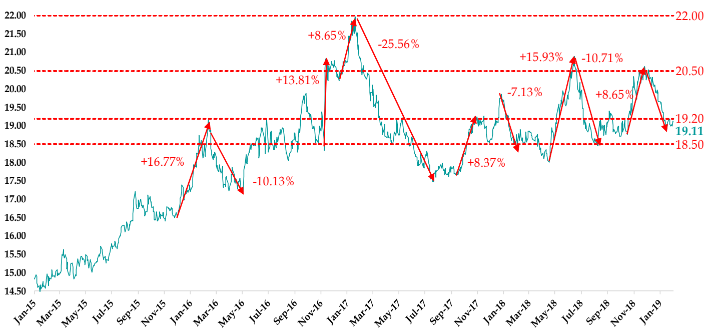
MONTHLY ECONOMIC REPORT JANUARY 2019.

MEXICO ECONOMIC OUTLOOK

In December, the approach to a reasonable federal budget for 2019 allowed for the stabilization of the MX$/US$ exchange rate and established the willingness and ability of the Mexican Government to meet its debt commitments. Although sovereign risk premiums and medium and long-term interest rates also fell compared to November —when the 10-year M Bond yield was above 9%— they remain considerably high compared to other emerging countries with lower Sovereign Credit Ratings. Mexico Long-Term Sovereign Credit Rating is A3 according to Moody´s and BBB+ according to Fitch Ratings and S&P Ratings. The latter is three notches above investment level. Furthermore, solid external accounts, driven by remittances and a strong trade balance could support an investment thesis in short-term Mexican Treasury bills.

MXN/USD Spot Exchange Rate
(As of January 31st, 2019)



Source: Bloomberg

As of December 31st, 2018, the spot exchange rate closed at 19.65 pesos per dollar; which implies peso depreciation in the last quarter of the year was 4.77%. The latter leaves the MX$/US$ exchange rate practically unchanged compared to the beginning of the year (19.67). However, 2018 was characterized by high volatility in the forex market as described below:

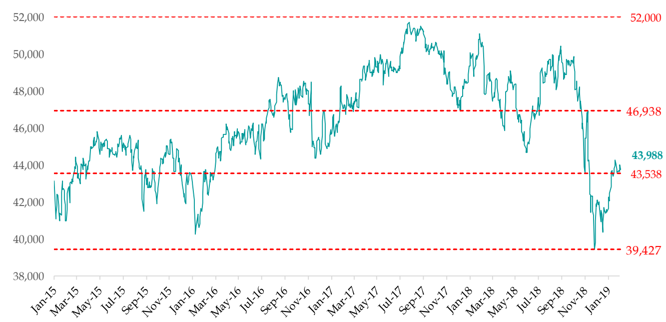
- The Mexican currency reached a minimum level of 18.01 pesos per dollar in April, when there were high expectations regarding the Free Trade Agreement —which did not materialize— and a level of 18.46 pesos per dollar in August, after a very conciliatory speech delivered by the elected presidential candidate and just before a trade a deal was reached with the United States.

- One of the highest parities (20.62) was observed in November due to the cancellation of the New International Airport of Mexico City (NAIM) and to higher risk aversion due to questions regarding potential policy changes of the incoming federal administration: (i) the energy policy of the new administration —i.e. the intention to reduce oil exports—; and (ii) some law initiatives that did not materialize, such as the ban of bank commissions.

- In December, the approach to a reasonable federal budget for 2019 allowed for the stabilization of the MX$/US$ exchange rate that, coupled with the weakness of the dollar, favored peso appreciation. The forecast of the Ministry of Finance for the exchange rate is 20 pesos per dollar in 2019, 20.10 in 2020 and 20.20 in 2021. In 2019 the peso continued its appreciation path; the spot exchange rate closed at 19.11 pesos per dollar, for a monthly appreciation of 2.73%.

