

**Good news for Pemex... for now, and progress on tariffs on Mexico and Canada**

On Friday, May 17th, the spot exchange rate closed at MXN 19.17 per dollar; practically unchanged vs. the previous week. Year-to-date accumulated appreciation of the peso stands at 2.51%. During the week the exchange rate registered volatility, its highest level was MX\$ 20.88, and its lower one was MX\$ 18.45. Fluctuations were a consequence of:

- I. The announcement of the renovation and ampliation of a US\$8 billion credit to refinance Petroleos Mexicanos (Pemex) debt.
- II. The United States announcement to delay, up to six months, the decision to raise tariffs on car and components imports. The above has the objective of continuing negotiations and reach better commercial agreements with Japan and the European Union even though Mexico was not mentioned in the release, its considerable benefits given the high levels of cars exports to the United States.
- III. The announcement made by the Undersecretary for North America of the Ministry of Foreign Relations, Jesus Seade, who confirmed that Mexico was near closing a deal to eliminate tariffs by the United States to Mexican aluminum (10%) and steel (25%).
- IV. Foreign Direct Investment flows to Mexico amounted US\$10.16 billion during the first quarter of the year.

The 10-year M bond yield rate fell 6-basis points in the week to 8.06%; a 567-basis point spread against the 10-year US Treasury bond, technically unchanged compared to the previous week. The syndicated credit that international banks offered to Pemex and the expectation of additional actions to revert its financial distress could partially explain the decline. In contrast, the 3-year and 5-year M bonds yield remained stable, around 7.95% and 7.91% respectively; this also reveals a higher rate of return on the shorter-term bond compared to the longer one for 34 consecutive sessions.

On Friday, April 17th, the Mexbol Index closed at 43,445 and represented weekly marginal gains and 5.10% year-to-date profits. Between Monday and Tuesday, Mexbol advanced +0.67% —just after a better outlook for Pemex and its credit rating was announced— and it remained within the range of 43,100 and 43,500 in the week. The companies with the highest weekly profits were Genomma Lab (12.85%), Elektra (10.57%) and Peñoles (4.80%) while those that fell the most were Alfa (-4.66%), BMV (-4.65%) and Liverpool.

**New measures to support Pemex**

On Monday, May 13th, the Federal Government announced three positive news for Pemex: i) An agreement with three international banks to extend the scheduled maturity date of a 2.5 billion dollars loan from three to five years, ii) the renewal of two contingent credit lines for 5.5 billion dollars at a financing rate of Libor plus 235 basis points (around 4.85%); and iii) a tax reduction equivalent to nearly 25 billion pesos per year. This last measure entailed a decrease in the number of oil barrels on which Pemex must share profits with the government. These measures allow Pemex to keep its "investment grade" credit rating, albeit its negative outlook.

**Banxico: hawkish monetary policy statement**

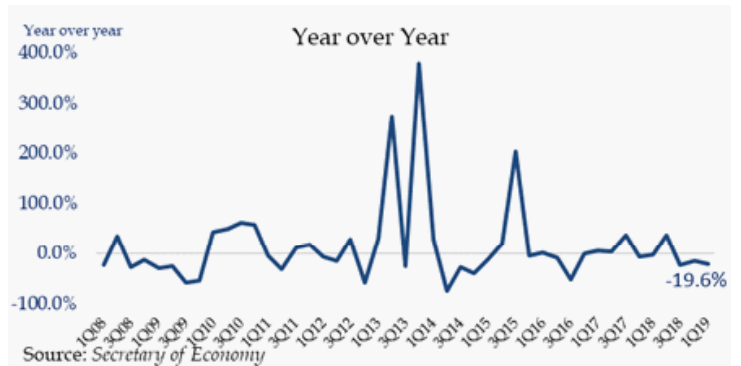
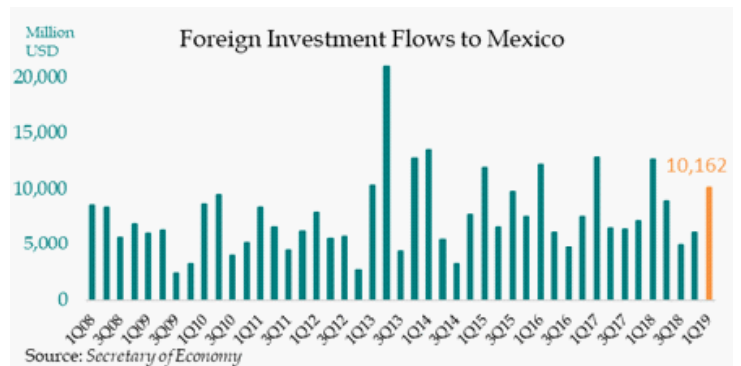
The Central Bank's (Banxico) Governing Board unanimously decided to leave the reference interest rate at 8.25%. In its monetary policy statement, it emphasized the importance of the fulfillment of the financial goals of the 2019 Budget. It also highlighted downside risks for economic growth as a result of an increase in the trade tensions and a deceleration of the world's economy. Regarding inflation, Banxico recognized that market expectations are above the constant objective rate of inflation (3%), mainly due to two risks: (i) pressure to the national currency by external and internal factors, and (ii) the rise of prices of energetic and agricultural products. Even though Banxico acknowledges that core and non-core inflation grew, they mention this change is transitory.

