Mexico Intelligence Report – 15th January 2016

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GRUPO ATALAYA

Economic update

The Coinciding Indicator –which attempts to measure the overall health of the economy- for October grew by 0.02 points. Whereas the Forward-Looking Indicator -which attempts to anticipate movements in the Coinciding Indicator- fell by 0.02 points.

Moreover, industrial activity in November fell by 0.5 per cent according to Mexico´s National Institute for Statistics and Geography (INEGI). Moreover, fixed investment decreased by 1.1 per cent in October compared to the month prior, although it grew by 2.1 per cent year on year. A 1.2 per cent year on year fall in the construction sector was somewhat compensated by a strong 7.4 per cent increase in fixed investment in machinery and equipment.

In this context, the Manufacturing Sector´s Confidence Indicator for December published by INEGI, showed a somewhat pessimistic outlook as it´s manufacturing component grew 0.6 points compared to November, but remained unchanged compared to December 2014. Furthermore, confidence in the retail sector and the construction sector fell month on month by 1.4 points and 2.4 points respectively.

In line with these findings, the Consumer Confidence Indicator also fell by 1.1 per cent in December compared to the month prior and by 0.7 per cent year on year. However, it should be noted that actual consumption grew in October by 0.6 per cent month on month and 3.8 per cent.

This divide between bearish results in reported consumer confidence in contrast to bullish consumer behaviour was a constant theme throughout 2015. In fact the Mexican Retailers Association reported that sales grew by 10 per cent year on year throughout 2015.

Finally it should be noted that the Mexican government announced its first US dollar bond since January 2015. The country filed before the SEC to issue up to US$2.69 billion in debt with an initial price of around US treasuries plus 230 bps for a 10-year bond. Expected ratings for the issuance are A3 by Moody's, BBB+ by S&P, and BBB+ by Fitch.

Energy update

As the price of oil continues its freefall, Pemex has faced increasing pressure due to concerns in media that current price levels render it´s exploration and production activities unprofitable. In this sense, the state owned enterprise revealed that its average production cost per barrel is lower than $10 USD and in some shallow water fields this goes down to $7 USD.

On a separate note, Pemex also announced that it will invest US$4.0 billion to produce cleaner fuels. The project will entail the construction of 12 new refineries and the modernization of 14 plants to produce low-sulphur diesel. The investments will be made under the system of public-private partnerships with 58% of investment coming from the private sector, and the remainder invested by Pemex.

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