

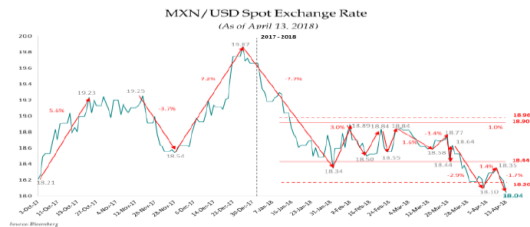
WEEKLY ECONOMIC REPORT
Week Ended April 13, 2018.

Strong Two-Week Gain for the Mexican Stock Exchange

At the end of trading on April 13th, the Mexican Stock Exchange (MSE) had accumulated its second straight week of gains. The IPyC closed Friday at 48,768 points reaching a level not seen since March 13th. Over the last two weeks, the Index has gained 2,643 points (+5.75%), lowering its year-to-date loss to -0.96%. During this period, IPyC heavyweights posted the largest gains, namely: AMXL (+2.96%), FEMSA (+6.56%), GFNORTE (+7.15%), WALMEX (+9.21%), GMEXICO (+7.89%), TLEVICPO (+10.19%) and CEMEX (+7.15%). Factors that underpinned the IPyC's gain for the week were: (i) Moody's decision to improve the outlook for Mexico's sovereign debt rating, (ii) ongoing domestic consumption strength, with ANTAD same-store sales growing 9.9% YoY in March and Walmart's +13.5%, and (iii) expectations of good first quarter 2018 earnings reports due out on April 18. The first companies to report will be: ALFA, KIMBER, OMA, VOLARA, AEROMEXICO and UNIFIN.

Main U.S. stock markets, the Dow Jones, Standard & Poor's 500 and Nasdaq, posted gains of 1.80%, 2.04% and 2.77% for the week, taking their year-to-date returns to -0.87%, -0.10% and 3.25%, respectively. The upward adjustment suggests less risk aversion among investors in response to signs of an easing of the trade dispute between the U.S. and China, the possibility of a recovery in the prices of severely punished tech stocks (Facebook and Amazon) and expectations of good earnings reports. The gains came despite the Federal Reserve (FED)'s March 20th minutes mentioning an improved outlook for the U.S. economy and inflation above its target (2.4% in March) which could trigger a faster pace of monetary policy tightening.

The interbank spot rate closed Friday at \$18.04 against the dollar resulting in appreciation of 1.36% for the week and a gain of 8.95% year to date. The performance of the peso reflected Moody's decision to improve Mexico's sovereign debt outlook, currently A3, or 4 notches above investment grade. The possibility of an agreement in principle for the North American Free Trade Negotiation (NAFTA) in the first half of May was also an influencing factor.



On April 11th, Moody's followed Fitch and Standard & Poor's lead by improving the outlook for Mexico's sovereign debt rating to stable from negative, one notch above that of the other two rating agencies. Moody's foresees no major changes in the Mexican economy over the next 12 to 18 months for the following reasons:

- The low likelihood of the next government weakening Mexico's economic and fiscal trends independently of who wins the general elections
- Less risk associated with negotiations to modernize NAFTA
- A relatively stronger Mexican economy due to the implementation of structural reforms since 2013

Local Currency Return				
Index	1 week	1 year	YTD	Country
DOW JONES INDUS. AVG	1.80%	21.90%	-0.87%	US
S&P 500 INDEX	2.04%	16.31%	-0.10%	US
NASDAQ COMPOSITE INDEX	2.77%	23.82%	3.25%	US
S&P/BMV IPC	1.77%	1.36%	-0.96%	MX

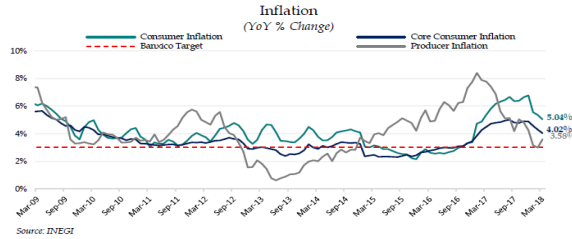
Mexico's Credit Ratings						
Date	Standard & Poor's		Moody's		Fitch	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
11-Apr-18			A3	STABLE		
3-Aug-17					BBB+	STABLE
18-Jul-17	BBB+	STABLE				
9-Dec-16					BBB+	NEGATIVE
23-Aug-16	BBB+	NEGATIVE				
31-Mar-16			A3	NEGATIVE		
5-Feb-14			A3	STABLE		

Source: Bloomberg, E2 Financiera

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At the April 12th monetary policy meeting, Banco de México's Governing Board made the unanimous decision not to raise its reference rate. Thus, the overnight rate remains at 7.50%. The decision was underpinned by a downtrend in YoY inflation (5.04% in March vs. 5.34% in February) as well as no change in medium and long-term inflation expectations. Variables that the Central Bank will be keeping an eye on going forward are: the peso/dollar exchange rate, NAFTA renegotiation developments and volatility arising from the runup to the 2018 elections.



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Disclosures

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Definitions

FED – The Federal Reserve System is the central bank of the United States and arguably the most powerful financial institution in the world.
INEGI - The National Institute of Statistics and Geography. It is the institution responsible for performing the population census every ten years; as well as the economic census every five years and the agricultural, livestock and forestry census of the country.
IPyC – The Índice de Precios y Cotizaciones (IPyC) is a capitalization-weighted index of the leading stocks traded on the Mexican Stock Exchange. The index was developed with a base level of 0.78 on October 30, 1978.
Mexican Stock Exchange – The Mexican Stock Exchange headquartered in Mexico City, is the full service securities exchange of the country, dealing in cash equities, derivatives and fixed income products.
North American Free Trade Agreement (NAFTA) – A regulation implemented January 1, 1994 in Mexico, Canada and the United States to eliminate most tariffs on trade between these nations. The three countries phased out numerous tariffs, (with a focus on those related to agriculture, textiles and automobiles), between the agreement's implementation and January 1, 2008. NAFTA's purpose is to encourage economic activity between the United States, Mexico and Canada.

Experience

Consistency

Vision