

Markets on hold due to trade agreement delay

The market's attention this week focused on the development of the trade negotiations between the United States and China. On December 15th, the world's two largest economies must reach a partial trade agreement; if not, the United States will impose new tariffs on a total of US\$300 billion of imports from China.

Mexican Stock Exchange

Mexbol closed at 42,188 points, thus accumulating losses of 3.02% in the last two weeks. The Year-to-Date (YTD) return fell to 5.39% in United States Dollar (USD) terms due to:

- i. The increase in systemic risk, resulting by uncertainty in the negotiations between China and the United States, causing a considerably increase in the VIX index, which measures volatility and risk aversion in the US stock markets.
- ii. The lack of drivers for Mexican economic growth. Noteworthy, September's Gross Fixed Investment data showed again a considerable annual decrease of -6.5%.

The weekly decline implies breaking the resistance of the 42,200 level, which the index had respected since June of this year. With the downward market trend, it is possible to identify the following supports:

- i. A technical support at 41,600 points.
- ii. If the United States imposes tariffs on China on December 15th, Mexbol could trade at similar levels of 38,574 in August when the risks of a trade war between China and the United States increased; noteworthy, Bloomberg consensus expects a deal before this date.
- iii. When the Government canceled the New Mexico City International Airport (NAICM), the market had a substantial fall of 20.89% leaving the IPyC Index at 39,427 points.

Spot Exchange Rate

The spot exchange rate closed at MX\$19.32 per dollar, which implies a weekly appreciation of 1.17% and confirms the strength of Mexican external accounts, which translates into exchange rate stability. The most recent data on remittances and international trade in the United States points out that Mexico is more likely to close the year with US\$35 billion in remittances. Besides, Mexico remains as the first commercial partner of the United States with a YTD surplus of US\$83.8 billion.

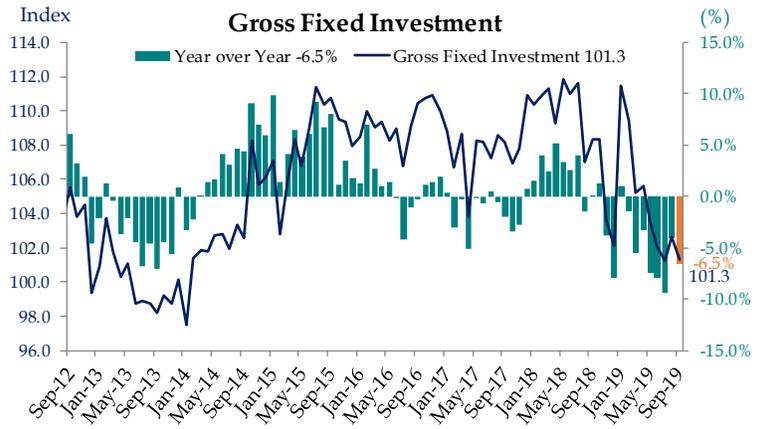
Interest Rates

On December 19th, Banxico will announce its monetary policy decision. Given the proximity of inflation to the specific objective of Banxico and the recent fall in core inflation, the Board could reduce the reference rate by 25 basis points (bps) to 7.25%. The 10-year M-bond rate closed at 7.03% (-6 bps).

Economic Indicators

Gross Fixed Investment

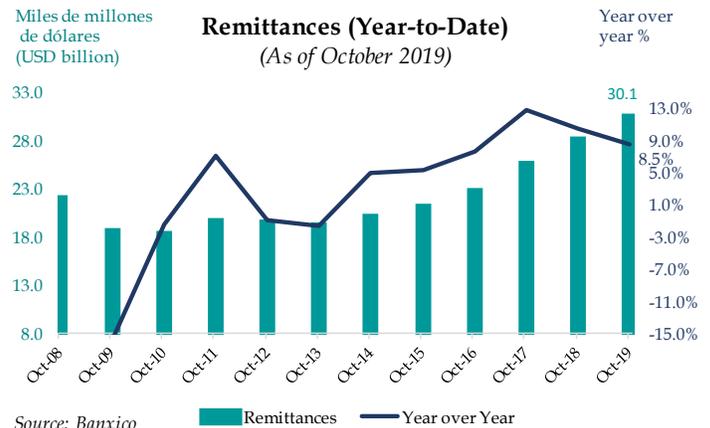
Gross Fixed Investment (IFB) decreased -6.5% year-over-year (YoY) in September due to a -7.8% decline in machinery and equipment expenses and the -5.9% drop in construction expenditure. The IFB accumulates eight consecutive months with negative annual rate growth.



Source: INEGI

Remittances

Remittances totaled US\$3.12 billion in October, accumulating a YTD total of US\$30.06 billion and an 8.5% annual growth. The most recent non-agricultural payroll data allows estimating that 2019 will close with more than US\$35 billion remittances, the maximum data since Banxico keeps register since 1995.



Source: Banxico

United States International Trade

Mexico was the United States' first commercial partner in October and for the tenth consecutive month, totaling a trade volume exceeding US\$514 billion. The balance of this commercial interaction is positive for Mexico with a surplus of US\$83.81 billion that compares positively with the observed in October 2018 when it was US\$66.3 billion.

Light Vehicle Sales

According to INEGI, light vehicle sales in November had an annual decrease of -6.96%, vehicle production contracted -13.02%, and exports declined by -7.48%. Although the sales data accumulates more than two years with negative growth, this time, the report stands out negatively because of the poor performance of both production and exports that accumulate seven and four consecutive months with negative growth, respectively.

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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.

Gross Fixed Investment (IFB): Describes 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.

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.

New Mexico City International Airport (NAICM): Name of the construction of a civil airport, which was suspended on Thursday, January 3, 2019 in favor of building a new international airport at an air base; Felipe Angeles International Airport.

Remittances: Funds an expatriate sends to his/her country of origin via wire, mail, or online transfer. These peer-to-peer transfers of funds across borders are economically significant for many of the countries that receive them.

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.

Volatility Index (VIX): Is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. Derived from the price inputs of the S&P 500 index options, it provides a measure of market risk and investors' sentiments.

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.

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.

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