

Pemex cancels farm-outs, and the Federal Reserve could lower its reference rate

The week of June 10th was marked by the withdrawal of the tariff threat that president Trump made to US Mexican imports, subject to improvements in migration controls by the Mexican government. This announcement was positive for the exchange rate. Important announcements concerning oil explorations were also made.

Farm-outs and exploration

The National Hydrocarbons Commission, "CNH", announced the cancellation of the farm-outs auctioning set for October 2019 during the previous administration. This announcement was made after Pemex Exploration and Production, "PEP", resigned to its migration rights regarding seven areas that were previously assigned to PEP by CNH on February 2nd, 2018.

In contrast, on June 11th, the CNH approved deep-sea exploration plans for five areas operated by Shell in Mexican territorial waters located on the maritime border of the United States. Shell committed to investing at least US\$ 397 million over the next four years, and if the drilling is successful, the investment could increase to US\$1.3 bn.

The 10-year M bond yield fell 21 basis points between June 7th and June 10th and closed the week at 7.92%, the lowest return in more than nine months, after reaching a maximum of 9.26% in November (Please see graphs).

M-Bond 10 years
(As of June 14th, 2019)



Treasury Bond US 10 years
(As of June 14th, 2019)

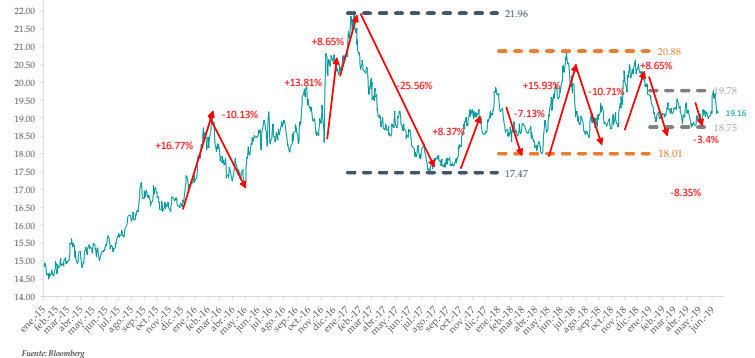


The following actions to avoid tariffs were enlisted by the Mexican Secretary of Foreign Affairs, Marcelo Ebrard:

- i) The number of immigrants that cross the United States border must fall by 60% before Tuesday, June 25th. Else, the US could resume the threat of imposing tariffs.
- ii) Mexico did not accept the obligation to buy US products.
- iii) Mexico would analyze the possibility of becoming a *safe third country*. If that were the case, immigrants would remain in the country until they clarify their migratory situation.

The spot exchange rate closed the week of June 14th at 19.15 pesos per dollar, a weekly appreciation of 2.41%. It is worth noticing the reduction that the volatility of the spot exchange rate has exhibited during the last periods. During 2017 the exchange rate's highest point was \$21.96, while its lower level was \$17.47. In 2018 it reached its highest peak of \$20.88 and a minimum of 18.01. This year the exchange rate has only oscillated between \$19.78 and \$18.75. (please see graph).

Spot Exchange Rate
(As of June 14th, 2019)



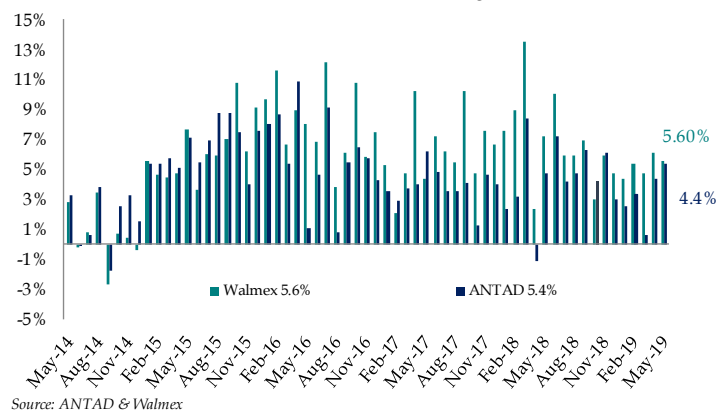
Mexbol closed at 43,131; a weekly decrease of -0.32% with a US\$1.4 billion volume traded. Year-to-date performance is 5.53% in dollar terms. During the week, one of the most important events that supported the Index was the announcement of the agreement between president Lopez Obrador and the Mexican Business Council, "CMN," to invest US\$32 bn in Mexico during this year. The CMN also confirmed its commitment to invest the equivalent to 20% of the GDP (approximately US\$290 bn) in the following two years. The investments will be allocated to the energy, infrastructure, and agro-industry sectors and directed to regions that have not historically grown specifically, the south and southwest regions.

Economic Indicators

Same Store Sales

The Same Stores Sales (SSS) indicator published by the National Association of Department Stores (ANTAD) increased 5.4% year-over-year; this was its highest growth rate since November of 2018 when the SSS growth rate was 6.1%. Department stores had a considerable growth rate of 11.2% due to a full week of discounts and promotions. In the same vein, Walmex SSS in May grew 5.6%.

ANTAD vs. Walmex (Same Store Sales)
(Year over Year % Change)



Eugenia Pichardo & Arnulfo Rodriguez,
Equity Portfolio Manager & Macro and Debt Strategist
Investor Relations : igarcia@paminversion.com



WEEKLY ECONOMIC REPORT

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Pichardo Asset Management, SA de CV
An Independent Investment Advisory Firm

www.paminversion.com.mx
Andrés Bello 45, 22nd Floor,
Polanco, 11560 CDMX, México
Phone: + 52 (55) 52 61 46 00 /04/21/16

epichardo@paminversion.com

CEO & Senior Equity Portfolio Manager

arodriguez@paminversion.com

Associate
Macro Strategist

destevez@paminversion.com

Managing Director
Co-Portfolio Manager

jelizalde@paminversion.com

Associate
Co-Portfolio Manager

lcalzada@paminversion.com

Compliance & Portfolio Administration

igarcia@paminversion.com

Associate
Consumption Analyst & IR

Definitions

FED (Federal Reserve System): is the central bank system of the United States that includes the Board of Governors in Washington, D.C., and 12 independent regional Reserve banks.

Non-Farm Payroll: measures the change in the number of people employed during the previous month, excluding the farming industry.

Basis Points: unit of measure to describe percentage change or difference between two values. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form.

M-Bond: Mexico Federal Government fixed-rate development bonds that are issued and placed at terms of over one year, pay interest every six months and their interest rate is determined at issue date and remains fixed all along the life of the bond.

Same Stores Sales: financial metric that companies in the retail industry use to evaluate the total dollar amount of sales in the company's stores that have been operating for a year or more.

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.

Industrial Production: is a measure of output of the industrial sector of the economy. The industrial sector includes manufacturing, mining, and utilities.

National Hydrocarbons Commission: Federal Agency with budgetary autonomy that regulates and supervises geophysical and geological prospection activities as well as hydrocarbon exploration and production.

Pemex Exploration and Production: A subsidiary of state-owned company Pemex.

Shell: Energy company. As of May 31, 2019 the Fund investment in the security is 0.00%. For a list of full securities please visit: http://www.mxefund.com/portfolio_holdings.html.

Walmex Same Store Sales: financial metric that companies in the retail industry use to evaluate the total dollar amount of sales in Walmart stores that have been operating for a year or more.

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. As of May 31, 2019 the Fund investment in the security is 0.00%. For a list of full securities please visit: http://www.mxefund.com/portfolio_holdings.html.

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