WEEKLY ECONOMIC REPORT — February 22, 2019

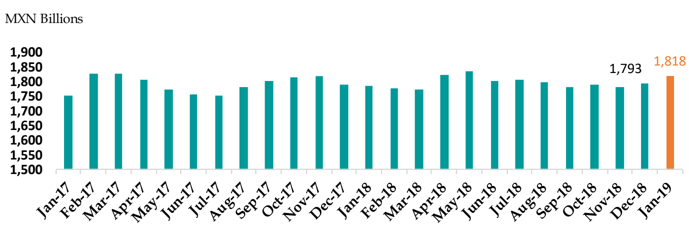
Exchange rate stability with inbound flows to the local debt market

On Friday, February 22, the spot exchange rate closed at 19.15 pesos per dollar, for a weekly appreciation of 0.56%, and 2.64% year to date. The previous, despite the actions announced by the Federal Government to strengthen Pemex's finances which were not enough to convince financial markets, as they are insufficient to solve Pemex´s capital shortage and despite the certainty on the payment of debt maturities in the short term. According to the latest public data, Pemex´s capital shortage is estimated at 78 billion dollars ($ 1.5 billion), equivalent to 7% of 2018 nominal GDP and 33% of the Federal Government´s budget revenues.

Remittances are among the factors that allow stability of the Mexican currency against the dollar, which reached a record high of 33.495 million dollars in 2018; a vital amount when compared with the trade balance deficit of (-13,704 million dollars in 2018) or the interest on external debt (25,139 million dollars as of September 2018). Likewise, the exchange rate stability is favored by the attractive premium-In international terms- that Mexican debt instruments pay in local currency.

In November 2008 the 10-year M bond rate reached 9.26%, a maximum not seen since December 2008. At the close of Friday, February 22, this rate was 8.25%, a decrease of 40 basis points year to date, which suggests foreign portfolio investment into the local bond market. Since January and so far in February the foreign investment flow is estimated at approximately 2.2 billion dollars into Cetes and M bonds.

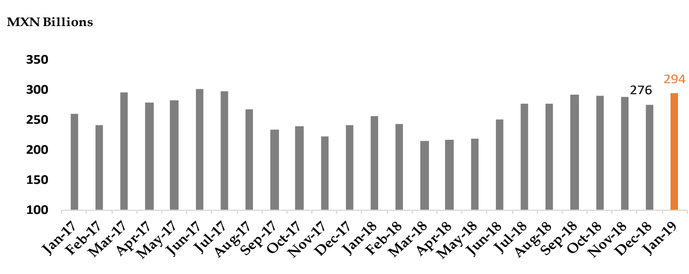
Foreign Investment in M Bonds
(Monthly average balance as of January 2019)



Source: Banxico
FIX Exchange Rate: 19.0388

1,818 MXN Billions = 95.5 Billion Dollars
Monthly variation: +25 MXN Billions/+1.3 Billion Dollars

Foreign Investment in CETES
(Monthly average balance as of January 2019)



Source: Banxico
FIX Exchange Rate: 19.0388

On February 15, the Ministry of Finance and Public Credit (SHCP) announced new actions to remedy Pemex´s financial situation, whose debt amounts to 2 billion 1,843 million pesos; this, after the measures announced on January 28 (tax incentives for hydrocarbon production and recovery projects) were insufficient to prevent Fitch Ratings from downgrading Pemex's credit rating and the outlook from stable to negative. The amount of the new proposal amounts to 107 thousand million pesos (5.5 billion dollars) and includes a cash injection of 25 thousand million pesos (1.3 thousand million dollars), the monetization of promissory notes for labor liabilities and a reduction in tax burden for up to 90 thousand mdp (4.8 billion dollars) in 6 years. Also, the strategy won't take on new debt at least in the first quarter of the year and is expected to prevent fuel theft allowing Pemex to recover 32 thousand million pesos (1.6 billion dollars). The rating assigned by the rating agency Moody's is "Baa3" with a stable outlook, and the one from HR Ratings is "A- (G)" with a negative outlook.

