

**WEEKLY ECONOMIC REPORT**  
**Week Ended May 4, 2018.**

**Mexbol and Exchange Rate Impacted by Diverse Factors**

During the week ended May 4th, 2018, the peso came under significant pressure that translated into greater depreciation for the week (-3.42%) taking the spot exchange rate to \$19.27 MXN/USD and lowering the peso's advance against the dollar to 2.01% in 2018. The peso/dollar exchange rate came under pressure from:

1. A delay in reaching an agreement in principle on the North American Free Trade Agreement (NAFTA) renegotiation. The three main negotiating parties are due to meet on May 7th to iron out the most important but unresolved chapters: auto sector rules of origin, intellectual property, the "sunset" clause and agriculture seasonality.
2. A potentially faster pace of U.S. interest rate normalization that could trigger an additional hike to the three the market expects in 2018 after the FED left the reference rate unchanged in its May 2nd meeting (1.50% – 1.75%) despite consumer price inflation already having reached the 2.0% target rate.
3. The "Together We Will Make History" coalition candidate's face-off with a number of business sector guilds, namely, the Mexican Business Council (CMN), the Confederation of Industrial Chambers (Concamin), the Business Coordination Council (CCE) and the Confederation of Mexican Employers (Corpamex)
4. The ongoing strength of the U.S. dollar in international foreign exchange markets due to the rise in U.S. 10-year bond yields (2.95%). This was reflected in the dollar's 1.2% gain against hard currencies (euro, yen, pound sterling, Canadian dollar, etc.), for the week.

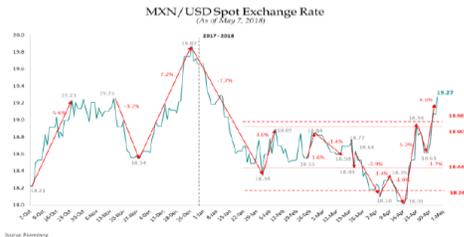
Regarding the Mexican Stock Exchange (MSE), some solid economic data mentioned in greater detail below, was overshadowed by some barbed statements from Andrés Manuel López Obrador for the Mexican private sector, which responded through its guilds, see point 3 above. In this environment of great uncertainty, which includes the lack of an agreement on NAFTA and the recent depreciation of the peso, the IPYC recorded a strong depreciation of -2.53% for the week, closing Friday at 46,992 points and taking its year-to-date loss to -4.38%. IPYC constituents that posted the biggest losses were: GMEXICO (-7.26%), KIMBER (-6.82%), LIVEPOL (-6.56%), GCARSO (-6.11%) and PE&OLES (-6.06%).

U.S. markets reacted to the lack of progress with U.S. and Chinese trade negotiations as well as the most recent jobs report, which showed a 164,000 increase in the nonfarm payroll in April vs. a market expectation of 193,000. Furthermore, the market appears to be expecting an additional increase in the FED's reference rate on top of the two that have already been discounted in 2018, which would consist of a second hike of 25 basis points in its June 12th meeting. Thus, main U.S. markets, the Dow Jones, S&P 500 and NASDAQ registered variations of -0.19%, -0.21% and +1.29% for the week, respectively, and year-to-date returns of -1.22%, +0.23% and +4.78%, respectively.

Local Currency Return				
Index	1 week	1 year	YTD	Country
DOW JONES INDUS. AVG	-0.19%	18.52%	-1.22%	US
S&P 500 INDEX	-0.21%	13.66%	0.23%	US
NASDAQ COMPOSITE INDEX	1.29%	20.02%	4.78%	US
S&P/BMV IPC	-2.53%	-2.39%	-4.38%	MX

In contrast with stock market adjustments and pressure in the foreign exchange market, Mexico's economic fundamentals continue to display a positive bias going by the following data:

- INEGI reported projected GDP, which based on the seasonally-adjusted series recorded YoY growth of 2.4% for the first quarter of the year vs. 1.7% in the last quarter of 2017. The primary sector, which includes agriculture and fishing, recorded YoY growth of 5.1%. Secondary activities, which include mining, energy generation, construction and manufacturing, were flat vs. the same year-ago quarter. Finally, tertiary activities, which include commerce and services, remained solid growing 3.1% YoY.



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- According to the Ministry of Finance, the government primary balance recorded an MXN 41.9 bn surplus for the first quarter of 2018, contrasting with the primary deficit expected under the Ministry's MXN 36.3 bn program.
- Mexico's trade deficit with the U.S. reached MXN 19.166 bn for the first three months of the year, according to the U.S. Census Bureau.
- Banxico reported that remittances reached MXN 2.621 (+3.96% YoY) in March, the biggest amount for any third month of the year since Banxico began reporting this data.



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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 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