

Performance of the Mexican economy during the 1Q'21

Macro-economic Quarterly Report
March 23, 2021



Front View of Mexico's Central Bank, "BANXICO", Mexico City; Mexico. Source: Public Domain



Pichardo Asset Management
Asesores de Portafolios de Inversión

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Preliminary data of the first quarter of 2021 (1Q'20) display a stagnation of the economic recovery observed in the second half of 2020. INEGI's forecast of February's economic activity is a (-)0.83% MoM and a (-)3.97% YoY fall, noteworthy January's fall was (-)4.03%; industrial activities (manufacturing, misery, commodities, and construction) shrunk (-)7.38% YoY, and services activities decreased (-)4.33% YoY, please see Exhibit 1. Even if 1Q'21 seems to be lost, the market consensus expects a 4.75% growth for 2021 mostly due to the economic recovery in the US.

International reserves (US\$194.93 bn.) endorse our country from a balance of payments crisis. However, they diminished (-)0.37% (US\$728 million) in the 1'Q21 (please see Exhibit 2), indicating a retreat of financial capitals as external accounts keep displaying positive signs. Specifically, in January, the trade balance had a US\$1.23 billion deficit which is 50% smaller than in 2020, please refer to Exhibit 3. Besides remittances in January totaled US\$3.29 billion, a 25.83% YoY growth. The above provided high volatility of the US-MXN exchange rate. The Mexican peso depreciated 3.89% in the 1'Q21; however, it quoted a minimum MX\$19.60 and a maximum MX\$21.49 per USD, almost a 10% variation (Exhibit 4).

There are still some domestic political challenges that could jeopardize the Mexican sovereign debt rating stable perspective. Both Moody's and Fitch Ratings have stated that the Energy Industry Reform's recent approval could prompt revisions in Mexico's grade (please see Exhibit 5). Besides, the government continues to financially involve with Pemex as it recently authorized a new tax reduction amounting to US\$3.65 bn. and a bailout payment of US\$5 bn. for the 2021 state-owned oil company debt maturities.

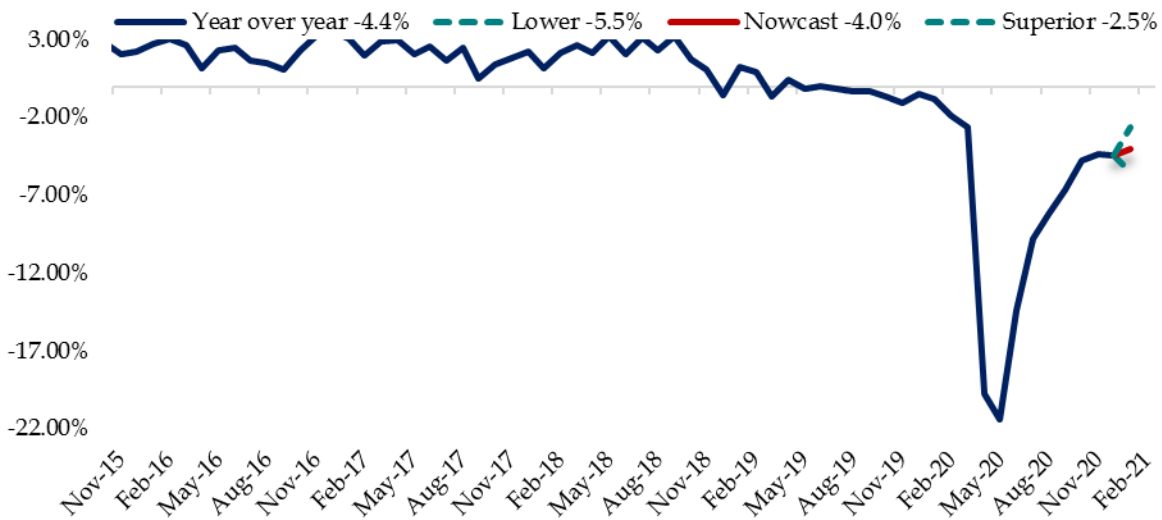
As in most countries, the M bonds' yield curve has unveiled a steepening in the middle and long-term tracts (Exhibit 6). The yield to maturity (ytm) of the 10-year M bond increased by 116 bps during the 1Q'21. The above results from the rise of the benchmark ytm (the 10-year US Treasury), which raised 80 bps in the 1Q'21. Nevertheless, this steepening also reflects the worries about losing the Mexican sovereign debt's rate stable perspective and the inflation's recent upward trend, which in February stood at 3.76%.

