

Trade war escalating impacts financial markets

The increase in systemic risk due to the threat of bankruptcy in international capital markets once again characterized the week. However, higher volatility in markets was due to:

I. **China's announcement to place tariffs to a new list of American products as a response to the rates previously imposed by the United States.** China will impose 5% and 10% tariffs on \$ 75 billion U.S. goods; the first round on September 1st, and the rest on December 15th. Cars and their components stand out among the products to which China will place tariffs.

II. **President Trump's energetic response to China's imposition of tariffs.** Following China's pledge, Trump prohibited large carriers from shipping packages that include Fentanyl - a drug demanded in the United States whose leading supplier is China-. Besides, he ordered US companies to immediately look for substitutes (countries) to the activities they do in China. Finally, he announced an increase of five percentage points to the tariff rates that the US will set in September and December of this year.

III. **Uncertainty about the positioning of the Federal Reserve (Fed) at the economic policy symposium held at Jackson Hole.** Jerome Powell, president of the Fed, highlighted that the institution will manage global risks with attention and that low inflation is the problem of this new era. We interpret the above as a possibility of a further reduction in the principal reference rate.

IV. **The Group of Seven (G7) summit meeting at which Boris Johnson, Prime Minister of the United Kingdom, will attempt to negotiate an agreed Brexit.** Comments made by both Angela Merkel, Chancellor of Germany, and Emmanuel Macron, President of France, with whom Johnson held meetings during the week, indicate that there will be no agreement.

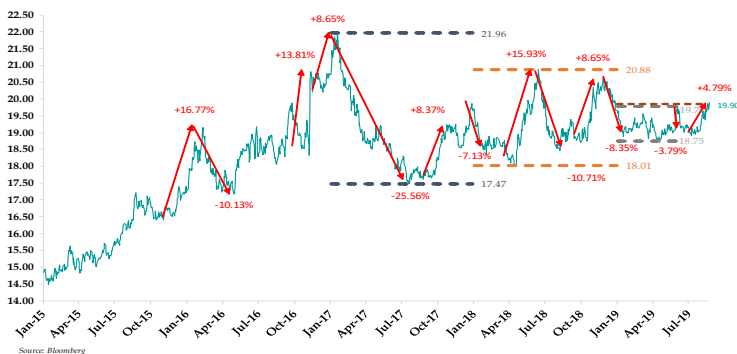
Mexican Stock Exchange

In contrast with the fall in the United States stock markets, Mexbol had a weekly recovery of 1.33% that reduces year-to-date (YTD) losses to -2.46%. Attractive entry prices after the sharp falls observed in recent weeks explain this behavior.

Exchange Rate

The exchange rate closed the week at MX\$19.90 pesos per dollar, which implies a new maximum level in the year mainly explained by higher systemic risk. The weekly depreciation against the US dollar was 1.32%; thus, YTD appreciation is 1.36%. Industrial production continues decreasing plotting a -1.7% decline in 2019.

Spot Exchange Rate MXN/USD
 (As of August 23th, 2019)

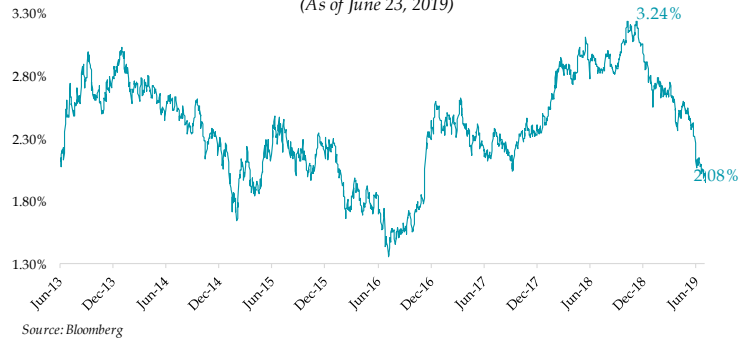


Bonds in Mexico and the United States

Given the higher systemic risk, US Treasury Bonds reinforced their role as the refuge of preferred value for investors; the 10 Treasury Bond rate closed at 1.52%, four basis points below last week. Noteworthy the drop that the rate of this instrument has had throughout the year, since in December 2018 the rate was 2.68%.

Mexico's local yield curve did not change compared to the previous week, and it remained at 6.97%. Noteworthy, there has been a decrease in possession of government bonds by foreign investors since from March to June as they have decreased by USD\$4,500 million.

10-year US Treasury Bond
 (As of June 23, 2019)



10-year M Bond
 (As of July 24, 2019)

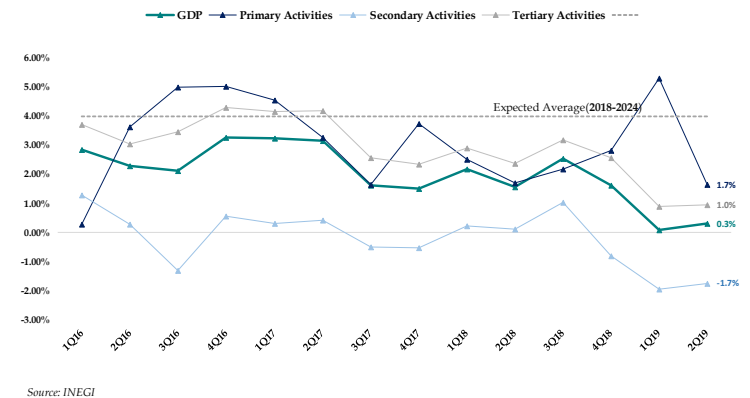


Economic Indicators

Gross Domestic Product Revision

The National Institute of Statistics and Geography, INEGI, revised down the Gross Domestic Product (GDP) for 2Q19 published on July 31st from 0.1% to 0.0%. The adjustment was in the secondary activity, which showed no change compared to 1Q19; however, the revised version showed a -0.2% decrease.

Quarterly GDP by Component
 Year over Year Growth



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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.

Federal Reserve (FED): The Federal Reserve System is the central bank of the United States and arguably the most powerful financial institution in the world.

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.

Brexit: Is an abbreviation for "British exit," referring to the UK's decision in a June 23, 2016 referendum to leave the European Union.

YTD: year to date.

The Group of Seven (G7): Is an international intergovernmental economic organization consisting of the seven largest International Monetary Fund described advanced economies in the world: Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

A yield curve: Is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates.

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