

2019 ECONOMIC BUDGET BEFORE A CLASH OF POWERS

At the closure of operations on December 14, the Mexbol of the Mexican Stock Exchange was 41,312 points, which represents a fall of -1.33% compared to the previous week, which leaves the accumulated losses in the year at 14.53%.

During the second week of the new administration, the clash of powers between the executive and judicial became evident before the revision of the proposal on the Federal Remuneration Law. This Law stipulates that no one can receive a salary higher than that of the President (108,000 pesos per month). The Supreme Court of Justice of the Nation (SCJN) suspended its application, and López Obrador maintained a critical stance, saying that he does not agree with the resolution but will abide the court ruling.

In the same sense, the proposal to withdraw the jurisdiction of public officials was blocked in the Senate, since the PRI, PAN and PRD parties joined to vote against. The above shows that the new administration does not have absolute power, nor can it proclaim or validate the proposals it wants if the "minorities" join as a counterpart.

The spot exchange rate closed operations on Friday, December 14 at 20.24 pesos per dollar, which implies a weekly appreciation of 0.11% and a decrease of 2.86% in the year. This lateral trend could be a consequence of expectation regarding the economic package for 2019. Accordingly, special attention should be paid to the forecasts of the Ministry of Finance and Public Credit (SHCP) regarding the following variables foreseen in the General Criteria of Economic Policy 2019.

- **Gross Domestic Product:** According to the statements of Carlos Urzúa, Secretary of Treasury, the 2.0% growth will only be achieved if there is an investment in human capital. This figure was revised downwards against the range of 2.5%-3.5% established in the pre-criteria 2019.
- **Primary Balance:** The new administration has proposed a surplus of 1.0% of GDP, in line with the primary balance of 0.9% foreseen in the pre-criteria 2019, driven by a reduction in the Historical Balance of the Public Sector Financial Requirements (SHRFSP).
- **Consumer Inflation:** It is estimated at 3.4% compared to the 3.0% projected in the 2019 pre-criteria; however, on November were reached 23 consecutive months, where inflation is above Banxico's inflation target (3.0%/+/-1%).
- **Mexican Oil Mix:** The forecast is \$58 dollars per barrel (dpb), compared to last year's estimate of \$51 dpb. So far, this year the average price is \$62.5 dpb due to the rise in international oil prices at the beginning of October

Likewise, it will be necessary to analyze the re-engineering of current expenditure facing the new salaries and wages of public servers, the forecast of indebtedness as a percentage of GDP (45.5% for 2018 and 45.2% for 2019) and the performance of the state productive enterprises (PEMEX and CFE), whose budget will be higher than last year.

In this context, the last primary auction of Banco de México's government debt reflected increases in bond interest rates for all maturities. The real return rate of the 3-year Udibonos was 4.71%, its highest level since 1998. The above, at a higher risk perception in the country and the expectation of higher inflation.

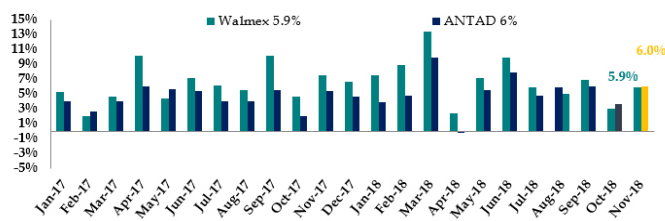
On a different note, the group of bondholders issued by the Mexico City Airport Trust (Mexcat) rejected two repurchase offers from the Mexican government. According to the conditions of placement for 6,000 million dollars (mdd), if they suspended the work, the bonds had to be liquidated for noncompliance. In this sense, the new administration has preferred to buy back part of the bonds and change the clauses of the remaining contracts. The first offer to buy back 1,800 million dollars was 90 cents for a dollar and the second was a dollar plus interest. Among the reasons for rejecting it, the source of payments stands out: the bonds are backed by the revenues of the airport that currently operates and by the expected revenues of the New Mexico City International Airport (NAIM).

The monetary policy that the Banco de México decides to take at its meeting on December 20 will be key in the performance of the economy for the next sexennial. The tone of the last meeting minutes suggests another quarter-percentage increase, which would leave the rate at 8.25%. This cycle of increases that began in December 2015 could be close to reaching the end since the reference rate of the United States is very close to achieving its neutral level, that is the level at which the economy does not advance nor slows down, according to the Federal Reserve (FED).

In the United States, the stock markets had negative results in the week. The Dow Jones, S&P 500 and NASDAQ indices posted weekly falls of 1.17%, 1.22%, and 0.81%, respectively. For cumulative losses in the year of 0.28% for the Dow Jones, and 0.91% for the S&P. On the other hand, the Nasdaq presented an accumulated yield of 1.17%.

Economic indicators

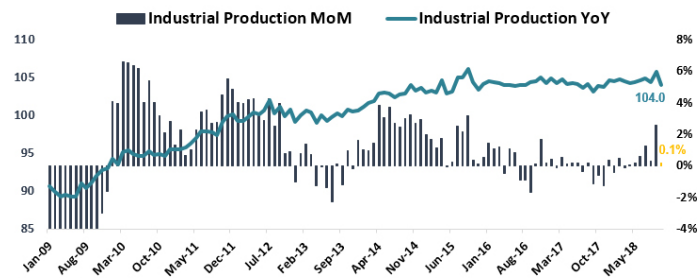
ANTAD Same Store Sales Year over Year



Source: ANTAD & Walmartex

Same store-sales reported by the National Association of Department Stores (ANTAD) registered an increase of 6.0% in November, the third largest in 2018. This indicator has maintained a positive trend for half a year, which is consistent with the Double-digit growth for 5 consecutive months of consumer confidence.

Industrial Production



Source: INEGI

Industrial production in October had the strongest monthly fall in three years, as a result of contraction in manufacturing and mining activities.

The index showed a monthly decrease of 1.6%, the biggest decline since October 2015, by components, manufacturing reported a monthly decline of 2.2%, where 19 of 21 activities in the sector registered a decrease. Mining decreased 2.2% in the month; after a fall of 2.7% in the extraction of oil and gas, and the supply of basic services fell 1.7%. The construction sector was the only one that presented a monthly advance of 0.1%.

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Definitions

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

PRI: The Institutional Revolutionary Party (PRI) is a Mexican political party founded in 1929 that held uninterrupted power in the country for 71 years from 1929 to 2000.

PAN: The National Action Party, founded in 1939, is a conservative political party in Mexico, one of the three main political parties in Mexico.

PRD: The Party of the Democratic Revolution is a social democratic political party that had been one of the three major political parties in Mexico over the last several decades.

SHCP: Secretaria de Hacienda y Credito Publico, is the Ministry of Finance.

Gross Domestic Product (GDP): The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

Dpb: Dollars per barrel

PEMEX: Petróleos Mexicanos, which translates to Mexican Petroleum, 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.

UDIBONOS: Federal Government Development Bonds denominated in Investment Units (Bonos de Desarrollo del Gobierno Federal denominados en Unidades de Inversión) were created in 1996 and are inflation-hedged instruments

Gross Fixed Investment: is a term used to describe the net capital accumulation during an accounting period for a country. The term refers to additions of capital stock, such as equipment, tools, transportation assets and electricity.

DJ: The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq.

S&P: The S&P 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value,

NASDAQ: Is a global electronic marketplace for buying and selling securities, as well as the benchmark index for U.S. technology stocks.

Mexican mix: Mexican crude is classified into three types: the Maya, Isthmus and Olmeca. This variety make up what is known as a Mexican mix.

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