

**Positive week for local markets despite complicated international environment**

Two relevant events took place during the week:

- i. The Federal Open Market Committee (FOMC) lowered its primary reference interest rate by 25 basis points and left the range at 1.75% -2.00%.
- ii. On September 16<sup>th</sup>, drone attacks on two major oil facilities in Saudi Arabia took place and disrupted the supply of the oil company by 5.7 million barrels per day (6% of world production).

**The Federal Reserve**

As expected, the Federal Reserve cut its primary reference rate by 25 basis points, leaving the range at 1.75% -2.00%. The statement suggested that the Federal Open Market Committee (FOMC) members expect one more cut in the year, as Powell said that both the US economy and employment remain "strong" although he acknowledged that there are risks to the positive outlook.

**Oil Disruption**

On September 15<sup>th</sup>, a terrorist group attacked one of the facilities of Aramco, an oil company owned by Saudi Arabia. The attack caused the biggest supply shock in the history of the oil industry, as Aramco announced that they had to reduce its daily production by 5.7 million barrels per day (approximately 6% of world production). Just minutes after the attack was made public, the price of the Brent crude barrel (the international benchmark for oil prices) increased by 19% at US\$71.95 per barrel.

Despite the substantial oil hike, oil prices were contained mainly due to:

- i. President Trump's prompt reaction to authorize the release of US strategic oil reserves.
- ii. Aramco announced that by the end of September, they would reinstate 100% of the supply that the attacks withdrew.

**Mexbol**

Mexbol had a weekly U.S. dollar gain of 1.96% registering its fifth consecutive positive week and leaving year-to-date (YTD) return at 8.04%. A higher than expected price for the Mexican oil mix in the 2020 economic budget will strengthen Pemex's finances and Mexico's public finances. Arguments in favor of maintaining both credit ratings (Pemex and sovereign debt) are increasing.

**Spot Exchange Rate**

The uncertainty generated by the oil attacks along with the Fed's monetary policy announcement slightly strengthened the U.S. dollar against international currencies. On September 20<sup>th</sup>, the spot exchange rate closed at MX\$19.45 per USD, very similar to last weeks. So far in the year, the Mexican peso has appreciated 1.05%.

**M and Treasury Bonds**

The 10-year Treasury bond yield stood at 1.75%, a 14-basis point reduction following the Fed's decision to reduce its primary benchmark, and more than 92 basis points decrease in the year.

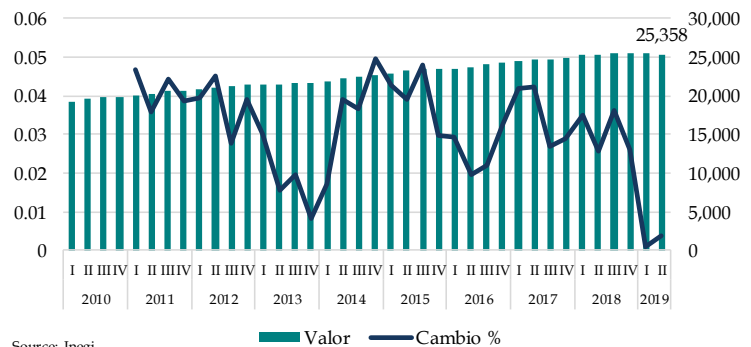
The M bond had a weekly reduction of 26 basis points closing at 6.99% due to the attractiveness of its yield to maturity compared to the Treasury note and the possible positive consequences that the oil market crash could have in favor of Pemex's finances.

**Economic Indicators**

**Global Demand and Supply**

The National Institute of Statistics and Geography (INEGI) released the results of the global supply and demand for goods and services for the second quarter of 2019 (2Q19). The global supply of goods and services, which is equal to global demand, increased 0.4% compared to 2Q18. By components, the Gross Domestic Product (GDP) increased by 0.3%, while imports grew by 0.7%. On the other hand, the elements of the global demand had mixed behavior. Gross fixed capital formation, and government consumption decreased -5.2% and -1.9% respectively, while exports of goods and services and private consumption increased by 3.2%, 0.6% respectively.

**Global Demand and Supply**  
 (Level and Annual Growth)



Source: Inegi  
 \* In Billions of Mexican pesos

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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.

**Treasury bond (T-Bond):** Are government debt instruments issued by the United States Department of the Treasury to finance government spending as an alternative to taxation.

**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.

**INEGI:** The National Institute of Statistics and Geography. It is the institution responsible for performing the population census every ten years; as well as the economic census every five years and the agricultural, livestock and forestry census of the country.

**Basis points:** Refers to a common unit of measure for interest rates and other percentages in finance.

**Petroleos 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. The Fund maintains 0.0% investment in the security, at the close of September 2, 2019. For a list of full securities please visit: [www.mxefund.com](http://www.mxefund.com).

**Federal Reserve System (FED):** Is the central bank of the United States and arguably the most powerful financial institution in the world.

**Saudi Aramco:** Officially the Saudi Arabian Oil Company, is a Saudi Arabian national petroleum and natural gas company based in Dhahran, Saudi Arabia. The security represents 0.00% of Portfolio Net Assets and is not included in the Fund Top 10 Portfolio Holdings.

**Federal Open Market Committee (FOMC):** A committee within the Federal Reserve System, is charged under the United States law with overseeing the nation's open market operations and makes key decisions about interest rates and the growth of the United States money supply.

**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.

#### Disclosures

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