

Coronavirus expansion has a substantial impact on financial markets

All the relevant stock indexes in the world closed with considerable weekly losses. The above because the outbreak of the new COVID-19 gathers most of the characteristics required for the World Health Organization (WHO) to declare it a pandemic. The severe reaction of the stock markets responds to mounting concerns about the COVID-19's possible negative impact in the global economy, whose effect is yet to be determined. Here are the results for some indexes:

- i. Mexbol closed at 41,324 points, which implied a weekly decline of (-)11.81% in pesos that transformed the previous year to date advance, into a decline of (-)9.25%. On January 20th, Mexbol stood at 45,902 points, with an increase of 6.63% compared to the end of December 2019.
- ii. In the United States, the S&P 500 (2,954 points) had a weekly loss of (-) 11.44%, which explains most of the year to date decline, which amounts to (-)8.27%.

In general, markets remain on-guard about the evolution of this crisis. The WHO organization has not declared a pandemic status yet, but the number of cases continues increasing at an exponential rate. On the other hand, Central Banks of developed countries have announced their intention to act if necessary, to reduce the impact of the coronavirus crisis on their respective economies.

Mexbol 4Q19 Financial Reports

By the end of February, 33 of the 35 companies that are listed in Mexbol have reported. 55.17% of them managed to report earnings per share (EPS) above market expectations; meanwhile, 59.38% of companies released sales below market expectations.

Spot Exchange Rate

The spot exchange rate closed at MX \$19.68 per dollar; since the minimum price of the year (MX\$18.59 per dollar) observed on February 5th, the peso has depreciated 5.87%. During the week, INEGI reported positive data from Mexican external accounts, specifically a reduction of US\$20.5 billion in the current account deficit, which closed 2019 at US\$2.44 billion. Nevertheless, investors focused on the restructuring of institutional portfolios towards low-risk assets, which increased the demand for US dollars.

Economic Indicators

Balance of payments

Banxico announced that the 2019 balance of payments had the following results:

- i. The current account presented a US\$2,433.7 billion deficit, below the US\$23 billion deficit observed in 2018. Within its components, the following behavior prevailed:
 - a. The trade balance displayed a US\$5.62 billion surplus, which compares positively with the US\$13.79 billion deficit of 2018.
 - b. Remittances totaled US\$35.29 billion, a 7.28% year over year growth (US\$32.88 billion).
 - c. US\$5 billion deficit tourism balance was 31.92% below last year's US \$ 7.34 billion deficit.
 - d. External debt interests, which play against the balance surplus, increased to US\$38.34 billion, an annual growth of 10.36% compared to 2018 (US \$ 34.74 billion).
- ii. The capital account was a US\$13.95 billion surplus, considerably lower than the US\$33.47 surplus of 2018. Its components had the following results:
 - a. Preliminary foreign direct investment (US\$32.9 billion) grew 4.5% compared to 2018 (US \$ 31.60 billion).

- b. Portfolio investment (US\$4.26 billion) decreased 45.83% (US\$7.86 billion).
- c. The investment of Mexicans abroad (US\$10.22 billion), which represents an outflow, increased 33.0% compared to the US\$7.71 billion invested in 2018.
- d. "Other investments", mainly composed of the private sector, also had a significant outflow of US \$ 13.01 billion.

Unemployment Rate

January's unemployment rate rose to 3.66% of the Economically Active Population (PEA); the rate compares unfavorably with the one observed in January 2019 (3.46%) and is the highest since the end of 2016. The weak economic growth motivated the rise in the rate, although the significant increases in both minimum and contractual wages also played a role.

Gross Domestic Product

INEGI announced the second revision of the Gross Domestic Product of Mexico for 2019. With this information, the (-)0.1% contraction of the Mexican economy announced on January 30th, was driven by:

- i. The tertiary sector, that includes the services of the economy, only grew by 0.4% in the year. Noteworthy, this sector represents 63.59% of the GDP.
- ii. The secondary activities (manufacturing, construction, and mining industries) had a (-)1.8% year over year contraction; this sector represents 28.73% of the economy.
- iii. The only sector that showed positive results was the primary one, which grew 1.9%, although it only represents 3.26% of the GDP.

