

OCTOBER: INTERNATIONAL RISKS, AIRPORT CONSULTATION AND UNEXPECTED FINANCIAL REPORTS

On October 26th the spot exchange rate closed at MXN 19.36 per dollar, which implies a weekly depreciation of 0.40% and reduces annual progress to 1.54% compared to the 4.43% achieved three weeks ago. During the week, three variables that could impact the Mexican currency materialized: the further growth of the US economy, statements from the European Central Bank, and uncertainty regarding the public consultation on the construction of the Mexico City New Airport, canceled on Monday.

- The US economy advanced an annualized 3.5% in the third quarter of 2018, beating market expectations of 3.3% and the Beige Book of the Federal Reserve released in October highlights that the economic activity expanded across the United States driven mainly by the positive performance in the manufacturing and consumption sectors.
- The European Central Bank (ECB) maintained its monetary policy unchanged and kept the reference rate at 0.00%. The ECB plans to stop buying bonds at the end of December and raise rates by September next year. However, recent indicators show a loss of economic momentum associated with the following risks: (i) the exit of the United Kingdom from the European Union in March 2019 and (ii) the fiscal deficit of the Italian economy; In this regard, the European Commission rejected the Italian budget for 2019 and requested a new draft in three weeks to avoid disciplinary action.
- Last week the public consultation on whether to cancel Mexico City New International Airport - or not - took place. In addition to the adverse effect it had on the exchange rate, the real question is how many other state decisions, of technical nature, will the new government submit to a poll. It will be interesting to evaluate if the citizen consultations will serve as a counterbalance. Moreover, two weeks ago members of the Congress put forward an initiative to diminish the independence of the Energy Regulatory Commission (CRE) and the National Hydrocarbons Commission (CNH), which, according to Moody's, could impact Mexico's institutional framework.

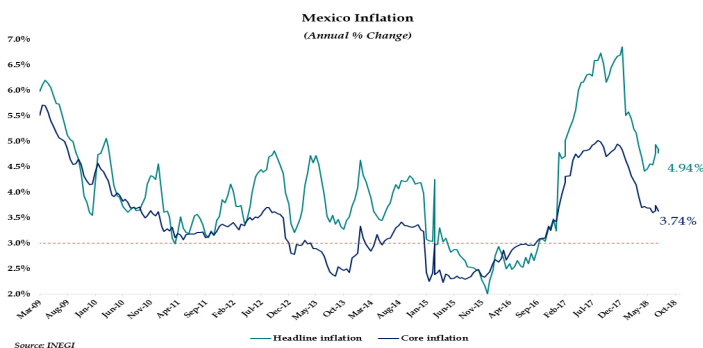
Mexbol Index closed at 45,803 points, which implies a sharp fall of (-) 3.44% during the week and (-) 4.60 % throughout the year. This adjustment could be explained by the distress the public airport consultation caused. Furthermore, some 3Q18 financial reports did not meet expectations:

According to Bloomberg, 52% of the companies reported higher than expected sales; the good results of industrials and financials stand out while some consumer companies were below consensus expectations.

68% of the companies delivered lower than expected earnings. In average, consumer staples and materials earnings were 24% and 20% respectively below consensus.

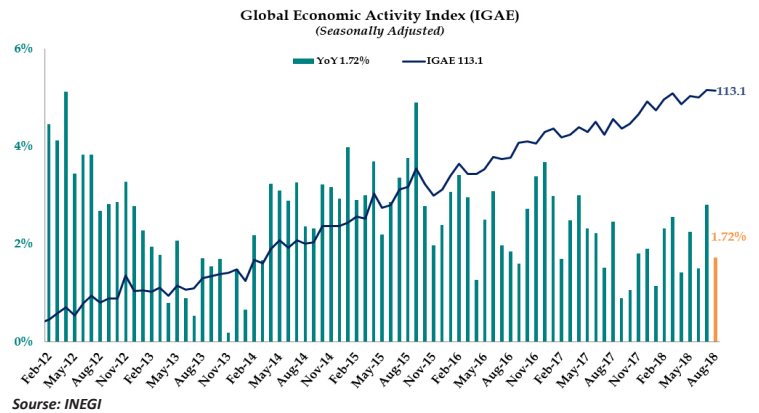
Economic Indicators

Bi-weekly Inflation



Inflation during the first fortnight of October was 0.40%, which leaves annual inflation at 4.94%. Lower inflation was due to lower prices in transportation and education. Core inflation was 0.17%, for an annual rate of 3.74%. (Source: INEGI)

Global Indicator of Economic Activity IGAE



The Global Indicator of Economic Activity increased 1.72% in August compared to the previous year. Primary activities increased 1.05%, secondary activities had a marginal increment of 0.23%, and tertiary activities grew 2.54% (seasonally adjusted). (Source: INEGI)

September Trade Balance

In September, trade balance deficit was 194 million dollars, its lowest level since April. Exports during the month add up to 37,806 million dollars, out of which 89% correspond to manufacturing. Imports reached 37,999 million dollars and were driven by intermediate goods.

Oil exports and imports have increased 44% and 18% year-to-date. (Source: BANXICO, INEGI)

Unemployment Rate

The unemployment rate in September of 3.3% is at historically low levels.

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WEEKLY ECONOMIC REPORT

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Compliance

Definitions:

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. The index is designed to provide a broad, representative, yet easily replicable index covering the Mexican equities market.

IGAE: The Global Economic Activity Index, allows to know and monitor the evolution of the economy's real sector, in short term, providing valuable information for decision making.

THE EUROPEAN CENTRAL BANK (ECB) is the central bank responsible for monetary policy of those European Union (EU) member countries which have adopted the euro currency

MEXICO'S ENERGY REGULATORY COMMISSION (CRE), regulates the "midstream and downstream" sectors of hydrocarbons, as well as the entire electric power supply chain. It also has responsibilities linked to the regulation of clean and renewable energies.

MEXICO'S NATIONAL HYDROCARBONS COMMISSION (CNH), regulates the "upstream sector" of hydrocarbons, by regulating, monitoring and evaluating the exploration and extraction of hydrocarbons in Mexico.

Disclosures

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