

The Mexican currency remains stable, even considering lower growth prospects

On Friday, February 8th, 2019, the spot exchange rate closed at 19.08 pesos. The Mexican peso had a positive week against the U.S. dollar and opposed to the depreciation of other currencies (Brazilian Real -0.21%, Japanese Yen -0.26, Swiss Franc -0.21%). The peso presented a profound weekly appreciation of 1.69% and accumulated year to date gains of 4.79%. The peso strength continues to be aided by the high amount of remittances, the robustness of the trade balance against the United States and the increase of foreign investment in the Mexican bond market. Furthermore, part of the weekly performance of the Mexican currency is explained by the progress made regarding the labor law, which is a necessary condition for the ratification of the United States-Mexico-Canada Treaty (USMCA).

On Thursday, April 11th, Mexico's lower house of Congress approved the labor reform which seeks to ensure that workers can freely vote for their union representation and contracts. In contrast, the regulation of outsourcing contracts was not considered. The bill was turned to the Senate for discussion and final approval.

The good performance of the Mexbol Index between March 12th and April 8th (+8.91% gains) was interrupted in the second week of April when the index had a setback of (-) 0.26% to close at 44,686. This adjustment is explained by profit taking and the perspective of an economic slowdown in Mexico. However, year-to-date gains are 7.68%; higher than other countries in Latin America (BOVESPA + 5.71%, Merval 3.71%, IPSA 2.82%).

The International Monetary Fund (IMF) and the Economic Commission for Latin America and the Caribbean (ECLAC) lowered Mexico's growth estimates for 2019. The IMF revised its forecast from 2.1% to 1.6%, and ECLAC from 2.1% to 1.7%; both within the foreseen range in the General Pre-Criteria of Economic Policy 2020 (1.1% - 2.1%); this, in a contracted environment and a lesser globally commercial dynamism.

On April 11th, the Central Bank published the minutes from March 28th monetary policy where the decision was to preserve the reference rate at 8.25%. All members of the board stated that the risk balance for economic growth has a downward bias. The main risk factors mentioned are: i) low levels of investment prevail, ii) a possible credit rating reduction of parastatals or sovereign debt; iii) delay in the execution of public expenditure; iv) risks that are derived due to the ratification process of the commercial treaty between the United States, Mexico and Canada (USMCA) and; v) a slow recovery of oil production.

Regarding inflation's trajectory, four of the five members of the Board agreed that the balance of risks continues with an upward bias; this, given the possibility that an increase in the minimum wage is transferred into salary revisions and cost pressures. In contrast, Deputy Governor, Gerardo Esquivel, considered that the looseness in the Mexican economy and the expectation of a global economic slowdown compensate the previously mentioned upward risks. He also stressed out that the policy changes announced by the Federal Reserve of the United States (FED) and the European Central Bank (ECB) allow maintaining less restrictive tone respect to that of the minutes.

On Wednesday, April 10th, the European Central Bank (ECB) maintained its main reference rate at 0.0%; at least until the end of 2019. The above, after a stimulus, announced on March of 720,000 million euros to encourage bank loans and stimulate the economy; this as a consequence of a lower expected economic growth in the eurozone for 2019 (currently 1.1% vs. previously 1.7%), a poor performance of the manufacturing sector, and an unemployment rate of 7.8 %; its lower level in 10 years.

The Dow Jones index remained with no significant change (-0.03%) during the week, while the S&P 500 and the Nasdaq had slight progress of 0.56% and 0.58%, which leaves year to date gains at 13.96%, 16.67%, and 20.69% in light of the beginning of the quarterly earnings season. Noteworthy companies in the United States cannot repurchase their shares either five weeks before publishing their results, nor up to two days after releasing them; this could have also impacted the American stock market.

Economic indicators

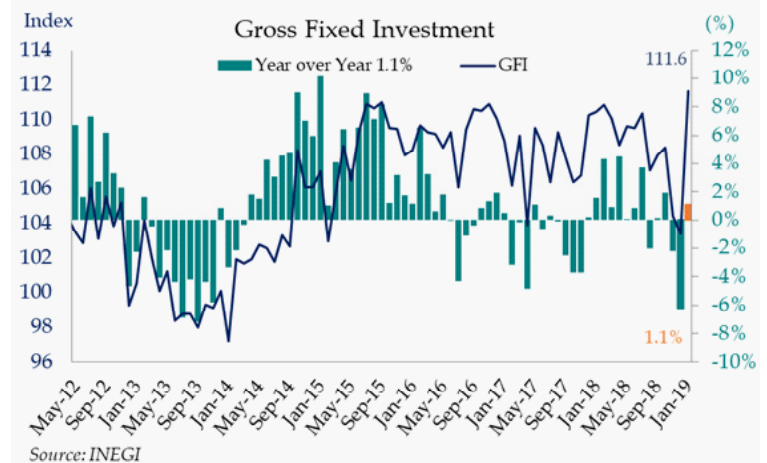
International Reference Rates (Before production)

Given the trade uncertainty and the slowdown of the global economy, the strategies of the main central banks are starting to converge towards the same point, a loose monetary policy.

