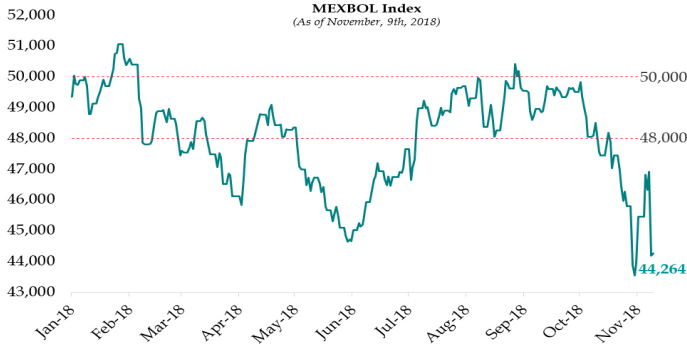


AMLO EASES MARKETS

MEXBOL closed at 44,264 points on November 9th. This significant drop implies a decline of (-) 2.47% in the week and accumulated losses of (-) 4.07% since the Mexico New Airport (NAIM) public consultation. Throughout the year, losses amount to (-) 8.65%. On Friday, before the close of the stock market, Andres Manuel López Obrador said that no changes to the financial system will be sought, at least in the first three years of his government.



Source: Bloomberg

The statement contributed to easing a very risk-sensitive market, especially after the events of the last three weeks:

- On November 8th, the MORENA party proposed the elimination of banking commissions for some services, such as card replacements, credit card annual fees and account or transaction statements. The announcement on the Mexican Stock Exchange destroyed value in such a scale that the initiative froze that same afternoon. In the same order of ideas, Carlos Urzúa, who will run Mexico's Finance Ministry, tried to dismiss the measure. The technical teams of the Finance Ministry and the Association of Banks of Mexico (ABM) will analyze the proposal scope and will dialogue with relevant stakeholders.
- Another setback in Mexican financial markets was perceived in retirement saving accounts. According to Mexico's National Commission for Retirement Savings (CONSAR), assets managed by Mexican Pension Funds (AFORES) had capital losses of 131.6 billion pesos in October, the biggest loss since December 2012.
- After the cancellation of NAIM was announced, rating agencies, Fitch Ratings, and HR Ratings downgraded Mexico's sovereign debt outlook to negative, which increased Mexico's sovereign debt risk premium to a higher equilibrium. NAIM cancellation also showed the Mexican State vulnerability towards fulfilling long-term commitments.
- In mid-October, the elected president announced that, as part of his energy policy, oil production will only be for domestic consumption and will stop selling abroad. According to Moody's rating agency, the latter could represent losses equivalent to 2 percent of GDP.

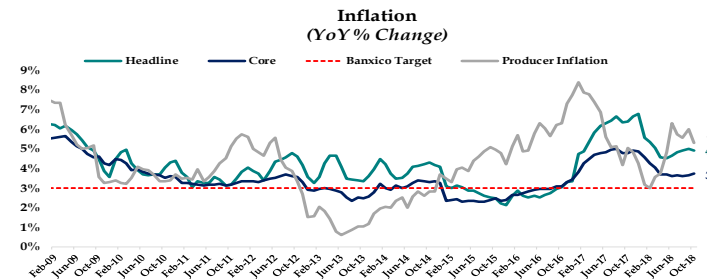
In this context, the most relevant developments for the markets in the coming weeks will be:

- On November 15th, the Board of Governors of the Bank of Mexico will meet. The market consensus is that the reference rate will increase 25 basis points to 8%, so the interest rate reflects, at least partially, the higher sovereign risk premium that financial markets are demanding.
- On December 1st Andrés Manuel López Obrador will be sworn in as Mexico's President. The tone and temper of his speech will be decisive for financial markets.
- December 15th is the deadline to approve Mexico's Federal Budget for 2019. The new government intention, of keeping primary surplus at 0.8% of GDP, is reassuring.

The spot exchange rate closed at 20.14 pesos per dollar on November 11th, which implies a weekly depreciation of (-) 0.61% and an annual depreciation of (-) 2.37%. The relative stability of the exchange rate, around 20 pesos per dollar, can be partly explained by rate hikes in M bonds. The 10-year M bond rate -the natural habitat of foreign holders of Mexican bonds- is at 8.88%, this is a 94 basis points difference since the end of September. Mexico's Central Bank decision, regarding its reference rate, becomes utmost important. If on November 15th meeting the rate does not increase by 25 bps, higher depreciation of the peso could be expected.

Economic Indicators

Inflation



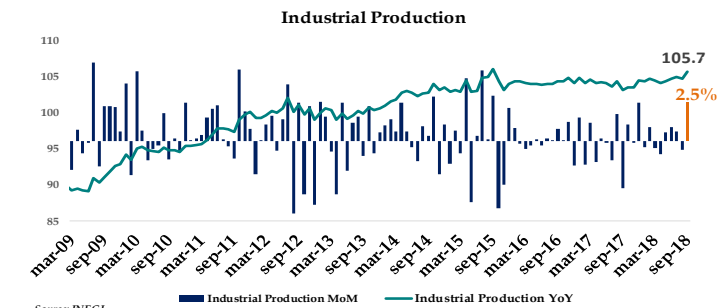
Source: INEGI

Annual inflation in October was 4.9%, which represents a slight decrease after four months of inflation increments. Electricity and air transportation stand out among the most expensive products. Annual core inflation was 3.73% and non-core inflation was 8.5%, driven by the 12.6% increase in energy.

Annual producer inflation was 5.3%, the most significant price hikes were within mining and public services sectors. (Source: INEGI)

Industrial Production

Industrial Production Index increased 2.5% in September, the most significant rise in 3 years. By components, manufacturing increased 2.4%, mining 2.9% and construction decreased 0.7% respectively. Power and Utilities increased 3.2% compared to the previous year. (Source: INEGI)



Source: INEGI

Consumer Confidence Index

Consumer confidence increased 16.7% compared to the same month in 2017 (seasonally adjusted). (Source: INEGI)

Gross Fixed Investment

Gross Fixed Investment decreased 2.2% in August, its largest drop in 16 months. By component, construction investment fell 1.5%, residential investment decreased 1.7% and non-residential investment fell 1.0%. (Source: INEGI)

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Compliance

Definitions

INDUSTRIAL PRODUCTION INDEX: The industrial production index (IPI) is a monthly economic indicator measuring real output in the manufacturing, mining, electric and gas industries, relative to a base year.

GROSS FIXED INVESTMENT: Information allowing extensive knowledge about the behavior of investment in the short term, same consists of goods used in the production process for more than one year and are subject to property rights. This indicator shows how much of the new gross value added in the economy is reversed, instead of being consumed.

CONSUMER CONFIDENCE: Consumer confidence, measured by the Consumer Confidence Index (CCI), is defined as the degree of optimism about the state of the economy that consumers are expressing through their activities of saving and spending.

ABM: group of the main financial institutions in Mexico.

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

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.

CONSAR: National Commission of the Savings System for Retirement whose main task is to regulate the Retirement Savings System that is constituted by the individual accounts, owned by the workers.

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.

GDP: Is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

HR Ratings: Institution focused on supporting investors to make informed decisions by issuing credit quality opinions based on dynamic, transparent and with constant monitoring analysis. Mexbol: **The S&P/BMV IPC (MEXBOL):** Seeks to measure the performance of the largest and most liquid stocks listed on the "Bolsa Mexicana de Valores". The index is designed to provide a broad, representative, yet easily replicable index covering the Mexican equities market.

MORENA: Political party "National Regeneration Movement"

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.

NAIM: New International Airport of Mexico City.

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

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