

Steady Exchange Rate and Stock Market in September

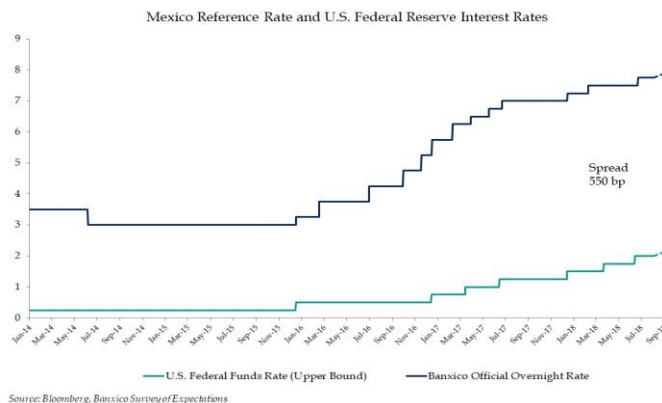
On September 28th, the spot exchange rate closed at 18.72 pesos per dollar; practically unchanged compared to August, and a 6.22% appreciation throughout 2018. The events that influenced exchange rate steadiness were:

1. The commercial understanding between Mexico and the United States, announced on August 27th, eliminated the main source of volatility in the foreign exchange market. The U.S. and Canada reached a late-Sunday night agreement, and together with Mexico, announced the United States-Mexico-Canada Agreement (USMCA). Mexico's President, Enrique Peña Nieto, has until November 30th to review and accept the new deal.
2. Systemic risk in countries such as Turkey and Argentina now include Italy as well. The new left-wing Italian deficit budget is 2.4% of GDP, higher than the 1.6% expected. This deficit target challenges the European Commission recommendations on fiscal prudence. Considering that Italy's public debt amounts to 130% of GDP, this decision had adverse effects, especially on the euro and the European stock markets.

MEXBOL closed at 49,504 points in September; practically the same compared to last month and a 1.86% gain so far this year. The latter shows a sideways trend that started one week after election day and kept on after the commercial understanding between Mexico and the United States announcement. In the coming months, the index should consolidate in a lateral trend, while the market incorporates expectations on the new government policies. Namely:

- On October 28th a public consultation will take place on whether Mexico City New Airport project should continue or not. Confirming the project would be positive for capital markets, as it would favor completing an infrastructure project that would last for the next 50 years. If canceled, it would send a negative signal to markets, as it would show Mexican State long-term contracts are vulnerable towards government changes.
- During November, budget processes will provide evidence on the commitment to fiscal discipline. So far, the new administration has stressed this point, which is reassuring. It will be worthwhile to review if the General Criteria of Economic Policy 2019 anticipates a primary surplus; and therefore, if public debt target at 45.5% of GDP could be possible.
- In December, the new president must propose a shortlist for the position of deputy governor at Banco de México. Now that the term of Manuel Ramos Francia has come to an end, the credentials of potential candidates become relevant to evaluate AMLO's commitment to central-bank independence. One of the candidates is the economist Jonathan Heath.

Next Thursday, on October 4th, Banxico could increase the reference interest rate from 7.75% to 8.0%. Among the arguments to expect an increment are: (i) Banxico has missed its 3% inflation target for 20 months in a row, even though its only mandate is price stability; and (ii) an increase would be consistent with the recent federal funds rate hike in the United States. Notwithstanding, the current spread is 550 basis points, which is wide enough to allow for more time before the next increment. Public opinion will follow Banxico decision closely, especially after the elected president mentioned the central bank was accountable for the state of the economy.



Source: Bloomberg, Banxico Survey of Expectations

Economic Indicators

Trade Balance

In August exports increased 10%, reaching a value of \$ 39.5 billion dollars, while imports grew 9.4% with a value of \$ 42.1 billion dollars, resulting in a deficit of \$ 2.6 billion dollars in the month.

In the first 8 months of the year exports amounted to \$ 295.3 billion dollars, 11.3% above the same period in 2017 and imports amounted to \$ 305.4 billion dollars, 12% more than in 2017. The cumulative deficit in 2018 is \$ 10 billion dollars.

Economic Activity IGAE YoY

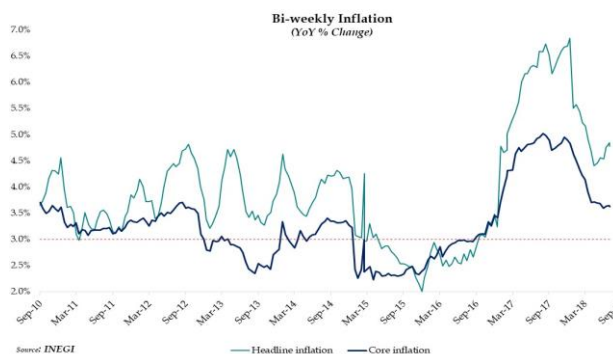
The Global Economic Activity Index (IGAE) increased 3.32% in July. So far, this is the biggest increment in 2018. By index component, primary activities increased 1.31%, while secondary activities increased 1.35% and commercial and service sector activities by 4.41%. Seasonally adjusted, IGAE increased 2.77% in July compared to the previous year.

Unemployment Rate NSA

The unemployment rate remained practically unchanged in August at 3.47%, very similar to the 3.5% observed last year. Likewise, the national occupation and employment survey (ENOE) reveals that 59.7% of the population aged 15 and above was considered economically active in August.

Bi-weekly Consumer Price Index

Consumer inflation in the first half of September was 4.88% per year and core inflation was 3.64%. The increase is due to energy prices, which have increased 19.32% throughout the year. With this result, Banxico has missed its 3% target for 41 fortnights in a row.



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Compliance

Definitions

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.

IIF: Institute of International Finance

USMCA: United States-Mexico-Canada

GDP: Gross Domestic Product proxy. The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory

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.

IGAE: The Global Economic Activity Index

ENOE: The national occupation and employment survey

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

Disclosures

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