The MEXBOL Index closed 2018 at 41,640 points, which represents losses of (-) 15.38% in US dollars in the last quarter of the year and a fall of (-) 13.80% during 2018. This is the largest annual decline since 2008, when losses were (-) 39.28% —which were followed by a recovery of 55.34% in 2009—. The factors that affected the performance of the market were: (i) uncertainty due to the commercial relationship with the United States, (ii) the caution of investors regarding the electoral process and its sequels towards year-end and (iii) an increase in risk aversion due to the events mentioned before. On January 31st Mexbol closed at 43,988 points for a monthly increase of 5.65%; the best January performance of the Mexican stock markets in 13 years.

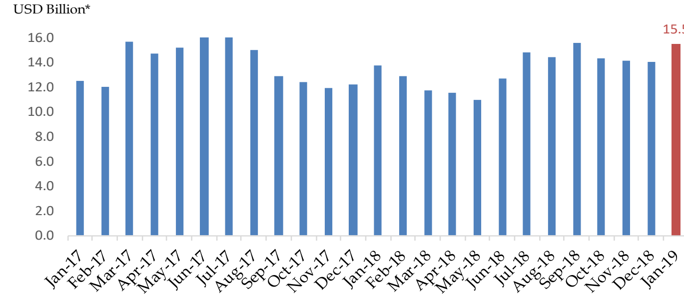
MEXBOL Index
(As of January 31st, 2019)



The yield-to-maturity for the 10-year M bond raised from 7.66% at the beginning of the year to 9.26% before December; the highest since the 2008 crisis. Compared to the United States 10-yeary Treasury Bonds the spread raised above 620 basis points (bps) and remained above 560 bps in January.

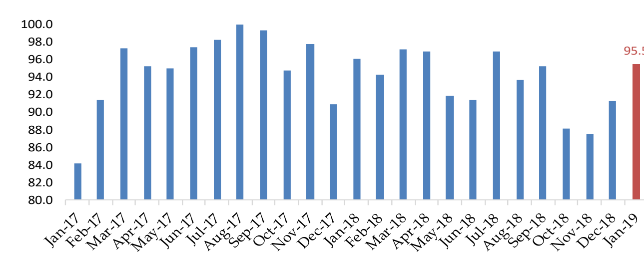
As a result of higher interest rates foreign investment positions in Mexican fixed income securities ramped up. In January the position in short-term Treasury Certificates (CETES) was 15.5 billion dollars; a 12.3% increment compared to December. Similarly, the foreign position in long-term development bonds (M Bonds) during the first month of 2019 was 95.5 billion dollars; a 4.25 billion dollar raise compared to the previous month.

Foreign Investment Positions in CETES
(monthly average as of January 2019)



Source: Banxico
**Banxico Fix: Exchange Rate*

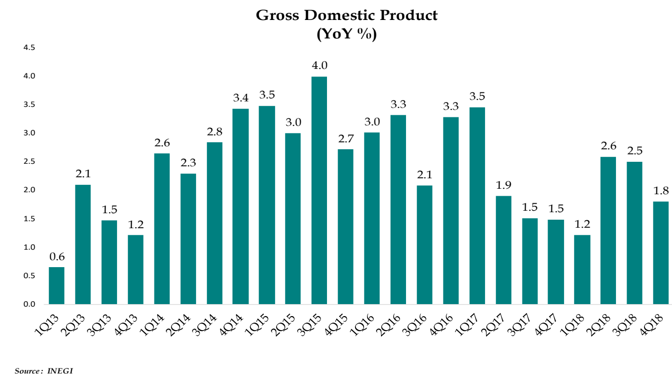
Foreign Investment Position in M-Bonds
(Monthly average as of January 2019)



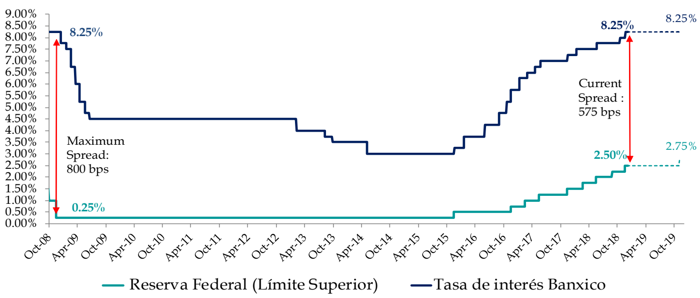
Source: Banxico
**Banxico Fix: Exchange Rate*

