

**WEEKLY ECONOMIC REPORT**

**AUGUST 30, 2019.**

**Positive Signals for Local Markets**

Local equity markets benefited due to positive sentiment in the domestic context:

- I. The Electricity Commission (CFE) finally reached an agreement with three out of the four pipeline companies with arbitration requests.
- II. The possibility that the government will resume oil exploring auctions, and that Pemex Exploration and Production will, once again, be authorized to explore in deep waters.
- III. The Central Bank's quarterly report, which revealed a higher rate of inflation convergence to the target of 3.0%. Noteworthy, Banxico could continue lowering its reference rate.

**Change in the speech of the Federal Government**

Significant events during the week seem to indicate higher collaboration between the government and the private sector:

i) On August 27<sup>th</sup>, President López Obrador together with the businessmen such as Carlos Slim, Carlos Salazar (Business Coordinating Council) and Antonio del Valle (Mexican Business Council) announced an agreement with pipeline companies on which the CFE had controversies. The deal will prevent the process from going to international arbitration.

ii) President López Obrador presented the guidelines of his economic policy:

- a. Social economy.** Real wages increase and remittances strength.
- b. Regional development.** Investment Projects in the southeast of the country, including the Mayan Train, the Dos Bocas Refinery and the industrial corridors in the Isthmus of Tehuantepec.
- c. National Infrastructure Plan.** With the collaboration of essential businessmen like Carlos Salazar and Antonio del Valle. Noteworthy, Carlos Slim, stated that there were 1,600 possible infrastructure projects to invest.
- d. Promotion of foreign investment and trade.** Upcoming ratification of the United States-Mexico-Canada Agreement (USMCA).

iii) On August 29<sup>th</sup>, the Financial Times stated that Mexico is set to allow state company to resume private oil ventures. President Lopez Obrador met with Claudio Descalzi, head of the Italian oil company Eni, who began production in Mexico last month. Noteworthy, in previous statements, the president mentioned that if the companies that won the past oil rounds showed results, auctions would resume.

**Banxico's Quarterly report**

Banxico presented its 2Q19 quarterly report, where economic expectations were revised:

- Annual inflation rate of 3.2% by year-end 2019; close to Banxico's target of 3.0% and compared to the previous estimate of 3.7%. The change in core inflation was minimal and stood at 3.4% with no significant difference compared to 3.5% prior.
- The economic growth range was revised downwards. In this new report, the estimated growth rate will be in a range of 0.2% - 0.7%. In the previous report, the range was 0.8% - 1.8%.
- Better foreign trade estimates. The trade balance deficit estimate is US\$7.8 billion (0.6% of GDP), a significant reduction from the previous US\$13.5 (1.0% of GDP) estimate. For the current account, a deficit of US \$ 15.2 billion (1.25% of GDP) is expected compared to the previous deficit of US \$ 24.3 billion (1.86% of GDP).

•A decrease in the creation of formal jobs. By the end of 2019, Banxico estimates between 450 and 550 thousand new formal jobs creation. The range was reduced by 80 thousand jobs compared to the 1Q19 report.

Everything seems to indicate that the subsequent decision of the Central Bank will be a reduction of 25 basis points in its reference rate, leaving the rate at 7.75% from the current 8.0%.

**Mexican Stock Exchange**

Mexbol had a weekly advance of 7.19%, which implies a 4.55% year to date return. This excellent performance was the result of:

- The change in the speech of the Federal Government.
- The possibility of a further decline in the Banxico's rate.
- Opportunity prices.
- Rising US markets.

**Peso-Dollar Exchange Rate**

The spot exchange rate ended its seventh consecutive week on the rise and closed at MX\$20.04 per dollar representing an accumulated depreciation in the year of 1.96%. The U.S. dollar continues strengthening against other currencies due to the possibility of a severe global recession given the persistence of systemic risk. In this context, the peso had a weekly depreciation of 0.99% as it is the most liquid currency among emerging markets.

