

2Q19, a complicated quarter

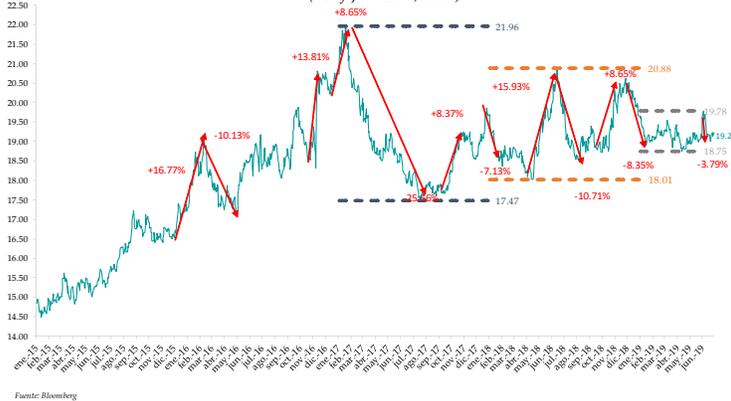
During the second quarter of 2019 (2Q19) financial markets and the exchange rate were resilient despite global tensions generated by protectionist threats from the United States and the downgrade in the credit rating of Petróleos de Mexico (Pemex) and Mexico's public debt.

The negative 1Q'19 economic growth of -0.2% quarter-over-quarter, followed by additional economic downward projections, set a range of 0.9% to 1.2% annual growth for the full year 2019 compared to estimated 2.0% growth made by President Lopez Obrador at the beginning of his first year in office.

Exchange Market

Noteworthy, the spot exchange rate ranged from \$ 18.75 to 19.78, during 2'Q19 and closed at 19.22 at end June, a weekly depreciation of 0.50%, a 1.08% quarterly appreciation and a 2.23% year-to-date appreciation as tariffs were called off, and the United States and Mexico announced an agreement on immigration.

Spot Exchange Rate MXN/USD
 (As of June 28th, 2019)



The stability of the exchange rate is anchored by:

- i. Mexico ranking first as the leading trading partner of the U.S. this year and at end April resulted in an accumulated surplus of US\$ 31 billion. Besides, the foreign financial account surplus of US\$9 billion offsets the US\$5.63 billion deficit in the current account, including US\$11.53 billion interest debt payment.
- ii. The 547 basis points spread between the 10-year Treasury Bill and the M Bond.
- iii. Remittances, which registered all times high of US\$ 3.2bn in May, accumulating US\$ 13.7 billion year-to-date compared to the full year 2018 of US\$ 33.4 billion.

During the week President Lopez Obrador was able to formalize the 23-syndicated US\$ 8 billion loan at 4.25% per annum to refinance the debt of Pemex.

President Lopez Obrador's highlights at his first anniversary as elected President (July 1st, 2018), on his seven months in office, "... uncertainty remains; and, security, development, and economic activity continue to be three of the most urgent issues to manage, but he has time" ... The three highlights of Enrique Quintana from "El Financiero," dated July 2nd present the following remarks made by President Lopez Obrador, as edited by PAM:

- i. President's 66% popularity remains high.
- ii. The economy is stagnant, but he is commitment to a responsible fiscal discipline, and a Central Bank independence.
- iii. His decision to integrate Mexico to the U.S. economy has caused him high local criticism on the migration policies. It could be seen as a low cost to maintain a stable economy.
- iv. His objective is to implement a long-term national plan rather than gaining political power in the coming Presidential elections.

Mexican Stock Exchange

During the second quarter, the Mexican IPC index was flat while year-to-date gains reached 3.65%. Despite volatility, the IPC demonstrated a significant resistance level above 43,000.

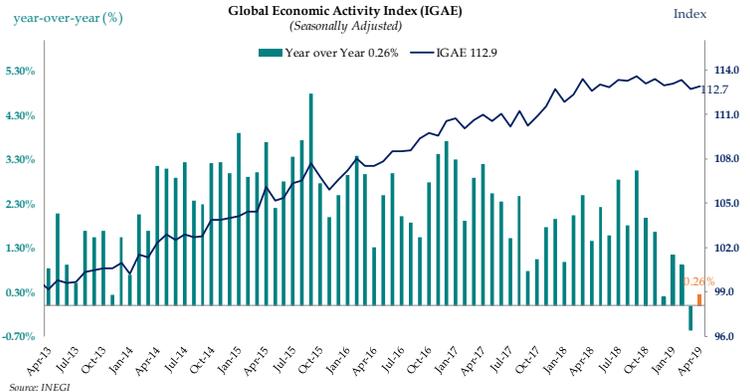
Economic Indicators

Central Bank "Banxico's" Monetary Policy

Banxico kept unchanged its reference interest rate at 8.25%, as expected by market consensus. Only one of the five members voted for a 25-basis point reduction; this is the fourth consecutive meeting in which Banxico decides to leave the interest rate unchanged; however, there was a subtle change in the balance of inflationary risks that may be the prelude to the start of a process of easing monetary policy.

Global Indicator of Economic Activity

The Global Indicator of Economic Activity in May had year-over-year growth of 0.26% after a fall of (-) 0.56% presented last month. Unfortunately, May's data decreases the year average growth to 0.44%, considerably lower than the averages observed in 2018 and 2017 of 1.86% and 2.15% respectively. The sectors that sustained this growth were agriculture and services, which grew 1.85% and 0.52% respectively. Meanwhile, the industrial activity sector showed a decrease for the seventh consecutive month of (-) 0.39%.



Bi-weekly inflation

Annual inflation in the first half of June was 4.0%, in the range of Banxico's target rate (3.0% ± 1.0%). This fall was due to the downward adjustment of non-core inflation that went from 5.15% in the second half of May to 4.34% in June. On the other hand, core inflation was 3.87%; nine basis points more than the immediately previous figure, caused by the increase in the prices of air transport and housing.

Trade Balance

The trade balance of Mexico presented a surplus in May which amounted to MX \$ 1.03 billion and left the yearly accumulated trade balance with a surplus of 584 million dollars. Total exports grew 6.7% YoY while total imports increased by 0.1%.

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WEEKLY ECONOMIC REPORT

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Definitions

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.

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.

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.

ENova: Gas utilities company. As of May 31, 2019 the security represents 0.00% of Portfolio Net Assets.

GCarso: Industrials company. As of May 31, 2019 the security represents 0.00% of Portfolio Net Assets.

Banxico: Mexico Central Bank, lender authority and lender of last resort.

IGAE: The Global Indicator of Economic Activity allows to know and monitor the monthly evolution of the real sector of the economy.

Credit Rating: opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more.

Inflation: is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time.

Trade Balance: The balance of trade (BOT) is the difference between the value of a country's imports and its exports for a given period.

Current Account: The current account records a nation's transactions with the rest of the world – specifically its net trade in goods and services, its net earnings on crossborder investments, and its net transfer payments – over a defined period of time, such as a year or a quarter.

Remittances: A remittance is the funds an expatriate sends to his/her country of origin via wire, mail, or online transfer. These peer-to-peer transfers of funds across borders are economically significant for many of the countries that receive them.

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.

A financial account: is a component of a country's balance of payments that covers claims on or liabilities to nonresidents, specifically with regard to financial assets. Financial account components include direct investment, portfolio investment and reserve assets broken down by sector.

International arbitration: is a process of dispute resolution in which disputes are settled by specific processes that includes an arbitrator. The purpose of international arbitration is to provide businesses engaged in international transactions with a neutral forum for dispute resolution..

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