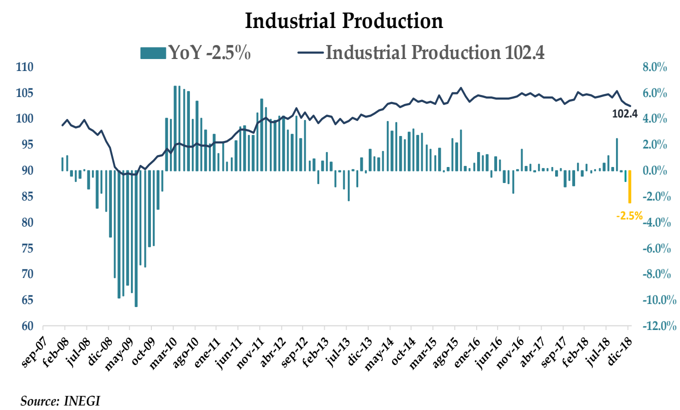
MEXICO ECONOMIC OUTLOOK

During the second half of 2018, Banco de México (Banxico) increased interest rates by 25 bps in two occasions; which left the government reference interest rate at 8.25%. The latter to contain a persistently high inflation that reached 4.83% at year-end. In its most recent monetary policy statements Banxico adopted a more restrictive approach, emphasizing the need to observe: (i) wages linked to productivity, (ii) the development of monetary policy in the US and (iii) exchange rate fluctuations. In January, the reference rate remained unchanged and inflation fell to 4.37%. All the above points towards the possibility of no further increments in the reference interest rate in 2019.

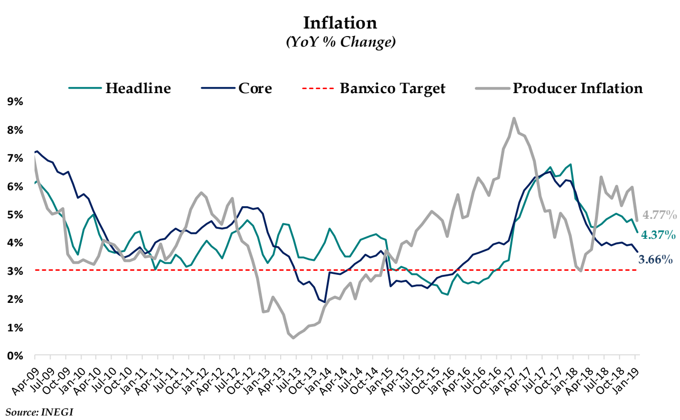


Banxico vs. Federal Reserve Interest Rate

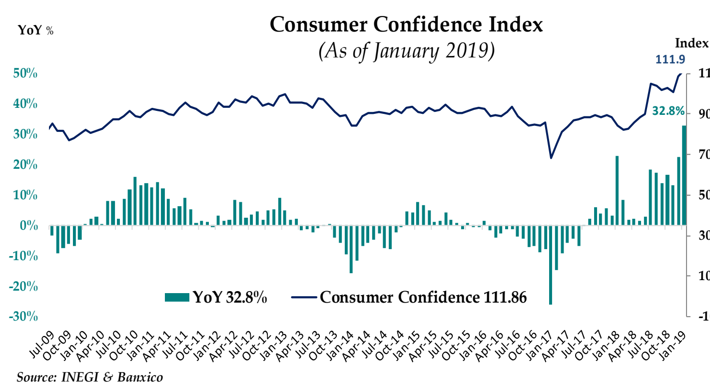




Throughout the year inflation was driven by energy prices, especially gasoline; which classifies within the non-core component. Exchange rate depreciation in 2Q18 and 4Q18 also contributed to producer inflation, which seems to be ahead of consumer prices. Producer inflation hiked to 5.94% in December and gave in during January. Core inflation remained relatively stable around 3.9%.



