

Better momentum in Financial Markets

Financial markets posted good returns during the week that ended September 13th, aided by an optimistic sentiment among investors given a higher demand for riskier assets, due to the following:

- i. **Lower systemic risk.** China decided to withdraw tariffs on some American products such as soybean and pork, motivating Chinese companies to buy American agricultural products. President Trump declared his will to reach an agreement.
- ii. **The European Central Bank's monetary policy decision.** The central bank reduced to -0.5% its deposit interest rate, a historical minimum, while its main reference rate, remained unchanged at 0.0%. Besides, a quantitative easing program will begin with the buy of €20 billion in bonds every month until inflation converges to the 2.0% target.
- iii. **2020 Mexican Government Budget.** Although the budget was considered realistic regarding its macroeconomic variables (GDP growth, inflation, and exchange rate), the strategy to achieve the ambitious objective to increase oil production in the country remains uncertain.

Mexican Stock Exchange

Mexbol Index had a weekly gain of 1.24% driven by the release of the 2020 budget, which had a moderately positive reception from markets, Pemex's financial operations, and the reduction of global uncertainty. Year-to-date Mexbol presents a 6.68% return.

Exchange Rate

The spot exchange rate fell below MX\$19.50 per dollar and closed at MX \$ 19.41 per dollar representing a 1.26% appreciation so far this year. Pemex's successful bond auctioning along with a reasonable 2020 budget strengthened the Mexican currency; whereas, lower global uncertainty reduced the U.S. dollar strength.

M and T Bonds

The U.S. 10-year Treasury bond rate increased 31 basis points to close the week at 1.87% due to higher demand of investors for relatively riskier assets, reflected by gains in the United States stock indices. The 10-year M-Bond followed the same behavior and ended the week at 7.26%, a 29 basis points increase.

Pemex Financial Decisions

Pemex successfully issued, with an oversubscription of 5.42 times (US\$38 billion), a \$7.5 billion U.S. dollar bond with yields of 7.7% for 30-year period, 6.85% for the 10-year period, and 6.5% for the 7-year period.

Additionally, the Ministry of Finance announced that the Federal Government would make a capital injection of US\$5 billion to Pemex. The oil company will use the US\$5 billion to prepay bonds that expire in 2020 and 2023.

Economic Indicators

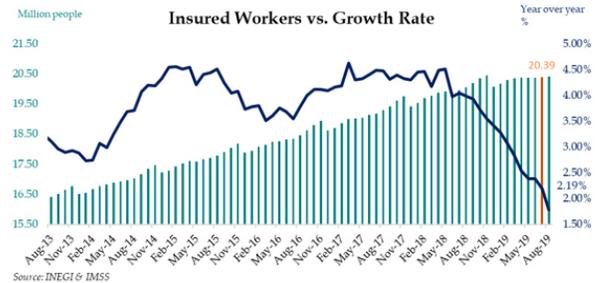
2020 Budget

The Ministry of Finance released the 2020 budget, projecting the following macroeconomic variables:

- i. Economic growth range of 0.6% -1.2% in 2019 and 1.5-2.5% for 2020. Lower range estimates match with the private sector expectations.
- ii. Exchange rate of MX \$ 19.80 at the end of 2019 and MX\$20.00 in 2020 aided by the country's external accounts.
- iii. Inflation at 3.20% in 2019 and 3.0% by 2020, following Banxico's forecasts.
- iv. A ~100 basis points interest rate decrease by 2020 as they estimate that the 28 days CETES rate is expected to close at 7.1%.
- v. A 13% increase in oil production by 2020. By the end of 2019, the government estimates that the average platform will be 1.72 million barrels per day (mbd) -currently, the average is 1.69 mbd. This estimation is the only one that seems inconsistent and too ambitious. In this sense, the participation of the private initiative through farm-outs and deep-sea exploration is essential to achieve this goal.

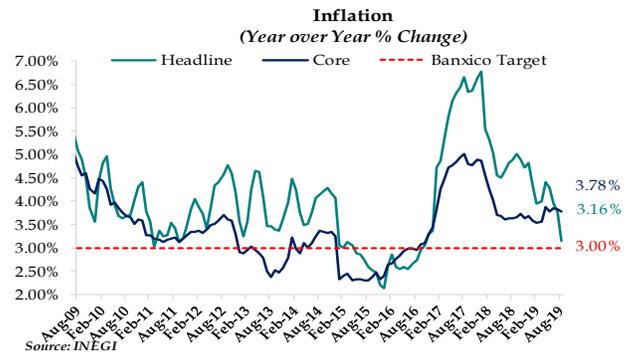
Formal Jobs Creation

The Mexican Social Security Institute (IMSS) published employment figures for August. Private sector companies created 36,631 jobs; considerably lower compared to the 114,189 jobs created year-over-year. Only 342,645 jobs were created from January to August, 46.87% less than those created until the eighth month of last year.



Inflation

INEGI indicated that in August 2019, the National Consumer Price Index (INPC) had a monthly decrease of -0.02%, so inflation was 3.16%. The underlying annual inflation had a minimum change of 4 basis points and was 3.78%. In contrast, non-core annual inflation fell from 3.64% in July to 1.28% in August. The fall in inflation is mainly due to the decrease in prices of chicken, onions, avocado, and air transport, products whose price fell more than 8%.



Industrial Activity

The industrial production index in Mexico recorded its tenth consecutive annual drop in July, this time the decline was -2.8%. The only sector that grew was manufacturing (1.2% YoY). Mining, construction and utilities fell -7.4%, -9.1% and -1.1% respectively.



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Definitions

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.

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 in an index.

Mexican Stock Exchange: The Mexican Stock Exchange headquartered in Mexico City, is the full service securities exchange of the country, dealing in cash equities, derivatives and fixed income products.

INEGI: The National Institute of Statistics and Geography. It is the institution responsible for performing the population census every ten years; as well as the economic census every five years and the agricultural, livestock and forestry census of the country.

Basis points: Refers to a common unit of measure for interest rates and other percentages in finance.

Petroleos Mexicanos (Pemex): 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 September 2, 2019. For a list of full securities please visit: www.mxefund.com.

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.

Inflation: Is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time.

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

CETES: The Mexican Federal Treasury Certificates, are investment instruments offered by the Federal Government through the Ministry of Finance and Public Credit.

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