

**Trade war tensions pressure Financial Markets**

During the week, most global markets were negatively affected by continuous trade war tensions between the United States and China. The week began with the devaluation of the Chinese Renminbi that deepened stock markets downward trend, after Trump's tariff threat to China at the beginning of the month. In contrast, the U.S. Treasuries, gold, and the U.S. dollar were favored.

In Mexico, the decline in July's inflation favors the possibility of a reduction in Banxico's reference rate, although it may not materialize on the August 15<sup>th</sup> meeting. Moody's published a report that highlights the distrust of investors due to the inconsistent economic policies of the Mexican government.

**Spot Exchange Rate**

The exchange rate closed the week at MX\$19.39 per dollar, a weekly depreciation of 0.48% but a year-to-date appreciation of 1.30%. The exchange rate reached a maximum level of MX\$ 19.74 per dollar, following the devaluation in the Chinese currency; however, the strength in Mexico's external accounts allowed the peso to resist uncertainty. Noteworthy, the peso is one of the four currencies that has appreciated against the dollar so far this year.

**Mexican Stock Exchange**

For the first time in a month, Mexbol closed with a weekly gain of 1.11%; however, uncertainty prevails, and investors have distrust in Mexican public policies, as Moody's revealed in its report.

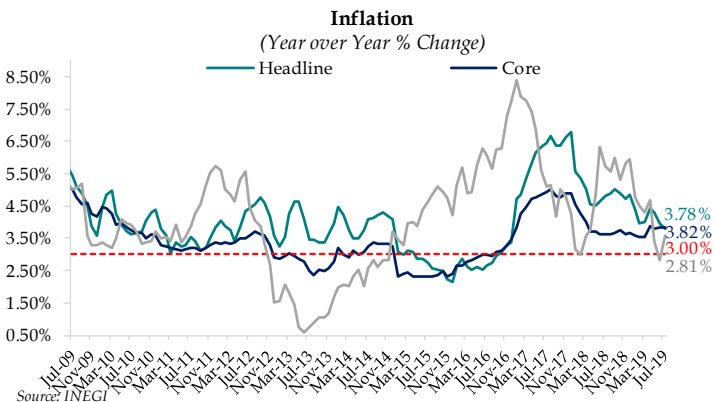
**Mexico and United States Bonds**

Global uncertainty caused by the trade war has benefited US Treasuries and gold. Since President Trump threatened more tariffs on Chinese imports, and until Friday, August 9<sup>th</sup>, the 10-year treasury rate has decreased 27 basis points to settle at 1.73%. On the other hand, the 10-year M bond rate has also benefited and presented a 33 basis points decrease to 7.20%.

**Inflation and Banxico's Decision**

Annual inflation in July had a considerable slowdown and stood at 3.78%. By components, non-core inflation fell the most, from 4.19% in June to 3.64% in July. Although core inflation declined when compared to June (3.82% in July versus 3.85% in June), it continues presenting downward resistance as three of its five subcomponents (food, beverages and tobacco, education and other services) remain considerably above Banxico's inflation target (3.0% ± 1.0%).

The pressure for a reduction in Banxico's reference rate in the next monetary policy decision meeting on August 15<sup>th</sup> increased following the Fed's cut in its reference rate and the statements made by President Andrés Manuel López Obrador to Bloomberg. Despite the above, Banxico's orthodox decision would be not to lower its rate at this meeting and wait until inflation consolidates below 4%.



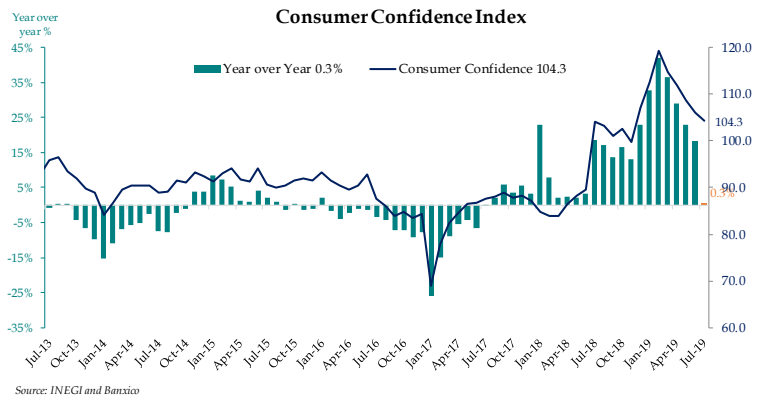
**Moody's Report**

Moody's revised its growth expectations for the Mexican economy in 2019 from 1.7% to 1.2% and from 2% to 1.5% in 2020. Although the rating agency estimate is significantly above market consensus expectations (0.5%), it highlights the lack of coherence shown in the economic policy decisions of President López Obrador as the main brake on economic growth.

**Economic Indicators**

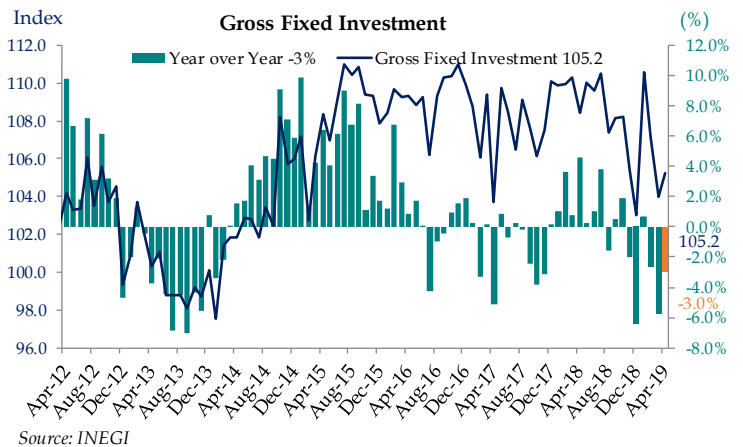
**Consumer Confidence**

Consumer confidence in July remained unchanged year-over-year (YoY) but marked the fifth consecutive month in which confidence fell compared to the previous month (-1.6%) and returned to pre-election levels mainly due to the deterioration of the economic expectations of households for next year.



**Gross Fixed Investment**

Gross fixed investment fell -2.97% YoY in May for the third consecutive month. By components, machinery collapsed (-3.4% due to a (-)7.5% drop in international machinery investment and Construction fell (-) 2.1% accumulating its third-month decline.



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#### Definitions

**Consumer Confidence Index:** Is the average of five components that measure consumer confidence. It is not possible to invest in an index.

**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 Bill:** It is a government debt instrument 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.

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

**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.

**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.

**Banxico:** Banco de México is the central bank of Mexico. By constitutional mandate, it is autonomous in both its operations and management. 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. Its other functions are to promote both the sound development of the financial system and the optimal functioning of the payment systems.

**Inflation:** Is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time.

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

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