High volatility with negative bias

The World Health Organization (WHO) officially declared the coronavirus outbreak (COVID-19) a pandemic. The declaration increased volatility in international financial markets. By the end of the week, President Donald Trump said the epidemic was a national emergency and announced an injection of US$50 billion to support the health sector.

As foremost international leaders have been unable to send and homogenous and compelling message, global stock and exchange markets remain volatile.

Last week, President Donald Trump announced the cancellation of all flights from Europe. Besides, he proposed an economic package to counter the effects of the virus without specifications. Later on, measures announced on March 13th after the national emergency declaration had a positive impact on recovery in the stock markets. The main measures announced were the following:

i. An additional US$50 billion fund to improve the operational efficiency of the health sector.
ii. The United States will purchase oil barrels to increase its strategic reserves.
iii. An agreement with large retail companies such as Walmart or Target was reached to guarantee the operation of their stores during the health crisis.
iv. The availability of tests to fight the virus will be increased to 500,000 as of Monday next week and to more than 5 million within a month.

Unlike the central banks of other major economies, the European Central Bank (ECB) decided to keep its overnight rate at 0.0%. But announced a €120 billion package for net asset purchases as a complement to the one it had previously published, and which will end in December 2020.

In Mexico, the federal administration has not released any specific measure to contain the COVID-19 outbreak that is in its initial phase. However, the technical committee of the Ministry of Health stressed out that, in a period of approximately fifteen days, there could increase the number of infections within the country.

Mexbol
The Mexbol reached its maximum in the year at 45,902 points on January 20th. But due to the coronavirus crisis and the dramatic decline in the price of oil, the outlook changed. From that day, and until March 12th, it dropped (-)17.42% in pesos and 29.47% in dollars. The year to date (YTD) loss is (-)12.45% in pesos and (-) 24.56% in US$.

Spot Exchange Rate
The spot exchange rate closed March 13th operations at MX$21.92 per dollar. The above implies a 9.32% weekly and 16.16% year-to-day depreciation; year to date loss of the currency at 16.16%. Derived from the peso's weakness, the Exchange Rate Commission expanded the size of Exchangeable hedges. The increase amounted US$10 billion, so the program now totals US$30 billion. Subsequently, on March 12th, it auctioned US$2.0 billion of hedges, noteworthy, the largest auction was for US$1.0 billion. The exchange hedging program began in February 2017 when the exchange rate showed a significant rise derived from President Trump's statements regarding the cancellation of the North American Free Trade Agreement (NAFTA).

Economic Indicators

Industrial Production
In February and for the sixteenth consecutive month, industrial production in Mexico declined. This time the fall was (-)1.7% and was supported by the setbacks in the construction and manufacturing sector, which contracted (-) 9.2% and (-) 1.0%, respectively. Although a decline in construction has become the norm in recent times, the manufacturing industry accumulates four consecutive months with annual contractions. In contrast, the mining industry seems to have broken its previous negative trend, and now accumulates four months with positive annual growth. This time the increase was 5.8%.

Inflation
INEGI announced that in February, the Mexican Consumer Price Index (INPC) presented a 3.70% annual inflation. Even though the annual core inflation remained practically unchanged (3.77% in February vs. 3.66% in January), the considerable increase in non-core inflation (1.81% in January vs. 3.81% in February) was what caused the rebound in the general inflation. The products whose prices increased the most were tomato, green tomato, and egg with increases of 9.15%, 40.29%, 6.34%, respectively.

