WEEKLY ECONOMIC REPORT **APRIL 24, 2020.**

Credit Expansion to Support the Economy

During the week, both the Mexican government and Banxico announced fiscal and monetary stimulus measures. The stimulus proposed by the federal government is similar to that published on April 5th, however this one includes additional cuts in the public expenditure. The monetary stimulus announced by Banxico amounts to MX$750 billion (3.3% of Mexico's GDP) and seeks to support the country's productive sectors through the expansion of bank credit.

The monetary stimulus measures proposed by Banxico are diverse and significantly reinforce the supply of credit in the economy:

1. **Resources for up to MX$250 billion to banking institutions to provide credits to micro, small and medium-sized companies and individuals affected by COVID-19.** Banxico will deliver the resources through the Monetary Regulation Deposit (DRM) or, if necessary, through 18- and 24-month financing at a 6.0% rate.
2. **Ease of financing to multiple banking institutions guaranteed with corporate loans of up to MX$100 billion; the resources will go to micro, small and medium-sized companies.** Banxico opened a financing facility to companies that issue debt securities. The term is between 18 and 24 months at a 6.0% rate, and will be guaranteed with loans from companies whose rating is higher than "A" by at least two rating agencies.
3. **Government securities swaps for MX$100 billion.** Banxico will receive long-term (at least 10-year maturity) securities and will swap them with instruments with a maturity of up to three years.
4. **Exchangeable hedges in United States dollars with non-Mexican counterparties.** The exchange commission will incorporate into its intervention in the exchange markets tools, the possibility of arranging exchange hedging operations that can be settled for differences in United States dollars. With this, the operation is guaranteed at times when the national markets are closed.
5. **Ease of repos of corporate titles to credit institutions for up to MX$ 100 billion.** The cost of the repurchase will be equivalent to 1.10 times the average benchmark rate during the term of the operation.
6. **Expansion of the securities eligible for the Ordinary Additional Liquidity Facility (FLAO).** Banxico decided to expand the range of eligible debt securities in the FLAO repurchases. Titles must be rated "A" on a national scale or "BB +" on a global scale.
7. **Expansion of counterparties eligible for the Additional Liquidity Facility.** Development banks will also be able to access FLAO at the same cost as private banks (1.1 times the reference interest rate).
8. **Increase of liquidity during operating hours.** Banxico will continue providing excess liquidity during operating hours to avoid pressure on its benchmark rate.
9. **Temporary counter to exchange "merchandise" for up to MX$100 billion.** Exchange of corporate debt securities for government securities to provide liquidity to tradable securities.
10. **Counter for government securities repos up to MX$100 billion.** The terms that will operate will be larger than those typically used in open market operations to avoid market volatility.

Debt Issuance by the Mexican Government

After the downgrade of the Mexican sovereign debt by Fitch and Moody's, on April 22nd, the Ministry of Finance (SHCP) allocated US$6 billion debt in international markets with the following characteristics:

1. 5-year benchmark bond (maturing in 2025) for $1 billion; the coupon rate was 3.90%, and the yield to maturity (ytm) is 4.12%.
2. 12-year reference bond (maturing in 2032) for a total of US$2.5 billion; the coupon rate was 4.75% and the ytm 5.0%.
3. 31-year bond (maturing in 2051) for US $ 2.5 billion; coupon rate of 5.00% and ytm of 5.50%.

The demand for these three instruments amounted to US$28.5 billion, 4.75 times the amount placed. Although the placing was successful, rates were considerably higher than previous issuance, that the SHCP carried out on January 7th:

1. The ytm of the 10-year Bond placed on January 7th was 3.31%, the one that was recently placed was 4.12% (+81 bps).
2. The ytm of the 30-year Bond issued on January 7th was 4.04%, while the recent one is 5.50% (+138 bps).
3. To contextualize the high rates, Paraguay, a country whose sovereign debt rating is BB, placed US$1 billion at 11 years with a ytm of 4.95%. This rate is five basis points lower than the one Mexico recently spotted at the same term, despite the fact that Mexico has a BBB rating.

Mexican Stock Exchange

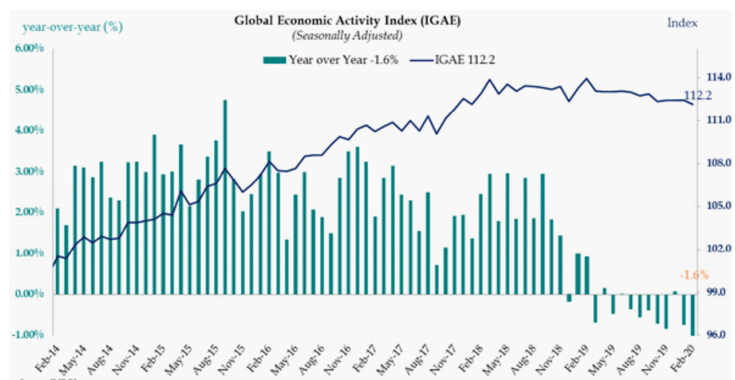
Mexbol closed on April 24th at 34,586 points, for a weekly loss of (-)4.62% in dollars; thus, the year to date decrease amounts to (-) 39.71% in dollars. The poor performance of the index during the week was due to:

1. The lack of a fiscal stimulus measures by the federal government to aid the productive sectors of the economy.
2. The (-)1.6% drop of the Global Economic Activity Indicator (IGAE) in February, which reinforces the feeble state of the economy even before the COVID-19 crisis.

