

Mexbol drags due to weak financial reports and poor economic forecasts

The week that ended on July 19th was characterized by the publication of Pemex's 2019-2023 Business Plan (PNP) and the release of companies' 2Q19 financial results.

Mexican Stock Exchange

The Mexbol Index had a considerable weekly drop of (-) 2.4% representing a 1.98% year-to-date gain mainly due to the following:

- I. 2Q19 earnings reports.** As of July 19th, nine companies of the Mexbol Index have reported; 77.7% and 66.6% presented sales and earnings per share growth below market expectations, respectively. Noteworthy, Walmart and America Movil's results were positive. (Companies with considerable weight in the index).
- II. Forecasts that the Mexican economy will fall into recession.** On July 31st, the National Institute of Statistics, Geography, and Informatics, (INEGI) will publish its 2Q19 Gross Domestic Product (GDP) estimate. Primary economic indicators signal that the data will be negative.
- III. Negative market reception from Pemex's Business Plan.** Pemex's plan was considered insufficient to counter the negative perspectives that the rating agencies have on the parastatal. The above could have repercussions on Pemex's credit rating and, afterward, on the credit rating of the Mexican government because of its involvement with the oil company.

Peso-Dollar Exchange Rate

The spot exchange rate closed the week at MX \$ 19.02 per dollar, which implies a weekly depreciation of 0.22% and leaves year-to-date appreciation at 3.24%. Although the week's depreciation was minimum, it should be noted that the variation was significant (1.05%), moving in the range of 18.92 and 19.12 pesos per dollar and caused by the PNP which was received by the markets as insufficient to avoid a downgrade of the credit rating of the oil company and sovereign debt as it puts public finances at risk.

10-Year M Bond

The 10-year M bond rate closed July 19th operations at 7.51%, a weekly drop of 11bp. Noteworthy, Mexican bonds are still attractive as they offer a much higher rate than all countries with sovereign debt in investment grade.

Pemex 2019-2023 Business Plan

The 221-page document develops a strategy in which the Government will make considerable investments to stabilize Pemex's finances in the next three years (2019-2021). Afterward, the Government expects that in the following years (2022-2023) the parastatal will once again become a driver of growth for the country.

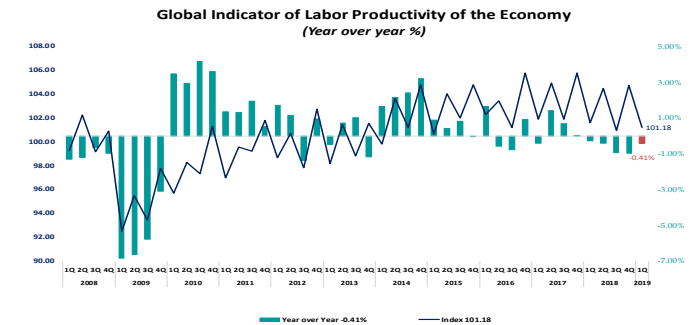
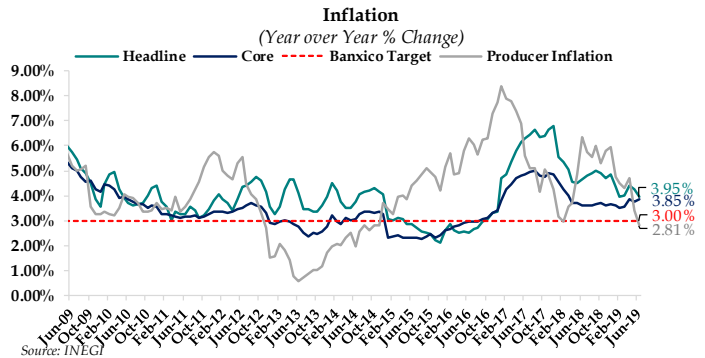
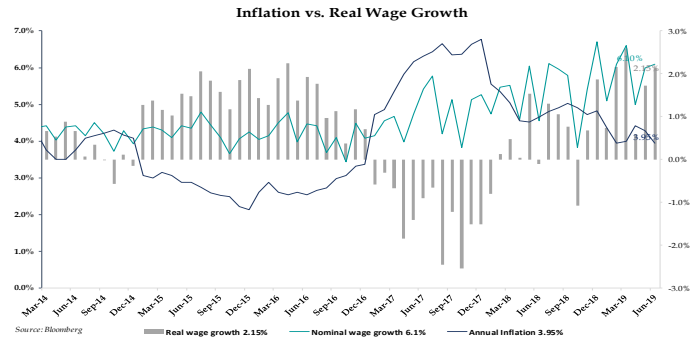
From 2019 to 2023, the Government will invest approximately US\$11,854 million; equivalent to 25% of the total investment that Pemex will make in the same period. Moreover, it will be distributed as follows:

