



Economic update

Despite continued uncertainty regarding the peso's travails with the dollar and faltering growth in the U.S., Mexico's economy is finding a strong driver in its domestic market.

The Consumer Confidence Indicator published by the Central Bank of Mexico and the National Institutes for Statistics and Geography rose 0.46 per cent month on month at the end of May, which positioned it 1.4 per cent higher than the previous year. More importantly, what this modest rise doesn't account for is consumer's bullish behaviour. According to Mexico's Association of Retailers (ANTAD as known by its Spanish acronym), sales rose by 7.4 per cent year on year in May, which marks the largest rise of 2015.

It should be noted, however, that since January inflation has kept low, which has been driven down by lower electricity and telecommunications costs –two key objectives set out by structural reforms in these sectors. In fact, inflation increased 2.88 per cent on yearly basis in May, which represents an all time low.

It should be remembered that notwithstanding increased consumer confidence, the Mexican economy is still facing significant headwinds. Indeed, industrial production grew by only 1.1 per cent year on year in April.

Energy update

Pemex announced the discovery of four new shallow water fields, making this its biggest discovery in five years. Emilio Lozoya, CEO of Pemex, disclosed that the blocks have the potential to produce 200,000 barrels of oil and 170 million cubic feet of gas. Production in these fields is forecast to start in 16 months.

The announcement comes with close to one month to go before the disclosure of the bids for the first phase of Round One of bidding, which is comprised of shallow water exploration blocks.

An important point to keep in mind is that the head of the National Commission for Hydrocarbons, Juan Carlos Zepeda, announced this week that the regulatory body had approved the final version of the contracts that will be used in the first phase and for which E & P companies' bids will be made public on July 15th.

Although it is still early days for Mexico's new energy landscape, the reform that opened the sector to private investment has already started to have an impact in the country. According to the World Bank, investment in Mexico's sector in 2014 grew by 71 per cent compared to the year prior.

Mid-term election results

At first view it is easy to identify the losers of Mexico's mid-term elections, but quite difficult to pick any out-right winners among the country's traditional political parties. Perhaps this is due to the fact that not only is it the first election in which independent candidates are allowed to run (although with very high entry barriers), but more importantly a handful of them managed to snatch important wins from the political parties.

The most notorious of these was Jaime Rodriguez "El Bronco" ("the wild stallion", who won the governorship of Nuevo Leon, an industrial hub and Mexico's second most important state in terms of GDP. An ex PRI militant, who mounted a powerful social media campaign, his exact public policy platform is yet unknown, apart from an alleged relentless determination to stamp out corruption.

It is not too far-fetched to state that victories like his constitute a game-changer for the Mexico's politics, as they put into question various assumptions about both the country's electoral strategy (it is possible to win an electoral contest without the backing of a party) and tactics (it is possible to win without spending millions of pesos on TV and radio spots, El Bronco aired none).

Of course, after the excitement of winning comes the challenge of governing. Exactly how El Bronco will be able to manage without any members in the state's legislative assembly or any municipal presidents is not yet known. However, the rise of independent candidates has changed the incentives for political parties as they've provided a new tool through which citizens can punish them.

Notwithstanding that President Enrique Peña Nieto's party, the PRI, managed to pass the 50 per cent mark in the lower house of congress, it did so only thanks to an alliance with two smaller parties. This will give President Peña Nieto a certain margin to implement at ease the series of structural reforms passed during the first half of his presidency and handle his succession. Yet this alone will not be enough to secure a win in the 2018 presidential election.

Moreover, although it appears to have won five of the nine governorships (albeit at the time of writing the final count on one of them is yet to be determined), it lost two strategic states given the size of their economy, namely, Nuevo Leon and Queretaro. The former was lost due to El Bronco's formidable campaign, but perhaps more importantly because of the various allegations of corruption regarding the state's outgoing governor.

The PAN, which has gone through two years of turmoil due to infighting, hit a 25-year low, reaching only 20 per cent of national votes. Although it will still be the second largest force in congress, it is clear that in order to have a good chance at the 2018 presidential election, much will have to change during the next three years.

The biggest loser to come out of June 7th's election is without a doubt the left wing and third largest party the PRD. A series of particularly notorious corruption scandals has flattened support for the party. Its lost control not only of the legislative assembly of Mexico City –its longstanding stronghold- but various boroughs of the city which the party uses to nurture its political base. If the PAN risks irrelevance in 2018, the PRD risks its survival.

Another clear winner is a former member of the PRD, Andres Manuel Lopez Obrador, who has run and lost in the past two presidential elections. Much reviled and loved, Lopez Obrador's party, Morena, was the main culprit of the PRD's woes in Mexico's capital. Thanks to its control over the capital's legislative assembly it will both be able to complicate what aspirations mayor Miguel Mancera might have for 2018, but thanks to the boroughs it won it will rule over the population which has the size of a small country.

Although it is still too early to say whether 2018 will be third-time-lucky for Lopez Obrador, he has already stated his intentions to run and given his party's performance this year it is plausible to state that he will once again be a strong contender.

In conclusion, this year's election has rewritten many rules of Mexico's politics, which has gone from being a three sliced pie to a much more fragmented landscape. Whereas the PRI, PAN and PRD accounted for 75 per cent of votes in 2012, they accounted for little over 60 per cent this year. Moreover, much like in this year's election, an emphasis on integrity is likely to continue being the deciding factor for voters.