Among the most important monetary policy decisions, the following stand out: i) The FED maintained its reference rate unchanged at 2.5%; ii) the European Central Bank will have a rate of 0% at least until the end of the year; iii) the Bank of England will not make changes in its monetary policy until a final decision is made regarding the Brexit; iv) the Bank of Japan decided to maintain its reference rate at negative levels of (-) 0.1%; v) the reference rate of the People's Bank of China is currently at 4.35%, which is its historical minimum; and, vi) BANXICO decided to keep its reference rate at 8.25% in its last monetary policy announcement.

Gross Fixed Investment

Gross Fixed Investment (GFI), registered a growth of 1.1% year-over-year in January. The increase is the result of 2.1% growth in construction and a (-) 0.7% in machinery. The subcomponents with the most significant changes were the investment in domestic machinery with a fall of (-) 6.0% and the investment in residential construction which increased 5.6% YoY. The last data seems positive after two consecutive months of decline, although the figure should be taken with cautiousness.



Industrial production

Industrial production fell (-) 0.8% YoY in February, in line with market expectations. The mining and construction sectors declined (-) 6.4% and (-) 1.1% respectively. The highest sub-indicator decreases were in the specialized construction work and civil engineering which decreased (-) 7.1% and (-) 3.6% respectively. On the other hand, manufacturing activity grew 1.1% due to higher production of petroleum and coal derivatives (+ 11.1%) and machinery and equipment (+ 3.5%).

Inflation

Annual inflation increased for the first time in the year in March to reach 4.0%; 0.39% more than in February but in the limit of the Central Bank's target range (3% +/- 1%). Core inflation —which does not include the price of energy or agricultural products— increased slightly from 3.54% to 3.55% and has remained stable around these rates in the last twelve months.

In contrast, non-core inflation stood at 5.47% year-over-year due to the increase in energy prices (6.86%), mainly gasoline. Producer inflation slowed for the fourth consecutive month to reach 4.25%, its lowest level since April 2018.

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Definitions

INFONAVIT: Refers to the National Housing Fund Institute.

BANXICO: Mexico Central Bank, lender authority and lender of last resort.

BOVESPA: The Bovespa Index is the benchmark index of about 60 stocks that are traded on the B3 (Brasil Bolsa Balcão).

COFECE: Federal Commission of Economic Competition, is an autonomous organ that oversees promotion, protection and guaranteeing competition and free concurrency.

MERVAL: The Mercado de Valores Index is the most important index of the Buenos Aires Stock Exchange. It is a price-weighted index, calculated as the market value of a portfolio of stocks selected based on their market share, number of transactions and quotation price.

IPSA: Indice de Precio Selectivo de Acciones is a Chilean stock market index composed of the 40 stocks with the highest average annual trading volume in the Santiago Stock Exchange.

International Monetary Fund: The International Monetary Fund (IMF) is an international organization headquartered in Washington DC, consisting of 189 countries working to foster global monetary cooperation, secure financial stability,

Economic Commission for Latin America and the Caribbean: United Nations Economic Commission for Latin America and the Caribbean, is a United Nations regional commission to encourage economic cooperation.

Gross Fixed Capital Formation: refers to the net increase in physical assets (investment minus disposals) within the measurement period. It does not account for the consumption (depreciation) of fixed capital, and also does not include land purchases.

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. Non-core inflation includes volatile prices such as those belonging to the food and energy sectors.

Monetary policy: describes the management of a nation's money supply by the government or central bank. A loose monetary policy occurs when the money supply is expanded and is easily accessible to citizens to encourage economic growth.

Industrial Production: measure of output of the industrial sector of the economy. The industrial sector includes manufacturing, mining, and utilities. Although these sectors contribute only a small portion of gross domestic product (GDP), they are highly sensitive to interest rates and consumer demand.

Disclosures

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