



Economic update

The Mexican economy continues to baffle, as domestic consumption remains strong, despite various headwinds. According to Mexico's National Institute of Economics and Geography (INEGI) the Indicator for Domestic Consumption also grew by 0.4 per cent month on month in April. The strongest gain was in consumption of imported goods, which grew 1 per cent, whereas national goods grew by 0.1 per cent and services by 0.1 per cent on a monthly basis.

Furthermore there are encouraging signs that point to this trend continuing, given that in June the Indicator for Consumer Confidence grew 1.96 per cent compared to the month prior. Moreover, the National Association of Retailers revealed that during said month sales grew by 5 per cent year on year.

Two drivers behind this trend are historic levels of low inflation and strong gains in employment. Regarding the former, according to Mexico's Central Bank inflation reached 2.87 per cent year on year in June, which represents a new low.

With regards to the latter, the Mexican Institute of Social Security (IMSS) published that 78,435 jobs were created in June, the highest figure since 1997 when the IMSS starting recording this data. It should be noted that despite these gains, Mexico continues to be held back by a large informal workforce (which amounts to 55 per cent of all workers) and that pay is the lowest of all OECD countries.

It seems that consumers' behaviour has yet to push business owners into a more bullish mood. According the Indicator of Business Expectations, the manufacturing sector's confidence regarding production grew by 1.8 points, although this is contradicted by a 2.2 decrease in capital expenditure expectations. However, the retail sector saw a 0.7 point increase in its sales expectations.

Energy update

Five exploration and production companies have pulled out of the first phase of Round One of bidding, a week before the actual bids are disclosed. PTT, Glencore, Noble Energy and Ecopetrol will no longer contend for the first batch of shallow water exploration blocks.

Perhaps more surprisingly is that Pemex, Mexico's state owned enterprise, also pulled out from the race. Mexico's Secretary for Energy, Joaquín Coldwell, stated

that due to a 50 per cent decrease in the oil giant's revenues last year, it will be sitting out this first stage of Round One. It should be noted that Pemex currently holds 87 per cent of all proved reserves in the country, which were assigned to it via entitlements in the so called Round Zero.

Further important movements in Mexico's energy landscape is that Grupo Alfa – one of the companies that have prequalified for bidding in the abovementioned phase- announced that it will no longer proceed with its acquisition of Colombian E & P company Pacific Rubiales.

Keeping in line with its efforts to ensure transparency in the sector, the National Commission for Hydrocarbons announced that it will broadcast live the opening of envelopes containing the bids of each player on July 15th and thus determine on the spot the first private companies in over 75 years to formally move in to Mexico's oil sector.