

**Mexican and U.S. market outlook improvement**

For the third consecutive week, the outcome of several events allowed for a reduction of the systemic risk and led to weekly gains in both the US and Mexican stock markets.

- i. The European Council approved the Brexit agreement made by Prime Minister Boris Johnson. Although the exit plan still requires full approval by the British parliament, the UK's departure from the European Union without a prior agreement on October 31<sup>st</sup> is virtually ruled out.
- ii. China made purchases of U.S. agricultural products for approximately US\$50 billion (398 thousand tons of soybean and agreed to purchase 18.8 thousand tons of pork for 2019 and 123.32 thousand tons by 2020) as a result of the partial commercial agreement reached at the beginning of the month.
- iii. The European Central Bank (ECB) announced that, on November 1<sup>st</sup>, it would resume the government's asset purchase program of €20 billion per month and until inflation converges to the 2.0% target.

Noteworthy, important global and local data will be released next week:

- i. The United States' Gross Domestic Product (GDP) for the third quarter of 2019 (3Q19) will be released on October 30<sup>th</sup>. Recent economic data suggest that there will be a slight deceleration in the growth rate. Bloomberg consensus estimate that GDP will grow by 1.6%.
- ii. Also, on October 30<sup>th</sup>, the Open Market Committee of the Federal Reserve of the United States (FOMC) will announce its monetary policy decision. Recent weak employment data, inflation below the target, and economic slowdown indicate that the FOMC is likely to lower its reference rate again by 25 basis points (bps).
- iii. The National Institute of Statistics, Geography, and Informatics (INEGI) will announce Mexico's preliminary GDP figure for 3Q19. Noteworthy, the Global Economic Activity Indicator (IGAE) fell -0.4% in July and -0.6% in August.

**Brexit Developments**

On Saturday, October 19<sup>th</sup>, the United Kingdom Parliament voted to ratify the proposed Brexit agreement, which had previously been approved by the European Council. Such authorization was not under the legislative agenda that Johnson proposed; therefore, the threat of a "hard" Brexit on October 31<sup>st</sup> is virtually ruled out.

Johnson requested a departure day extension, to which the European Union agreed, although it still does not determine the new term. The prime minister has expressed his intention to call for general elections before Christmas this year to win a majority that allows him to approve Brexit. The European Union commented that it would not announce the duration of the extension of the term until it knows if there will be new elections.

**Mexican Stock Exchange**

Mexbol had a weekly gain of 0.88%, which leaves year-to-date (YTD) return at 9.91% on the back of a strong start of the 3Q19 Earnings Season in which several companies released better than expected numbers throughout the week. Despite positive reports, the weak IGAE data for August, together with the expectations of a dim figure of GDP in 3Q19, contained the gains. According to Bloomberg, out of the 30 companies that already reported, 50% of them had sales above expectations, and 52% of the companies had higher profits than estimated.

**Exchange Rate**

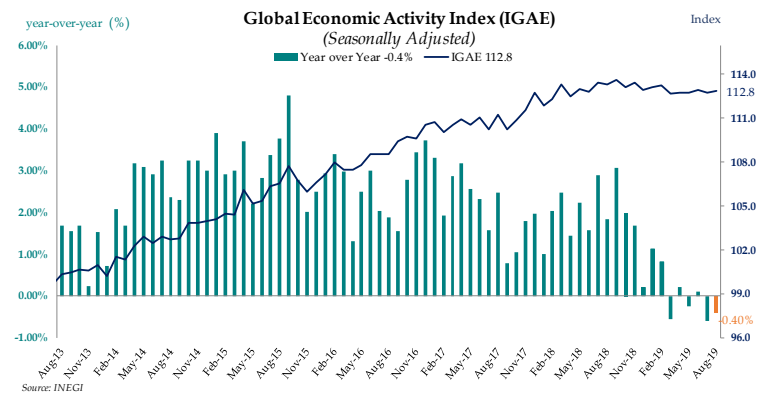
The decrease in systemic risk following the partial agreement between China and the United States prompted a considerable downward adjustment of -2.15% of the dollar index between September 30<sup>th</sup> and October 18<sup>th</sup>. Since that date, the dollar has appreciated against hard currencies, which reflects in a 0.50% increase in the index.

