Another tough week for Mexican Markets

The week was characterized by a downside trend and marked the beginning of a period of volatility and uncertainty within financial markets. The Federal Reserve (Fed) reduced its benchmark rate by a quarter-point — as already discounted by US stock markets—. However, statements made by the Fed's Chairman, Jerome Powell, were disappointing as investors interpreted that this should not be seen as the start of a lengthy easing cycle. This effect was magnified by President Trump's unexpected threat to impose a new tariff on the rest of the Chinese import goods.

Mexican stock markets were negatively affected by the release of weak economic data and the perception of incompleteness in the economic rescue plan proposed by the Ministry of Finance and Public Credit (SHCP). The complicated global environment also influenced the market.

Exchange Rate

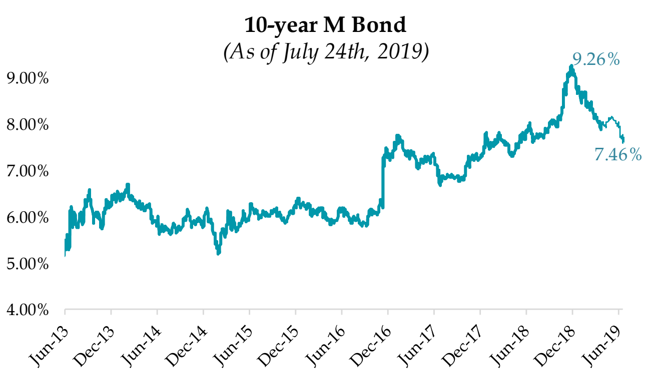
The spot exchange rate followed the same mood and had a weekly depreciation of (-) 1.35%, which reduced the year-to-date appreciation to 1.75%. The U.S. dollar strength against international currencies —except for the Turkish lira— followed the decision of investors to take refuge in the safest currency in a context of more uncertainty. Noteworthy, the Mexican peso was one of the currencies that less depreciated in the week, supported by the strength of its external accounts. In the first half of the year, Mexico consolidated as the leading U.S. partner, with a substantial surplus, which may increase if the new tariff announced by Trump materializes. Also, accumulated remittances reached all-time highs in June again.

Mexican Stock Exchange

Mexbol had its 12th negative session in the last 15 days and closed at 39,977; a weekly fall of (-) 2.00% influenced by global markets that traded downside, and the confirmation of economic stagnation in Mexico in the first half of 2019. Besides, the market did not respond well to the rescue plan proposed by the SHCP to reactivate the economy, as it considered it faulty.

10 Year Bonds

In the face of new tariff threats and increased market volatility, international investors sought refuge in safer assets such as the US Treasuries. The 10-year Treasury yield plunged more than 20 basis points to 1.84% while the 10-year M-bond fell to 7.46%, a weekly drop of 7 basis points.

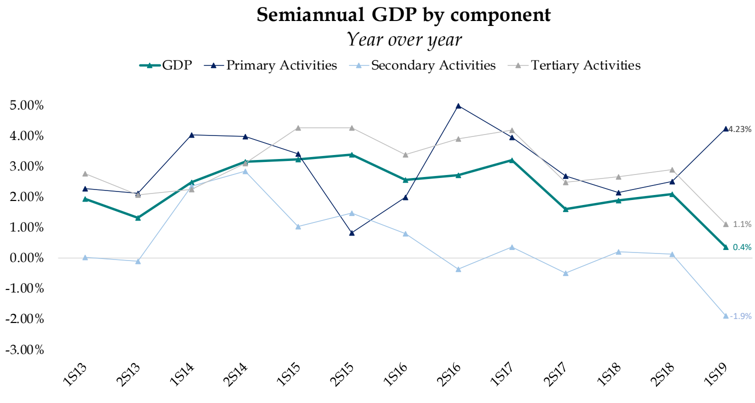


Source:

Economic Indicators

Gross Domestic Product Estimation

The National Institute of Statistics and Geography (INEGI) announced that the Gross Domestic Product (GDP) for 2Q19 grew 0.1% quarter-over-quarter, compared to a negative figure expected by market consensus which would have hauled a technical recession. On an annual basis, GDP grew 0.4% and exhibited the stagnation of the Mexican economy. By components, primary activities (agriculture, forestry, and fishing) and services (which represent around 60% of GDP) expanded by 1.7% and 1% respectively while the industrial activity (manufacturing, construction, mining, and commodities) contracted by -1.6%.



Source: INEGI

On a semiannual basis, the Mexican economy slightly grew 0.4% year over year driven by a 4.2% growth in primary activities, a -1.9% decrease in secondary activities and a slowdown in tertiary activities to 1.1%.

Economic Reactivation Program

The Ministry of Finance announced a program to reactivate the economy, which consists of an injection of approximately US$25 billion, distributed as follows:

I. US$14 billion, 56% of the total, destined to Development Banks to offer credits and guarantees up to 500 thousand micro, small and medium companies.
II. US$6 billion, 23.95% of the total, destined to the public sector.
III. US$2.5 billion, 10.41% of the total, will be used for infrastructure. A total of 18 projects will be built with private and public funding; 80% and 20% respectively.
IV. US$2.5 billion, 10.41% of the total, allocated to Mexico's agricultural sector through credits.

Although the US$25 billion seems significant as it is equivalent to 2.04% of 2018 nominal Gross Domestic Product (GDP), the program has the following deficiencies:

i) The amount of liquid resources, which consists of US$6 billion in government spending plus US$2.5 billion in infrastructure, represents only 0.7% of GDP.
ii) The liquid resources mentioned above only represent 95% of what the government has stopped spending in 2019, so they are not enough to compensate for this situation.
iii) The credit program is ambitious; however, it lacks calendarization and generates doubts as to the quality of the credits.

Public Finances Quarterly Report

The Ministry of Finance presented the report on public finances for the first half of the year. The primary balance was US$11.83 billion, 168.4% higher than the budgeted at the beginning of the year. The above is not a consequence of an increase in income since these were 2.54% lower than those scheduled (US$139.4 million). What allows the Ministry of Finance to meet its 1.0% GDP primary surplus goal is the sub-exercise of spending, which during the first half of the year amounts to US$9.05 billion, 5.91% less than budgeted.

Remittances

Remittances in June amounted US$3.11 billion and accumulated US$16.84 billion year-to-date, 3.7% higher compared to June 2018, and the highest in history. With this data, the flow of remittances observed this year is reaffirmed and is heading for a record US$35 billion in 2019.

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Definitions

FED (Federal Reserve System): The central bank system of the United States that includes the Board of Governors in Washington, D.C., and 12 independent regional Reserve banks.
SHCP: Secretaria de Hacienda y Credito Publico, is the executive federal power office with functions of Ministry of Finance.
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.
Treasury: Is a government debt instrument issued by the United States Department of the Treasury to finance government spending as an alternative to taxation.
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.
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.
Gross Domectic Product (GDP): Is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.
Trade Surplus: A trade surplus is an economic measure of a positive balance of trade, where a country's exports exceed its imports.
Banxico: Mexico Central Bank, lender authority and lender of last resort.