

Positive December for equity markets

Equity markets in the US closed the year with excellent returns, motivated by the strength of its economy and the Federal Reserve's (Fed) easing monetary policy. In Mexico, the low economic growth and instability, caused by the inconsistency in government public policies tainted Mexbol's performance. Noteworthy, the strength of external accounts and the Mexican currency, were consolidated.

Mexican Stock Exchange

Mexbol delivered a good US dollar performance of 12.05% in 2019, higher than the CETES rate of 7.25%; however, despite the "Christmas rally," Mexbol was not able to reach its maximum level of the year (45,525 points) observed on April 17th. During the week, Mexbol had a positive start to the year that could materialize in a "new year rally"; unfortunately, the increase in geopolitical tensions decelerated this positive performance and caused the index to close with a slight gain of 0.66%.

Spot Exchange Rate

The spot exchange rate closed 2019 at MX\$18.93 per dollar, which implies an appreciation of 3.66% in the full year. Noteworthy, throughout 2019, the gap between the maximum and minimum level (MX \$ 1.40) was considerably lower than the observed in 2018 (MX \$ 2.86) and 2017 (MX \$ 4.47). Undoubtedly, the positive performance of the Mexican currency is a consequence of the strength of the external accounts. International reserves in 2019 closed at US\$180.74 billion, a 3.32% YoY increase (US\$5.81 billion), as a result of the US dollar oversupply caused by i) historic levels of remittances, ii) trade balance surplus, iii) an increase in the trade surplus with the United States, and iv) robust Foreign Direct Investment (FDI) data.

Interest Rates in Mexico

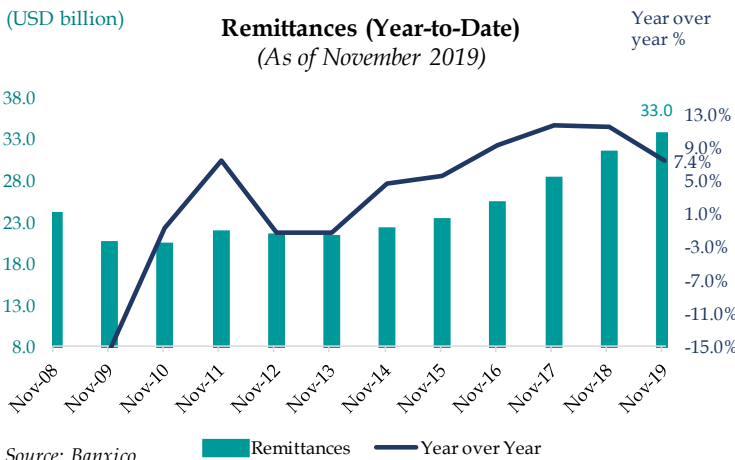
The overnight rate of Banxico at the beginning of 2019 was 8.25% and closed at 7.25% by year-end, following four rate cuts of 25 basis points (bps) each. In three of the four rate cuts, there was a split decision in the Governing Board, as at least one member voted for a 50-bps decrease. The board's decisions were defined by the market as gradualists since, in an environment of low inflation, a stable exchange rate, and economic slowdown, Banxico could have reduced its rate at a faster pace to support economic growth. Market consensus expects the easing cycle to continue in 2020, although with the same gradual approach.

The 10-year M-Bond rate began 2019 at 8.65% and ended the year at 6.91% (-174 bps) as a result of the US Treasury Bond rate decrease, and Banxico's rate cuts. Noteworthy, throughout the year, the holding of M Bonds by foreigners remained relatively stable and close to a monthly average of US\$95.8 bn in 2019.

Economic Indicators

Remittances

In November, total remittances amounted to US\$2.89 billion, accumulating US\$32.96 billion in the year, which is 7.43% higher than the same period in 2018. Although there was a monthly slowdown in remittances compared to the rate observed in the year, the year to date (YTD) figure represents the highest one since Banxico keeps a record (1995).

