

PUBLIC

HSBC Bank, “2020 vision” Mexican Peso influences

January 2020



Mexican Pesos

A recent history

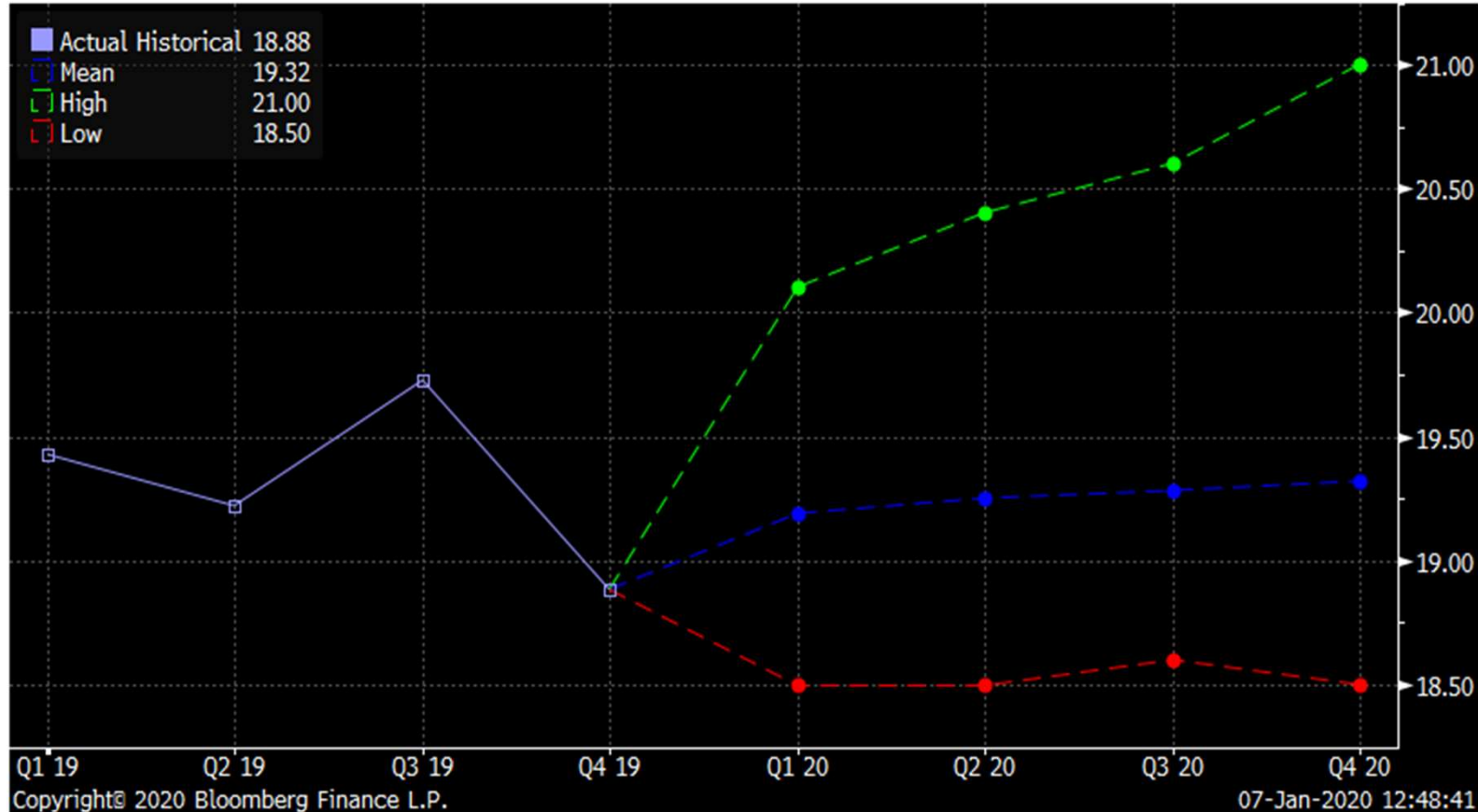
- The “average” for the USD/MXN over the last decade has been around MXN 15.50
- Over the last five years the MXN has weakened up to 69% from the 2014 levels
- The Mexican economy has overall been a beneficiary of the US/China Trade War



