



# Mexico Intelligence Report – 2nd October 2015

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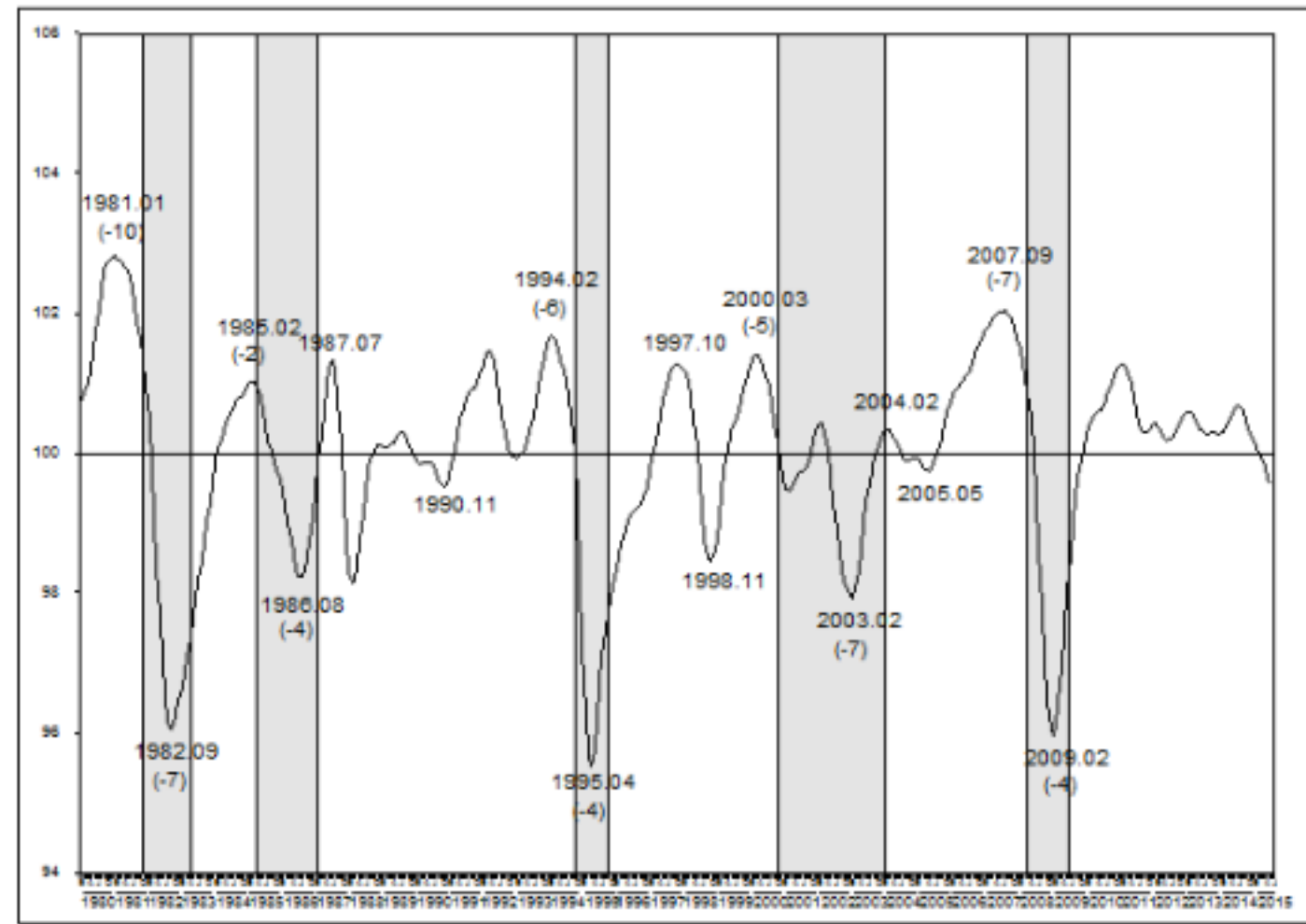


GRUPO ATALAYA

### Economic update

Mexico's economy sleep-walked through the summer as the National Institute of Statistics and Geography's coinciding indicator (which measures the overall state of the economy) grew by 0.1 point month on month in July, which positioned it back on its long term trend of 100 points (see Figure 1).

