

Steady declines in Mexico's and US's GDP; FED will continue with its stimulus

During the week, several countries released their Gross Domestic Product (GDP) for the second quarter of 2020 (2Q20), exhibiting the magnitude of the impact that the COVID-19 containment measures had on the economies:

1. The United States' GDP fell (-)9.5% year-over-year (YoY). In 1Q'20, the economy grew at an annual rate of 0.3%.
2. Mexico's GDP had negative annual growth of (-)18.9%. In the 1Q'20, the economy contracted at an annual rate of (-)1.4%.
3. Unlike the rest of the world economies, China's GDP in 2Q'20 increased at an annual rate of 3.2%. In 1Q'20, the decline amounted to (-)6.8%.
4. France's GDP decreased at an annual rate of (-)19.0% while in 1Q'20, the drop was (-)5.7% YoY.
5. Germany's GDP dropped (-)11.7% YoY compared to a (-)2.2% decline in 1Q'20.

Mexican Stock Exchange

Mexbol closed July 31st at 37,019 points, a (-)0.52% weekly decrease; thus, the year-to-date (YTD) decline amounts to (-)27.28%. The weak macroeconomic data (annual GDP drop of -18.9%) is the largest since INEGI has records, and practically doubled the decline of the US' GDP (-9.5%).

The week also denoted the end of 2Q'20 financial earnings season; where overall, results show the effectiveness of the companies' adjustments in the framework of the pandemic:

1. 59% of the companies listed in Mexbol had higher sales than expected by Bloomberg consensus.
2. Earnings Per Share (EPS) of 54% of the companies were higher than market expectations.
3. The Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) of 58% of the companies listed in Mexbol were better than those that the consensus of analysts expected.

Exchange Rate

The spot exchange rate closed July 31st operations at MX \$ 22.21 per dollar, a slight 0.06% weekly appreciation, which left the YTD depreciation at (-)17.66%. The improvement in the external accounts explains the recent recovery of the Mexican currency. Notably, June's trade balance displayed a US\$5.54 billion surplus, which left the balance with a US\$2.65 billion surplus so far this year. On August 3rd, Banxico announced July's remittances, which, in the first six months of the year, accumulates a record high of US\$19.07 billion. Lastly, the dollar index's weakening continued, specifically since July 13th, the dollar index has decreased by 3.07%.

FED's Monetary Decision

The Federal Open Market Committee (FOMC) decided to keep the range of its main interest rate unchanged at 0.0% - 0.25%. Besides, the FOMC announced that it would continue the monthly purchases of assets from the United States Treasury and mortgage-backed securities.

These purchases will continue until "there are clear signs of recovery in the US economy," the monthly minimums will be:

1. US\$80 billion for the purchase of treasuries.
2. US\$40 billion in purchases of mortgage-backed securities.

Jerome Powell, President of the FED, affirmed that he rules out negative interest rates since the central bank has a wide range of additional tools. Regarding the recovery of the US economy, the statement claimed that overall financial conditions have improved in recent months, partly due to policy measures to support the economy and the flow of credit to US households and businesses.

Banxico's Operating Rules

Central Bank, Banxico, approved a series of measures to provide liquidity to banking institutions. The proposals include the following:

1. The provision of resources to banking institutions to channel credit to micro, small, and medium-sized enterprises (MiPyME) and individuals affected by the pandemic.
2. The facility of financing to banking institutions guaranteed with loans to corporations, for the funding of the MiPyME.

The operating rules of these facilities are as follows:

1. Regarding the destination of the resources:
 - a. Banking institutions can carry out factoring, leasing, and

credit operations with MiPyMEs.

