

WEEKLY ECONOMIC REPORT

Week Ended June 15, 2018

Peso remains under pressure; MSE recovers
Important FED Meeting

The week ended June 15th was marked by the release of monetary policy information from the U.S., the European Union, and Japan, as described below:

- On June 13th, the U.S. Federal Reserve Open Market Committee (FOMC) unanimously decided to increase its reference rate range by 25 basis points to a 1.75% - 2.00% range. The FOMC's projections show that most of its members expect a faster pace of interest rate hikes with two more during the rest of 2018, which should take it to a 2.25% - 2.50% range. The decision was underpinned by a solid local market, an environment of economic growth and an inflation rate in line with the 2% target.
- The European Central Bank decided to suspend its debt purchase program by the end of the year; it will reduce its bond purchases (15 billion euros or 17.4 billion US dollars) to half as of September in order to finalize its asset purchase program in December. Furthermore, no changes were made to its refinancing operations rate (0%) or its deposit facility rate (-0.4%).
- The Central Bank of Japan opted to continue to extend its monetary stimulus measure and leave its reference rate at -0.10%. This measure backs its expansive monetary policy in the face of deflation.

In this context, Banco de México's Governing Board may not make any changes to its reference rate in its next June 21st meeting given that annual inflation continues to show a downtrend and in order to preserve the possibility of implementing further hikes in the face of greater risk. It is important to mention that Banxico has other exchange rate intervention tools at its disposal, including foreign exchange hedge auctions.

The IPyC gained 2.23% for the week, closing June 15th at 46,939 points but was down -3.87% year to date. Thus, the IPyC recorded two straight winning weeks which brought it close to the psychological resistance level of 47,000 points. The IPyC's movement reflected the presence of attractive entry prices and less uncertainty given the FED's monetary policy release. Stocks that most contributed to the Index's gain were: ALFA (+6.82%), AMXL (+6.62%), TLEVICPO (+6.13%), CEMEX (+5.15%), GAPB (+5.13%) and AC (+3.59%).

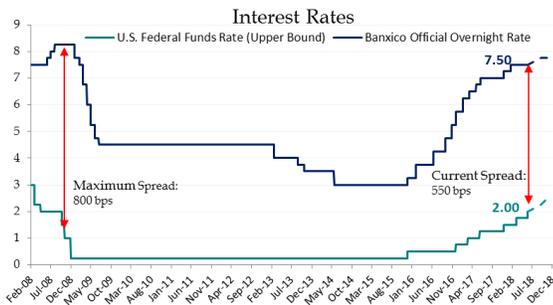
In contrast with the MSE, US equity markets closed the week mixed. The Dow, S&P 500 and NASDAQ registered variations of -0.84%, +0.06% and 1.34%, respectively, bringing their year-to-date gains to 2.62%, 4.91% and 12.79%, respectively. Markets were reacting to monetary policy news and increased trade tensions between the U.S. and China.

Local Currency Return

Index	1 week	1 year	YTD	Country
DOW JONES INDUS. AVG	-0.84%	20.17%	2.62%	US
S&P 500 INDEX	0.07%	16.51%	4.92%	US
NASDAQ COMPOSITE INDEX	1.34%	27.02%	12.79%	US
S&P/BMV IPC	2.23%	-2.44%	-3.87%	MX

Source: Bloomberg

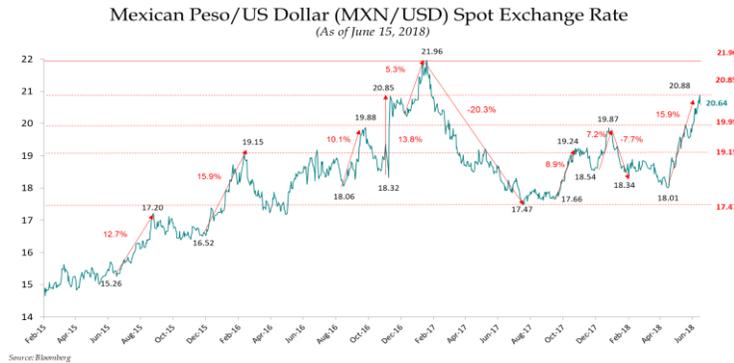
The interbank spot exchange rate closed Friday at \$20.62 to the dollar. After extending the previous week's trend, the peso registered a depreciation of -1.63% for the week and -4.69% year to date. The peso weakened in response to a stronger dollar (the DXY index rose 1.34% in the week) due to greater risks related to international trade tensions and uncertainty over the outcome of North American Free Trade Agreement (NAFTA) renegotiation. (See exhibit 1).



Source: Bloomberg, Banxico Survey of Expectations

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Exhibit 1



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Definitions

FED – The Federal Reserve System is the central bank of the United States and arguably the most powerful financial institution in the world.

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.

S&P/BMV IPC (IPyC) – The Índice de Precios y Cotizaciones (IPyC) is a capitalization-weighted index of the leading stocks traded on the Mexican Stock Exchange. The index was developed with a base level of 0.78 on October 30, 1978.

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.

North American Free Trade Agreement (NAFTA) – A regulation implemented January 1, 1994 in Mexico, Canada and the United States to eliminate most tariffs on trade between these nations. The three countries phased out numerous tariffs, (with a focus on those related to agriculture, textiles and automobiles), between the agreement’s implementation and January 1, 2008. NAFTA’s purpose is to encourage economic activity between the United States, Mexico and Canada.

Dow Jones: – The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. One cannot invest directly in an index.

S&P 500: – The Standard & Poor’s 500 Index is an index of 505 stocks issued by 500 large companies with market capitalizations of at least \$6.1 billion. It is seen as a leading indicator of U.S. equities and a reflection of the performance of the large-cap universe. One cannot invest directly in an index.

NASDAQ: Nasdaq is a global electronic marketplace for buying and selling securities, as well as the benchmark index for U.S. technology stocks. One cannot invest directly in an index.

Points - Index’s value is measured in points.

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

DXY Index: A measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.’s most significant trading partners.

Disclosures

Closed-end funds are traded on the secondary market through one of the stock exchanges. The Fund’s investment return and principal value will fluctuate so that an investor’s shares may be worth more or less than the original cost. Shares of closed end funds may trade above (a premium) or below (a discount) the net asset value (NAV) of the fund’s portfolio and there is no assurance that the fund will achieve its investment objective.

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Past performance is not a guarantee of future results. Index performance is not illustrative of fund performance. One cannot invest directly in an index. Please call (414) 765-4255 for fund performance.

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