Arnulfo Rodriguez

Senior Macro & Debt Strategist

Exhibit 1

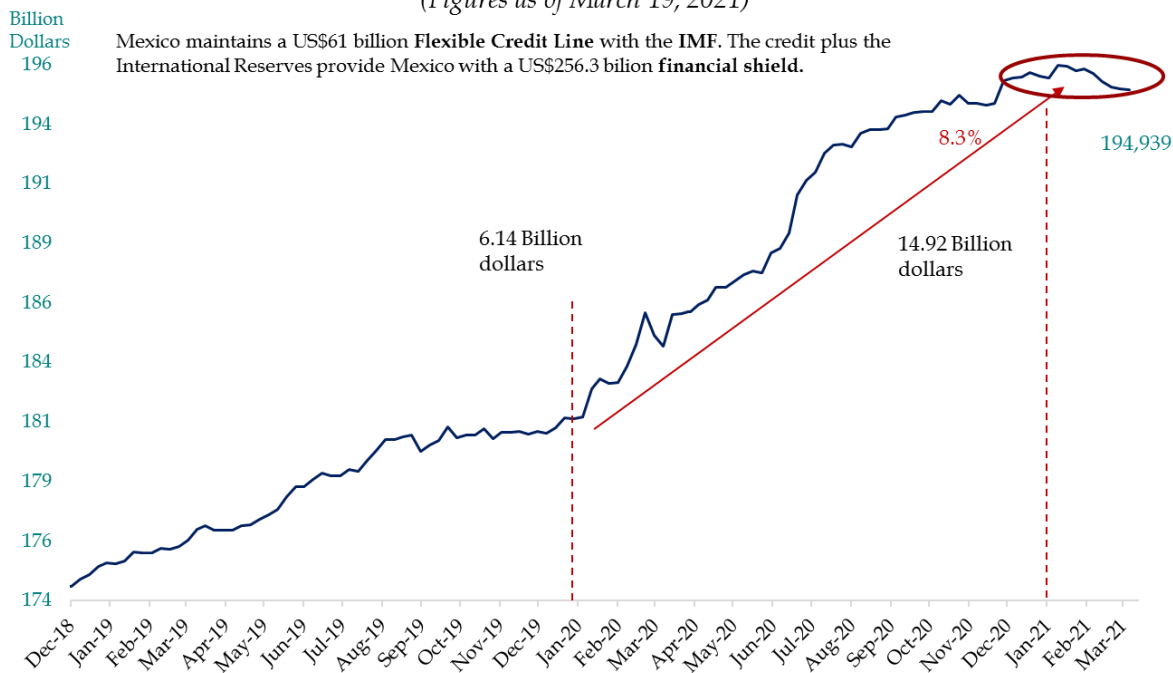
IGAE's Nowcast for January & February 2021 (Year over year %)



Source: INEGI

Exhibit 2

International Reserves (Figures as of March 19, 2021)