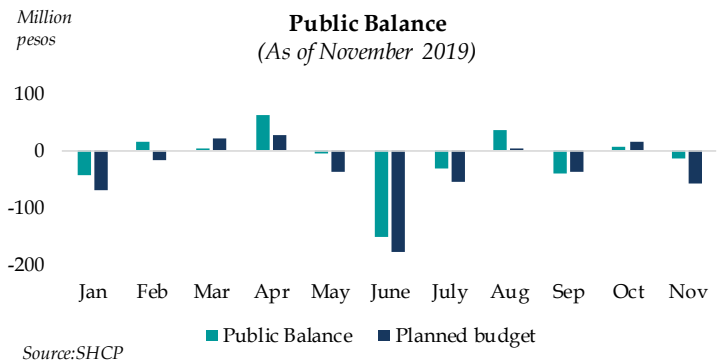


Central Bank Minutes

In the last monetary policy meeting on December 18th, the Board decided to reduce the reference rate by 25 bps to leave it at 7.25%. In terms of economic growth, the Board agreed that the global slowdown responds to the low growth rate of developed economies except for the United States. All members estimate that the stagnation of the Mexican economy will persist in 4Q19 subject to observing the data from the period and indicated their concerns on the recent slowdown in the automotive sector. Noteworthy, the Board considers that in 2020 the economy will have a modest recovery, and as annual inflation has fallen faster than expected, they believe it will close 2019 below the 3.2% announced in its last quarterly report.

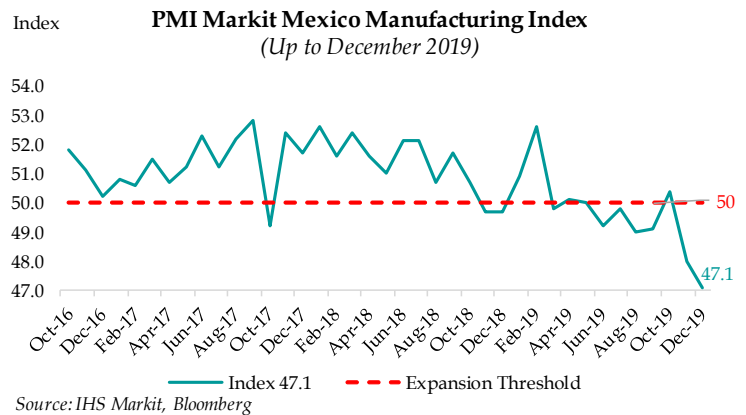
Public Finances

In the first eleven months of the year, the government has had an underexpenditure of MX\$149.8 billion. This has been the strategy throughout the year that has allowed the primary balance surplus to be MX\$150 billion higher than the one budgeted at the beginning of the year. It is noteworthy the usage of more than 60% of the Budget Revenue Stabilization Fund (FEIP) during 2019.



Manufacturing Purchasing Managers Index (PMI) Mexico

The Purchasing Managers Index (PMI) of the manufacturing sector was 47.1 in December, lower than the 48.0 observed in November. In both cases, the data is in contraction, and the participants in the survey stated that the reasons for the deterioration in the industry are due to the complicated market conditions, the reduction of public tenders, and the weak demand from domestic and foreign clients.



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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.

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

Budget Revenue Stabilization Fund (FEIP): It is a savings available to the Mexican State that aims to compensate for imbalances that the government budget could suffer and thus be able to cover the planned expenditure.

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.

Purchasing Managers' Index (PMI): Is an index of the prevailing direction of economic trends in the manufacturing and service sectors. Provides information about current and future business conditions to company decision makers, analysts, and investors.

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.

Spot Exchange Rate: Is the current price level in the market to directly exchange one currency for another, for delivery on the earliest possible value date.

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

The Mexican Federal Treasury Certificates (CETES): Are investment instruments offered by the Federal Government through the Ministry of Finance and Public Credit.

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.

4Q19: Period that starts the fourth and last quarter of the year 2019 which ends on December 31.

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.

Disclosures

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