Balance of trade

The preliminary results of January's trade balance recorded a US\$2.41 billion deficit, a figure that compares positively with the US\$4.41 billion deficit observed in January 2019. The above is a result of:

- i. A 3.2% annual increase in total exports. Manufacturing foreign sales, which represent 80.43% of total exports, had lower annual growth, this time, it was 2.0%, a figure that contrasts negatively with the average increase of 3.4% observed in 2019.
- ii. A (-)3.2% annual contraction in total imports. Intermediate-use goods, which represent 69.7% of total imports, decreased by (-)2.4%, while last year they showed a 0.4% increase.

	Exports				Imports				
	2019	% of Total	Annual Change	Dec-19	% of Total	Annual Change	Jan-20	% of Total	Annual Change
Total Exports	460,653	100.0%	20.1%	461,116	100.0%	4.3%	33,653	100%	3.2%
Oil	30,601	6.6%	28.9%	23,955	5.2%	-15.1%	2,355	7.0%	13.7%
Crude Oil	26,512	5.8%	32.5%	22,532	4.9%	-14.9%	2,053	6.1%	16.2%
Others	4,089	0.9%	11.8%	3,433	0.7%	-16.1%	303	0.9%	-1.0%
Non-Oil	420,053	93.2%	8.9%	435,131	94.4%	3.6%	31,298	93.0%	2.5%
Agricultural	16,908	3.7%	3.7%	15,106	3.3%	-9.7%	1,705	5.1%	4.5%
Mining	6,232	1.4%	14.5%	6,189	1.3%	-0.7%	479	1.4%	32.3%
Manufacturing	397,344	86.2%	9.0%	410,336	89.1%	3.4%	29,105	86.5%	2.0%
Automotive Industry	142,178	31.5%	12.4%	147,757	32.0%	3.9%	10,212	30.3%	9.5%
Others	255,166	56.6%	7.9%	263,080	57.1%	3.1%	18,896	56.2%	-1.7%
							Imports		
	2019	% of Total	Annual Change	Dec-19	% of Total	Annual Change	Jan-20	% of Total	Annual Change
Total Imports	464,302	100.0%	10.4%	453,295	100%	-1.9%	36,069	100%	-3.2%
Oil	53,782	11.6%	28.4%	47,207	10.4%	-46.2%	4,116	11.4%	-0.4%
Non-Oil	410,521	88.4%	7.0%	405,088	89.6%	15.9%	31,953	88.6%	3.8%
Consumption Goods	43,616	9.4%	3.1%	43,530	9.6%	0.5%	3,445	9.6%	-0.7%
Intermediate Goods	324,037	69.8%	8.5%	322,449	70.9%	0.4%	25,149	69.7%	-2.4%
Capital Goods	45,867	9.9%	11.9%	41,787	9.2%	-8.9%	3,355	9.3%	-13.6%
							Trade Balance		
	2019			Dec-19			Jan-20		Annual Change
Trade Balance	-13,615		-17.1%	5,820		N.D.	-2,416		N.A.

Source: Mexico's Ministry of Economics
Amounts in Millions of Dollars

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Definitions

Banco de México (Banxico): Is the central bank of Mexico. Its main function is to provide domestic currency to the Mexican economy and its main priority is to ensure the stability of the domestic currency's purchasing power.

COVID-19: The disease caused by the coronavirus, a family of viruses that were discovered in the 60s but whose origin is still unknown. Its different types cause different diseases, from a cold to a severe respiratory syndrome.

Earnings per Share (EPS): The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

Economically Active Population (PEA): Is the sum of employed and unemployed persons. Inactive persons are those who, during the reference week, were neither employed nor unemployed.

Gross Domestic Product (GDP): Is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Mexbol: The S&P/BMV IPyC 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.

Spot Exchange Rate: Is the current price level in the market to directly exchange one currency for another, for delivery on the earliest possible value date.

The National Institute of Statistics and Geography (INEGI): 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.

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. It is a market value or market-capitalization-weighted index and one of the most common benchmarks for the broader U.S. equity markets.

The World Health Organization (WHO): Is the body of the United Nations Organization specializing in the management of health prevention, promotion and intervention policies worldwide.

4Q19: Period that starts the fourth and last quarter of the year 2019 which ends on December 31.

Disclosures

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