

WEEKLY ECONOMIC REPORT
Week Ended June 01, 2018

Markets are facing a number of risk factors (NAFTA, elections and Europe)

International financial markets succumbed to greater risk aversion in the week ended June 1st, due to a ramp-up of protectionist trade policies from the Trump administration and political issues in Italy and Spain. Despite this, Mexican equities traded stable with the IPyC closing the week at 45,013 points, respecting its 44,300-point support. The IPyC is down -8.17% year to date. At the close of the week, the Index reflected U.S. equity markets' positive reaction to the May jobs report and price opportunities (GMEXICO and GRUMA), implying that it has already priced-in uncertainty linked to the July 1st elections and the possible outcome.

U.S. equity markets closed the week mixed. The Dow Jones, S&P 500 and NASDAQ returned -0.38%, +0.54% and +1.65%, respectively, bringing their year to date gains to 0.69%, 3.13% and 9.96%. This performance suggests that investors reacted positively to the May jobs report, the unemployment rate came in at 3.8% and the number of nonfarm payroll jobs rose 223,000 vs. an expected 190,000 and an April inflation rate that was in line with the FED's 2% target; this should be reinforced in the FED's most recent monetary policy minutes due out on May 23rd, which accept the possibility of the annual inflation rate rising above the FED's target rate for a period of time.

Local Currency Return				
Index	1 week	1 year	YTD	Country
DOW JONES INDUS. AVG	-0.38%	19.21%	0.69%	US
S&P 500 INDEX	0.54%	14.74%	3.13%	US
NASDAQ COMPOSITE INDEX	1.65%	22.27%	9.96%	US
S&P/BMV IPC	-0.08%	-6.69%	-8.17%	MX

Source: Bloomberg

On Thursday, May 31st, President Trump announced that his administration would levy duties on steel and aluminum imports from Mexico, Canada and the European Union amounting to 25% on steel and steel byproducts, while a 10% duty would be levied on aluminum imports. According to U.S. Trade Secretary Wilbur Ross, this decision reflects the U.S.'s current stance regarding the North American Free Trade (NAFTA) renegotiation. The affected countries retaliated by

announcing similar measures for U.S. imports up to an equivalent amount. Mexico will levy duties on flat steel, lamps, sausages, and some fruits and cheeses, among other products.

Other systemic risk factors, which led to expectations of Italy and Spain possibly pulling out of the Euro zone, also impacted Mexico's equity and foreign exchange markets. The Italian candidate aspiring to the Ministry of the Economy is a Euro skeptic, while the Spanish prime minister was removed from office following a no-confidence vote from the Socialist Party, which could unite with the radical left-wing Podemos party to form a new government.

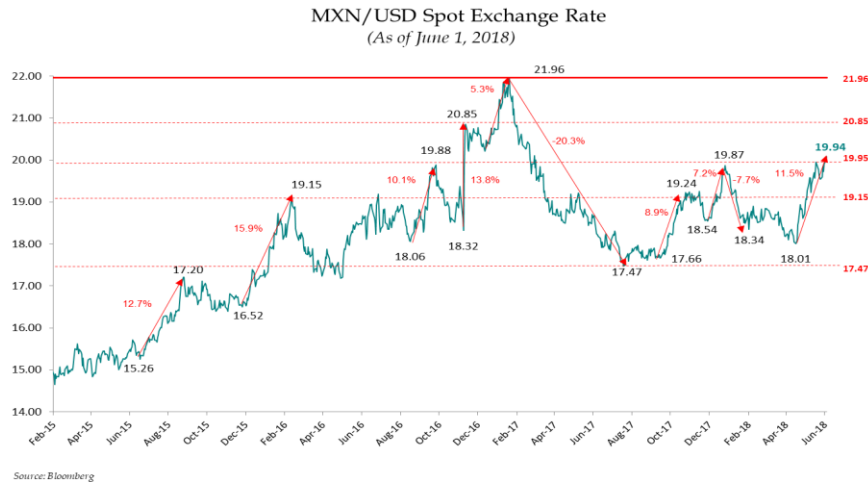
The peso/dollar exchange rate came under upward pressure from new protectionist risks related to international trade, which are impacting the NAFTA renegotiation, political uncertainty linked to the July 1st elections, and the political situation in Europe. Thus, the overnight interbank spot rate closed the week at \$19.94 pesos to the dollar, a depreciation of 1.99% and a year-to-date loss of 1.41%. The peso/dollar exchange rate should remain volatile until the July 1st elections. (see Exhibit 1).

The following key economic data was released during the week:

- Banco de México reported that foreign remittances totaled US\$2.716 bn (+17.9% YoY), the highest for any April since Banxico began reporting this data.
- The first quarter 2018 primary balance registered a US\$ 9.2 bn surplus, above the US\$ 1.3 bn surplus anticipated in the Finance Ministry's program.
- The April unemployment rate was 3.36%, below the year earlier's 3.44%. The informal employment rate was 56.9%, four percentage points above the year-ago level, according to INEGI.

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Exhibit 1



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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.

Dow Jones: One cannot invest directly in an index.

S&P 500: One cannot invest directly in an index.

NASDAQ: One cannot invest directly in an index.

Experience

Consistency

Vision