Regarding future decisions, Banxico affirms that, if the economy needs an adjustment in the exchange rate or interest rates, they will contribute to asses them in a controlled manner. Noteworthy, it is possible to discard a decrease in Banxico's reference rate in the nearby future.

**ECONOMIC INDICATORS**

**A decline in Foreign Direct Investment**

In the first quarter of the year, Foreign Direct Investment (FDI) in Mexico was 10.16 billion dollars (preliminary figures); 20% less year-over-year. Out of the total amount, 83.4% corresponds to the reinvestment of profits and 22.5% to new investments, however (-) 5.9% were inter-company capital outflows (599 million dollars). By activity, the manufacturing and financial sectors ha capital injections of 3.7 and 2.3 billion dollars respectively; 60% of total FDI. Noteworthy, 75% of FDI originated in just five countries: United States (43.1%), Spain (13.8%), Belgium (6.9%), Canada (5.8%) and the Netherlands (5.2%); this represents a change from previous periods, when Japan and Germany were among the countries that contributed the most to FDI in Mexico.



**Same Stores Sales**

The Same Stores Sales (SSS) indicator of the National Association of Supermarkets and Department Stores (ANTAD) —which no longer considers Walmart sales— increased 4.4% year over year in April. This figure represents a significant advance compared to last month when sales barely increased by 0.6% and interrupted the downward trend of the indicator that began in June of last year. In the same vein, Walmex SSS grew 6.1%, an improvement over the 4.7% previously reported.

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WEEKLY ECONOMIC REPORT

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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. As of April 30, 2018 the Fund investment in the security is 0.00%.

**Tariffs:** A tax or duty to be paid on a particular class of imports or exports.

**Foreign Direct Investment:** Is an investment made by a firm or individual in one country into business interests located in another country.

**Basis point:** 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.

**Spread:** Difference between two interest rates.

**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.

**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.

**National Association of Supermarkets and Department Stores:** Association founded in 1983 to promote the development of retail trade and its suppliers. As of May 2019 ANTAD represents 55,148 convenience stores, supermarkets, department stores and specialty stores.

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

**Same Stores Sales:** 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.

**Genomma Lab:** As of April 30, 2018 the Fund investment in the security is 0.00%. For a list of full securities please visit: [http://www.mxefund.com/portfolio\\_holdings.html](http://www.mxefund.com/portfolio_holdings.html).

**Elektra:** Retail and financial services company. As of April 30, 2018 the Fund investment in the security is 0.00%.

**Peñoles:** Diversified mexican company. As of April 30, 2018 the Fund investment in the security is 0.00%.

**Alfa:** Diversified mexican company. As of April 30, 2018 the Fund investment in the security is 0.00%.

**BMV:** Mexican Stock Exchange Group. As of April 30, 2018 the Fund investment in the security is 0.00%.

**Liverpool:** Mexican retail company. As of April 30, 2018 the Fund investment in the security is 4.12%.

**Walmex Same Store Sales:** financial metric that Walmart releases on the total dollar amount of sales in the company's stores that have been operating for a year or more.

**Walmart Retail company.** As of April 30, 2018 the Fund investment in the security is 2.29%.

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**Libor rate:** The interest rate charged to short-term international interbank loans

**Investment grade:** Descriptive term for ratings awarded by bond rating agencies to high quality corporate and government securities.

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*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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