**WEEKLY ECONOMIC REPORT** **February 1, 2019**

## Good start to the year for financial markets

At the end of January, the stock markets in the United States showed positive returns. S&P 500, NASDAQ and Dow Jones had gains in the month of 8.01%, 9.79%, and 7.29%, given the distension of two important risk factors; the trade war between China and the United States, and the monetary policy of the Federal Reserve of the United States.

- March 1st is the deadline for China and the United States to reach a trade agreement; otherwise, the tariffs imposed on Chinese products will go from the current 10% to 25%. President Trump, said he hopes to reach an agreement with his counterpart, Xi Jing Ping, before this date.

- On Wednesday, January 30, the Federal Reserve's (FED) Federal Open Market Committee (FOMC) left its main reference rate unchanged at 2.25%- 2.50%. In its report, the FED said that "patience will be needed until future adjustments are properly determined." Jerome Powell, president of the FED, stated that the case for raising rates has weakened somewhat, and indicated two more increases in 2019. In January, the non-agricultural payroll was 304,000 new job positions - well above the 165 thousand expected by the market consensus - and inflation, of 1.9% in December, is very close to the 2% annual target.

### *US Unemployment and Non-Farm Payroll Rate (January)*

The non-agricultural payroll (which considers the number of jobs in the United States of any branch except the agricultural industry), showed an increase of 304,000 jobs, the most significant amount in almost a year, and much higher than the expectation of 165,000 jobs. This increase in job positions reflects the strength and durability of the labor market, which has registered gains in job positions for 100 consecutive months, the most extended period of record. The unemployment rate in January increased marginally from 3.9% to 4.0%, as a result of the 35-day partial closure of the government. The aforementioned reflects that this closure caused temporary and lower effects than expected by the market.

The spot exchange rate in January closed at 19.11 pesos per dollar, for a monthly apreciation of 2.73%, given the reduction of external risks. The10-year M Bond yield to maturity was 8.43%; a decrease of 23 basis points during January and 574 basis points spread with the U.S. 10-year Bond; a risk premium that continues to be attractive, after the 10-year M bonds reached more than 9% in December.

On January 31, , the Mexbol Index (IPyC) closed at 43,988 points for a monthly increase of 5.65%, the best performance during January in 13 years due to attractive prices presented after five consecutive months of sharp corrections. Despite these results, a series of unfortunate events that occurred in January could be reflected in the indicators of the real sector and could cause an adjustment, or consolidation, of the IPyC advance. The following events stand out:

- On January 29 Fitch Ratings downgraded Pemex's long-term foreign currency bonds from BBB + to BBB-, with a negative outlook. The revision is the result of excessive transfers to the government and underinvestment in exploration and production. Although the Ministry of Finance announced measures to increase the production of the oil company last Monday, the agency considered that these were not enough.

- On January 25, a strike began in 44 maquiladoras in Matamoros, Tamaulipas. In the face of the minimum wage increase in the border strip, the maquiladoras complied with the measure but reduced some benefits. In this context, the workers demanded an increase of 20% to the salary and a bonus of 32 thousand pesos per year. The federal government's inaction to stop the protest marches led to 15 foreign factories announcing their departure from the country; A situation that will affect 30 thousand workers who will be unemployed.

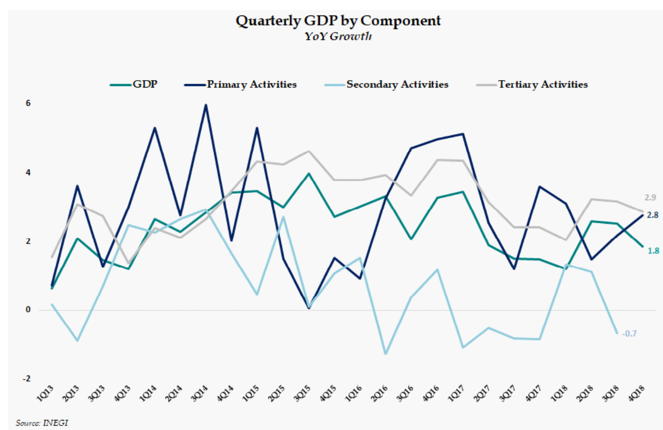
- On January 14, members of the National Coordination of Education Workers (CNTE) installed barricades to prevent trains from passing through 8 municipalities of Michoacán causing repercussions on the railway's transit throughout the country, from the port terminals of Lázaro Cárdenas and Manzanillo to the automotive zone in border states. At the time of writing, the blockades continue in four municipalities. Losses in 10 days amount to more than 10 billion pesos.

