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Mexico Intelligence Report – 1st July 2016

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GRUPO ATALAYA

Economic update

Mexico's Central Bank (Banxico) raised its monetary policy rate by 50 basis point to reach 4.25 per cent. The move follows a turbulent week for the peso, which was battered in the run up and aftermath of "Brexit". The Governor of Banxico, Agustín Carstens also warned that although the Mexican economy is starting to loose the momentum it showed during the first quarter of the year.

Mexico's monthly economic indicator contracted 1.2 per cent month on month in April, reaching a 0.7 per cent year on year increase YOY advance —its weakest annual reading in 29 months

A weather bell in this sense was a sudden deceleration in the construction sector. According to Mexico's National Institute for Statistics, activity in the sector fell by 2 per cent year on year in April

In May the unemployment level increased slightly compared to the previous month, inching up from 3.9 per cent to 4 per cent. However this represents a year on year increase of 0.4 per cent.

Furthermore, the country's trade deficit in May fell by 53 per cent year on year to \$0.53 billion USD. The decrease was driven by larger manufactured exports and lower imports of goods.

Political update

As president Enrique Peña Nieto travelled to Ottawa to meet with his Canadian and American counterparts, his government faced increasing pressure from protests launched by the teacher's union CNTE.

The CNTE's opposition to President Peña Nieto's education reform, arguably one of the most prized elements of his political legacy, has resulted in a stalemate with the government that has not only already resulted in casualties, but in severe governance problems in Chiapas and Oaxaca, two strongholds of the union.

The CNTE -a more radical offshoot of Mexico's largest teachers' union the SNTE- has blocked highways in both states leading to shortages of goods such as gasoline.

As talks between the Ministry of Education and the CNTE brokedown, the Minister of the Interior, Miguel Angel Osorio Chong stepped into mediate with the union. However, he also has little space for manoeuvring given the strong backing the education reform has from Mexican civil society and that the government would appear weak if it was to back down.

The turbulence in Oaxaca and Chiapas adds to a deepening sense of social malaise across the country and to the impression that President Peña Nieto is an aloof figure. Although he still has two years to amend his image, the President will have to show more of the political boldness with which he passed through a serious of highly ambitious structural reforms at the start of his term, in order to curb the rising disenchantment across Mexico's society with the country's political establishment.

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