

## Strong macroeconomic fundamentals allow for no immediate action from MoF and Banxico

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- The Ministry of Finance and Banxico just held a press conference
- They considered that Mexico has strongly enough fundamentals to weather the possible reaction on markets after Trump's victory
- Among the most important strengths, they highlighted:
  - (1) Fiscal strength – with higher levels of tax collection as well as fiscal consolidation;
  - (2) A solid debt management strategy in which the MoF would not have to tap foreign markets until the end of next year;
  - (3) Oil revenues hedged at 42dpb;
  - (4) Pemex business plan
  - (5) International reserves (US\$170.9bn) enough to cover foreign holding in domestic markets, along with the IMF's flexible credit line for US\$88bn; and
  - (6) A well-capitalized banking system
- In this context, the Exchange Rate Commission will remain vigilant and will consider to intervene in the future is necessary
- Moreover, Banxico will announce its monetary policy decision next week, although we cannot rule out an *intra-meeting* decision in the case of high volatility
- Judging by the fiscal-monetary-FX policy combos implemented back in February and July (*Brexit*), market participants were expecting at least an interest rate hike today, more so that Trump is considered a much more Mexico-specific issue, so USD/MXN moved from 19.7 to 20.3 right after the no-action announcement and we expect further depreciation of the peso and higher volatility
- Thus, we continue to expect a 75bps rate hike at November's meeting, followed by another 75bps in December
- Meanwhile, the Mexican peso is extending early losses following the decision from the MoF and Banxico to take no action at today's press conference, trading 10.3% weaker to USD/MXN 20.20, in the aftermath of U.S. elections, with a stronger likelihood of heading towards 22.00/23.00 by year-end, conditioned to the action plan by President-elect Trump ahead of January 20th
- Local rates pared the strong sell-off after Banxico decided to stay put and wait for its ordinary meeting on November 17th to consider any policy action derived from the U.S. elections outcome. Sovereign rates are trading with losses of 35-40bps along the entire yield curve

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