Banxico Finally Reduced Its Interest Rate

As in much of the rest of the world, Mexico is now finally joining the monetary easy bandwagon. The Central Bank has now cut rates by a total of 50bps in the past two meetings, and given well behaved inflation, will likely continue to cut as the year progresses. Meanwhile, the rally in long dated bonds has continued, even as the Peso has depreciated. 10-year Mexican government bonds (2029) yielded 6.89% at the close on Friday, (down 178bps on the year), and the spread with US Treasuries has fallen to 521bps, from an average of 560bps over the past 12 months. Based on interest rate futures, the market on average is expecting another 64bps loosening the rest of this year, and 183bps by year end 2020.

The trillion dollar question is the impact of lower rates on GDP growth. Will banks make more credit available? And will companies and individuals ask for more credit? Clearly at the margin, credit will be boosted by lower rates, if only because the interest burden of taking on more debt will be lower. But the government will still need to do more to generate confidence if added credit will by itself lead to a significant recovery in GDP growth. Nonetheless, the rally in local fixed income instruments is clearly positive news. Go growth and the stock market.

Damian Fraser.

S&P / BMV IPC Valuation

After last week's 1.61% correction, the Mexican S&P / BMV IPC Index trades at a forward EV/EBITDA of 8.2x, which is above the first negative standard deviation of the last 10 years. The projected P/E stands at 14.4, slightly below the first negative standard deviation.

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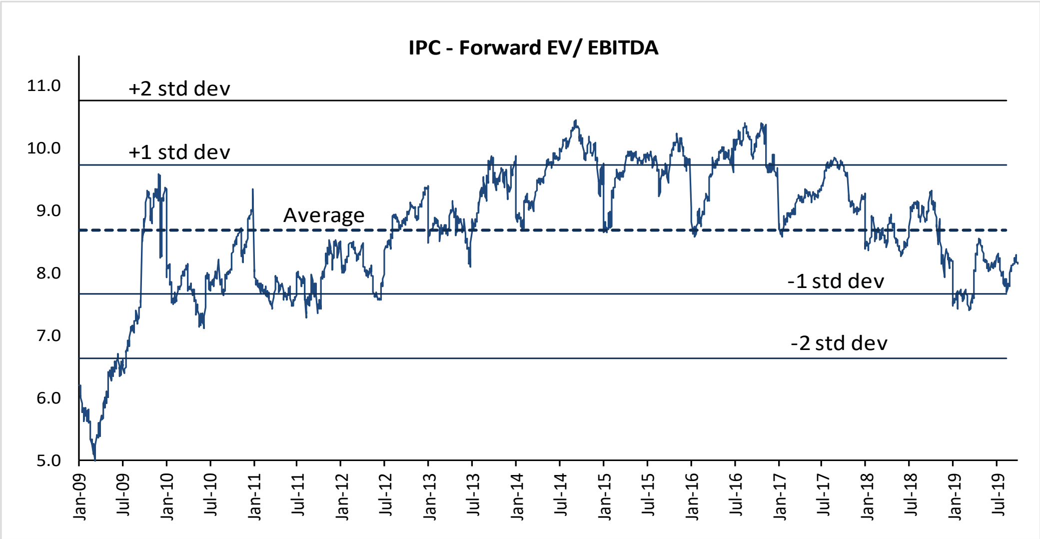

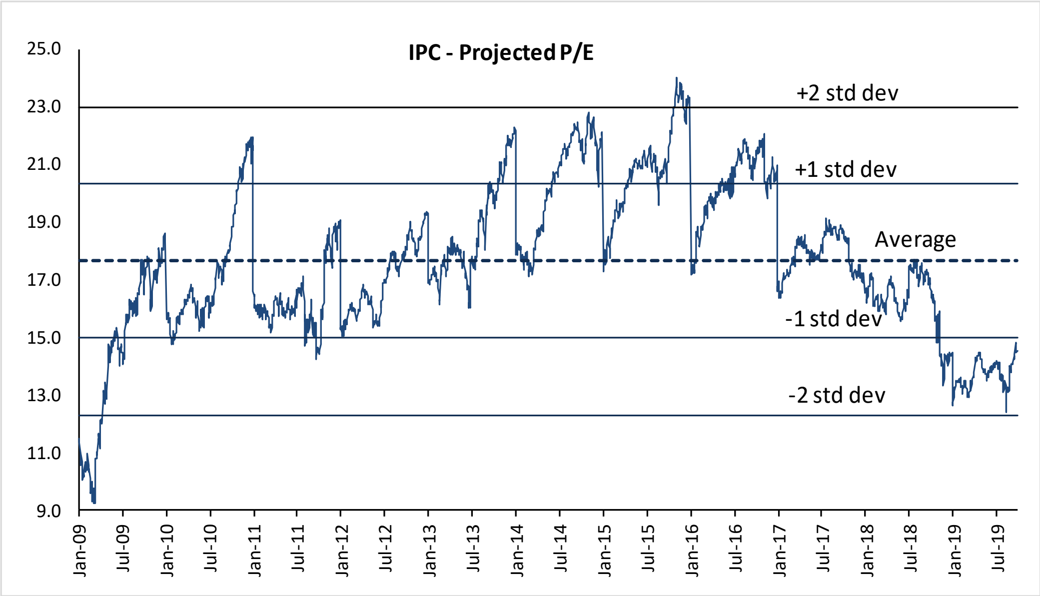

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