

## WEEKLY ECONOMIC REPORT

### SEPTEMBER 27, 2019.

# New risks for financial markets

Global and local markets continued with the negative performance of recent days due to the uncertainty generated by political events worldwide. Besides, economic data released in Mexico worsened the economic growth outlook.

i. Congresswoman Nancy Pelosi announced that the United States House of Representatives is moving forward with an official impeachment inquiry against President Trump.

ii. President López Obrador modified his conciliatory speech towards the private sector blaming a civil association, "Mexicans against corruption," led by Claudio X. González Jr., who has promoted trials against the cancellation of Mexico City's New International Airport (NAIM) and the construction of the Santa Lucía Airport.

iii. The Global Economic Activity Indicator (IGAE) for July presented a negative annual growth rate, the largest since November 2009.

#### Mexican Stock Exchange

Mexbol had a -1.6% weekly drop leaving the year-to-date (YTD) return at 4.06% mainly on profit-taking due to:

i. Declines in the United States stock markets.

ii. The disappointment of Mexican investors, who expected a 50-basis points reduction in Banxico's reference rate.

iii. July's economic data which showed a weaker economic outlook and dissipates the growth possibilities for the Mexican economy for this year and likely suggests weak third-quarter financial results.

#### Spot Exchange Rate

The spot exchange rate closed the week at MX\$ 19.68 per dollar, a weekly depreciation of 1.18% mainly due to:

i. Uncertainty generated by the impeachment process towards President Trump which led to a stronger dollar against the rest of the currencies.

ii. A generalized risk aversion environment that caused a retreat to assets that are relatively safer than those denominated in Mexican currency.

Despite the above, August's positive trade balance (surplus of US\$775 million) confirms the strength of the external accounts; the prompt ratification of the United States, Mexico, and Canada Agreement (USMCA) would stabilize the exchange rate.

#### U.S. and Mexican Bonds

The 25-basis points reduction in Banxico's benchmark rate to 7.75%, reversed the yield to maturity curve in its medium- and long-term tranches; therefore, the 10-year M Bond rate closed at 6.85% and the 10-year Treasury bond at 1.69%, a -14 bps and -3 bps weekly decrease respectively.

## **Economic Indicators**

### Monetary Policy Decision

Banxico reduced its reference rate by 25 basis points to 7.75%; however, two of the five board members voted for a 50-basis point reduction. Banxico's decision aligns with a global environment of monetary policy easing following the 25bps cut in the Federal Reserve rate to 2.0%-1.75%. The statement highlights that Banxico anticipates a slight economic recovery for the rest of the year, although growth risks continue to be downward bias. Concerning inflation, risks continue to rise due to the resistance of core inflation. The above increases the possibility of another rate reduction in the next meeting held on November 14<sup>th</sup>.

### Global Economic Activity Index (IGAE)

July's IGAE declined -0.6% year-over-year (YoY), representing the third decline in the year and worsening the outlook for 2019's economic growth. By components, both primary and tertiary activities increased by 4.1% and by 0.2% respectively. However, these gains were not enough to offset the -2.8% decline in the secondary sector.



#### **Trade Balance**

August's trade balance presented a surplus of US\$775 million. Thus, in the first eight months of the year, the trade balance showed a US\$2,804 million surplus. Although oil exports fell -29.1%, the 4.6% increase in non-oil exports more than compensated for the fall; therefore, total exports showed a 2.2% YoY growth. On the other hand, the -1.8% drop in the import of capital goods caused total imports to fall by -5.9%.

