

Banxico recognizes signals of economic weakness that affect the local stock market

On Friday, February 8th, 2019, the spot exchange rate closed at 19.08 pesos per dollar; practically unchanged compared to the previous week, leaving annual appreciation at 2.98% and ahead of external risk factors:

- March 1st is the deadline for US tariffs on Chinese products to increase from 10% to 25%. Last Thursday, President Trump announced that he would not meet with President Xi Jinping; therefore, there is a possibility that an agreement will not be reached in the short-term, or that an escalation in the trade war can emerge again. On the other hand, any sign of the extension of the truce will be positive.
- March 29th is the last day for the United Kingdom to end its 45-year relationship with the European Union. One of the most controversial issues is the shared border between the Republic of Ireland and Northern Ireland. Theresa May, Prime Minister of the United Kingdom, reached an agreement to resume the negotiation before the deadline and will meet with Jean-Claude Juncker, President of the European Commission, at the end of February.

The 10-year M bond rate was 8.30%; its lowest level since Friday, October 19th —just before the cancellation of the Mexico City New Airport and the law initiative to cancel bank commissions—. Noteworthy, since the end of December sovereign risk premiums and medium and long-term interest rates have decreased compared to the last months of 2018.

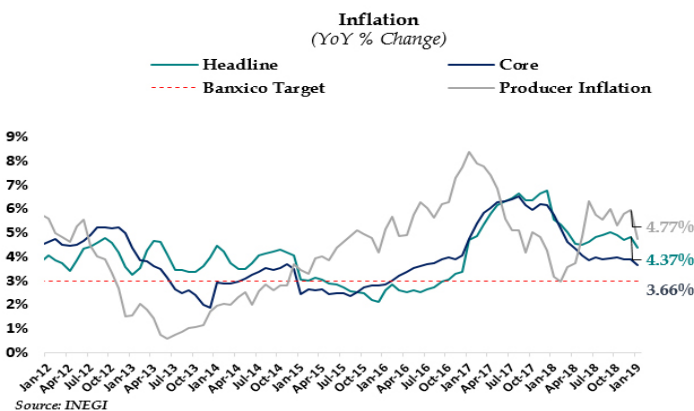
On February 8th, Mexbol Index closed at 43,180, representing a weekly decrease of (-) 1.84% characterized by high volatility—which contrasts with the good results of last month— and leaves year to date return at 3.71%. The latter, in the face of some political risk factors that haven't dissipated yet; Among them, the strikes of workers in the north of the country and the blockades to railroads in west-central Mexico (Bajío Region). Also, some companies reported quarterly results below market consensus expectations. Sixteen companies will report quarterly results this week.

On Thursday, February 7th, the Central Bank (Banxico) kept its reference rate at 8.25%, as expected by the market. The monetary policy announcement described that the risk balance on economic growth has a downward bias, whereas risks on expected inflation continue to sustain an upward bias. These, in an environment of pronounced uncertainty. It is important to highlight that it was the first meeting with the presence of the two new deputy governors, Jonathan Heath, and Gerardo Esquivel and that the statement that followed Banxico decision maintained a cautious and measured tone, consistent with previous statements, but sensitive to potential signs of an economic slowdown.

Economic Indicators

Monthly Inflation

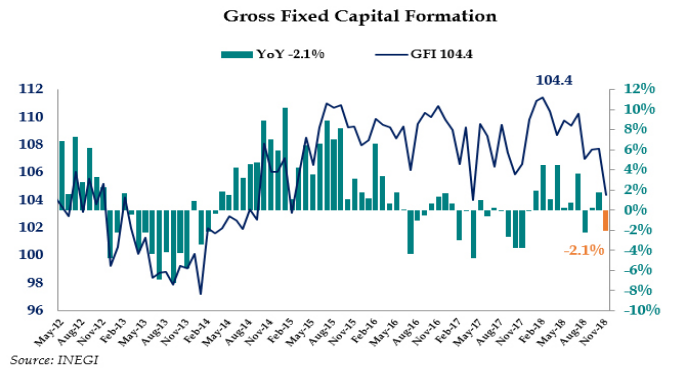
In January, consumer inflation was 4.37% YoY, and core inflation was 3.66%; both below market expectations. This slowdown was driven by a reduction in gasoline prices and LP gas. The producer inflation also dropped 4.77% YoY; after reaching 5.94% in December.



