

**WEEKLY ECONOMIC REPORT**  
**Week Ended June 22, 2018**

**Exchange rate responds to Banxico's rate hike**

After 3 weeks in negative terrain, the peso recorded a strong appreciation of 3.07% for the week. The interbank spot rate closed Friday, June 22nd at \$20.01 pesos to the dollar, lowering the currency's year-to-date depreciation to 1.76%. The main factor supporting the peso's strength was a 25-basis-point hike in Banxico's reference rate, which helped tackle an international environment of greater uncertainty caused by trade tensions between the U.S. and China. The peso/dollar exchange rate could come under pressure in the weeks ahead due to the July 1st general election, NAFTA renegotiation news, and higher interest rates in the U.S. (See exhibit 1).

In its July 21st policy meeting, Banco de México's governing board unanimously decided to raise the reference rate by ¼ percentage points to 7.75%, the highest rate since February, 2009. The measure was taken in response to a number of risks that could impact inflation in the short term, including: (i) greater peso depreciation and (ii) current pressure on gasoline and LP gas prices, besides matching the FED's rate movement last week. The Central Bank's decision reflects its intention to keep Mexico and U.S. monetary conditions symmetrical and medium-term inflation expectations anchored. This means Banxico could implement two more hikes during the rest of 2018.

Banco de México's decision became clearer after the National Institute of Statistics and Geography (INEGI) reported that annual inflation reached 4.54% in the first half of June (above May's 4.51%); core inflation was 3.59% and non-core inflation 7.41%. Following 5 straight declining months, the rise in LP gas, gasoline and electricity prices impacted the inflation trend. A number of risk factors (i.e. the exchange rate and some commodity prices, etc.) could derail the downtrend in inflation in the coming months.

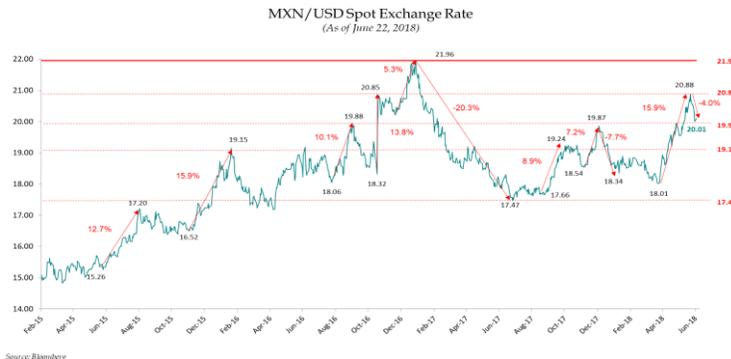
On the international trade front, the Trump administration's decision to levy duties amounting to 50 billion dollars on certain products along with the possibility of a further 200 billion dollars in duties announced this week, reflect the growing threat of a trade war between the U.S. and China. The 50 billion dollars in duties would be divided into two phases: (a) in the first phase, a 25% duty would be placed on 818 products worth 34 billion and begin on July 6th; (b) in the second, the other 16 billion would be subsequently included in a list designed to damage the "Made in China" program —China's quest for technological leadership—. China responded by levying a 25% duty on 545 U.S. products equivalent to 34 billion dollars. In this environment, the Dow Jones, S&P 500 and NASDAQ recorded losses of -2.03%, -0.87% and -0.68%, respectively for the week in response to U.S. protectionist policies and FED monetary policy tightening. Last week the FED raised its reference rate to a 1.50% - 1.75% range and two more hikes are expected to follow between now and the end of the year.



The Mexican Stock Exchange (MSE) was impacted by Banxico's rate decision and systematic global risk. The IPyC closed Friday at 46,738 points, or a loss of -0.43% for the week and -4.28% year to date. Stocks that contributed the most to the loss were ALSEA (3.89%), GRUMA (2.62%), WALMEX (2.54%), GFNORTE (2.39%) and IENOVA (2.26%).

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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.

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.

To read about The Mexico Equity and Income Fund, Inc, please access the Annual Report by calling (414) 765-4255 to receive a copy, or access the Annual Report on the Fund’s website, “www.mxefund.com”, under the section captioned investor reports. Investors should consider the Fund’s investment objectives, risks, charges and expenses carefully before investing. An investment in the Fund should not constitute a complete investment program.

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.