## *Economic Indicators*

### *Gross Domestic Product 4th Quarter 2018*

During the fourth quarter of 2018, GDP increased by 1.8% YoY, 2.0% lower than expected. This represents an economic slowdown compared to the two previous quarters. By component, primary activities maintained a stable growth of 2.8% and the tertiary ones showed a deceleration with an advance of 2.9% (respect to the 3.2% observed in the two previous quarters). Secondary activities presented the second fall of the year (-0.7%), as a result of the decrease in industrial activity recorded in the last quarter of the year.

On an annual basis, in 2018 the GDP registered an increase of 2.0%, its lowest growth since 2013 and links three continuous years of economic slowdown. The tertiary activities continue as an engine of economic growth; this sector was the most dynamic during 2018 with an annual growth of 2.8%. However, it shows a slowdown since it was the smallest increase since 2014. The primary sector maintained stable growth during the year, registering an increase of 2.4%. Secondary activities are those that continue pushing down GDP, the manufacturing, construction, mining, and electric industries showed marginal growth of 0.2%. (Source: INEGI)




### *December 2018 Trade Balance*

In December, the trade balance showed a surplus of 1,836.3 million dollars (mdd), the highest of the year, due to a lower flow of oil imports (-9.1% compared to the same period in 2017), together with a decrease in oil prices. However, the cumulative deficit of 2018 was -13.704 billion dollars, the highest in the last three years, and 25% higher than the ones registered in 2017, due to a deficit increase (27%) in the oil balance.

Exports during 2018 were 10.1% higher than those registered in 2017, driven mainly by oil exports (+ 29.0%) and to a lesser extent in non-oil exports (+ 8.9%) through the automotive, steel, and machinery and equipment sectors. In the same way, imports increased by 10.4%, driven by an increase of 28.4% in oil companies. (Source: INEGI)

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***Definitions***

***Dow Jones:*** *The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. The DJIA was invented by Charles Dow in 1896.*
***S&P 500:*** *The Standard & Poor's 500 Index - S&P 500 is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value. The S&P 500 is a market value or market-capitalization-weighted index and one of the most common benchmarks for the broader U.S. equity markets.*
***NASDAQ:*** *The Nasdaq Composite Index is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests.*
***FOMC:*** *The Federal Open Market Committee, 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.*
***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 Bill:*** *It is a government debt instrument issued by the United States Department of the Treasury to finance government spending as an alternative to taxation.*
***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.*
***Fitch Ratings:*** *Fitch Ratings is a leading provider of credit ratings, commentary and research. Dedicated to providing value beyond the rating through independent and prospective credit opinions, Fitch Ratings offers global perspectives shaped by strong local market experience and credit market expertise.*
***CNTE:*** *The National Coordinator of Education Workers is a Mexican trade union organization that was created on December 17, 1979 as an alternative affiliation to the National Union of Education Workers (SNTE) by dissident teacher groups of the SNTE in the south of the country.*
***GDP:*** *Is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.*
***INEGI:*** *The National Institute of Statistics and Geography 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.*
***Basis point (BPS):*** *Refers to a common unit of measure for interest rates and other percentages in finance.*
***Maquiladora:*** *Manufacturing plant that could import and assemble duty free components for exports*
***PEMEX:*** *Petróleos Mexicanos, which translates to Mexican Petroleum, is the Mexican state-owned petroleum company, created in 1938 by the nationalization of all private, foreign, and domestic oil companies at that time. The Fund maintains 0.0% investment in the security, as of December 31, 2018. For a list of full securities please visit: www.mxefund.com.*

***Disclosures***

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