

WEEKLY ECONOMIC REPORT

Week Ended April 6, 2018.

A Promising Start for Mexican Equities in April

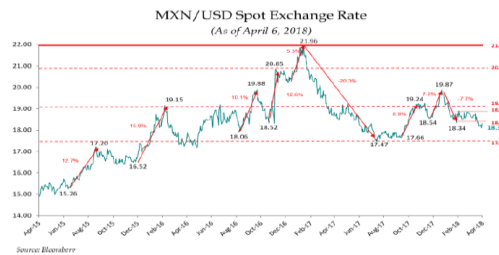
The week April 2nd to 6th was characterized by a strong rebound in the IPyC, which closed Friday 6th at 47,926 points. The IPyC Index gained 3.92% for the week, reducing its year-to-date return to -2.68%. This solid performance was supported by: (i) price opportunities, and (ii) expectations of a favorable outcome to the North American Free Trade Agreement (NAFTA) negotiations in April in a televised interview, the Mexican Minister of the Economy, Idelfonso Guajardo, said there was an 80% chance of the three NAFTA countries reaching an agreement in principle by the first week of May. It is worth mentioning that the trade issue between the U.S. and China could favor an agreement on NAFTA being reached sooner rather than later, as managing two trade negotiations could prove very complicated for the U.S. The IPyC's positive streak could continue following the release of solid first quarter 2018 reports, which should be better than the fourth quarter's and will begin to be released as of April 20th.

In contrast with the Mexican Stock Exchange, U.S. markets closed the week mixed. The Dow Jones, S&P 500 and NASDAQ recorded declines of -0.67%, -1.35% and -2.07%, respectively, for the week, and -2.62%, -2.10% and +0.47% year to date due to the March nonfarm payroll 103,000 new jobs were created vs. an expected 193,000 but mainly greater trade tensions between the U.S. and China following the Trump administration's April 5th announcement that it was considering imposing an additional U.S. \$100 billion in tariffs on Chinese products. This announcement was in addition to trade rules already established by both countries, namely:

- The protectionist measure imposed by the U.S. aluminum and steel industries consisting of import duties of 10% and 25%, respectively, with the exception of allies not including China.
- China's response consisting of imposing tariffs of 25% on 128 U.S. products amounting to \$3 bn. The U.S. trade policy of imposing a tariff of 25% on approximately 1,300 Chinese products amounting to US\$50 bn.
- China's latest response consisting of the application of duties amounting to US\$50 bn on 106 U.S. products (soya, plans, autos, whiskey, and chemical products, among others).

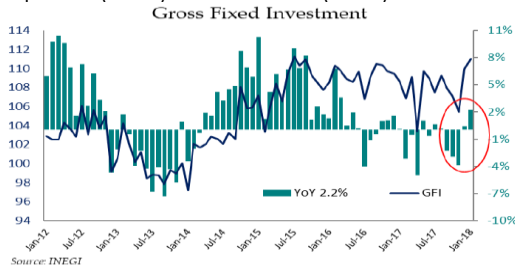
Local Currency Return				
Index	1 week	1 year	YTD	Country
DOW JONES INDUS. AVG	-0.67%	18.53%	-2.62%	US
S&P 500 INDEX	-1.35%	12.62%	-2.10%	US
NASDAQ COMPOSITE INDEX	-2.07%	18.97%	0.47%	US
S&P/BMV IPC	3.92%	-0.51%	-2.68%	MX

The interbank spot rate closed Friday April 6th at \$18.31 to the dollar; following some volatility, the peso was largely unchanged and has gained +7.5% year to date. The currency's strength has been mainly underpinned by an improvement in expectations regarding the prevalence of an improved version of NAFTA and confirmation of a solid Mexican economy so far in 2018.



Regarding NAFTA, President Enrique Peña Nieto's message to President Trump in the context of respect for the Mexican State: "We will not be afraid to negotiate, but we will not negotiate with fear", unified public opinion in his favor. On Sunday, April 8th, the President of Mexico called a special cabinet meeting to evaluate Mexican ministries' mechanisms of cooperation with the U.S. government.

After three declining months, gross fixed investment (GFI) rose for a second straight month in January. GFI grew 2.2% YoY in the first month of 2018 and 0.4% in December, 2017. The increase was driven by machinery and total equipment components (+4.1%) and construction (+0.4%).





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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 *Indice 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

Experience

Consistency

Vision