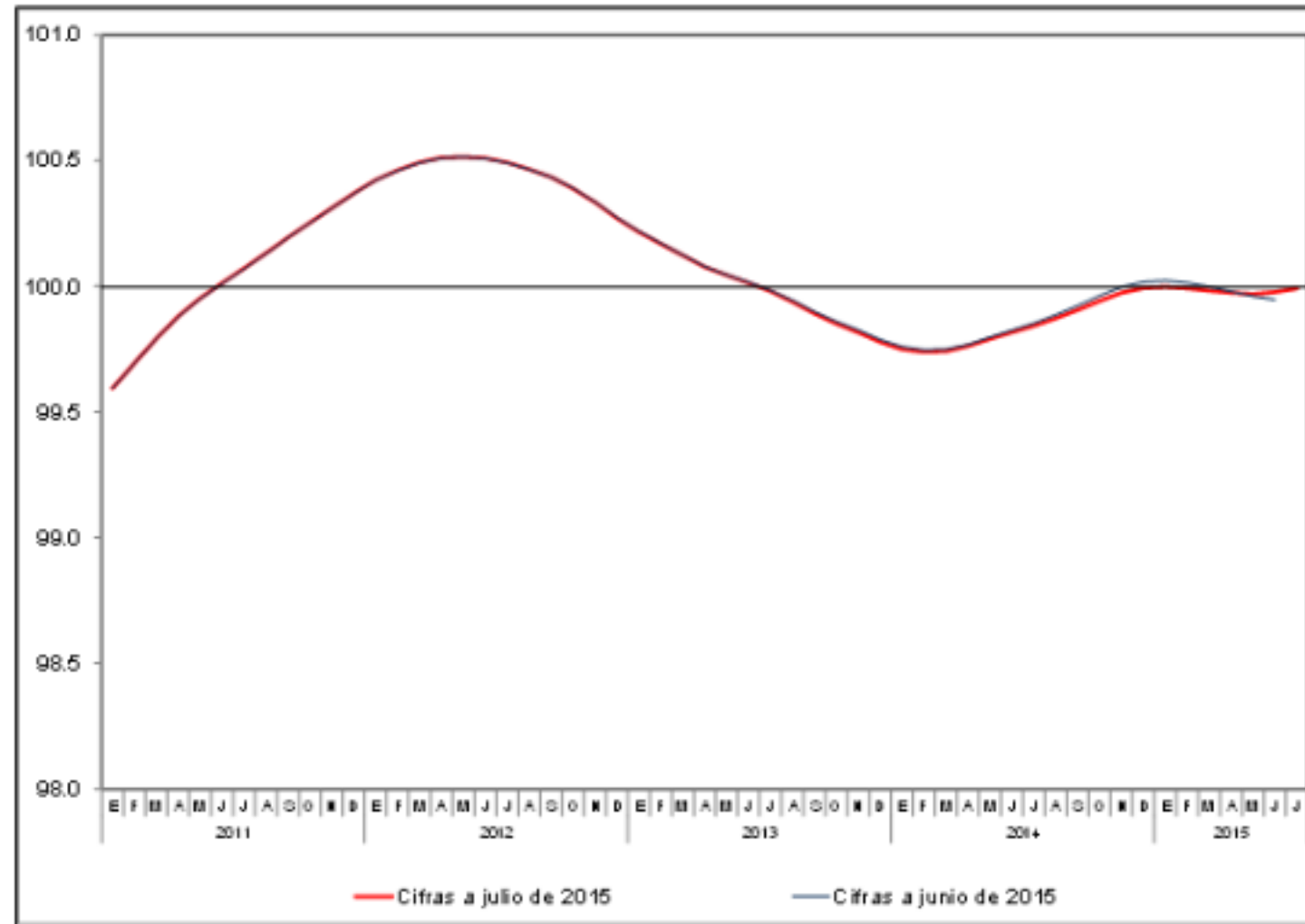
Figure 1: INEGI's coinciding indicator



Source: INEGI

However, the forward-looking indicator for August (which attempts to measure future movements in the coinciding indicator) decreased by 0.13 points, which positions it at 99.6 points, thus below its long term trend (see figure 2).

Figure 2: INEGI's forward-looking indicator



Although the Mexican economy has yet to pick-up speed, employment posted strong figures through out the year. In August unemployment remained unchanged from July at 4.3 per cent and was one percentage point lower compared to the year prior.

### Second auction for oil blocks: that's more like it

The Mexican government awarded three contracts for extraction in shallow water oil blocks to an array of international and Mexican E&P companies. This will certainly be a welcome development by the government and by the oil and gas industry in the country, given that the result of the first tender disappointed many stakeholders as only two out of 14 contracts were awarded in July.

The first contract was awarded to ENI International, with Lukoil as runner up. The second contract was won by the consortium comprised by Pan American (Argentina) Energy and E&P Hidrocarburos y Servicios (Argentina and Mexico).

The third contract was awarded to the consortium constituted by the Fieldwood Energy (backed by private equity fund Riverstone) and Petrobal, a new Mexican E&P firm founded by the mining magnate Alberto Bailleres. It should be noted that Petrobal's General Director, Carlos Morales Gil was the former head of exploration and production at Pemex and his knowledge of Mexico's oil sector is considered to be unrivalled.

Although two further blocks received no bids, the net result for the second phase of Round One has proven to be positive. This is due not only to the total amount of blocks that were successfully auctioned but that the winning bids left the government with a sizeable take (approximately 80 per cent to 90 per cent of earnings).

Moreover, investors will be glad that the Mexican Government has shown a willingness to listen to the industry and show flexibility in terms of removing requirements from the first and less successful auction which proved to be too stringent, such as announcing in advance the minimum bids it would accept and lowering guarantees.

Finally, oilfields services firms and others that constitute the value chain in the industry will also be heartened by the fact that an increasing number of E&P firms are looking to gain a foothold in the country.

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