

A good year-end emerges in financial markets

The positive momentum derived from the partial trade agreement between China and the United States continued during the week. Additionally, the upward revision of economic data in the United States and the ratification of the US, Mexico, and Canada Agreement (USMCA) in the House of Representatives, increased optimism in the markets; despite the beginning of the political trial against President Trump. The former allowed the US markets to close again at record highs and a considerable advance in both Mexbol and the peso-dollar exchange rate.

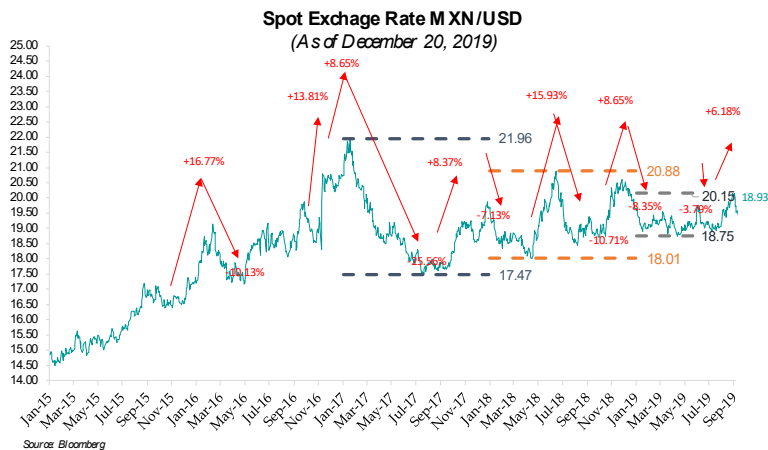
Mexican Stock Exchange

Mexbol closed at 44,700 points, the second consecutive week with positives results, and a gain of 8.31% in that period; the Year to Date (YTD) return increased to 14.29%. Mexbol's favorable outcome is due to the rally caused by the approval of the modifications to the USMCA and its ratification in the United States' House of Representatives on December 19th. Noteworthy, the ratification of the Senate is pending, and it will be postponed until January 2020; therefore, USMCA is expected to operate until April next year.

Spot Exchange Rate

The spot exchange rate closed at MX\$18.91 per dollar, accumulating two consecutive weeks with positive results, and representing a 2.04% appreciation in the period and 3.8% YTD. The Mexican currency benefited from two factors:

- i. The announcement of Standard & Poor's ratifying Mexico's sovereign debt credit rating at BBB+. However, it did not improve its outlook, which remains negative.
- ii. The beginning of the legislative process to ratify the USMCA in the United States.



Interest Rates

Banxico decreased its reference rate by 25 basis points (bps) to 7.25%; there was only one member who voted for a 50-bps decrease. In the monetary policy statement, the Board recognized improvements in national financial markets and the exchange rate thanks to the beginning of the ratification process in the United States of the USMCA. For the fourth quarter of 2019 (4Q19), Banxico expects that the economic weakness shown throughout the year will persist. Regarding inflation, they recognize that by the end of this year, it could be below the 3.0% they forecasted in their last quarterly report. The press release indicated possible rate cuts in the future, which led to a +8bps increase in the 10-year M Bond rate to 6.92%.

Sovereign Rating of Mexico

S&P Global Ratings (S&P) ratified both Mexico's long-term sovereign rating (BBB+) and its negative outlook. The above implies that the rating agency found no reason to degrade the sovereign rating, although there is a 33.3% chance of reducing it in the next 12 months. Noteworthy, this

rating is located three steps above the investment grade. The agency highlights the proper development that the current administration has had in fiscal matters, although it commented that improving economic growth expectations remains a crucial factor in achieving the objectives established by the government. The stagnation registered in 2019 hinders growth expectations for 2020-2022, which will rely on the successful execution of the policies and the consistent measures of the government to improve business confidence and revitalize private investment, including that made to through the National Infrastructure Plan.

USMCA ratification

On December 19th, with 385 votes in favor and only 41 votes against, the United States House of Representatives (HR) ratified the modified USMCA. The HR will transfer the new law to the US Senate, where experts forecast the chamber will approve it in January 2020. Noteworthy, it is still pending that both the House of Commons and the Canadian Senate ratify the treaty. According to Canadian media, the implementation law could pass by April 2020.