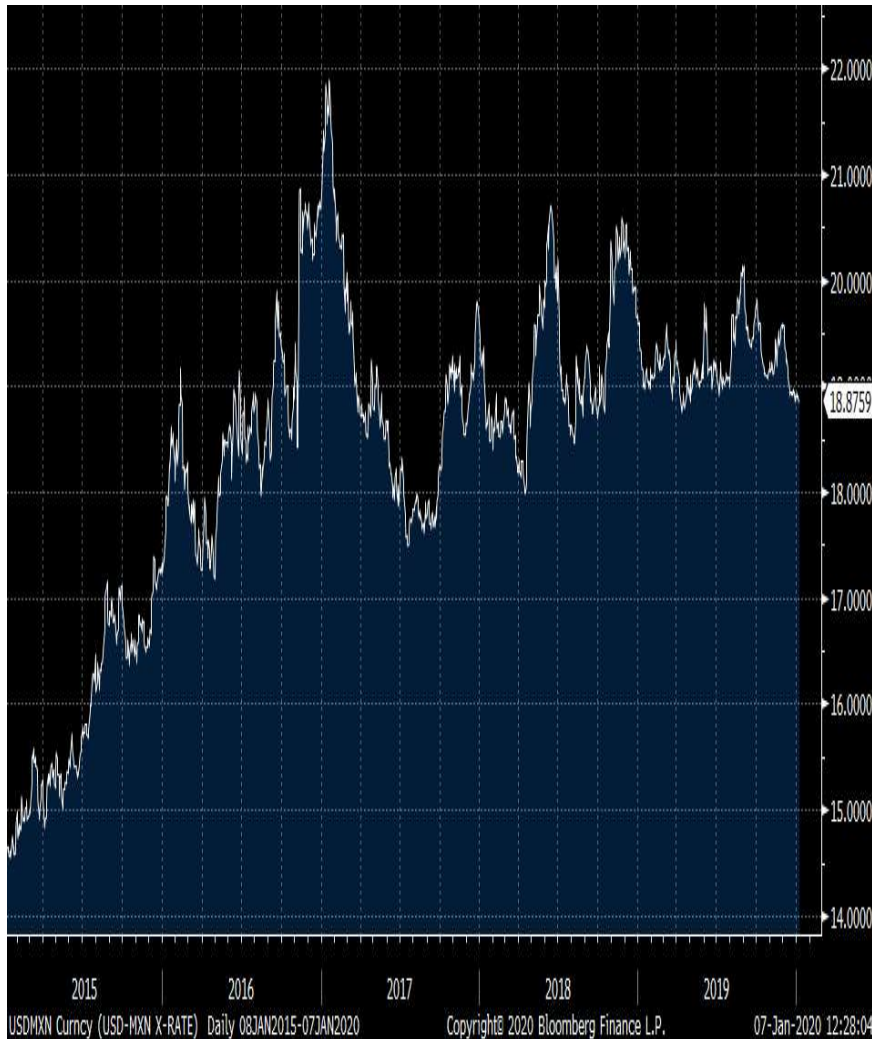
Mexican Pesos

Where do the experts believe the MXN is likely to go

- The Top 50 Economists forecast, tells us that the MXN will definitely strengthen
- Or weaken! (The only function of economic forecasting is make Astrology look respectable)
- Everything we know now, and suspect about the future is already built into the price
- This means it is only the unanticipated that will move the price (Geopolitics is very unpredictable)



Mexico: 2020 Vision: Carry on until you can't



- In Mexico, yield has been the dominant driver for the MXN, as relatively tight monetary policy has anchored the currency despite the deterioration in the macroeconomic framework and the risks associated with state-owned oil company Pemex.
- Although the central bank has started to ease policy rates, this has been a reaction to global monetary conditions while the real premium in long-dated yields still seems sufficient to compensate long-term investors.
- HSBC maintains a long-term bearish MXN view, predicated on the idea that eventually the rates curve can flatten to a point where Banxico will be unable to keep its real rate above neutral.
- HSBC believes the MXN can remain stable in H1 2020 if a benign external environment prevails, as market players keep a bid for yield. However, we think the currency could weaken in H2 2020 as both the economic deceleration and additional government expenditures start to impair fiscal dynamics.

Mexican Pesos

Risk Management Choices

- If you are materially exposed to currency movement, consider your FX risk management choices
- Covering MXN fixed costs? Maybe take advantage of forward contract rates
- There is no “one size fits all” in establishing a policy
- It depends largely on visibility of exposure, your objectives and risk tolerance
- Stress test your policy.. Expect the unexpected, take nothing for granted
- Unlike General John Sedgwick.. (famous last words.. “Don’t worry men, they couldn’t hit an elephant at that dist..”..



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