

Mexican Markets have a Good Kick Off in 2019, and Pose Opportunities

In 2019, Mexican financial markets began with opportunity prices in the stock market, a relatively stable exchange rate and interest rates that represent an attractive prize to foreign investors. The latter, as a result of the adjustments that were presented in 2018 –particularly in the fourth quarter– within the framework of a stable economy. On the other hand, Mexico will not be exempt from the systemic risk faced by international financial markets.

The main attributes of the Mexican markets for 2019 are:

- 1. A steady Exchange rate supported by a reasonable budget of the new government.** At the end of the first week of the year, the spot exchange rate closed at 19.42 pesos per dollar for a weekly appreciation of 1.20%; after a year characterized by high volatility. The approach to the federal budget for 2019 with realistic economic assumptions, allowed the stabilization of the exchange market and in conjunction with the general weakness of the dollar favored the appreciation of the peso already described. The forecast of the Ministry of Finance for the exchange rate is 20 pesos per dollar in 2019, 20.10 in 2020 and 20.20 in 2021.
- 2. Opportunity prices in the stock market facing an economy with moderate growth.** On Friday, January 4, Mexbol stood at 42,555 points for an advance in the week of 0.98%. The preceding, after having obtained losses in the year of (-) 13.8% in 2018; its biggest fall since 2008, when losses were (-) 22.66% (followed by a recovery of + 43.52% in 2009). These three factors that affected the performance of the market were: the uncertainty due to the commercial relationship with the United States, the caution of investors due to the electoral process towards the end of the year and the doubts generated by the unilateral and unjustified cancellation of the NAIM. The first two sources of uncertainty have been overcome, and it is likely that the violent reaction of the markets to the dissolution of the NAIM and the complicated and costly negotiation of the financial instruments linked to it will serve as a warning for the decision making of the new government of Mexico on public policy matters.
- 3. A high prize for interest rates if the sovereign debt ratings are considered.** The rate of return of the 10-year M bond went from 7.60% per year at the beginning of the year to 8.66% at the end of 2018. The above implies a difference (spread) of 583 basis points at year-end compared to the 10-year Treasury bond of the United States; this means an attractive risk prize for a debt unlikely of default and surpassing the investment grade. Although rating agency Fitch Ratings revised its long-term sovereign debt outlook for Mexico from stable to negative, it affirmed its rating at BBB+, three steps above the investment grade. Moody's and Standard & Poor's kept their outlook without changes and the rating in A3 and BBB + respectively. At the end of the first week of the year, the rate of return was 8.36%.

In contrast, international markets have been characterized by greater systemic risk:

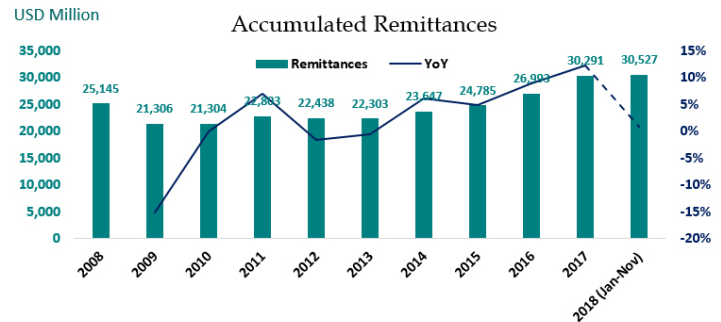
The United States. The greater commercial tensions between China and the United States and the FED monetary policy, soothed the fall of the leading stock indexes in November and December; they even eliminated the positive effect on the tax reduction promoted by the Donald Trump administration earlier this year. The Dow Jones, S&P 500 and NASDAQ indexes closed the first week of the year with gains of 0.5%, 1.03%, and 1.58%; after a year-end that closed with losses of (-) 3.48%, (-) 4.39% and (-) 2.81% respectively.

Brexit and Italy. On January 14, the British Parliament must vote on the Withdrawal Agreement and the Political Declaration on future relations with the European Union (EU), since the exit of the economic and trade bloc scheduled for March 29. One of the main concerns is the border control between Northern Ireland and Southern Ireland. For its part, the new Italian government came close to being sanctioned by the European Commission. To avoid penalties, it revised its forecast deficit of 2.4% of GDP to 2.0% of GDP. The main stock indexes in Europe closed with losses of more than 7.0% in the year.

Latin America. The case of Brazil stands out, due to the result of the electoral victory of the right-wing candidate Jair Bolsonaro, where investors granted their vote to the Brazilian market, which was the only Latin American market with positive returns in the year. In contrast, the Argentine government had to resort to the International Monetary Fund (IMF) twice in the year, its economy contracted, and annual inflation exceeded 45%.

2019 started with adjustments in international markets mainly due to the lack of agreement to resolve commercial tensions between the US and China as the leading global risk factor. Added to this is the situation in Europe with possible threats of weakening the European Union. In contrast, the exchange rate and the Mexican Stock Exchange of Mexico present a better start of the year supported by a growing economy; although moderate, and far from crises.

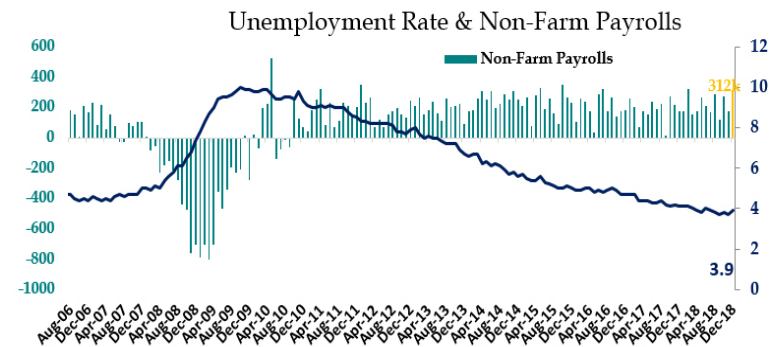
Economic Indicators



Source: Banxico

Banco de México (Banxico) reported that in the first eleven months of the year, total remittances amount to 30,527.3 million dollars, an increase of 10.9% over the same period in 2017. 2018 marks five years of constant growth in the total volume of remittances and three years of new historical highs.

Unemployment and Non-Farm Payrolls in the United States



Source: Bloomberg

The non-agricultural payroll in the United States increased by 312,000 places in December; 77% more compared to November. The strength of the labor market given higher wages and stable inflation in the United States will possibly reflect in monetary policy decisions.



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Definitions

NAIM: New International Airport of Mexico City

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.

Fitch Ratings: A nationally recognized statistical rating organization (NRSRO) designated by the U.S. Securities and Exchange Commission in 1975.

Banco de México: Mexico Central Bank, lender authority and lender of last resort.

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.

Moody's: Moody's Corporation is the holding company that owns both Moody's Investor Services, which rates fixed income debt securities and Moody's Analytics, which provides software and research for economic analysis and risk management. Moody's assigns ratings on the basis of assessed risk and the borrower's ability to make interest payments, and its ratings are closely watched by many investors.

Standard & Poor's Financial Services LLC: A recognized statistical rating organization (NRSRO) designated by the U.S. Securities and Exchange Commission

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.

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

Disclosures

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