Economic Indicators

Minimum Wage Increase

The National Minimum Wages Commission (CONASAMI), agreed to raise the General Minimum Wage (GMW) from MX\$102.68 to MX\$ 123.22, which implies a 20.0% increase. The increase is constituted by a rise of MX\$14.65 as part of the Independent Recovery Amount (MIR) and MX \$5.89 as a result of the inflationary adjustment. On the other hand, the minimum wage in the North Border Free Zone (ZLFN) increased from MX \$176.22 to MX\$185.56, that is, a 5.0% increase resulting solely from the inflationary adjustment.

The improvement in the GMW will only directly benefit those employees whose income is considerably close to a minimum wage per day. In this regard, there are two types of information available, the one of the Mexican Social Security Institute (IMSS) and the one from the National Institute of Statistics, Geography and Information Technology (INEGI):

- i. IMSS only registers formal jobs and states that the number of registered employees with a salary close to a minimum wage amount to 2.14 million, which would mean that the impact would only affect 3.73% of the Economically Active Population.
- ii. According to the most recent figures from the National Occupation and Employment Survey (ENOE) published by INEGI, workers who receive between one and two minimum wages amount to 29.58 million (51.59% of the PEA).

Construction Indicators

INEGI released the results of the National Survey of Construction Companies (ENEC) for October. The value of the production of the sector had a -11.1% YoY contraction and was motivated by the decrease in specialized construction work, which collapsed -13.3%. Besides, both employed staff and worked hours fell by -1.3% and -2.2% respectively. In both cases, the people who worked in the specialized jobs sector were the most affected. On the other hand, real average salaries increased by 0.2%, mainly due to an increase in wages paid by the building subsector.

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Definitions

Banco de México (Banxico): Is the central bank of Mexico. Its main function is to provide domestic currency to the Mexican economy and its main priority is to ensure the stability of the domestic currency's purchasing power.

Basis points (bps): Refers to a common unit of measure for interest rates and other percentages in finance.

General Minimum Wage (GMW): Is the lowest remuneration that employers can legally pay their workers, the price floor below which workers may not sell their labor.

M-Bond: Mexico Federal Government fixed-rate development bonds that are issued and placed at terms of over one year, pay interest every six months and their interest rate is determined at issue date and remains fixed all along the life of the bond.

Mexbol: The S&P/BMV IPyC seeks to measure the performance of the largest and most liquid stocks listed on the Bolsa Mexicana de Valores. It is not possible to invest in an index.

Mexican Stock Exchange: The Mexican Stock Exchange headquartered in Mexico City, is the full service securities exchange of the country, dealing in cash equities, derivatives and fixed income products.

Economically Active Population (PEA): Is the sum of employed and unemployed persons. Inactive persons are those who, during the reference week, were neither employed nor unemployed.

Standard and Poor's (S&P): It is an American risk rating agency in financial services. S&P Global is the division that publishes reports on financial research and stock and bond analysis.

The Mexican Institute of Social Security (IMSS): Is a governmental organization that assists public health, pensions and social security in Mexico operating under the Secretariat of Health.

The National Institute of Statistics and Geography (INEGI): Is an autonomous agency of the Mexican Government dedicated to coordinate the National System of Statistical and Geographical Information of the country.

The National Minimum Wages Commission (CONASAMI): Decentralized public body whose main objective is to carry out the setting of legal minimum wages, seeking to promote equity and justice between the factors of production.

The National Survey of Construction Companies (ENEC): Survey created to capture information at the national level and by federation, generating reliable and timely statistical information that allows the development of a series of economic indicators.

United States-Mexico-Canada Agreement (USMCA): Is a signed but not ratified free trade agreement between Canada, Mexico, and the United States.

Year to Date: (YTD): Refers to the period of time beginning the first day of the current calendar year or fiscal year up to the current date.

Year over Year (YoY): Indicates the change from the comparable amount reported in the same period one year earlier.

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