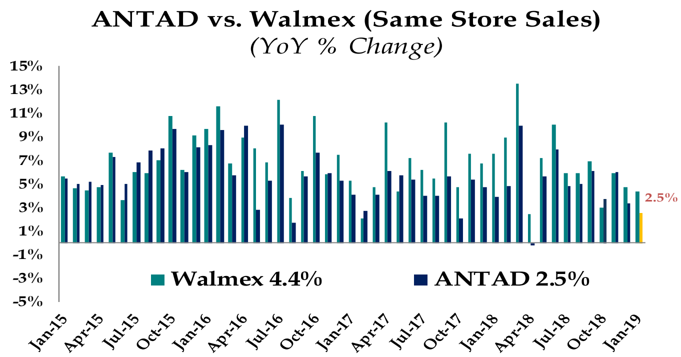
After presidential elections in July —and just before the trade agreement was reached between Mexico and the United States in August 27th— the consumer confidence hiked 18.4% and remained strong throughout the second half of the year. In December, it reached its highest level since 2006 (Index=108.82) and surprised again in January (Index=111.9); when it increased 32.8% compared to the previous year, the highest in 18 years.



During the fourth quarter of 2018, GDP annual growth was 1.8%; a slowdown compared to the previous two quarters. Nevertheless, growth has fluctuated around 2.0% in the last 6 years. The new Federal Government has provided uncertainty to the markets with a realistic budget for 2019. However, some other public policies that affect the productive sector —i.e. NAIM cancellation, fuel shortages, etc.— have derived in a reduction of growth forecasts for 2019. Market consensus is now 1.8% but could face a downward revision. By component, primary activities maintained a solid growth of 2.8%, tertiary activities decelerated compared to the previous two quarters—from 3.2% to 2.9%— and secondary activities fell (-) 0.7%. The latter, as a result of a setback in industrial production. In contrast, the main driver of economic activity in 2018 was consumption; which relied on a relatively low unemployment rate, the increase in real purchasing power and record high remittances.

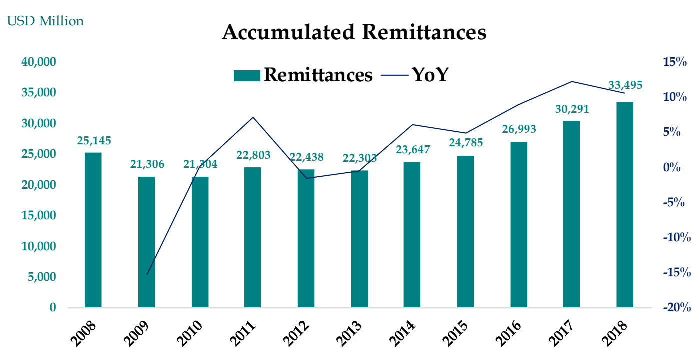
MEXICO ECONOMIC OUTLOOK

Consumption growth was also strong throughout the year but declined in December and January. Same Stores Sales (SSS) average annual growth, as reported by the National Association of Supermarkets and Department Stores (ANTAD) was 5.1%. Likewise, Walmart de México average SSS growth was 6.8% in the same period. However, a higher unemployment rate in December, at 3.57%, reflected in weaker consumption indicators in December and January



Source: ANTAD & Walmex

Remittances in 2018 add up to 33,495 million dollars; the highest amount since records are available. A considerable amount compared to Mexico trade balance or to Mexico Public Debt. The economic affluence of the United States has been the main driver of remittances consistent growth in the past five years.



Source: Banxico

The trade deficit in 2018 (-US$ 13,704 million) increased 24.9% compared to the same period in 2017; an affordable figure when compared to Mexico International Reserves (170 usd billion). The latter, in a context of greater dynamism in intra-industry trade between Mexico and the United States. The key driver of exports (413.0 billion dollars) was manufacturing, whereas the key driver for imports were intermediate goods and capital goods. However, imports decreased (-) 0.8% YoY in December; mainly due to a fall in oil imports (-9.1% YoY).

