

WEEKLY ECONOMIC REPORT

February 15, 2019

Fall in the markets despite good quarterly reports

On Friday, February 15, the spot exchange rate closed at 19.25 pesos per dollar for a weekly depreciation of (-) 0.9%; which leaves Year to Date (YTD) appreciation at 2.07% in the face of additional government measures to straighten up the financial situation of state oil company Pemex. Although Pemex's budget for 2019 is 18.5% higher than in the previous year (464,602 million pesos or 23.2 billion dollars), it is not enough to reverse the decline in oil production and reserves. Pemex assistance plan consists of:

Capital injection. The Federal Government will invest 1.3 billion dollars (25,000 million pesos) to support the investment program. Pemex expects oil production to rebound from the current 1.7 million barrels per day (bpd) to 2.45 million bpd in six years.

Promissory notes on labor liabilities. Pemex will receive 1,800 million dollars (about 35 billion pesos) for the monetization of promissory notes on labor liabilities. Pemex will sign-off notes that the Federal Government will pay to cover employee liabilities in 2019.

Tax cuts. The tax deduction limit on activities related to oil extraction or production will increase. Also, a special tax regime will be put in place to increase production in mature fields. The number of resources released during the six-year administration will add up to 750 million dollars (15,000 million pesos).

Debt replacement. Pemex approved to refinance 6.6 million dollars (132 million pesos) of its debt; that, as of November 2018, accrued to 104,100 million dollars (2 billion 82 billion pesos). The credit rating of Pemex bonds is one level above "speculative grade" on the scale of rating agencies Moody's and Fitch Ratings.

Strategy against fuel theft. The expected 1,600 million dollars (32,000 million pesos) that will result from fighting fuel stealing would directly benefit the state oil company

Although Pemex bond yield due 2027 fell 9 basis points (bps) at the end of the week, the 10-year M bond (2029) rate remained technically unchanged and ended the week at 8.40%; 576 bps above US 10-Year Treasury Bonds.

At the end of last week, Mexbol closed at 42,983, which implies a weekly fall of (-) 0.44% despite solid corporate 4Q18 results of some companies (i.e. Walmart, Liverpool, Alfa), leaving year to date return at 3.25%. It is worth mentioning that the strikes of workers in the northern state of Tamaulipas and the railroad's blockades in the central-west state of Michoacán have come to an end; the accumulated losses for both disturbances are estimated at 0.3% of GDP according to the Mexico Centre of Private-Sector Economic Studies (CEESP).

Moody's downgrades long-term counterparty risk assessment of four Mexican banks: BBVA Bancomer, Santander Mexico, Citibanamex and Banorte due to a change in its rating methodology. As of November 2018, the Capital Adequacy Ratio (CAR) of the Mexican banking system was 15.68%, above the required 14%. Furthermore, the banking system presented attractive profitability of 15.96% in 2018 Return on Assets (ROA) 12 months.

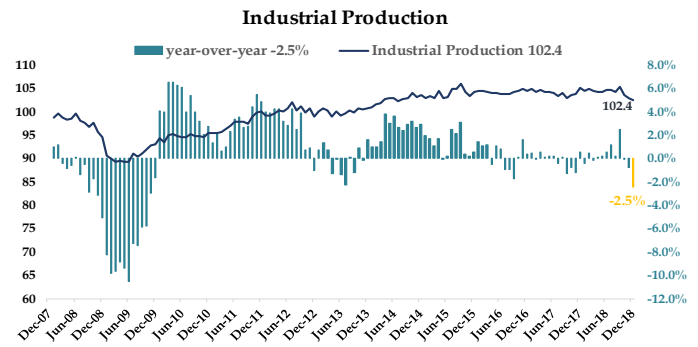
On March 23, 2018, the Mexico City Airport Group (GACM) issued a REIT-type Energy and Infrastructure Investment Trust (Fibra E) for 30,000 million pesos. The purpose of the financial vehicle was to finance the construction of the Mexico City New International Airport (NAIM); canceled in October 2018. After the decision to suspend the project, the Federal Government offered to pre-pay the initial investment, adjusted for inflation, plus 10% of interests as of February 28, 2019 (34,033 million pesos). The 97.5% of the instrument holders, including four National Retirement Savings Funds (AFOREs), accepted the offer. This measure is in addition to the repurchase of international green bonds (Mexcat) for 1.8 billion dollars last year.

Economic Indicators

Industrial Production

During December, industrial production fell (-) 2.5% Year over Year (YoY), the biggest fall in nine years driven by falls in mining production (-8.2%, the highest in 14 months) and construction (-3.9%, its most significant fall in just over a year). The latter, due to the contraction in some civil engineering projects, i.e., the cancellation of the New International Airport of Mexico City (NAIM). Manufacturing was the only sector that moved forward, with an annual growth of + 0.5%.

