



Canning House

Mexico Intelligence Report – 24th July 2015

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GRUPO ATALAYA

Economic update

The peso took another week of battering against the dollar as uncertainty regarding a future rise in interest rates by the fed plunged the peso at one point to reach 16.5 vs the greenback. An increase in rates by the Fed would be a sign of an invigorated American economy, which in turn would be good news for Mexican exporters who would benefit both due to an increase in demand from north of the border and the cheaper peso. However, this gain will also be offset to a degree by the increased costs that those buying imported part will have to bear and those with debts in dollars.

On a separate note, Mexico's domestic market seems increasingly stronger as retail sales in May grew 4.1 per cent year on year, whilst income in the services sector grew 7.2 per cent.

Mexican government's search for lost credibility

After what can only be described as a disastrous week for President Enrique Peña Nieto, in which the country's most notorious drug lord Joaquin Guzmán Loera escaped from a high-security prison and the first round of bidding for oil blocks flopped; the Mexican government sought to gain back its stride by making a crucial move to save the education reform, one of the landmark pieces of legislation achieved by President Peña Nieto.

For months the tussle between the Mexican government and one of Mexico's most radical teachers union, the CNTE, had come to a standstill which materialized in a series of protests in Mexico City that would paralyze the city and, more recently, in the threat of sabotaging mid-term elections in the state of Oaxaca, the CNTE's stronghold. The CNTE opposes many of the education reforms central policies, such as teachers' assessments.

Although the public's exasperation had grown to the point that there were open calls for the government to crack down on the increasingly extortionate position of the CNTE, the former had postponed any decisive action, choosing instead to make concessions to the union.

However, as of this week that has come to a close. The governor of Oaxaca, Gabino Cué, with the explicit backing of the federal government, dissolved the state's education institute, which was fully staffed and controlled by 4000 members of the CNTE. In turn, this will give way to a new educational authority in the state removed from the CNTE's grasp, which opens the possibility for the dismissal of all those teachers that fail to comply with the education reform.

Given that the decision comes only a week after the escape of Mr. Guzman, the timing of it could have hardly been a coincidence, yet its planning is also likely to have gone back for some time as well. Regardless of this, the move will give some much-needed oxygen to President Peña Nieto's government, as it starts the long climb to recuperate its credibility.

Nonetheless, the easiest part of the decision is now past. The real challenge will lie in dealing with what is a violent and disruptive organization, with little interest outside of squeezing further rents from the state. Moreover, Oaxaca itself has a very recent and violent history of radical social movement. In 2006 an amalgamation of various social protest groups displaced then Governor Ulises Ruiz and took control of the state's capital.

Thus, the Mexican government will now face various weeks, if not months, of high tension as it the CNTE fights back and puts the government in the position of having to decide the right balance between imposing its authority, without cracking down with such force that it might lose political support.

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Contact Us

Registered address:
Canning House
14/15 Belgrave Square
London SW1X 8PS
England

Phone: +44 (0)20 7811 5600
Fax: +44 (0)20 7811 5623
Email: enquiries@canninghouse.org
Web: www.canninghouse.org
Company number: 383775.
Registered Charity No: 314210