

Excellent macroeconomic data in the United States while Mexico's economy stagnates in the first quarter

On Friday, May 3rd, Mexbol closed at 44,277; which represents weekly losses of (-) 1.54% and leaves the year-to-date gain at 6.86%. The above, after the Organization for Economic Cooperation and Development (OECD) reduced its growth forecasts for the Mexican economy for 2019 from 2.0% to 1.6% and for 2020 from 2.3% to 2.0%. Both estimates in line with the Finance Ministry expected GDP growth of 1.1%- 2.1% for 2019 and 1.4%- 2.4% for 2020. Among the factors that motivated this downward revision are, in our view, the weakness in investments in the face of the political uncertainty, low productivity growth and the fall in oil production. Likewise, the Mexican credit rating agency HR Ratings reduced its GDP growth forecasts from 1.65% to a range of 1.4% to 1.5% due to the negative trend of the Gross Domestic Product in the first quarter of the year.

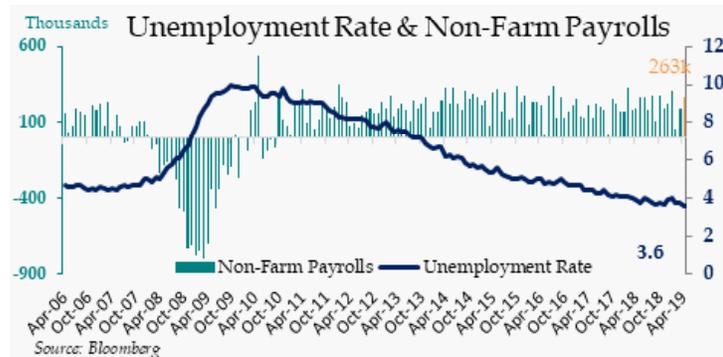
The spot exchange rate stood at 18.92 pesos per dollar at the closing of the week, technically the same compared to the prior week (18.94 pesos per dollar), this leaves year-to-date appreciation at 3.86%. Despite the lower growth outlook for Mexico, this lateral trend is due to the strength of external accounts. In the first quarter of the year, remittances amount to a historical maximum of 7,699 million dollars and the trade balance had a surplus for two consecutive months (1,222 million dollars in February and 1,429 million dollars in March). Also, the Mexican Congress completed the approval process of the labor reform, a necessary condition for the ratification of the trade agreement between Mexico, the United States and Canada (USMCA) by the United States Congress.

The 10-year M bond rate closed at 8.11%; 4 basis points above last week, and a 558 basis points spread against the 10-year US Treasury bonds; after Jerome Powell, president of the FED, emphasized that the current monetary policy of the United States is appropriate and the FOMC members see no reason to change in either direction.

Economic indicators

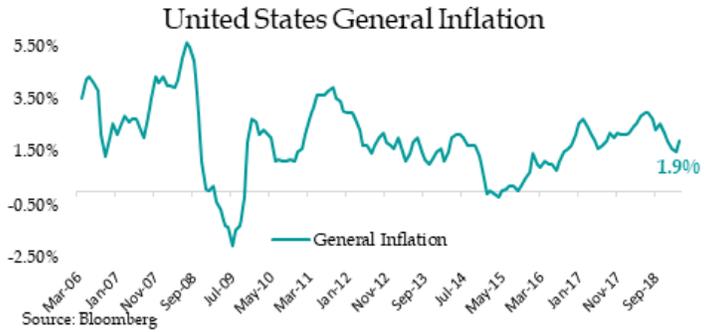
Labor market in the United States.

In April, the Non-Farm Payroll rose to 263 thousand new jobs; 67 thousand more jobs compared to March and higher than market consensus expectations (190 thousand new jobs). Nevertheless, the unemployment rate was 3.6%; its lowest level since December 1969 and lower than the full employment rate estimated by the Federal Reserve (4.0%).



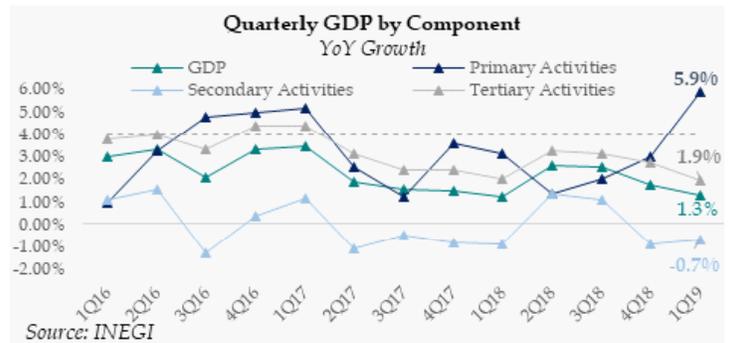
Monetary policy in the United States.

On Wednesday, May 1st, the Federal Open Market Council (FOMC) of the Federal Reserve of the United States (FED) decided to keep its main reference rate unchanged between 2.25% to 2.50%. The FED stressed that inflation has remained below the 2.0% target in recent months, due to "transitory effects" that could be offset by the strength of the labor market. It also highlights the growth of the Gross Domestic Product in the first quarter of 2019, which was 3.2% annualized.



Gross domestic product.

During the first quarter of 2019, the Gross Domestic Product (GDP) registered a 1.3% year over year (YoY) growth in real terms (original series). This figure represents a significant drop compared to the annual growth of the third (2.0%) and fourth quarter (1.7%) of last year. As for its components, the primary activities -mostly agricultural- registered the most significant annual increase in 5 years (+ 5.9%) and the tertiary activities -services- the lowest in 5 years (+ 1.9%). On the other hand, secondary activities -including industrial activities- decelerated for the second consecutive quarter (-0.7%).



Remittances.

24.4 million remittance operations were registered in Mexico in the first quarter of the year. Accumulated remittances in the first three months of the year amounted 7,699 million dollars; 7.1% more compared to the same period of 2018 and a historical maximum. 98% of remittances were made by wire transfers, almost 2% were in cash or in-kind and less than 1% were international payment orders or Money Orders. The average amount of transactions was \$ 315 per transaction

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Definitions

Gross Domestic Product: A monetary measure of the market value of all the final goods and services produced in a period of time, often annually.

Remittances: A transfer of money by a foreign worker to an individual in their home country.

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.

United States - Mexico - Canada Agreement (USMCA): On November 30, 2018, United States, Mexico and Canada signed a new trade agreement on the margins of the G20 Leaders' Summit in Buenos Aires. Parties are within the process towards its ratification and implementation.

Federal Reserve (FED) is the central bank system of the United States that includes the Board of Governors in Washington, D.C., and 12 independent regional Reserve banks.

The Federal Open Market Committee (FOMC), a committee within the Federal Reserve System (the Fed), oversees the nation's open market operations and makes key decisions about interest rates and the growth of the United States money supply.

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.

US Treasury Bills: It is a government debt instrument issued by the United States Department of the Treasury to finance government spending as an alternative to taxation.

Basis point (BPS): One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001.

Disclosures

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