Economic update

The coming of spring has failed to uplift optimism in regards to the Mexican economy. Mexico´s Ministry of Finance´s cut its GDP growth forecast from 4.9 per cent to a range of 4.3 to 3.3 per cent. Moreover expected GDP for 2015 fell from 3.08 per cent to 2.95 per cent, according to the March edition of the monthly survey of 35 economic analysts from the private sector carried out by Banxico (Mexico´s Central Bank).

The Ministry of Finance has also announced further cuts to public spending in the order of $8.8 billion USD, in light of the fact that it expects public finances to take a significant hit due to low oil prices, given that it estimates that the average price of the barrel of oil during 2016 will be at $55 USD, 30 per cent lower than its forecast average price for 2015 and amounting to decrease of 23 per cent in government revenue. Although the Mexican government´s hedging programme for 2015 pegged the barrel of oil at around $79 USD for 2015, it will only be able to cover revenues for a much lower price point for next year.

It should be noted that the Mexican government has emphasised its adherence to macroeconomic stability and has pledged to not raise taxes till 2018. With this reduction in budget, the deficit would fall from 4.2 per cent of GDP in 2014 to 3.5 per cento of GDP in 2016 and en route to reach a level of 2.5 per cent of GDP by 2018.

Further to the abovementioned survey, the most cited obstacle for the economy according to the respondents is insecurity for the sixteenth month in a row at 22 per cent of total responses followed by the fall in oil prices with eleven per cent of responses. The Mexican government made a recent media push to point out that high-impact crime levels (murder, extortion, kidnapping and auto theft) have shown a strong decrease in recent months.

However, if this is the case then it has failed to translate into the public´s perception considering that according to a poll by Mifosky and NGO Mexicanos Unidos Contra la Delincuencia, the proportion of respondents that said that they were a victim of a crime in the past three months increased from 24.5 in 2014 per cent to 30.8 per cent in 2015 and that 55 per cent of respondents believe the government is failing to win in its efforts against organized crime, a trend that has been largely stable since 2011.

In its most recent monetary policy announcement Banxico argued that the Mexican economy still shows signs of weakness. This is due not only to the low oil prices, but deceleration in the American economy, particularly in the manufacturing sector, which has affected Mexican exports. Indeed in the context of bad weather and a strong U.S. dollar, private payrolls in the U.S. increased by 189,000, according to the ADP National Employment Report, which was much below estimates of 225,000 and the lowest gain since January 2014. Additionally, consumption in Mexico shows mixed, yet largely discouraging signs.

One area in which there appears to be a silver lining is investment. According to Mexico´s National Institute of Statistics, fixed investment increased 8.5 per cent year on year in January and 1.5 per cent compared to the previous month. This gain was largely due to strong a strong increase in investments in machinery (6.4 per cent month on month), which showed its largest increase since January 2013 and made up for a second consecutive fall in investment in the construction sector of -0.1 per cent.

On the note of investment, two good pieces of news are that Blackrock and First Reserve announced that they will buy-out 45 per cent of Pemex´s stake in Los Ramones gas pipeline for $900 million USD, which is one of the country´s largest energy infrastructure projects.

Furthermore, Macquarie´s Group announced that it will make a follow-up investment to acquire a portfolio of various wireless and telecommunications sites through its Mexico Infrastructure and Real Estate Fund. According to reports in the Mexican press, the head of said fund, Jonathan Davis Arzac stated that Macquarie are considering launching a second Mexico fund, depending on how the structural reforms –in areas such as energy and telecoms- passed under President Enrique Peña Nieto translate into secondary laws in the coming months.

Moreover, modest gains in job creation pushed down Mexico´s unemployment rate to 4.5 per cent, the lowest level for February in at least four years.

Mexico´s Energy reform update

As the implementation of Mexico´s energy reform moves forward, the National Commission for Hydrocarbons published that so far nine companies have paid to have access to the data rooms for the second phase of the Round One of bidding, which is comprised of five contracts for nine shallow water exploration blocks with an estimated 355 million of barrels of oil equivalent. Of this group of companies two are already in the prequalification stages.

The companies that have access to the data rooms are: BP, Casa Exploration, CNOOC International, Lukoil, Pemex, Sierra Oil and Gas and Total. The two companies in the prequalification stage are Diavaz Group and Shell.