

Mexican stock markets perform well in the face of good news from abroad

During the week of March 18th, important events took place and led to a favorable evolution in significant concerns for financial markets in the last two years:

Monetary policy in the United States. On Thursday, March 21st, the Federal Open Market Committee (FOMC) of the Federal Reserve of the United States (FED) decided to keep its main reference rate unchanged (2.25% -2.50%). Jerome Powell, president of the FED, stated that the reference rate is within the range of estimates of a neutral rate, which does not stimulate or limit economic growth. The FED noted that the steady growth rate of the economy in 2018 (2.9%) begun to slow down and that inflation has remained around 2%. For 2019, the FOMC revised its GDP growth estimates from 2.3% to 2.1% and inflation from 1.9% to 1.8%.

China-United States trade negotiations. During the week, US Trade Representative, Robert Lighthizer, and US Treasury Secretary, Steven Mnuchin, will travel to Beijing to resume negotiations with Chinese Vice Minister Liu He; this is the first meeting after the suspension of the rate increase and tariffs scheduled for March 1st.

Withdrawal of the European Union from the United Kingdom. On Thursday, March 21st, 2019, the European Union (EU) agreed to extend the deadline for the withdrawal agreement from the United Kingdom; scheduled for March 29th. If the British parliament approves Theresa May's agreement, the extension will be until May 22nd; otherwise, the deadline will be April 12th.

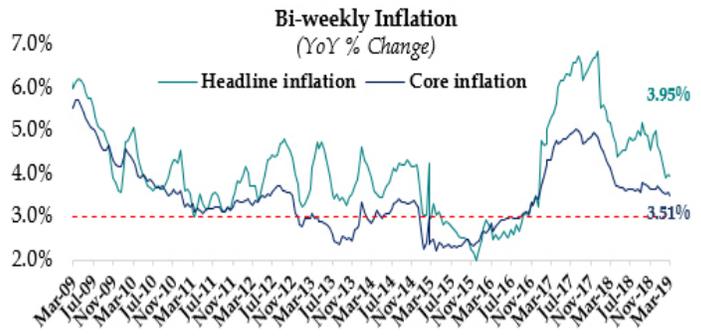
In this optimistic environment, the impact on Mexican financial markets was favorable:

- The spot exchange rate closed at 19.09 pesos per dollar; its lowest level since October 2018 which leaves weekly and YTD appreciation at 0.61% and 2.92% respectively.
- MEXBOL also had a significant weekly advance of 1.30%, leaving the index at 42,305 and representing YTD gains of 1.88%.
- The 10-year M bond yield closed the week at 7.93%; the lowest rate of return in five months and representing a 549 basis points spread with US Treasury bonds.

Economic Indicators

Biweekly inflation

Annual inflation in the first half of March was 3.95%; a significant drop year-over-year when it was 5.17%; core inflation was 3.51%. Non-core inflation was 5.39% due to higher energy prices (0.78% bi-weekly).



Source: INEGI

Supply and aggregate demand curve

Global supply, defined as the sum of the GDP and the imports of goods and services, grew 2.7% YoY driven by a positive annual variation in GDP and imports of goods and services of 1.7% and 5.7% respectively.

Global demand presented mixed variations; private consumption increased by 1.5% per year, the lowest annual growth figure since the second quarter of 2015; Government consumption rose 0.2%, and gross fixed capital formation decreased by (-) 2.0%. The data mentioned above complements the indicators that show a slowdown in the economy. In contrast, exports of goods and services increased by 4.4% per year driven by the increase in exports to the United States.

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WEEKLY ECONOMIC REPORT

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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.

GDP Gross Domestic Product a monetary measure of the market value of all the final goods and services produced in a period often annually.

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 of time.

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.

Dow Jones is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. It is not possible to invest in an index.

S&P 500 is a basket of 500 of the largest U.S. stocks, weighted by market capitalization. The index is widely considered to be the best indicator of how large U.S. stocks are performing on a day-to-day basis. It is not possible to invest in an index.

NASDAQ is a stock market index of the common stocks and similar securities (e.g. ADRs, tracking stocks, limited partnership interests) listed on the NASDAQ stock market. It is not possible to invest in an index.

Core inflation is the change in costs of goods and services but does not include food and energy prices.

Non-core inflation includes the seasonal inflation element. Core and non-core are the two parts of total inflation or what we call the headline inflation.

Basis Points: unit of measure to describe percentage change or difference between two values. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form.

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