Inflation
(Year over Year % Change)


Source: INEGI
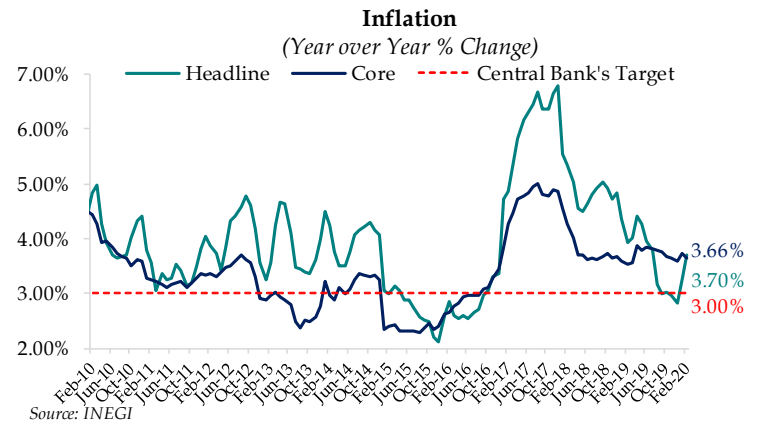
Labor Productivity
In 4Q19, the Global Index of Labor Productivity of the Economy (IGPLE) showed a decrease of (-) 2.4% compared to the same quarter of 2018. Of the three sectors in the economy, the only one that had an increase in the productivity of its workers was the primary which raised 1.7%; in contrast, employees in secondary and tertiary schools reduced their respective productivity levels by (-)0.8% and (-)3.7%. In part, the drop in productivity is due to the annual increase in unit labor costs, which in construction climbed 10.4%.

Union Wages
Despite the rebound that annual inflation presented in February (3.70%), the 5.50% increase in contractual wages allowed the rise in real contractual wages to be 1.80%. Thus, they accumulate ten consecutive months with salary increases greater than 1.5%. The figure contrasts sharply with the drop in worker productivity.

Inflation vs. Real Wage Growth
(As of February 2020)

Source: Bloomberg
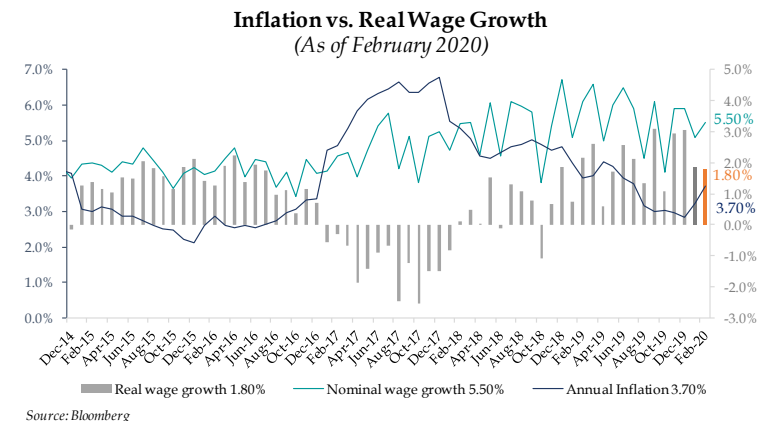
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Definitions

Consumer Price Index (INPC): Is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

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.

European Central Bank: Is the central bank responsible for monetary policy of those European Union member countries which have adopted the euro currency.

Global Index of Labor Productivity of the Economy (IGPLE): When the indicator expands, it means that the country's economy increased above the growth in hours worked, which represents that the productivity of workers was higher and more efficient.

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.

North American Free Trade Agreement (NAFTA): A regulation implemented January 1, 1994 in Mexico, Canada and the United States to eliminate most tariffs on trade between these nations.

Spot Exchange Rate: Is the current price level in the market to directly exchange one currency for another, for delivery on the earliest possible value date.

Target: Retail Company. As of February 29, 2020 the security is not included in the Fund Top 10 Portfolio Holdings. For a list of full securities please visit: http://www.mxefund.com/portfolio_holdings.html.

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.

The World Health Organization (WHO): Is the body of the United Nations Organization specializing in the management of health prevention, promotion and intervention policies worldwide.

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.

Walmart: Retail Company. As of February 29, 2020 the security is not included in the Fund Top 10 Portfolio Holdings. For a list of full securities please visit: http://www.mxefund.com/portfolio_holdings.html.

4Q19: Period that starts the fourth and last quarter of the year 2019 which ends on December 31.