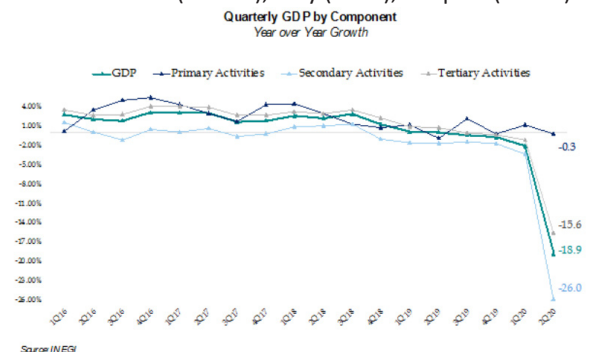
- b. Allows banking institutions to grant mortgage and automotive loans to individuals.
2. About the required guarantees:
 - a. Banxico will accept trust schemes in which the rights corresponding to mortgage loan portfolios are affected. The above will allow those institutions that do not have a loan portfolio with companies that issue stock debt, to access the resources.
 3. Considering operational aspects:
 - a. Banxico will extend the availability three months (until October) so that the institutions have the resources and grant loans.
 - b. Options to 12, 24, and 36 months will be chosen by the requesting institution, among the facility financing terms.

Economic Indicators

Gross Domestic Product

The National Institute of Statistics, Geography, and Informatics (INEGI) announced that in 2Q'20, the Gross Domestic Product (GDP) had a (-)18.9% annual contraction; the fourth consecutive quarter with annual declines mainly due to the impact of social distancing measures. The primary activities (agriculture, fishing, livestock, and forestry), representing 3.24% of GDP, decreased (-)0.3% at an annual rate by type of activities; Secondary activities (industry, manufacturing, mining, primary resources, and construction) totaling 28.94% of the GDP had the sharpest contraction, (-)26.0% at an annual rate; and the tertiary activities (services and commerce) equivalent to 63.49% of the GDP, had a decline of (-)15.6% at an annual rate.

Noteworthy, the contraction practically doubled the United States' GDP drop in the same period (-9.5%), although it was similar to that observed in countries such as France (-19.0%), Italy (-17%), or Spain (18.5%).



Trade Balance

Mexico's trade balance showed an MX\$5.54 billion surplus in June, 2.18 times higher YoY; therefore, the balance YTD totals a US\$2.69 billion surplus.

1. Total exports in June decreased (-)12.8% YoY due to:
 - a. A (-)35.6% drop in the sale of petroleum products, which represent only 3.8% of total exports.
 - b. A (-)11.6% decline of non-oil exports, which represents 96.2% of the total, mainly due to:
 - i. A (-)13.5% decrease of manufacturing exports (89.3% of the total), within these, the automotive industry had a (-)31.0% fall.
2. Total imports in June decreased at a (-)22.2% annual rate due to:
 - a. A (-)55.4% contraction of oil imports (6.2% of the total).
 - b. A (-)18.2% reduction in non-oil imports (93.8% of the total) due to:
 - i. A (-)19.6% decrease in intermediate-use goods imports, which represents 76.2% of total imports.
 - ii. A (-)12.3% contraction of capital goods, totaling 9.6% of imports.
 - iii. A (-)436% drop of consumer goods, which represent 8.0% of total imports.

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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.

Bloomberg: Company that provides financial software tools and enterprise applications such as analytics and equity trading platform, data services, and news to financial companies and organizations.

COVID-19: The disease caused by the coronavirus, a family of viruses that were discovered in the 60s but whose origin is still unknown. Its different types cause different diseases, from a cold to a severe respiratory syndrome.

Earnings per Share (EPS): The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

EBITDA: Is an acronym for earnings before interest, taxes, depreciation and amortization.

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 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.

MiPyME: It is a company that has a certain occupational and financial limit fixed by the States or regions. Are agents with specific logics, cultures, interests and an entrepreneurial spirit.

The Federal Open Market Committee (FOMC): A committee within the Federal Reserve System is charged under the United States law with overseeing the nation's open market operations and makes key decisions about interest rates and the growth of the United States money supply.

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

The National Institute of Statistics and Geography (INEGI): 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.

Trade Balance: The difference between the value of a country's imports and its exports for a given period.

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.

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