Economic Indicators

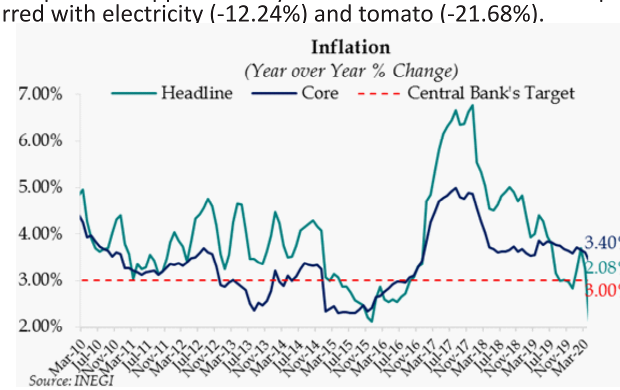
IGAE

INEGI announced that February's Global Indicator of Economic Activity (IGAE) displayed a year over year (-)1.6% contraction. By sector, primary activities fell (-)8.3%, secondary (-)3.5% and tertiary (-)0.3%. Noteworthy a drop of such magnitude in the IGAE has not been observed since November 2009, besides, the data takes special relevance, since it is the last measurement of the Mexican economy before local lockdown measures started.



Inflation

INEGI released the data from the Mexican Consumer Price Index (INPC) for the first half of April. Year over year inflation was 2.08%, core inflation increased at a 3.40% rate; in contrast, the non-underlying index showed a (-)1.93% deflation. The adjustment of inflation downwards mostly counters to the decline (-10.36%) in the price of low octane gasoline, which represents approximately 5.7% of the INPC. Other sharp declines occurred with electricity (-12.24%) and tomato (-21.68%).



Eugenia Pichardo & Arnulfo Rodriguez,
Equity Portfolio Manager & Macro and Debt Strategist
Investor Relations : igarcia@paminversion.com
52 (55) 5261 4600

Pichardo Asset Management, SA de CV
An Independent Investment Advisory Firm
www.paminversion.com.mx
Andrés Bello 45, 22nd Floor,
Polanco, 11560 CDMX, México
Phone: + 52 (55) 52 61 46 00 /04/21/16

epichardo@paminversion.com
CEO & Senior Equity Portfolio Manager
eestrada@paminversion.com
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

Definitions

Banco de México (Banxico): Is the central bank of Mexico. Its main function is to provide domestic currency to the Mexican economy and its main priority is to ensure the stability of the domestic currency's purchasing power.
Basis points (bps): Refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001.
COVID-19: The disease caused by the coronavirus, a family of viruses that were discovered in the 60s but whose origin is still unknown. Its different types cause different diseases, from a cold to a severe respiratory syndrome.
Coupon: Is the annual interest rate paid on a bond, expressed as a percentage of the face value.
Global Indicator of Economic Activity (IGAE): Allows to know and monitor the monthly evolution of the real sector of the economy.
Gross Domestic Product (GDP): Is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.
Mexbol: The S&P/BMV IPyC 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.
Mexican Consumer Price Index (INPC): It is a global economic indicator whose purpose is to measure, over time, the variation in the prices of a basket of goods and services representative of the consumption of households in the country.
Monetary Regulation Deposit (DRM): Mandatory long-term deposits that the national credit institutions have to establish in the institute central.
Ordinary Additional Liquidity Facility (FLAO): Offers liquidity to multiple banking institutions through credits guaranteed or repo, whose cost from April 1 is 1.1 times the target for the overnight bank interbank interest rate of Banco de México.
Rating Agency's: Standard and Poor's ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'D', which is the lowest grade. Moody's ratings are expressed as letters and numbers ranging from 'Aaa', which is the highest grade, to 'C', which is the lowest grade. A Standard and Poor's rating of BBB or higher is considered investment grade. A Moody's rating of Baa3 or higher is considered investment grade. A Standard and Poor's rating below BBB is considered non investment grade. A Moody's rating below Baa3 is considered non investment grade. If an issue is rated by both agencies, the higher rating is used to determine the sector.
The Ministry of Finance and Public Credit (SHCP): Is the government entity responsible for proposing and controlling the economic policy of the Mexican Federal Government regarding the financial, fiscal, expenditure, income and public debt sector.
The National Institute of Statistics and Geography (INEGI): Is a public body with technical and managerial autonomy, its own legal personality and assets, responsible for regulating and coordinating the National System of Statistical and Geographic Information.
Year to Date: (YTD): Refers to the period of time beginning the first day of the current calendar year or fiscal year up to the current date.
Yield to maturity (ytm): Is the total return anticipated on a bond if the bond is held until it matures. Yield to maturity is considered a long-term bond yield but it is expressed as an annual rate.