The peso maintains its appreciation trend as it closed the week at MX\$19.06, a weekly advance of 0.19%. Statements of the Undersecretary for North America, Jesús Seade, that the ratification of the USMCA is likely to happen before Thanksgiving (November 28<sup>th</sup>) and that the agreement could begin to operate in three months, supported the upright behavior of the currency. The year to date appreciation of the peso amounts to 3.10%.

**Economic Indicators**

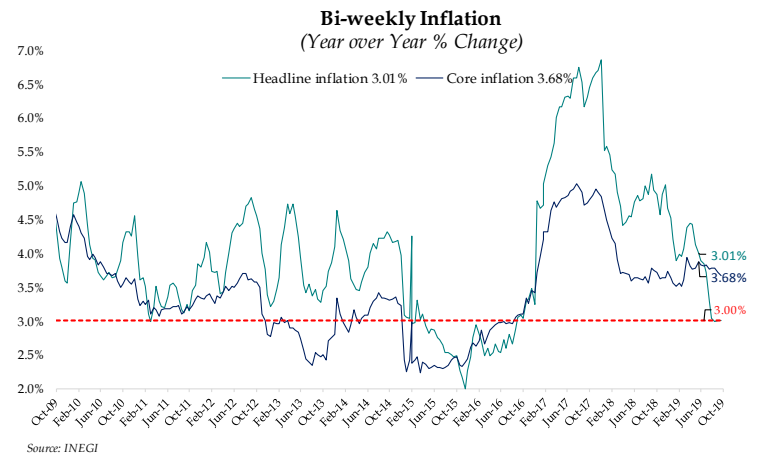
**Global Economic Activity Indicator**

The Global Economic Activity Indicator (IGAE) fell -0.40% year-over-year in August. By components, both industrial activity and services declined -1.05% and -0.09%, respectively, while Agriculture was the only component that grew by 0.86%. The IGAE presents declines in two of the three months that will integrate the 3Q19 GDP figure.



**Biweekly Inflation**

The annual inflation rate released by INEGI for the first half of October was 3.01%, again in the specific target of Banxico. Core inflation fell from 3.75% to 3.68%, while the non-underlying inflation closed at 0.99%. Avocado, chicken, and low-octane gasoline prices presented declines of -8.85%, -1.51%, and -0.19%, respectively.



**Unemployment rate**

INEGI released September's employment data in Mexico. The unemployment rate was 3.5% of the economically active population nationwide, slightly lower than the previous month. On the other hand, the sub-occupation rate represented 7.8%. In its annual comparison, this rate was 6.7% higher YoY.

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#### Definitions

**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.

**Basis points:** Refers to a common unit of measure for interest rates and other percentages in finance.

**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.

**Year to date (YTD):** Refers to the period beginning the first day of the current calendar year or fiscal year up to the current date.

**Brexit:** Brexit is an abbreviation for "British exit," referring to the U.K.'s decision in a June 23, 2016 referendum to leave the European Union (EU).

**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.

**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.

**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.

**European Council:** Entity that defines the EU's overall political direction and priorities. It is not one of the EU's legislating institutions, so does not negotiate or adopt EU laws.

**European Union (EU):** Is a political and economic union of 28 member states that are located primarily in Europe.

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

**The Federal Open Market Committee (FOMC):** A committee within the Federal Reserve System (the Fed), 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.

**Global Indicator of Economic Activity (IGAE in Spanish):** The indicator allows to know and monitor the monthly evolution of the real sector of the economy.

**3Q19:** Refers to the period beginning the first day of July of the current fiscal year, up to the end of September of the current fiscal year.

**The United States–Mexico–Canada Agreement (USMCA):** Is a mutually beneficial win for North American workers, farmers, ranchers, and businesses. When finalized and implemented, the agreement will create more balanced, reciprocal trade that supports high-paying jobs for Americans and grows the North American economy.

#### Disclosures

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