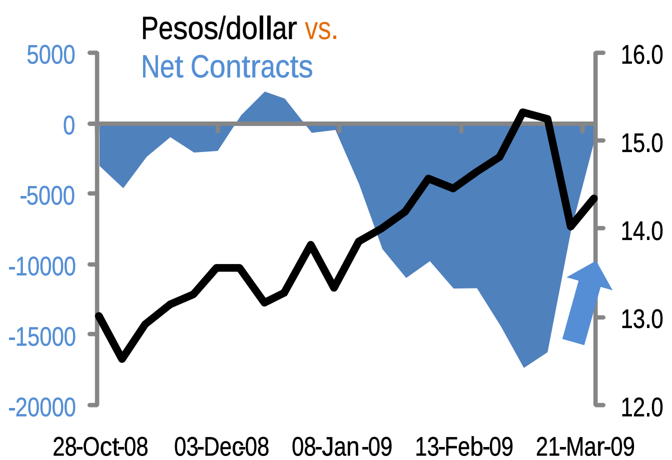
Back to short term fundamentals



VIX index (measures risk aversion)

Fighting to fall below 40 and head toward pre crisis levels

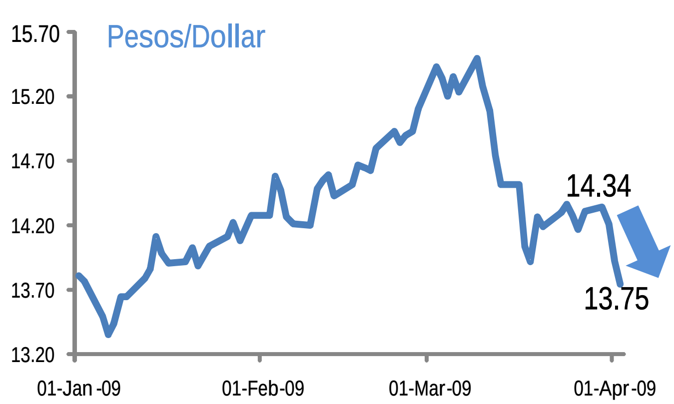
Back to short term fundamentals



Net Contracts vs. Pesos/dollar

Speculators have almost fully liquidated their net short peso position. In April, they could begin to bet on a stronger peso

Back to short term fundamentals



Banxico will begin to use its swap credit line with the Fed in three or four weeks. This measure along with the availability of an open credit line with the IMF have strongly benefited the peso

Back to short term fundamentals

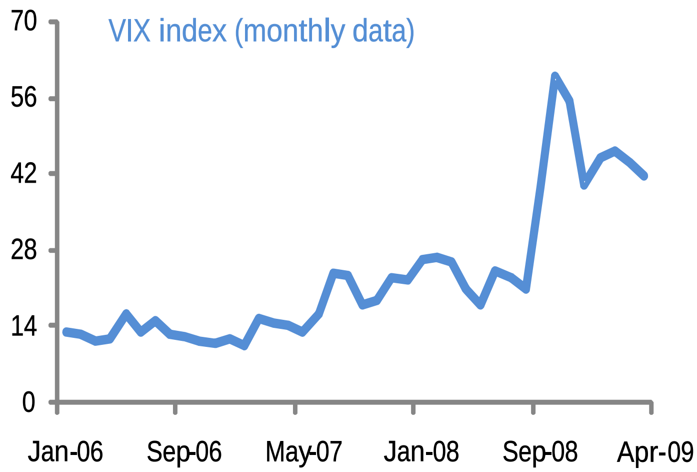
Source: HARBOR intelligence with *Banxico, CFTC* and *Reuters* data

Long Term Fundamentals

We think *Banxico* could reduce Mexico's interest rates to 6.0%, which would still imply a spread of more than 5 percentage points between Mexico's and US interest rates. We expect the US to maintain interest rates unchanged

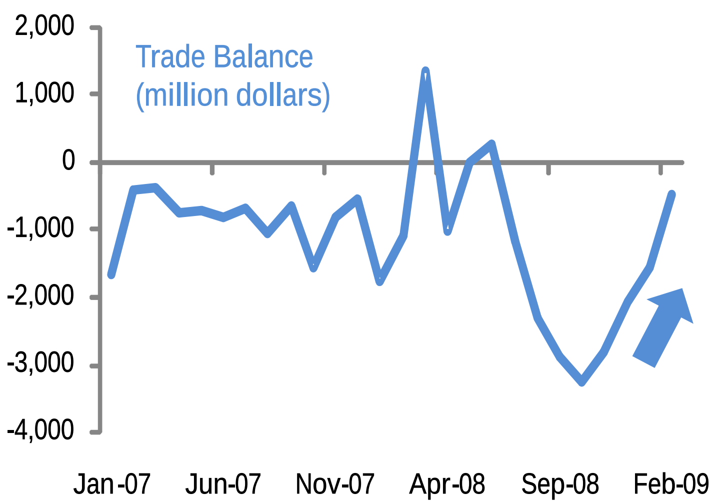
Spread between Mexican and US interest rates will remain peso favorable during all 2009

Back to long term fundamentals



Global risk aversion as measured by the VIX index will tend to ease to levels around its historical average as US economy begins to gradually recover

Back to long term fundamentals



Total exports of good have fallen, but imports have fallen faster and thus the trade balance deficit has widened

Back to long term fundamentals

Source: HARBOR intelligence with *Banxico, CFTC* and *Reuters* data

Long term fundamentals

Ample dollar availability	2009 (billion $)
Swap line with the *Fed*	30.0
Credit line with the IMF	47.0
Credit line with IADB-IMF	10.0
International Reserves	80.6
Total	167.6

Source: HARBOR intelligence with *Banxico* data

An expected increase in international reserves during the rest 2009 is allowing *Banxico* to maintain its new daily intervention scheme. This scheme will remain in place until June 8, ´09

Back to long term fundamentals

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