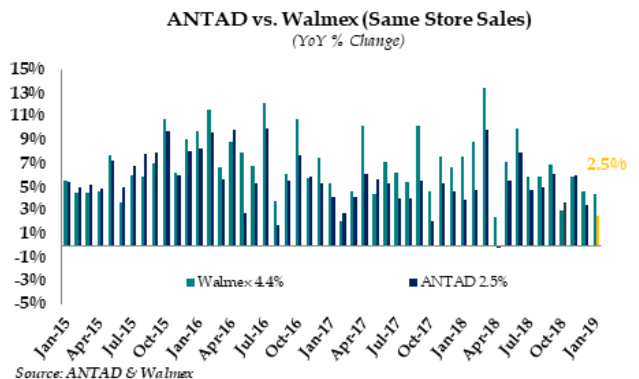
In 2018, industrial production remained practically unchanged YoY. The Manufacturing sector grew 1.5%; a result of robust external demand and a competitive exchange rate while the mining sector decelerated (-) 5.5%.



Source: INEGI

Same Store Sales (SSS) ANTAD

Mexico ANTAD Same Stores Sales (SSS) consumption growth indicator, which does not include Walmart for the first time in its sample, was 2.5% in January, the lowest since April 2018. This growth was affected by the shortage of gasoline and reflects the economic slowdown of the second half of 2018. The best sales performance was in self-service stores while the worst performance was in specialized stores.



Source: ANTAD & Walmart



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Definitions

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. The Fund maintains 0.0% investment in the security, at the close of December 31, 2018.

AFORE: Retirement Fund Administrators are private financial institutions in Mexico that administer retirement and savings funds for workers affiliated with the Mexican Institute of Social Security.

Fitch Ratings: Fitch Ratings is a leading provider of credit ratings, commentary and research. Dedicated to providing value beyond the rating through independent and prospective credit opinions, Fitch Ratings offers global perspectives shaped by strong local market experience and credit market expertise.

Moody's: Moody's Corporation is the holding company that owns both Moody's Investor Services, which rates fixed income debt securities and Moody's Analytics, which provides software and research for economic analysis and risk management. Moody's assigns ratings on the basis of assessed risk and the borrower's ability to make interest payments, and its ratings are closely watched by many investors.

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 directly in an index.

GACM: The Airport Group of Mexico City is a majority state-owned company dedicated to the development, construction, administration and operation of the New Mexico City International Airport (NAICM) since its incorporation in 2015.

ANTAD: National Association of Self-Service and Departmental Stores.

NAIM: New International Airport of Mexico City.

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.

Fibra E: Real Estate Investment Trust constituted in accordance with the laws of Mexico with a banking institution authorized to operate in Mexico, acting in its capacity as trustee for tax purposes.

Mecat: The ad hoc group of holders of bonds issued by the Mexico City Airport Trust.

Same-Store-Sales: Same-store sales is a 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.

Walmart: Multinational store corporation that operates discount department store chains and warehouse clubs. The Fund maintains 9.40% investment in the security, at the close of December 31, 2018.

Liverpool: Mexican company that operates luxury department stores and Gourmet restaurants, both focused on middle- and high-income consumers. The Fund maintains 0.69% investment in the security, at the close of December 31, 2018.

Alfa: It is a diversified group of mainly industrial businesses that covers the production of petrochemicals, aluminum automotive components and refrigerated foods. It also participates in the extraction of natural and crude gas and offers IT services. The Fund maintains 0.0% investment in the security, at the close of December 31, 2018.

BBVA: Mexican bank financial institution, founded in 1932 as commerce bank. The Fund maintains 0.0% investment in the security, at the close of December 31, 2018.

Santander: Spanish multinational commercial bank and financial services company founded and based in Santander, Spain. The Fund maintains 0.0% investment in the security, at the close of December 31, 2018.

Citibanamex: Founded in August 2001 as a result of the sale of Grupo Financiero Banamex-Accival to Grupo Financiero Citigroup, retaining the name of the largest financial institution in the country. The Fund maintains 0.0% investment in the security, at the close of December 31, 2018

Banorte: One of the largest, most important Mexican financial groups without mergers with foreign banks. It operates throughout the country through more than 1,175 Banorte branches and 7,756 Banorte ATMs. The Fund maintains 9.95% investment in the security, at the close of December 31, 2018

Basis point (BPS) Refers to a common unit of measure for interest rates and other percentages in finance.

The capital adequacy ratio (CAR): Is a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures.

Return on Assets (ROA): Financial ratio that shows the percentage of profit a company earns in relation to its overall resources.

For a list of MXE's full securities please visit: http://www.mxefund.com/portfolio_holdings.html

Disclosures

Closed-end funds are traded on the secondary market through one of the stock exchanges. The Fund's investment return and principal value will fluctuate so that an investor's shares may be worth more or less than the original cost. Shares of closed end funds may trade above (a premium) or below (a discount) the net asset value (NAV) of the fund's portfolio and there is no assurance that the fund will achieve its investment objective.

To read about The Mexico Equity and Income Fund, Inc, please access the Annual Report by calling (414) 765-4255 to receive a copy, or access the Annual Report on the Fund's website, "www.mxefund.com", under the section captioned investor reports. Investors should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. An investment in the Fund should not constitute a complete investment program.

Past performance is not a guarantee of future results. Index performance is not illustrative of fund performance. One cannot invest directly in an index. Please call (414) 765-4255 for fund performance.

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