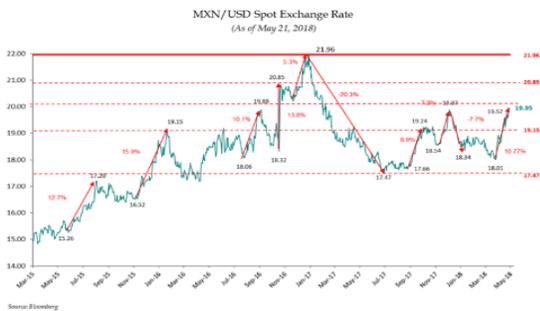


WEEKLY ECONOMIC REPORT
Week Ended May 18, 2018.

Markets correct on NAFTA and the elections

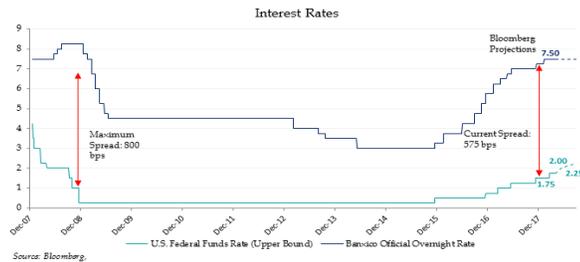
The peso spot rate closed May 18th at MXN \$19.95 to the dollar, a depreciation of -2.65% for the week and a year-to-date loss of -1.47%. The main factor affecting the peso was disappointment over the lack of an agreement in principle on the North American Free Trade Agreement (NAFTA) prior to the U.S. Congress's May 17th deadline for a draft agreement. As a result, the U.S. and Mexico negotiating teams have signaled that reaching a sound agreement rather than a skinny one is the priority, which means it is unlikely to be sent to the respective Congresses for ratification until 2019. This is not necessarily bad news, however, as the current NAFTA agreement remains in effect for trade relations between Mexico, the U.S. and Canada, and Mexico recorded a trade surplus of US\$19.166 billion with the U.S. at the end of March, 2018.



The IPyC closed the week at 45,667 points, a loss of -2.27% and is down -7.02% year to date continuing the downtrend that began in April. Market apathy not only reflects disappointment over the lack of an agreement on NAFTA, but also uncertainty related to the electoral process, as the proposals of the candidate that is out in front in voting intentions are generating strong economic and financial uncertainty. Regarding the July 1st elections, in its "Poll of Polls" (which shows candidate voting intentions) the Oraculus portal has following results as at May 17: Andrés Manuel López Obrador, AMLO (44%), Ricardo Anaya (29%), José Antonio Meade (20%) and Jaime Rodríguez (2.6%). While the polls are not a reliable estimate of the election outcome, the lead of the "Together We'll Make History" candidate is a source of concern for markets. The stocks that registered the biggest losses were: GCARSOA1 (-8.04%), IENOVA (-7.31%), MEGACPO (-6.42%), PE&OLES (-6.12%) and GFINBURO (-6.07%).

Local Currency Return				
Index	1 week	1 year	YTD	Country
DOW JONES INDUS. AVG	-0.36%	22.37%	21.54%	US
S&P 500 INDEX	-0.47%	16.93%	16.15%	US
NASDAQ COMPOSITE INDEX	-0.60%	22.79%	22.21%	US
S&P/BMV IPC	-2.27%	-3.86%	-5.32%	MX

On Thursday May 17th, Banco de México's Governing Board opted to keep the overnight rate steady at 7.50%. Its decision was underpinned by a lower inflation reading for the first four months of 2018 —from 6.77% in December, 2017 to 4.55% in April, 2018— and its congruence with the Central Bank's estimate. There could still be another hike in the reference rate depending on the inflation trend (a factor that could be impacted by a stronger dollar and the pace of the U.S. Federal Reserve's monetary policy normalization).





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Disclosures

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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.

IPyC – The *Indice 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

Experience

Consistency

Vision