Exports									
	2018	% of Total	Annual Change	2019 YTD	% of Total	Annual Change	Aug-19	% of Total	Annual Change
Total Exports	450,685	100.0%	10.1%	307,004	100.0%	3.9%	40,430	100%	2.2%
Oil	30,601	6.8%	28.98%	18,065	5.9%	-12.6%	1,944	4.8%	-29.1%
Crude Oil	26,512	5.9%	32.25%	15,788	5.1%	-11.6%	1,689	4.2%	-28.1%
Others	4,089	0.9%	11.18%	2,277	0.7%	-19.2%	255	0.6%	-34.9%
Non-Oil	420,083	93.2%	8.91%	288,939	94.1%	5.2%	38,486	95.2%	4.6%
Agricultural	16,508	3.7%	3.17%	12,473	4.1%	9.5%	1,392	3.4%	35.6%
Mining	6,232	1.4%	14.83%	4,088	1.3%	-5.4%	517	1.3%	1.4%
Manufacturing	397,344	88.2%	9.08%	272,377	88.7%	5.1%	36,577	90.5%	3.7%
Automotive Industry	142,178	31.5%	12.24%	98,826	32.2%	7.5%	13,786	34.1%	9.7%
Others	255,165	56.6%	7.39%	173,551	56.5%	3.8%	22,791	56.4%	0.4%
Imports									
	2018	% of Total	Annual Change	2019 YTD	% of Total	Annual Change	Aug-19	% of Total	Annual Change
Total Imports	464,302	100.0%	10.4%	304,201	100%	-0.4%	39,655	100%	-5.9%
Oil	53,762	11.6%	28.4%	32,387	10.6%	-8.4%	3,834	9.7%	-22.6%
Non-Oil	410,541	88.4%	7.9%	271,814	89.4%	0.7%	35,821	90.3%	-3.6%
Consumption Goods	43,616	9.4%	3.1%	27,945	9.2%	-1.0%	3,829	9.7%	-5.9%
Intermediate Goods	321,037	69.1%	8.8%	216,332	71.1%	2.2%	28,390	71.6%	-1.8%
Capital Goods	45,887	9.9%	11.9%	27,537	9.1%	-8.4%	3,603	9.1%	-14.0%
Trade Balance									
	2018			2019 YTD			Aug-19		Annual Change
Trade Balance	-13,618		-17.1%	2,804		0.0%	775		41.9%

Source: Mexico's Ministry of Economics Amounts in Millions of Dollars

#### **Biweekly Inflation**

The Consumer Price Index (CPI), for the first half of September, showed a 2.99% annual inflation, practically at Banxico's 3.00% target. Core inflation remains unchanged and maintains its resistance at 3.78% while non-core inflation fell 19 basis points and stood at 0.57%, the lowest since 2009 mainly due to a decrease in professional services, onions, and internet, telephone and television packages.

#### Eugenia Pichardo & Arnulfo Rodriguez, Equity Portfolio Manager & Macro and Debt Strategist Investor Relations : igarcia@paminversion.com 52 (55) 5261 4600

-1-



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# Pichardo Asset Management, SA de CV An Independent Investment Advisory Firm www.paminversion.com.mx Andrés Bello 45, 22nd Floor, Polanco, 11560 CDMX, México

Phone: + 52 (55) 52 61 46 00 /04/21/16

# epichardo@paminversion.com CEO & Senior Equity Portfolio Manager

arodriguez@paminversion.com Associate Macro Strategist

## destevez@paminversion.com

Managing Director Co-Portfolio Manager

### jelizalde@paminversion.com

Associate

## **Co-Portfolio Manager**

lcalzada@paminversion.com Compliance & Portfolio Administration

# igarcia@paminversion.com

Associate

## **Consumption Analyst & IR**

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.

The National Institute of Statistics and Geography (INEGI): It is the institution responsible for performing the population census every ten years; as well as the economic census every five years and the agricultural, livestock and forestry census of the country.

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.

Banco de México (Banxico): Is the central bank of Mexico. By constitutional mandate, it is autonomous in both its operations and management. 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. Its other functions are to promote both the sound development of the financial system and the optimal functioning of the payment systems.

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

**M-Bond:** Mexico Federal Government fixed-rate development bonds that are issued and placed at terms of over one year, pay interest every six months and their interest rate is determined at issue date and remains fixed all along the life of the bond.

Treasury bond (T-Bond): Are government debt instruments issued by the United States Department of the Treasury to finance government spending as an alternative to taxation. 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.

Month over month (MoM): Compare the results at one period with those of a comparable period on a monthly basis.

Year over Year (YoY): Compare the results at one period with those of a comparable period on an annualized basis.

The Global Indicator of Economic Activity (IGAE): Allows to know and monitor the evolution of the economy's real sector, in short term, providing valuable information for decision making.

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.

Economically Active Population (PEA): Comprises all persons of either sex who furnish the supply of labour for the production of economic goods and services as defined by the United Nations System of National Accounts during a specified time-reference period.

**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. Cash delivery for spot currency transactions is usually the standard settlement date of two business days after the transaction date (T+2).

Yield to maturity (YTM): is the total return anticipated on a bond if the bond is held until it matures. Yield to maturity is considered a long-term bond yield but it is expressed as an annual rate.

**Tranche**: Is a division or portion of a pool or whole; specifically an issue of bonds derived from a pooling of like obligations.

The Consumer Price Index (CPI): 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.

#### Disclosures

Closed-end funds are traded on the secondary market through one of the stock exchanges. The Fund's investment return and principal value will fluctuate so that an investor's shares may be worth more or less than the original cost. Shares of closed end funds may trade above (a premium) or below (a discount) the net asset value (NAV) of the fund's portfolio and there is no assurance that the fund will achieve its investment objective.

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