

**WEEKLY ECONOMIC REPORT**

**SEPTEMBER 18, 2020.**

**MXN Peso appreciation and positive elements for Mexbol**

**Exchange Rate**

The spot exchange rate closed September 18<sup>th</sup> operations at MX\$21.12 per dollar. Hence, the Mexican currency continued with the appreciation trend that began on June 29<sup>th</sup> which totals 8.43% due to the following factors:

1. There has been a notable improvement in the external accounts:
  - a. In June and July, total exports increased of 75.73% and 92.97%, respectively if compared with May (the minimum of the year). This recovery, which is driven by the manufacturing industry, allowed the year-to-date (YTD) trade balance to have a US\$8.35 billion surplus.
  - b. From January to July, Mexico stands as the second commercial partner of the United States, with a YTD surplus of US\$37.08 billion.
  - c. Remittances did not fall as a result of the COVID-19 crisis; in fact, the YTD flow amounts to US\$22.82 billion, a historical maximum.
2. The Central Bank's, Banxico, interest rate (4.50%) is one of the highest in the world, therefore, the high levels of liquidity in the world could benefit from carry trade operations in favor of the peso. In addition, the probability of a reduction in the credit rating of Mexican sovereign debt is low. The above could favor the return to the government debt markets of a large part of the foreign portfolio investment which, when precipitously leaving in March and April, caused a strong depreciation of the peso.

As a result of the above, the depreciation of the peso YTD reduced to 11.60%. During the week, the exchange rate almost broke the MX\$21.00 per dollar barrier and is heading towards the target of MX\$20.50 per dollar. Noteworthy, throughout 2019, the exchange rate fluctuated between MX\$19.0 and MX \$20.0 per dollar, supported by the strength of external accounts.

**Spot Exchange Rate MXN/USD**  
(Short term, as of September 18, 2020)



**Mexican Stock Exchange**

Mexbol closed September 18<sup>th</sup> operations at 36,017 points, practically flat (-0.45% in pesos) vs the previous week although the appreciation of the peso favored a positive return (1.07%) in dollars. The Index' YTD losses stand at (-)16.34% in pesos and (-)24.82% in dollars. In a week with few economic news, the resilience of the market (36,000 points) was due to:

1. The publication of a series of economic data displaying the recovery of the Mexican economy:
  - a. The Global Indicator of Economic Activity (IGAE) recovered 8.95% in June compared to May (the minimum of the year).
  - b. The industrial activity index in July had a 26.1% recovery compared to May, the month in which the largest drop due to COVID-19 materialized. The advance in industrial activity is supported by the manufacturing industry, whose index shows a recovery of 40.75% compared to the data in May.

- c. Total exports amounted US\$18.05 billion in May, while June and July's figures totaled US\$31.73 and US\$34.84 billion, respectively 75.73% and 92.97% higher compared to May's data. The advance of total exports has been strongly driven by manufacturing exports since they had an increase of 105.52% when compared July with May.
2. The recent MXN peso appreciation makes investment in MEXBOL attractive for foreigners who could benefit from the improvements in the index and also from a further appreciation of the Mexican currency.
3. Unlike its US peers, Mexbol's forward price/earnings multiple (12.1x) remains below the average of recent years (15.8x).

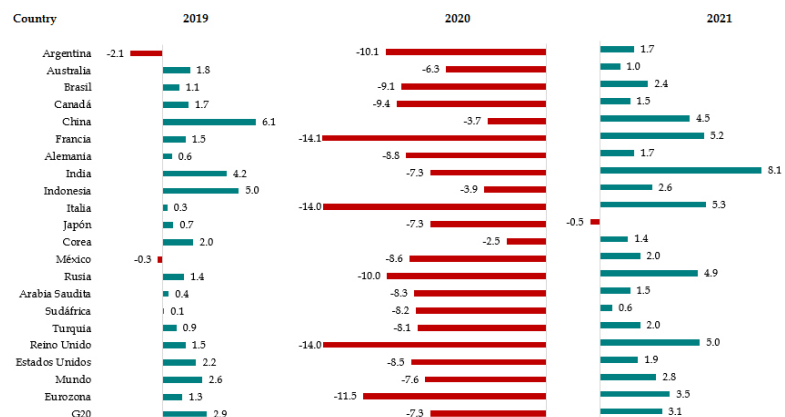
**Economic Indicators**

**OECD Growth Forecasts**

On September 15<sup>th</sup>, the Organization for Economic Cooperation and Development (OECD) released its update on the world economic outlook. The organization concludes that the Mexican economy will have a (-)10.2% contraction in 2020, greater than the one forecasted in its June estimate (-7.5%). The reason of the worsening expectation in countries such as Brazil, India, South Africa, and Mexico, is due to their high public debt, contingent liabilities, and low tax bases, which limit the use of fiscal policy to support growth and the income of vulnerable groups.

Regarding the perception of the OECD, noteworthy that, in relative terms, Mexico is not a country with high levels of public debt; however, the ratio of government debt, as a proportion of the Gross Domestic Product (GDP), will have a significant increase in 2020, going from 44.9% to 54.7%. This data is positive when compared to Singapore (AAA rating), Germany (AAA) or Spain (A-) whose debts amount to 113%, 69%, and 113% of GDP respectively. Additionally, there are a series of economic indicators that show the beginning of an economic recovery in the country.

Finally, the vigorous effort made by the fiscal and monetary authorities of the United States (stimulus packages totaling US\$4.8 trillion, 22.2% of GDP) to reactivate its economy has indirectly favored, through exports, the economic recovery in Mexico. The above allows estimating that, as a result of the close link between the two economies, it is possible that the Mexican economy will have a lower than two digits contraction in 2020.



Source: OECD

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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.

**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.

**Global Indicator of Economic Activity (IGAE):** Allows to know and monitor the monthly evolution of the real sector of the economy.

**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.

**Price to Earnings Ratio (P/E):** Is a valuation ratio of a company's current share price compared to its per-share earnings.

**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.

**Remittances:** Funds an expatriate sends to his/her country of origin via wire, mail, or online transfer. These peer-to-peer transfers of funds across borders are economically significant for many of the countries that receive them.

**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.

**The Organization for Economic Cooperation and Development (OECD):** Is an intergovernmental economic organization with 36 member countries, founded in 1961 to stimulate economic progress and world trade.

**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.

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