

**Strong Markets Despite the Shortage of Fuel**

**Outcomes of the strategy against fuel theft**

On December 27th, the Federal Government initiated a strategy against fuel theft; a necessary action as the value of stolen fuel in the last three years amounts to US\$9 billion. As part of the plan to stop fuel extraction directly from pipelines, the Federal Government closed eight valves within the distribution system. Also, more than 5,000 militaries were assigned to protect the supply network, tank trucks surveillance increased, ministerial investigations began, and an intelligence committee to combat fuel theft was put in place. Although the most notorious consequence was the gasoline shortage, the Federal Government announced the following achievements:

- Andres Manuel Lopez Obrador stated that between December 20th and January 8th his strategy saved 2.5 billion pesos due to the decline in tank truck theft; that would exceed the costs of gasoline and diesel transportation for using these trucks.
- The Intelligence Unit of the Ministry of Finance announced that the theft of hydrocarbons fell 96%. It also emphasized that 133 companies are under investigation for fuel theft and money laundering and several bank accounts were frozen.
- Alfonso Durazo, Secretary of Security and Citizen Protection explained that Pemex is now selling more hydrocarbons than before the fuel theft strategy was launched. He also emphasized, that 21 clandestine outlets were detected, 2 million 605 thousand liters of hydrocarbons were recovered, and there are 11 guilty verdicts. Mexican Attorney General Alejandro Gertz informed that three top officials at state oil company Pemex will face trial for fuel theft and that authorities have opened 1,700 individual investigations which became a massive black-market industry in Mexico under previous governments, involving powerful drug cartels and corrupt Pemex insiders.

In contrast, the strategy has brought costs on trade, transportation, tourism, and manufacturing. In more detail:

- The operation triggered the sabotage to pipelines and distribution delays, which left 70% of the gas stations without fuel (out of those monitored by the Consumer Protection Agency). The most affected states were the State of Mexico, Guanajuato, Mexico City, and Querétaro.
- Citibanamex warns that the cost of economic activity due to the fuel crisis which lasted 17 days, will impact by 23 thousand 600 million pesos, and the losses would equal 0.1% of GDP.
- Jorge Ramírez, president of Coparmex for El Bajío, assured that the economic losses due to the shortage of fuel exceed 1,250 million pesos in this region.
- The Confederation of National Chambers of Commerce, Services and Tourism (Concanaco-Servytur) estimates that the problem of distribution left economic losses of 4,600 million pesos in Querétaro, Guanajuato, Michoacán, Jalisco, the State of Mexico and Mexico City.
- Guillermo Rosales, director of the Mexican Association of Automobile Dealers (AMDA), highlighted that the delivery of new cars was halted due to the shortage. Eduardo Solis, president of the Mexican Association of the Automotive Industry (AMIA), pointed out that the lack of some types of gasoline, such as the one used on new cars, poses risks for car manufacturers.
- The Confederation of Industrial Chambers (Concamin) estimated that the losses for the days of gasoline shortage amount to 20 billion pesos; equivalent to 0.1% of GDP.
- The National Chamber of Commerce (CONCANACO) noted that, if the fuel distribution crisis continues for several days, there may be problems in the food supply.
- Rating agency Moody's said that the crisis of shortage of fuel in several states of Mexico will not affect Mexico if it is not prolonged. At the time of writing, the situation has been normalized, and it will have a limited economic impact.

**Financial markets position**

While the fight for fuel theft has been in the spotlight, financial markets maintain a favorable drift due to a reduction in international risk factors. Namely:

The British Prime Minister, Theresa May, must provide an alternative to the exit agreement with the European Union; as the initial one was rejected. Beyond the sentiment of each party representative—who will cast their votes on January 29th—the process through which Britain is going through stands out as exemplary, therefore, the willingness and readiness to debate, under sound and clear principles, sets a high benchmark among members of Congress in other democracies.

January 30th is the next meeting of the Federal Reserve of the United States (FED), Jerome Powell has indicated that the institution is in a place where it will be “patient and flexible” to observe the evolution of the economy. Market consensus estimates the FED will increase two times its interest rate by 25 basis points each in 2019.

On January 30th and 31st, the last round of trade negotiations between China and the United States will take place. Faced with the slowdown in China's foreign trade, and the fall in its most pronounced industrial output in ten years, the result of the meeting becomes even more critical.

Fitch Ratings agency assigned a BBB+ rating to the 4.5%/10-year US\$2bn Global sovereign bonds that the Ministry of Finance issued last Wednesday, January 16th. One of the aspects considered for the valuation of the bonds was the rating that the country has, also three points above investment grade.

