

The Bilateral Understanding between Mexico and the United States could Decrease Exchange Rate Volatility

On August 27th a bilateral understanding between Mexico and the United States, which Canada could also join, was announced. The agreement is subject to Congress approvals, but entails the following advantages:

- i. The agreement allows for a significant decrease of one of the major risk factors affecting financial variables such as the peso-dollar exchange rate, the MEXBOL Index and, indirectly, Mexico Central Bank (BANXICO) reference rate. The elimination of a primary source of uncertainty is a very positive result for the financial planning across Mexican companies and could reduce the range of exchange rate volatility.
- ii. An important advantage is the elimination of a significant source of uncertainty for domestic and foreign investors. Since Donald Trump's election, essential investment projects in the manufacturing, infrastructure, energy, and telecommunications sectors were delayed given that their profitability has a high dependence on a sound commercial relationship between Mexico and the US. Some of these projects could start to materialize in the coming months.
- iii. The "sunset" clause was revised. Changes made imply that the new term of the agreement will be 16 years with the option of a revision every six years. The latter replaces having to ratify the agreement every five years.

Daily economic information

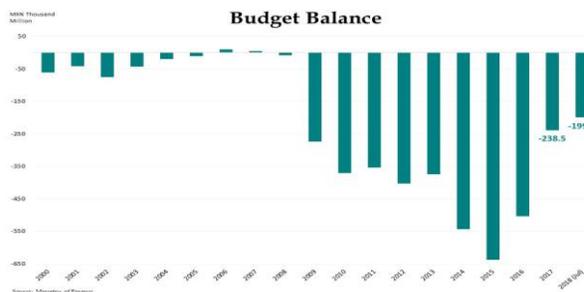
Mexico Central Bank (BANXICO) highlighted in its quarterly report that uncertainty and volatility experienced in Mexico during 2018, materialized with an upturn in inflation of 4.65% in June, and 4.81% during July and the first half of August, which is 6.24% higher than the increase for April and May. The current volatility conditions are correlated with the trade negotiations between the United States, Mexico, and Canada, as well as the electoral process, which caused the expected GDP growth to change from an interval of 2.0-3.0% to a range of 2.0-2.6%.

On the other hand, Banxico made an upward revision of inflation, explained mainly by the increase in energy prices, this can be verified by observing the same forecasts for core inflation.

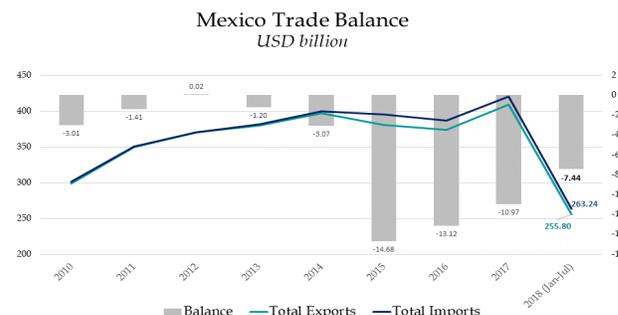
Mexico Inflation Forecast									
Annual Percentage Change (%)									
	2018			2019				2020	
	II	III	IV	I	II	III	IV	I	II
Consumer Inflation									
Current Report	4.6	4.8	4.2	3.8	3.6	3.2	3.3	3.2	3.1
Former Report	4.6	4.3	3.8	3.3	3.1	3.1	3.1	3.1	
Core Inflation									
Current Report	3.7	3.6	3.5	3.3	3.2	3.0	2.9	3.0	2.9
Former Report	3.7	3.6	3.4	3.2	3.2	3.1	3.0	3.0	

Gross Domestic Product Forecast		
Annual Percentage Change (%)		
GDP	2018	2019
Current Report	2.0-2.6	1.8-2.8
Former Report	2.0-3.0	2.2-3.2

As of August 30th, the Ministry of Finance and Public Credit (SHCP) had an accumulated deficit for 2018 of 199.4 billion pesos in its budget balance, which compares unfavorably with the surplus of MXN \$ 119 billion observed in the same period for 2017, however, this deficit is below the 363.3 billion pesos budget allocated for the same period.



The Ministry of Economy just released the trade balance for July 2018, which presented a deficit of 2,889.2 million dollars. July year-to-date deficit amounts to 7,439 million dollars, explained by 263,243 million-dollar imports and 255,804 million-dollar exports.



On Friday, August 31st, the spot exchange rate closed at 19.08 pesos per dollar. The Mexican peso depreciated -2.30% and recorded appreciation, so far this year, of 3.01%. Exchange market stakeholders remain cautious about the economic situation in Argentina and Turkey and their potential impact on the Mexican currency. In Argentina, currency has depreciated -49.51% against the dollar so far this year. Argentina Central Bank had to raise the reference rate by 15 points to 60% at the end of August to control the exchange rate and curb inflation. The Turkish lira accumulates a depreciation of -42% in 2018 and its crisis accentuated throughout the month.

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Compliance

Definitions

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.

Banxico - Banco de México is the central bank of Mexico. By constitutional mandate, it is autonomous in both its operations and management. Its main function is to provide domestic currency to the Mexican economy and its main priority is to ensure the stability of the domestic currency's purchasing power. Its other functions are to promote both the sound development of the financial system and the optimal functioning of the payment systems.

Consumer Price Index - Is a measure of average changes in the price level of market basket of consumer goods and services purchased by households.

GDP: Gross Domestic Product proxy. The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

SHCP: Secretaria de Hacienda y Credito Publico, is the Ministry of Finance.

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