

Economic update

The Mexican economy is yet to shake off its tepid performance. The National Institute of Statistics and Geography's published its most recent findings of its indicator for economic activity, which showed no sign of change in comparison to the month prior –an indication that a series of ambitious structural reforms passed under President Enrique Peña Nieto's administration and much applauded macroeconomic stability have yet to provide a confidence boost to Mexican nationals.

The breakdown of the indicator shows that agriculture was the hardest hit, decreasing 5.1 per cent month on month. This was followed by a modest decrease of 0.2 per cent in manufacturing, a further discouraging sign given that confidence indices in the sector for March also showed month on month decreases. Furthermore the services sector remained unchanged compared to January.

On an annual basis, the global indicator grew 2.2 per cent compared to February 2014, whereas agriculture grew 2.8 per cent, manufacturing 1.6 per cent and services 2.6 per cent year on year.

Notwithstanding the negative outlook in terms of growth, Mexico's economy continues to show signs of robustness on the monetary front. Inflation during the first two weeks of April increased 3.03 per cent year on year. This seconds recent statements by the Governor of the Bank of Mexico, Agustin Carstens, who estimates that inflation for 2015 will be in the order to 3 per cent.

If this proves to be the case, it will offer the Mexican economy some respite from tightened spending in light of falling oil prices and the ripples of an unpopular fiscal reform approved in 2013. In this sense, it should also be noted that Mexico's Secretary of Finance Luis Videgaray announced that the Mexican government plans to hedge its oil revenues for 2016.

Further to macroeconomic policy, Carstens stated this week that the country has an "arsenal" of 270 billion USD to withstand external volatility through building an extra 120 billion USD in reserves since the global financial crisis and a flexible credit line provided by the International Monetary Fund. Given low inflation, Carstens also informed that Banxico will not raise rates in the short term.

In terms of foreign investment the two biggest piece of news were that Ford will increase an existing plant and build two new ones, an investment worth \$2.5 billion USD and yet another in a litany of such investment in Mexico's booming auto manufacturing sector. Moreover, Goodyear is also in the process of launching a \$550 million USD investment to open a new tire plant, which will begin operations in 2017.

A further complicating factor for Mexico's short-term future are mixed signs from the U.S. economy –despite the fact that the IMF expects the American economy to perform strongly in 2015. The sale of new houses fell in March by

11.4 per cent, the largest decrease since 2013 and job growth is low (albeit showing indications of recovery), however there are a more encouraging scenario playing out in the consumer sector, given that retail sales increased 0.9 per cent month on month in March and consumer sentiment rose in April.

Mexico's city mid-term elections point to 2018

As the campaigns for Mexico's mid-term elections formally kick-offed this week, Mexico City has emerged as a hotspot, particularly due to its crucial importance for the two strongest competing left-wing parties -PRD and Morena- whose fate in the 2018 presidential elections will be if not determined, then at least heavily influenced by the outcome of the polls on June 7th this year.

The PRD, which is the longest standing of the two, has traditionally had its political bastion in Mexico City, given that it won all elections for the mayor of the city since 1997. In light of the fact that Mexico City has the second largest share of voters and an immense pool of resources, it had until now bolstered the PRD in the past two presidential elections, which does not perform as strongly in the rest of the country as the PAN and the PRI.

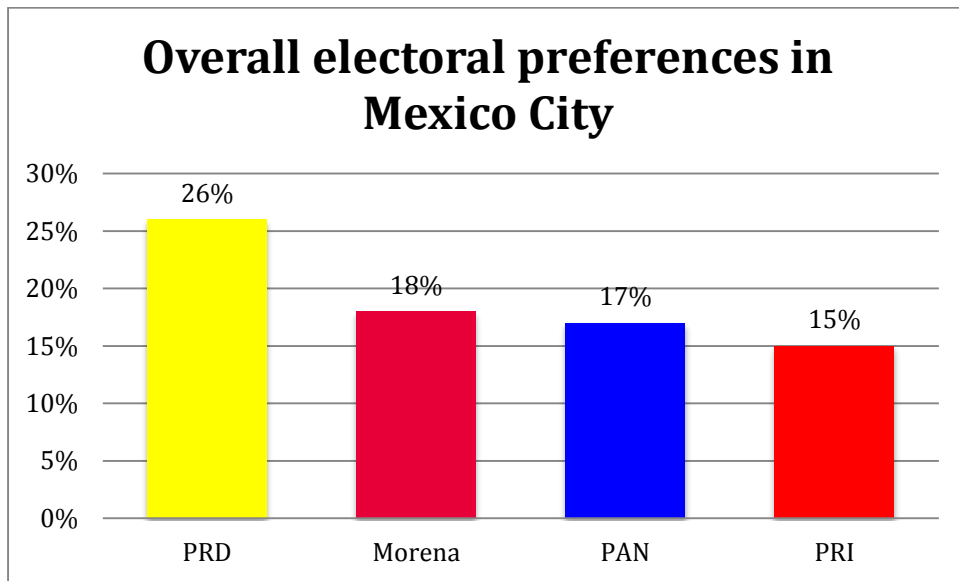
Ironically, the man who twice ended as runner up in said elections under the PRD's banner is now leading Morena's charge against his former party. Andres Manuel Lopez Obrador is a controversial figure that has garnered a large and loyal following primarily due to his image of personal frugality and rhetoric in favour of the working class and anticorruption, notwithstanding that various of his associates were videotaped receiving large piles of cash during his tenure as mayor of Mexico City.

However Lopez Obrador's strengths are also his biggest weaknesses. He generates a fierce opposition in almost direct proportion to the support he receives, particularly from middle class voters due to his often populist political message and that whereas some see his hard-headedness as proof of his incorruptibility, others see it as the sign of an old-school left-wing despot in the making.

Lopez Obrador is not shy about his intentions to run again in the presidential elections of 2018 and knows that his chances of success hinge on securing a foothold in Mexico City by displacing the PRD. It should be noted that the PRD has been in disarray throughout the past year due to infighting and for being one heavily involved in the scandal related to the disappearance of 43 students in the state of Guerrero at the hands of organized crime groups. This in turn has led various leading figures of the PRD -including its founder- to defect, some of which have enlisted in Morena, Lopez Obrador's platform.

Morena, which was officially registered as a party in July last year, is already the second most preferred political force in Mexico City, according to a poll by Parametría. Moreover, Lopez Obrador has positioned some of his closest

lieutenants as candidates for the largest boroughs of Mexico City, such as Iztapalapa which has close to 2 million inhabitants.



Source: Parametría

If Morena succeeds in winning in some of these boroughs as well as some seats in the capital's legislative chamber, Lopez Obrador will strengthen his electoral machine in the run-up to 2018 and rekindle his link via public office with an important share of his largest political base. Moreover, he will also have a strong position from which to block and disrupt the sitting mayor of Mexico City, Miguel Angel Mancera, who many believe is also considering running in 2018.

What is certain given these conditions is that Lopez Obrador will once again be a force to be reckoned with in the next presidential elections, however, it also highly likely that his chances of making said contest his third-time lucky attempt depend on being able to unite, instead of dividing, Mexico's left-wing political forces. This in turn could be the result of either an overwhelming electoral victory by Morena in Mexico City or on Lopez Obrador finding his more conciliatory self, both of which seem unlikely as of now.