In this context, on Friday, January 18th, the spot exchange rate closed at 19.08 pesos per dollar, which implies a weekly appreciation of 0.24%, and a 2.89% gain in 2019. In the same vein, Mexbol Index closed at 44,242 points for a weekly increase of 1.57%, or 6.26% year-to-date increase.

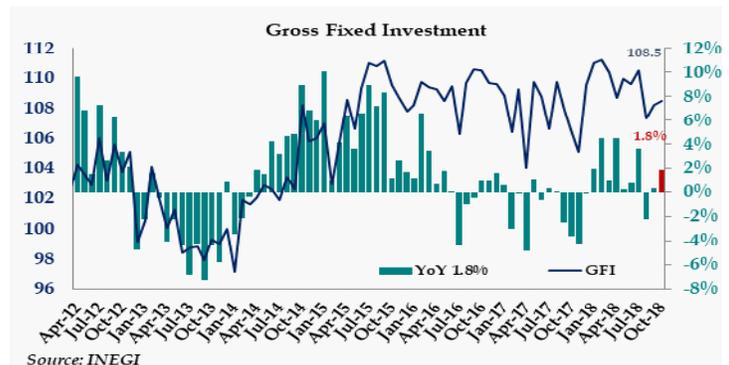
**Economic Indicators**

**Gross Fixed Investment**

The gross fixed investment in October increased by 1.8% compared to 2017, driven mainly by the increase in machinery and equipment. The three-month moving average to October presents a 7.11% drop, the biggest of the year. Since May, investment growth slowed down due to a drop in demand for machinery and equipment (-31.54 annualized to October; the worst since 2009).

The latter is a consequence of a tilt in risk aversion during the last quarter of 2018, combined with Banco de México more restrictive monetary policy. This indicator lags two months behind; therefore, expectations for the November figure, which will be published in February, are not optimistic. Investment faced difficult adjustments in October and November; followed by a recovery in December.

Noteworthy, this is a lagging indicator, that will likely show further deterioration for the November figure after the announcement of the cancellation of the NAIM.





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#### Definitions

**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.

**SHCP:** *Secretaría de Hacienda y Crédito Público*, is the Ministry of Finance.

**GROSS FIXED INVESTMENT:** Information allowing extensive knowledge about the behavior of investment in the short term, same consists of goods used in the production process for more than one year and are subject to property rights. This indicator shows how much of the new gross value added in the economy is reversed, instead of being consumed.

**AMDA:** Mexican association of automotive distributors, founded in 1945, we group more than 2,000 dealers of new vehicles established in the 210 most important cities in Mexico.

**AMIA:** Mexican Association of the Automotive Industry.

**CONCAMIN:** Confederation of Industrial Chambers, corporate representation body responsible for developing projects and initiatives for the sustained development of the Mexican industry.

**CONCANACO:** Autonomous institution that represents, promotes and defends national and institutional activities of commerce, services and tourism.

**Consumer Protection Agency:** **decentralized and sectorized public body of the Ministry of Economy of the Mexican Federal Government. It was created to promote and protect consumer rights.**

**COPARMEX:** Independent, non-partisan and voluntary membership union that brings together entrepreneurs of all sizes and sectors, united by a deep commitment to Mexico, and to those we represent in the labor, economic, social and political spheres, inside and outside the country.

**Financial Intelligence Unit of the Ministry of Finance (UIF):** Helps in the prevention and fight against the crimes of the operations with the proceeds of illegal procedure, commonly known as money laundering and terrorism and its financing.

**Fitch Ratings:** Fitch Ratings is a leading provider of credit ratings, commentary and research. Dedicated to providing value beyond the rating through independent and prospective credit opinions, Fitch Ratings offers global perspectives shaped by strong local market.

**NAIM:** New International Airport of Mexico City

**GDP:** Is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

**PEMEX:** Petróleos Mexicanos, which translates to Mexican Petroleum, is the Mexican state-owned petroleum company, created in 1938 by nationalization or expropriation of all private, foreign, and domestic oil companies at that time. The Fund maintains 0.0% investment in the security, at the close of September 30, 2018. For a list of full securities please visit: [www.mxefund.com](http://www.mxefund.com).

**Secretary of Security and Citizen Protection (SSPC):** It is the office of the federal executive branch in charge of preventing the commission of crimes and offenses against people and their property.

**Basis point (BPS):** Refers to a common unit of measure for interest rates and other percentages in finance.

#### Disclosures

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