

Insufficient economic recovery data to boost Mexbol

Mexican Stock Exchange

Mexbol closed August 28th operations at 37,794 points, practically flat compared to the previous week (+0.16% in dollars); thus, the year-to-date (YTD) return stands at (-)24.14% in US dollars. The Index was resilient despite the confirmation of the Mexican economy's contraction in 2Q20 (-18.7%); Although July's Global Economic Activity Indicator (IGAE) had a monthly recovery of 8.9%, the economic data are still insufficient for the index to resume an upward trend.

Exchange Rate

The spot exchange rate closed August 28th operations at MX \$ 21.75 per dollar, a 0.97% weekly appreciation reducing the YTD depreciation to (-)14.92%, reflecting the external accounts' strength. In addition to the accumulated remittances to June (US\$19.07 billion), July's trade balance had a US\$5.79 billion surplus, practically the same as the 2019 surplus. Besides, Banxico published the balance of payments; the financial account had a US\$9.18 billion surplus, a figure (-)53.19% lower than that observed in first half of 2019 (1H19), and the current account had a US\$2.29 billions deficit, which is (-)67.68% lower than the same period last year. This composition of flows allowed Banxico to accumulate US\$12.38 billion of international reserves in the first six months of the year.

Economic Indicators

Banxico's Quarterly Report

On August 26th, the Central Bank, Banxico, presented its quarterly report (2Q20), revealing the central bank's expectations regarding inflation, economic growth, and employment. Once again, Banxico emphasized three possible economic growth scenarios, given the uncertainty associated with the COVID-19 pandemic effects:

1. "V Type impact": It contemplates a (-)8.8% drop in the GDP, which implies a deterioration regarding the previous report (-4.6%). For 2021, the central bank expects a 5.6% growth, higher than its 1Q20 forecast (4.0%).
2. "Deep V impact": It considers a drop of (-) 11.3% of GDP, which is greater than that estimated in 1Q20 (-8.8%). For 2021, estimated economic growth would reach 2.8%, lower than the 1Q20 expectations (4.1%).
3. "U-type impact": It estimates that the drop in GDP would total (-)12.8%, greater than the 1Q20 forecast (-8.3%). The most significant difference in this scenario concerning 1Q20 is one more year of recession since the 2Q20 forecasts a (-)0.5% negative growth.

Besides, Banxico estimates that consumer inflation at the end of 2020 will total 3.7%, slightly higher than the last report's forecast (3.5%). For core inflation, the expectation is the same as in 1Q20 (3.8%). By 2021, the central bank forecasts that consumer inflation will close the year at 2.9%, while core inflation at 2.8%.

Banxico's projections on inflation seem optimistic if we consider that annual inflation for the first half of August totaled 3.99%, just at the limit Banxico's target range (3.0% ± 1.0%). Additionally, core inflation was also considerably high (3.93%). Given Banxico's constitutional mandate (to maintain the currency's purchasing power) and the commitment is established in 2003 to keep inflation within the 3.0% ± 1.0% range, the central bank no longer has degrees of freedom to continue the current cycle of reduction in its reference rate.

Inflation

In the first half of August, the Mexican Consumer Price Index (INPC) had a 3.99% annual inflation, limiting the tolerance interval of Banxico (3.0% ± 1.0%). With this data, inflation accumulates nine consecutive fortnights with increases since April when it reached the year's lowest level (2.08%). By components, the behavior was as follows:

1. The core index had a 3.93% annual increase with the following results within:
 - a. The goods index increased by 5.32% annually; this figure had not been so high since December 2017.
 - b. The services index had a 2.43% annual increase and continued the downward trend displayed since the first half of May when it stood at 3.02%.
2. The non-core price index increased 4.18% annually, by components:
 - a. The agriculture index rose 7.96% annually due to the increase in products such as tomatoes, whose price increased 9.51%

in the fortnight.

- b. The energy index had an annual increase of 1.40% since the price of products such as LP gas or electricity increased by 1.05% and 0.58%, respectively.

Gross Domestic Product

INEGI published the final GDP data for 2Q20 that showed a (-)18.7% annual contraction. By types of activities, the results were as follows:

1. The primary activities (agriculture, fishing, livestock, and forestry), which represent 3.24% of the GDP, fell (-)0.2% at an annual rate.
2. Secondary activities (industry, manufacturing, mining, essential resources, and construction) that total 25.70% of GDP fell (-)26.0% at an annual rate.
3. The tertiary sector (services and commerce) equivalent to 63.49% of GDP, declined (-)16.2% at an annual rate.

Global Economic Activity Indicator

The Global Indicator of Economic Activity (IGAE) had a (-)14.5% annual contraction in June. By components, secondary activities fell (-)17.5%, tertiary activities decreased (-)3.6%, and primary activities contracted (-) 1.5%. June's IGAE became relevant, as it shows the Mexican economy's recovery after the closure of activities. In this regard, the indicator increased by 8.95% compared to May's figure (88.48), which was the lowest of the year. Despite the above, noteworthy June's IGAE (96.4) is still (-) 12.25% lower than the March one (109.86), which was the last data before the COVID-19 pandemic and that already showed an economy in recession. The monthly improvement in secondary activities (17.9%) may be a consequence of the increased manufacturing exports from May to June, which practically doubled.

Balance of Payments

Banxico released the balance of payments for 1H20. The financial account presented a US\$9.18 billion surplus, (-)53.19% lower year-over-year (YoY), and the behavior of its components were as follows:

1. A preliminary flow of Foreign Direct Investment (FDI) of US\$17.96 billion, (-)13.62% less than in 1H19.
2. Foreign Direct Investment by Mexicans in other countries totaled US\$6.0 billion, 57% more than the same data in 2019.
3. There was an outflow of foreign portfolio investment of US\$(-)4.22 billion, in the same period of 2019, there was an arrival of US\$5.05 billion.
4. There was a flow of other investments (Development Bank, Bank of Mexico, and the non-banking public sector) that totaled US\$1.4 billion, the data for the 1H19 was an outflow of US\$1.44 billion.

The current account registered a US\$2.29 billion deficit, which implies a (-)67.68% reduction regarding the 1H19, by components, the behavior was as follows:

1. There was a deficit in tourist activities of US\$4.55 billion, practically double that observed in 1H19.
2. Interest in foreign debt totaled US\$19.43 billion (-)22.50% less than what was paid in 1H19.
3. Remittances amounted to US\$19.07 billion, 11.59% more than those registered in the same period of 2019.
4. The trade balance presented a US\$2.62 billion surplus, (-)16.68% less than that observed in the 1H19. Noteworthy that this surplus increased considerably with the July data, which left the year to date figure at US\$8.45 billion.

Trade Balance

Mexico's trade balance presented a significant surplus of US\$5.79 billion in July, leaving the YTD surplus at US\$8.47 billion, a figure 3.35 times higher than in the same period of 2019. Although exports continue to show negative annual growth (-8.9%), foreign sales of manufactured products (91.5% of total exports) show a recovery of 113% since May reached the minimum of the year (US\$15 billion). On the other hand, imports recorded a (-)26.1% annual contraction, mainly due to a (-)25.0% drop of intermediate-use goods representing 74.6% of total imports.

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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.

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.

Global Indicator of Economic Activity (IGAE): Allows to know and monitor the monthly evolution of the real sector of the economy.

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.

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.

Remittances: Funds an expatriate sends to his/her country of origin via wire, mail, or online transfer. These peer-to-peer transfers of funds across borders are economically significant for many of the countries that receive them.

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.

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.

Year over Year (YoY): Indicates the change from the comparable amount reported in the same period one year earlier.

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