

Change in the Federal Government's Speech

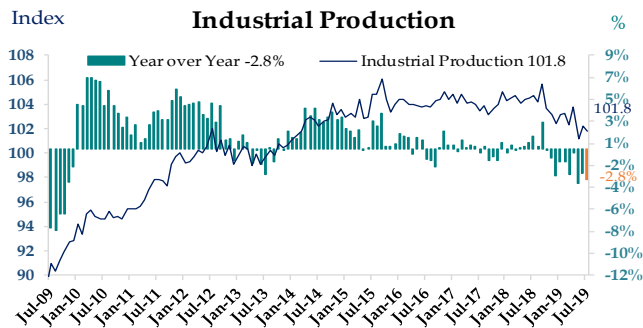
The Gross Domestic Product ("GDP") grew 0.1% in the second quarter of the year compared to the previous quarter avoiding a "technical recession" but confirming that the Mexican economy is decelerating. By components, industrial activity and services—which represent 92% of the economy—contracted by -1.6% and -0.2% respectively.

- Industrial production in July (latest available data) declined -2.8% year-over-year (YoY). The only sector which grew was manufacturing which increased by 1.2% while mining, utilities, and construction fell -7.4%, -1.1%, and -9.1% respectively.
- Gross Fixed Investment in June (latest available data) fell -7.40% YoY. Construction grew 4.1% indicating a slight recovery; however, it was not able to offset the decline in machinery, which fell -5.3%.

Noteworthy, there have been relevant events that the government is collaborating with the private sector:

- iv. The Electricity Commission (CFE) finally reached an agreement with three out of the four pipeline companies with arbitration requests.
- v. The possibility that the government will resume oil exploring auctions, and that Pemex Exploration and Production will, once again, be authorized to explore in deep waters.

The previous events could boost the private sector's confidence in Mexico, triggering investment. Moreover, a higher investment could change the decelerating economic trend.



Source: INEGI

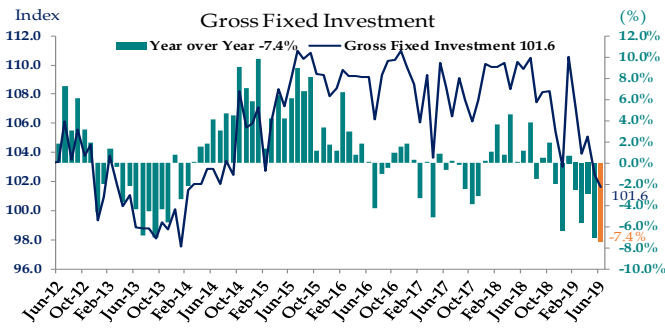
Economic Indicators

Banxico reference rate

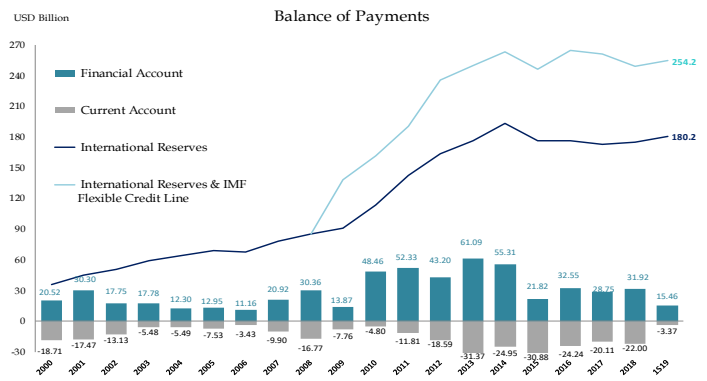
Banxico reduced its reference rate by 25 basis points to 8.0%; the first decrease since June 2014. One of the five board members voted to maintain the interest rate unchanged. Noteworthy, Banxico's decision follows global leading central banks, monetary policy easing, including the Federal Reserve.