Source: Bloomberg

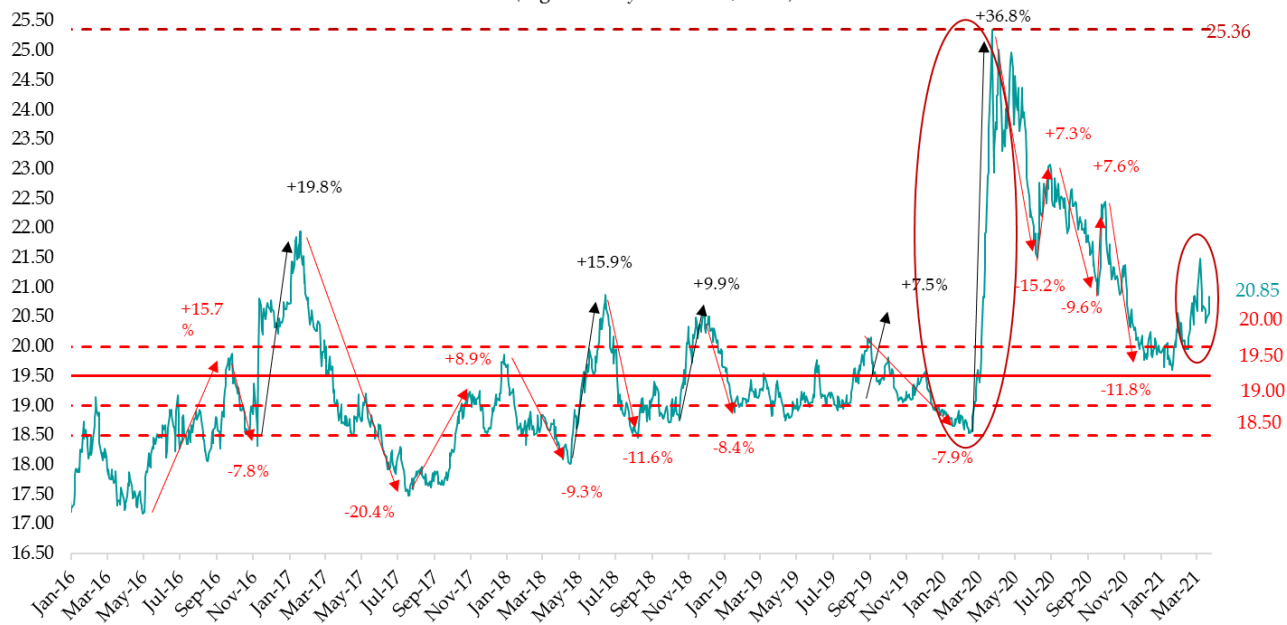
Exhibit 3

Mexico's Trade Balance (As of January 2021)									
Exports									
	2019	% of Total	Annual Change	2020 YTD	% of Total	Annual Change	Jan-21	% of Total	Annual Change
Total Exports	460,704	100.0%	2.2%	417,670	100.0%	-9.3%	32,704	100%	-2.6%
Oil	25,842	5.6%	-15.63%	17,413	4.2%	-32.6%	1,763	5.4%	-20.1%
Crude Oil	22,409	4.9%	-15.57%	14,613	3.5%	-34.8%	1,528	4.7%	-19.8%
Others	3,433	0.7%	-16.05%	2,800	0.7%	-18.4%	236	0.7%	-22.3%
Non-Oil	434,862	94.4%	3.52%	400,257	95.8%	-8.0%	30,941	94.6%	-1.4%
Agricultural	17,840	3.9%	8.07%	18,683	4.5%	4.7%	1,576	4.8%	-12.2%
Mining	6,189	1.3%	-0.69%	7,407	1.8%	19.7%	693	2.1%	44.7%
Manufacturing	410,834	89.2%	3.39%	374,167	89.6%	-8.9%	28,672	87.7%	-1.5%
Automotive Industry	147,757	32.1%	3.92%	122,933	29.4%	-16.8%	10,386	31.8%	1.7%
Others	263,077	57.1%	3.10%	251,234	60.2%	-4.5%	18,286	55.9%	-3.2%
Imports									
	2019	% of Total	Annual Change	2020 YTD	% of Total	Annual Change	Jan-21	% of Total	Annual Change
Total Imports	455,295	100.0%	-1.9%	383,194	100%	-15.8%	33,941	100%	-5.9%
Oil	47,207	10.4%	-12.0%	31,408	8.2%	-33.5%	2,968	8.7%	-27.9%
Non-Oil	408,088	89.6%	-2.7%	351,786	91.8%	-13.8%	30,972	91.3%	-3.1%
Consumption Goods	43,852	9.6%	0.5%	34,510	9.0%	-21.3%	3,190	9.4%	-20.5%
Intermediate Goods	322,449	70.8%	0.4%	282,539	73.7%	-12.4%	24,792	73.0%	-2.6%
Capital Goods	41,787	9.2%	-8.9%	34,737	9.1%	-16.9%	2,991	8.8%	-10.9%
Trade Balance									
	2019			2020 YTD			Jan-21		Annual Change
Trade Balance	5,409		N. A.	34,476		50.2%	-1,236		-50.2%

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

Exhibit 4

Spot Exchange Rate MXN/USD (Figures as of March 23, 2021)