Mexico Trade Balance
(USD million dollars)

Exports									
	2017	% of Total	Annual Change	2018	% of Total	Annual Change	Dec-18	% of Total	Annual Change
Total Exports	409,401	100.0%	9.5%	450,572	100.0%	10.1%	37,529	100%	4.3%
Oil	23,701	5.8%	25.90%	30,572	6.8%	29.0%	2,211	5.9%	-16.8%
Crude Oil	20,023	4.9%	28.50%	26,483	5.9%	32.3%	1,876	5.0%	-20.2%
Others	3,678	0.9%	13.42%	4,089	0.9%	11.2%	335	0.9%	9.4%
Non-Oil	385,700	94.2%	8.61%	420,000	93.2%	8.9%	35,319	94.1%	6.0%
Agricultural	15,828	3.9%	7.87%	16,255	3.6%	2.7%	1,536	4.1%	-6.8%
Mining	5,427	1.3%	24.24%	6,232	1.4%	14.8%	555	1.5%	16.6%
Manufacturing	364,445	89.0%	8.44%	397,514	88.2%	9.1%	33,228	88.5%	6.5%
Automotive Industry	126,671	30.9%	11.79%	142,177	31.6%	12.2%	11,546	30.8%	7.4%
Others	237,774	58.1%	6.74%	255,336	56.7%	7.4%	21,682	57.8%	6.0%
Imports									
	2017	% of Total	Annual Change	2018	% of Total	Annual Change	Dec-18	% of Total	Annual Change
Total Imports	420,369	100.0%	8.6%	464,277	100%	10.4%	35,693	100%	-0.8%
Oil	42,010	10.0%	32.4%	53,761	11.6%	28.4%	4,059	11.4%	-9.1%
Non-Oil	378,359	90.0%	5.1%	410,515	88.4%	7.9%	31,634	88.6%	-3.1%
Consumption Goods	42,307	10.1%	4.8%	43,610	9.4%	3.1%	3,417	9.6%	-7.1%
Intermediate Goods	295,038	70.2%	7.1%	321,020	69.1%	8.8%	24,672	69.1%	1.9%
Capital Goods	41,014	9.8%	3.3%	45,885	9.9%	11.9%	3,545	9.9%	-4.0%
Trade Balance									
	2017			2018			Dec-18		
Trade Balance	-10,968		-17.1%	-13,704		24.9%	1,836		-66178.3%

Source: INEGI

Yours sincerely,

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efinitions

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.*
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.*
Standard & Poor's Financial Services LLC *is an American financial services company. It i65965s a division of S&P Global that publishes financial research and analysis on stocks, bonds and commodities.*
NAIM: *New International Airport of Mexico City*
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.*
Treasury Bil: *It is a government debt instrument issued by the United States Department of the Treasury to finance government spending as an alternative to taxation.*
Cetes: *The Treasury Certificates of the Federation are the debt instrument oldest stock exchange issued by the Federal Government.*
Banxico: *Mexico Central Bank, lender authority and lender of last resort.*
ANTAD: *National Association of Self-Service and Departmental Stores.*
Same-Store-Sales: *Same-store sales is a financial metric that companies in the retail industry use to evaluate the total dollar amount of sales in the company's stores that have been operating for a year or more.*
Walmart: *Multinational store corporation that operates discount department store chains and warehouse clubs. 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.*
The forex market *is the market in which participants can buy, sell and exchange currencies. The forex market is made up of banks, commercial companies, central banks, investment management firms, hedge funds, and retail forex brokers and investors.*
Yield to maturity (YTM) *is the total return anticipated on a bond if the bond is held until the date on which the life of a transaction or financial instrument ends. Yield to maturity is considered a long-term bond yield but it is expressed as an annual rate.*
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Disclosures