- 52% (~ US\$ 6,164 million) in capital injections within three years; US\$ 3,461 million for 2019, US\$1,993 million for 2020, and US\$1,940 for 2021.
- 48% (US\$ 5,690 million) through a decrease in the tax burden; specifically, a reduction from 65% to 54% of the tax rate of the Right to Shared Profit (DUC). The change will be gradual and will begin with a decrease to 58% in 2020 and the second adjustment to 54% in 2021.

Economic Indicators

Wages and Inflation

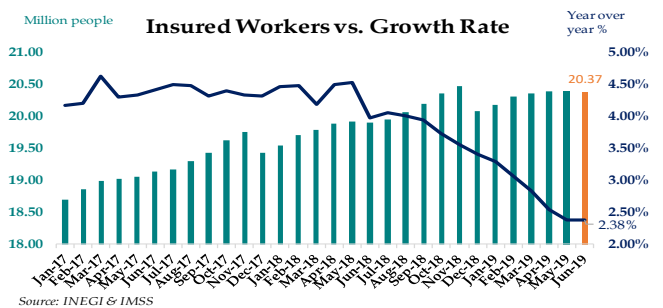
Contractual wages in June registered a 6.5% year-over-year increase; if compared with the 3.95% inflation rate, real wages have increased by 2.15%. Since the beginning of the year, remunerations have been altered due to the 16% increase in the minimum wage, driving higher costs for companies while the Global Labor Productivity Index of the Economy (IGLPLE) presented a 0.5% year-over-year decrease in 1Q19; this generates resistance to a lower inflation rate due to the rigidity of the labor market. Under this argument, several members of the Governing Board of Banxico are reluctant to reduce the reference rate shortly.



Source: INEGI

Formal Jobs Creation

The Mexican Institute of Social Security (IMSS) reported a loss of 14,244 jobs in June. Even though companies created 33,971 formal jobs in the month, there was a loss of 48,215 temporary jobs. According to the Institute, 289,301 jobs have been created so far this year; this figure is (-) 40.91% lower than the number of jobs created until July last year.



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Definitions

FED (Federal Reserve System) is the central bank system of the United States that includes the Board of Governors in Washington, D.C., and 12 independent regional Reserve banks.

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 IPC seeks to measure the performance of the largest and most liquid stocks listed on Mexbol. It is not possible to invest in an index.

INEGI: The National Institute of Statistics and Geography is a public body with technical and managerial autonomy, its own legal personality and assets, responsible for regulating and coordinating the National System of Statistical and Geographic Information.

Inflation is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period.

Basis point (BPS): One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001.

GDP: Gross Domestic Product. 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.

BANXICO: Banco de México is the central bank of Mexico. By constitutional mandate, it is autonomous in both its operations and management. 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. Its other functions are to promote both the sound development of the financial system and the optimal functioning of the payment systems.

Walmart: Retail company. As of June 30, 2019 the security represents 7.53% of Portfolio Net Assets.

America Movil: Communication Services. As of June 30, 2019 the security represents 11.20% of Portfolio Net Assets.

Fund holdings and sector allocations are subject to change and are not a recommendation to buy or sell any security.

IMSS: The Mexican Institute of Social Security is a federal government institution, autonomous and tripartite, dedicated to providing health and social security services to the population that has affiliation with the institute itself, called then insured and entitled.

Global Labor Productivity Index of the Economy (IGLPLE): The index measures increase or decrease in the workers productivity based on the number of hours worked.

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.

Pemex's 2019-2023 Business Plan: The company public strategy to increase profits in the short term. All of Pemex forecasts are included in the public document. As of June 30, 2019 the security represents 0.0% of Portfolio Net Assets.

Disclosures

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