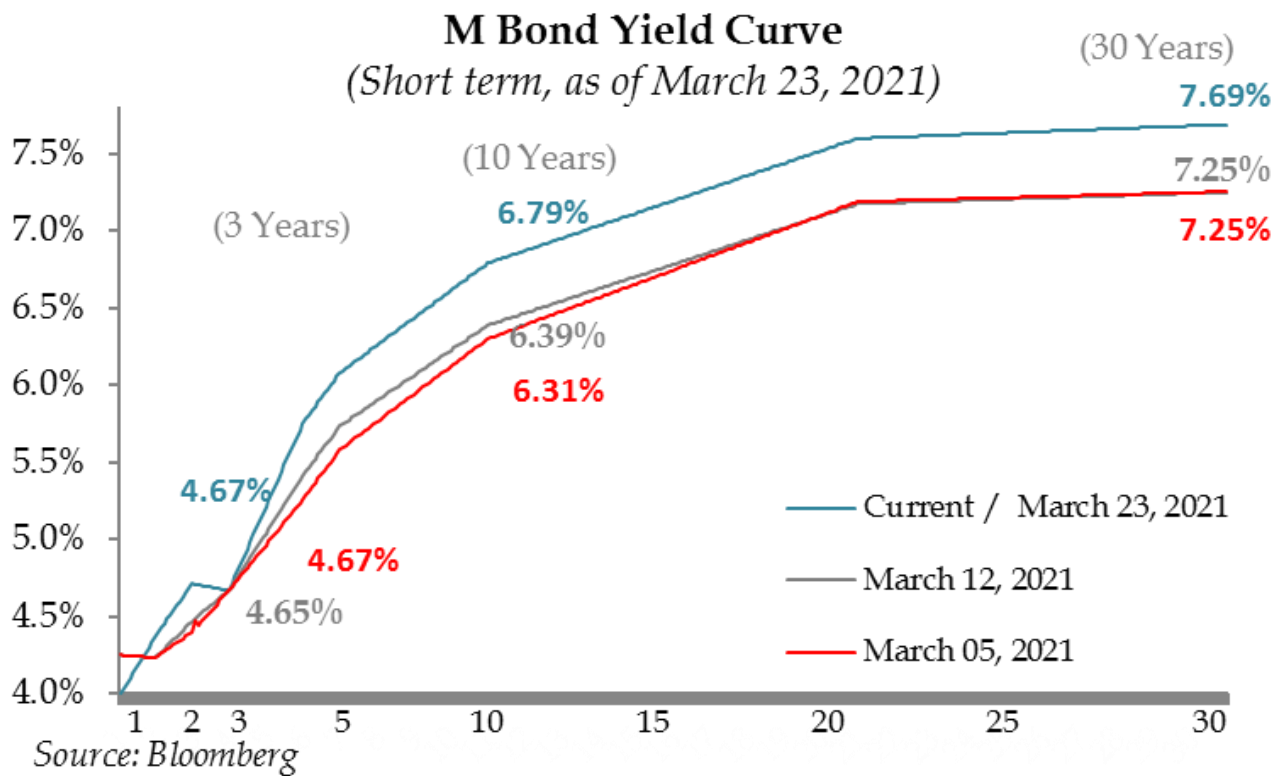


Source: Bloomberg

Exhibit 5

Mexico's Credit Ratings								
Date	S&P		Moody's		Fitch		HR Ratings	
	Rating	Outlook	Rating	Outlook	Rating	Outlook	Rating	Outlook
02/12/20	BBB	Negative						
11/11/20					BBB-	Estable		
04/17/20			BAA1	Negative				
04/15/20					BBB-	Stable		
04/01/20							BBB+	Negative
03/26/20	BBB	Negative						
06/05/19			A3	Negative	BBB	Stable		
03/01/19	BBB+	Negative						
10/31/18					BBB+	Negative		
10/30/18							A-	Negative
04/11/18			A3	Stable				
08/10/17							A-	Stable
08/03/17					BBB+	Stable		
07/19/17	BBB+	Stable						
12/22/16							A-	Negative
12/09/16					BBB+	Negative		
08/23/16	BBB+	Negative						
03/31/16			A3	Negative				
02/05/14			A3	Stable				

Exhibit 6



Glossary

Banxico	Is the Central Bank of Mexico, monetary authority and lender of last resource. The main objective of the Central Bank of Mexico is to maintain a low and stable inflation.
INEGI	The National Institute of Statistics and Geography (INEGI by its name in Spanish) is a public and autonomous organism responsible to coordinate the National System of Statistical and Geographical Information.
International Reserves	Are any kind of reserve funds, which central banks can pass among themselves. Reserves can be gold or a specific currency such as dollar or euro.
Balance of payments	Is a statement of all transactions made between entities in one country and the rest of the world over a defined period of time.
Trade Balance	Is the difference between the value of a country's exports and the value of a country's imports for a given period.
Exchange rate	Is the value of a nation's currency in terms of the currency of another nation or economic zone.
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.
Yield to maturity	Is the total return anticipated on a bond if the bond is held until it matures.
BPS (Basis Points)	Basis points refers to a common unit of measure for interest rates and other percentages in finance.
IGAE	It is the Economic Activity Global Indicator (IGAE by its name in Spanish) and measures the evolution of the economic activity in Mexico.
Spot exchange rate	Is the actual value of a nation's currency in terms of the currency of another nation or economic zone.
Credit Ratings	Is an opinion of a particular credit agency regarding the ability and willingness an entity to fulfill its financial obligations in completeness and within the established due dates.
Yield Curve	Is a line that plot yields of bonds having equal credit quality but different maturity dates.

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Sky view of Reforma Avenue; Mexico City, Mexico. Source: CANVA

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