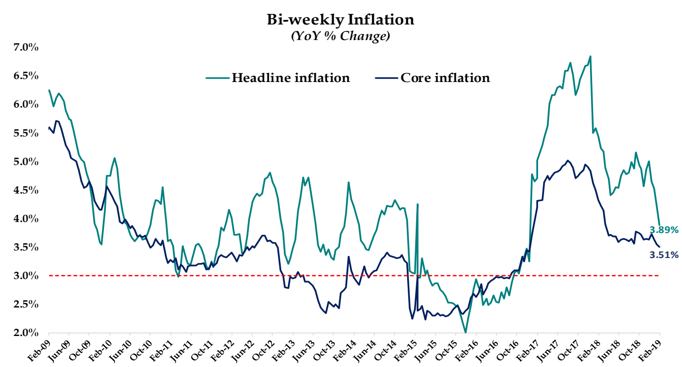
On February 17, Banxico decided, unanimously, to maintain its reference rate unchanged at 8.25%. According to the minutes of the meeting, all members of the Governing Board pointed out that the balance of risks for economic growth is downward biased. Among the risks are: i) the ratification of the commercial agreements reached between Mexico, the United States, and Canada; ii) lower confidence in the outlook for the Mexican economy, and iii) delays in spending execution. The majority highlighted that financial markets resented Fitch's Pemex's credit rating review. One of them stressed that, despite this, sovereign risk premiums had not been affected, although it cannot be ruled out that it has an impact. Regarding the trajectory of inflation, the majority considered that the balance of risks maintains an upward bias.

The Mexbol Index closed Friday, February 22, at 43,739 points, for a weekly advance of 1.76%, which leaves YTD gains at 5.06% after 24 of the 35 companies in the index presented fourth quarter 2018 (4Q18) financial results. 59% reported sales above expectations and 50% presented earnings above consensus expectations. The financial sector surprised positively; while the discretionary consumer sector did not meet market expectations. In particular, earnings of Grupo Financiero Banorte stand out; 4.92% above expectations. On the other hand, Arca Continental and Gruma's earnings were (-) 20.25% and (-) 8.61% lower than estimated.

Economic Indicators

Inflation

The Annual inflation rate in February was 3.89%, and the core inflation was 3.51%; both figures are lower than market consensus expectations and represent a minimum since December 2016, when fuel prices increased considerably. Although inflation decreased due to the fall in the prices of some agricultural products (- 2.78%), energy prices increased (+ 0.05%). The Governing Board of Banxico indicated in its Monetary Policy report that the risk balance of the inflation trajectory maintains an upward bias. However, it is important to note that annual consumer inflation is already within the target limit (3% +/- 1%) established in the monetary policy of Banxico.



Source: INEGI

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Definitions

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 December 31, 2018. For a list of full securities please visit: www.mxefund.com.*

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.*

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.*

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. It is not possible to invest directly in an index.*

M-Bond: *Mexico Federal Government fixed-rate development bonds that are issued and placed at terms of over one year, pay interest every six months and their interest rate is determined at issue date and remains fixed all along the life of the bond.*

Banorte: *One of the largest, most important Mexican financial groups without mergers with foreign banks. It operates throughout the country through more than 1,175 Banorte branches and 7,756 Banorte ATMs. For a list of full securities please visit: www.mxefund.com.*

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

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

Banxico: *Banco de México is the central bank of Mexico. By constitutional mandate, it is autonomous in both its operations and management. 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. Its other functions are to promote both the sound development of the financial system and the optimal functioning of the payment systems.*

Inflation: Mexico's national index of consumer prices (CPI) is the measure for evaluating the inflation rate in the Mexican economy at a national level.

SHCP: *Secretaria de Hacienda y Credito Publico, is the Ministry of Finance.*

Remitances: *A remitance is the funds an expatriate sends to his/her country of origin via wire, mail, or online transfer. These peer-to-peer transfers of funds across borders are economically signifcant for many of the countries that receive them.*

HR Ratings: *Since it was first authorized in 2007, HR Ratings has been on a remarkable trajectory, reflected in ratings assigned to debt issuances in Mexico and other countries, with a value upward of US$30 billion. These ratings include analysis of governmental entities, corporates, financial institutions, infrastructure and structured finance.*

CETES: *Mexican Federal Treasury Certificates: Are the oldest debt tradable instrument issued by the federal government. They were issued for the first time in January 1978 and since then they have been a cornerstone in the development of the Mexican money market. These securities are zero-coupon bonds, which means that they are traded at a discount (below their face value), they do not accrue any interest before expiration, and they pay face value on the maturity date.*

For the MXE´s full securities, please visit: www.mxefund.com.