

Mexican peso strengthens due to solid external accounts

On May 16th, the Ministry of Energy published an agreement in which companies that generate electricity are prohibited from carrying out tests on the National Electric System (SEN). The above implies suspending the use of these clean energies and affects the incentive scheme that supports investment in this infrastructure.

The justification of the agreement relies on the fact that, during the current health contingency, it is the State's responsibility to guarantee the reliability of the SEN. The reality is that this decision seems like a change to return the monopolistic control of the acquisition of electrical energy to the Federal Electricity Commission (CFE). Additionally, the consumption of fossil fuels, such as fuel oil to produce electrical energy, is now preferred. This decision matches the drop in demand for fuel oil that so far in 2020 has caused Pemex to accumulate approximately one thousand barrels per day.

Noteworthy, the decision has no legal or economic foundations, so it has led to many trials and adverse reactions from the national and international private initiative and the governments of Canada and the European Union. The Mexican government is likely to lose the trials in national courts.

Exchange Rate

The spot exchange rate closed May 22nd operations at MX\$22.73 per dollar, which implies a considerable 5.09% weekly appreciation, and a year-to-date (YTD) depreciation of 20.07%. The Mexican currency benefited from three factors:

1. Oil price mixes had a relevant recovery in the last week derived from the newly announced cuts in oil production by Saudi Arabia and the partial reopening of some of the world's economies. The price of the barrel of the Brent, West Texas Intermediate and the Mexican oil mixes stand at \$ 33.29 dbp (+ 8.18%), \$ 33.24 dbp (+ 13.15%) and \$28.03 dbp (+ 13.29%), respectively.
2. The Mexican external accounts have positive results:
 - a. Foreign direct investment in 1Q'20 totaled US\$10.33 billion.
 - b. In March, remittances totaled US \$ 4.01 billions, the highest monthly figure since Banxico keeps records.
 - c. Mexico's trade balance surplus amounts to US\$3.88 billion.
 - d. Trade between Mexico and the United States generated a Mexican surplus of US\$27.84 billion.
3. The political and trade tensions between China and the United States presented two significant events. The first is an initiative that would prevent Chinese companies from listing on the New York Stock Exchange. The second, is an increase in security measures in Hong Kong by China, contrary to the United States' request. Mexican exports have benefited from this conflict in a scenario of a trade war between these two countries.

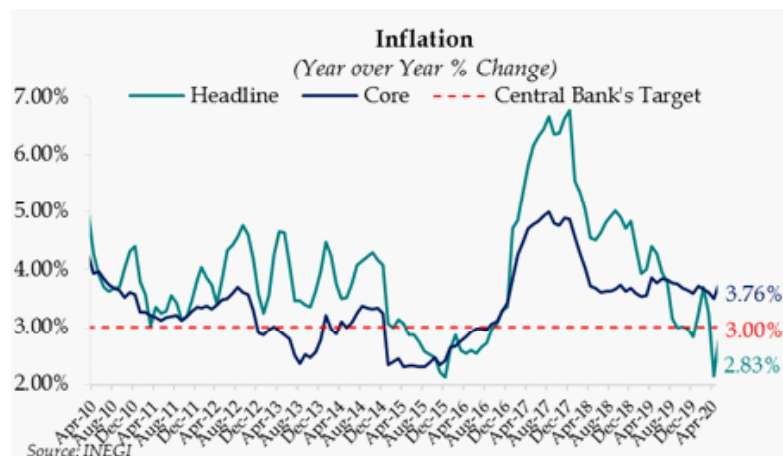
Mexican Stock Exchange

Mexbol closed May 22nd operations at 35,784 points, which implies practically no changes during the week; Despite this, the sharp appreciation of the Mexican peso allowed for a weekly advance of 5.85% in dollars. The year-to-date return amounts a (-)17.44% decrease in pesos and (-)31.50% in dollars. Although Mexbol had a positive momentum due to the good performance of US stock markets, a new blow to productive investment, this time in the form of changes in the rules of operation of the energy sector by the federal government, affected the momentum of investors. Hence, the Mexican market fell diverted from its US peers.

Economic Indicators

Inflation

The National Consumer Price Index for the first half of May was 2.83%, while the subjacent annual inflation was 3.76%, and the non-core inflation remained practically unchanged. Noteworthy although there was an increase in the price of low-octane gasoline (+ 4.50% compared to the previous fortnight), the deflation showed by the non-subjacent index (-0.06%) this time was due to falls in the price of electricity (-21.28%), egg (-6.85%) and chicken (-2.54%). The fall in electricity prices is due to the start of the subsidies in the tariffs because of the beginning of the summer.



Foreign Direct Investment

In the first quarter of 2020 (1Q'20), Foreign Direct Investment (FDI) totaled US\$10.33 billion, a 1.7% and 6.9% increase compared to the US\$10.16 billion and US\$9.5 billion registered in 2019 and 2018, respectively. By type of investment, US\$.86 billion (76.1%) accounts for reinvestment of profits, US\$2.27 billion (22%) for new investments, and US\$190 million (1.9%) for intercompany accounts. The sectors that received the most FDI were:

1. Manufactures, with US\$4.55 billion equivalent to 44.1% of the total.
2. The financial and insurance services sector, with US\$2.57 billion, representing 24.9% of the total.
3. Commerce, with US \$ 8.57 billion, 8.3% of total FDI.

The increase in FDI compared to last year was mainly due to a 4.8% increase in the reinvestment of profits and a considerable rise of 62.1% in new investments.



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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.

European Union (EU): Is a political and economic union of 28 member states that are located primarily in Europe.

Federal Electricity Commission (CFE): Is a productive company of the Mexican State in charge of controlling, generating, transmitting and commercializing electrical energy throughout the country.

Foreign Direct Investment (FDI): Is an investment made by a company or individual in one country in business interests in another country, in the form of either establishing business operations or acquiring business assets in the other country, such as ownership or controlling interest in a foreign company.

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.

Mexican Stock Exchange: The Mexican Stock Exchange headquartered in Mexico City, is the full-service securities exchange of the country, dealing in cash equities, derivatives and fixed income products.

National Consumer Price Index (INPC): It is an economic indicator whose purpose is to measure, over time, the variation in the prices of a basket of goods and services representative of the consumption of households in the country.

National Electric System (SEN): It is the set of transmission lines and electrical substations connected to each other, which allows the transfer of electrical energy between the various electricity generation systems in Mexico.

New York Stock Exchange (NYSE): It is the largest stock market in the world in monetary volume and the first in number of affiliated companies.

Petróleos Mexicanos (PEMEX): Is the Mexican state-owned petroleum company, created in 1938 by nationalization or expropriation of all private, foreign, and domestic oil companies at that time. As of April 30, 2020 the security is not included in the Fund Top 10 Portfolio Holdings. For a list of full securities please visit: http://www.mxefund.com/portfolio_holdings.html.

Year to Date (YTD): Refers to the period of time beginning the first day of the current calendar year or fiscal year up to the current date.

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