Balance of Payments

The balance of payments of Mexico presented positive results in the first half of the year. The current Mexican account recorded a US\$3.37 billion deficit; significantly lower than the US \$13,752 in the first half of 2018. The financial account had a surplus of US\$ 15.46 billion; slightly smaller than the US\$17,942 surplus observed in 1H18. These numbers reflect the strength of remittances that amounted to US\$16.9 billion in 1H19 and the significant US\$3.0 trade surplus resulting from the imposition of tariffs on China by the United States.



Source: INEGI



Source: Banxico

The reduction in government spending was another driver of economic deceleration as the 2019 budget authorized the government to spend approximately US\$9.5 billion in the first half of the year; whereas, government spending was 5.91% less. Even with a lower tax collection (2.54% less than budgeted), the Ministry of Finance indicated that the observed primary balance is 168.4% larger than the budgeted, confirming the fiscal discipline of the government.

The Ministry of Finance issued a US\$24.7 billion reactivation program to reactivate the economy which will be distributed by as follows:

- i. US\$13.78 billion allocated to development banking to grant 500 thousand credits to micro, small, and medium companies.
- ii. US\$5.8 billion assigned to the public sector to overtake tenders scheduled for 2020 and sign government contracts listed for to this year.
- iii. US\$2.5 billion to build 18 infrastructure projects.
- iv. US\$2.5 billion assigned in credits to the agricultural sector.

Although the US\$24.7 billion is significant as it represents 2.04% of 2018's GDP, the government will only directly invest US\$5.8 billion; the rest will be granted in credits. The previous amount only represents 95% of what the government has under-spent in the year.

Eugenia Pichardo & Arnulfo Rodríguez
 Equity Portfolio Manager & Macro & Debt Strategist

Investor Relations: Igarcia@paminversion.com
 Tel: (52) 55 5261 4600



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Pichardo Asset Management, SA de CV
An Independent Investment Advisory Firm

www.paminversion.com.mx
Andres Bello 45, 22nd Floor,
Polanco, 11550 CDMX, México
Phone: + 52 (55) 52 61 46 00 /04/21/16

epichardo@paminversion.com

CEO & Senior Equity Portfolio Manager

arodriguez@paminversion.com

Associate

Macro Strategist

destevez@paminversion.com

Managing Director

Co-Portfolio Manager

jelizalde@paminversion.com

Associate

Co-Portfolio Manager

igarcia@paminversion.com

Associate

Consumption Analyst & IR

mcastaneda@paminversion.com

Associate

Materials & Telecom Analyst

lcalzada@paminversion.com

Compliance & Portfolio Administration

Definitions

Basis point: One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001.

Gross Domestic Product: a monetary measure of the market value of all the final goods and services produced in a period of time, often annually.

MEXBOL: The S&P/BMV IPC Index measures the performance of the largest and most liquid stocks listed on the Bolsa Mexicana de Valores. The index is designed to provide a broad and representative index covering the Mexican equities market. It is not possible to invest directly in an index.

Treasury Bills: It is a government debt instrument issued by the United States Department of the Treasury to finance government spending as an alternative to taxation.

Secondary Activities: The portion of an economy that includes light and heavy industrial manufacturers of finished goods and products from raw materials.

Tertiary Activities: consists of industries which provide a service, such as transport and finance.

Gross Fixed Investment: is a term used to describe the net capital accumulation during an accounting period for a country. The term refers to additions of capital stock, such as equipment, tools, transportation assets and electricity.

Core Inflation: is the change in costs of goods and services, but does not include those from the food and energy sectors.

Remittances: A transfer of money by a foreign worker to an individual in their home country.

Trade Deficit: Occurs when a country's imports exceed its exports. It is an economic measure used in the field of international trade.

Trade Surplus: Is an economic measure of a positive balance of trade, where a country's exports exceed its imports.

Tariffs: A tax or duty to be paid on imports or exports.

Banxico Reference rate: Interest rate derived from costs of funding and the operation of funds used by banks to grant preferential loans.

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 August 31, 2019. For a list of full securities please visit: www.mxefund.com.

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