**Mexican and U.S. Bonds**

In a context of continuous uncertainty, the 10-year US treasury bond rate closed at 1.50% and the 10-year M-bond rate at 7.00%, both partially unchanged from the previous week. Following Banxico's 2Q19 quarterly report, it seems reasonable to think that there are conditions for greater monetary policy flexibilization.

**Economic Indicators**

**Trade balance**

July's trade balance presented a US\$(-)1.11 billion deficit, which leaves year to date surplus at US\$2.87 billion. Total exports increased 7% YoY and resulted from an 8.6% hike in non-oil exports and a -14.1% decline in oil exports. Total imports grew 2.0% YoY due to a 2.8% increase that was enough to offset the -0.1% fall of consumer imports.

	2018			2019 YTD			Jul-19		
	% of Total	Annual Change		% of Total	Annual Change		% of Total	Annual Change	
<b>Exports</b>									
Total Exports	450,685	100.0%	10.1%	266,574	100.0%	4.2%	39,301	100%	7.0%
Oil	30,601	6.8%	28.98%	16,121	6.0%	-10.1%	2,240	5.7%	-14.1%
Crude Oil	26,512	5.9%	32.25%	14,099	5.3%	-9.1%	1,960	5.0%	-17.6%
Others	4,089	0.9%	11.18%	2,022	0.8%	-16.7%	280	0.7%	21.9%
Non-Oil	420,083	93.2%	8.91%	250,453	94.0%	5.2%	37,061	94.3%	8.6%
Agricultural	16,508	3.7%	3.17%	11,081	4.2%	6.9%	1,376	3.5%	30.7%
Mining	6,232	1.4%	14.83%	3,571	1.3%	-6.3%	548	1.4%	6.7%
Manufacturing	397,344	88.2%	9.08%	235,800	88.5%	5.4%	35,137	89.4%	7.9%
Automotive Industry	142,178	31.5%	12.24%	85,040	31.9%	7.1%	12,465	31.7%	12.6%
Others	255,165	56.6%	7.39%	150,760	56.6%	4.4%	22,672	57.7%	5.4%
<b>Imports</b>									
Total Imports	464,302	100.0%	10.4%	264,545	100%	0.5%	40,417	100%	2.0%
Oil	53,762	11.6%	28.4%	28,553	10.8%	-6.1%	4,086	10.1%	-16.8%
Non-Oil	410,541	88.4%	7.9%	235,992	89.2%	1.4%	36,332	89.9%	4.7%
Consumption Goods	43,616	9.4%	3.1%	24,116	9.1%	-0.1%	3,737	9.2%	9.2%
Intermediate Goods	321,037	69.1%	8.8%	187,942	71.0%	2.8%	29,166	72.2%	7.3%
Capital Goods	45,887	9.9%	11.9%	23,934	9.0%	-7.5%	3,429	8.5%	-16.5%
<b>Trade Balance</b>									
Trade Balance	2018			2019 YTD			Jul-19		Annual Change
	-13,618		-17.1%	2,028		0.0%	-1,117		41.9%

Source: Mexico's Ministry of Economics  
 Aounts in Millions of Dollars

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#### Definitions

**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.

**Gross Domestic Product (GDP):** Is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

**Mexbol:** The S&P/BMV IPC 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.

**INEGI:** The National Institute of Statistics and Geography. It is the institution responsible for performing the population census every ten years; as well as the economic census every five years and the agricultural, livestock and forestry census of the country.

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

**Comision Federal de Electricidad (CFE):** Is the state-owned electric utility of Mexico. It is the country's dominant electric company, and the country's second most powerful state-owned company after Pemex.

**Petroleos Mexicanos (Pemex):** Is the Mexican state-owned petroleum company, created in 1938 by nationalization or expropriation of all private, foreign, and domestic oil companies at that time. The Fund maintains 0.0% investment in the security, at the close of September 2, 2019. For a list of full securities please visit: [www.mxefund.com](http://www.mxefund.com).

**United States-Mexico-Canada Agreement (USMCA):** Is a mutually beneficial win for North American workers, farmers, ranchers, and businesses. When finalized and implemented, the agreement will create more balanced, reciprocal trade that supports high-paying jobs for Americans and grows the North American economy.

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