Banxico sustained in its monetary policy announcement, that the expected trajectory for inflation maintains an upward trend as core inflation —which does not include the most volatile prices in its calculation—continued showing resistance, going from 3.63% in November to 3.60% in January.

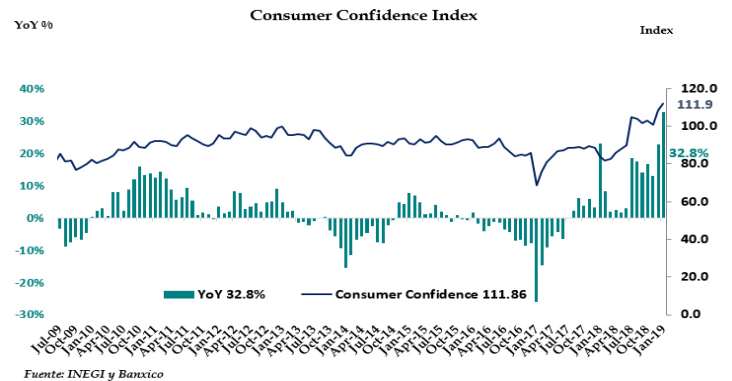
Gross Fixed Capital Formation

The Gross Fixed Capital Formation dropped 2.1% in November (seasonally adjusted), the most significant decline in 19 months. Most of its components fell, especially construction, which lost (-2.5%) YoY, due to the fall in residential and non-residential construction. Total investment in machinery decreased by 1.7% driven by the sharp decline of 9.9% in domestic machinery.



Consumer Confidence Index

The Consumer Confidence Index hiked to 111.9 in January, a level not seen in 18 years, and representing a 32.8% YoY growth, accumulating seven consecutive months of double-digit increases —which began in July 2018 after presidential elections— and 18 months of steady growth. Fuel shortage did not diminish consumer expectations, and according to this indicator, the population awaits a better outlook in 2019 and an even better one in 2020.



Production, export and domestic sale of vehicles

After the poor performance of the automotive industry in 2018 (19 negative months), the national sale of vehicles recorded a monthly increase of 1.9% in January driven by General Motors, Nissan and Suzuki. The production increased by 9.9% in the same period, the greatest in a year. Exports grew by 4.9% compared to the same period of 2018.

The rebound in sales and production is explained by a 106.9% sales increase of General Motors driven by changes in the accounting method, which underestimated the base of 2018. Another factor that influences the positive result is the “pending sales” in the border region, derived from a fiscal stimulus program to reduce the Value Added Tax (VAT) rate from 16% to 8%.



WEEKLY ECONOMIC REPORT

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Definitions

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.

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 point (BPS): Refers to a common unit of measure for interest rates and other percentages in finance.

GFCF: Gross Fixed Capital Formation measures the value of acquisitions of new or existing fixed assets by the business sector, governments and "pure" households (excluding their unincorporated enterprises) less disposals of fixed assets. GFCF is a component of the expenditure on gross domestic product (GDP), and thus shows something about how much of the new value added in the economy is invested rather than consumed.

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

Consumer Confidence Index (CCI), is defined as the degree of optimism about the state of the economy that consumers are expressing through their activities of saving and spending.

Gross Fixed Investment: the net capital accumulation during an accounting period for a country. The term refers to additions of capital stock, such as equipment, tools, transportation assets and electricity, for more than one year and are subject to property rights. This indicator shows how much of the new gross value added in the economy is reversed, instead of being consumed.

For a list of full securities please visit: www.mxefund.com.

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