



LatAm

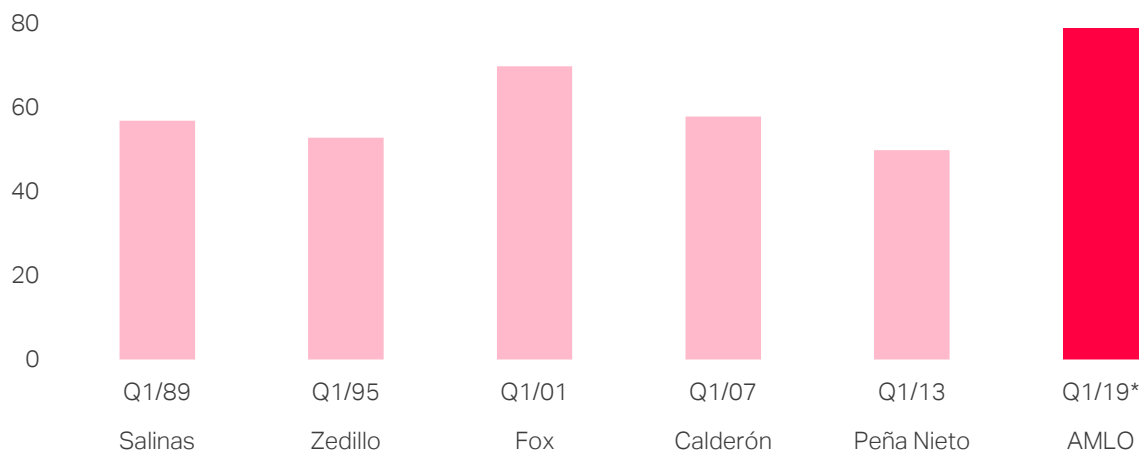
MEXICO: HIGHS AND LOWS AT AMLO'S 100-DAY MARK

Grace Fan

- At the 100-day mark, the government's approval rating and consumer confidence levels have sizzled to record highs in recent history, while inflation is ebbing
- Yet the latest economic indicators remain weak, with poor results in the auto sector and formal job creation in Feb, after investment plunged in Dec
- Labour productivity also edged down in Q4/18, as worker unrest continues to simmer – notably at the country's largest retailer, Walmart's Mexico unit
- A new Senate bill, drafted with industry input, to trim select bank fees may soon move ahead, as will a Lower House bill to lower the bar for national referendums
- While the government beat its Jan fiscal target, Pemex remains the big worry ahead; a new aid package will likely be palliative if energy reform is not continued

Approval rating of AMLO government vs other administrations

%



*Average of eight polls taken between 21 Feb and 7 Mar.
Sources: Local polls.

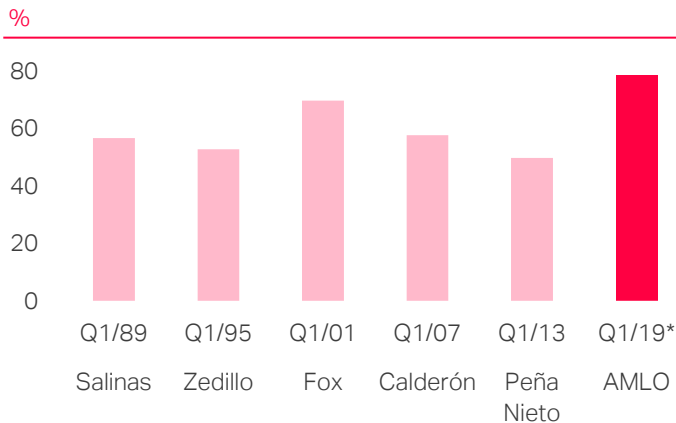
Politics

Top issues	Comment	Expected market impact
AMLO crosses 100-day threshold (10 March) with soaring approval ratings	An average four out of five polled (79%) in the latest polls said they approved of President Andrés Manuel López Obrador's (AMLO) government – the highest rating in 30 years.	Neutral, but this boosts his political capital (see Chart 1 below) and 2021 midterm electoral goals .
Bank representatives strike deal with Senate majority leader Ricardo Monreal to cut fees on low-income accounts	In the draft bill, banks would lift fees on key services for low-income accounts totalling an estimated MXN18,750 or less; they would also streamline the 5,000+ registered bank fees and sharply increase fee transparency.	Mildly positive if this bill passes, as Monreal's original proposal would have eliminated up to 13 key fees on all accounts
Lower House to vote on referendum bill	The bill to lower the bar for more nationwide referendums may be voted on this Thursday.	Negative if it passes, as expected

Economics

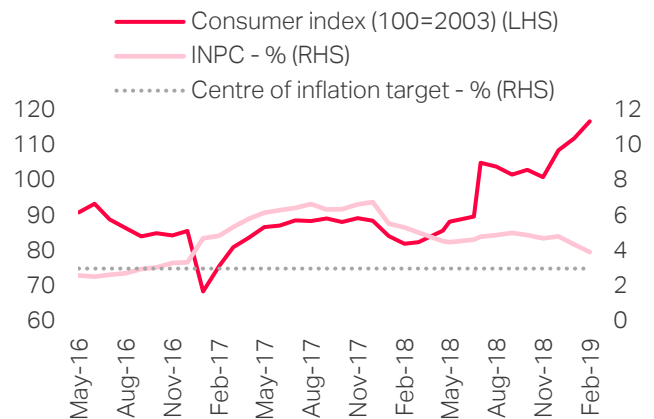
Top issues	Comment	Expected market impact
Consumer confidence hits record high in Feb, as CPI falls 0.03% mom to an annual 3.94%	Confidence rose for the third consecutive month, up 2.3pp mom/sa and 13.8pp yoy/sa (Chart 2) to hit a high unseen since 2001, while the monthly CPI was the lowest for the month of February in 17 years.	Positive for the odds of a future rate cut, but high rates will cap durable goods sales
Auto sector disappoints in Feb	Auto output, exports and new car sales by volume fell 5%, 0.06% and 5.5% yoy respectively (Chart 3).	Negative for industrial output in Q1
Formal job creation plunges 23% yoy in Feb, while retail sales slip	The 125,982 jobs created was the lowest for the month in 5 years, even as retail association ANTAD said same-store sales rose 3.3% yoy (vs 2.5% yoy in Jan) in nominal terms, but fell 0.2% yoy in real terms.	Neutral to negative, as it confirms the ongoing economic slowdown
Jan primary surplus beats fiscal target, but falling net revenues on Pemex woes are a warning sign	The surplus totalled MXN15.9 bn, -58% yoy in real terms, yet higher than the estimated Jan primary deficit of MXN614 mn. Still, net revenues fell 7.5% yoy in real terms and 5.2% below the target, hurt largely by Pemex's crude output, which fell in Jan to 1.62 mn bbl/d, -15% yoy, a low of three decades.	Positive for the government's Q1 fiscal results (Chart 4), but Pemex remains the weak link to watch
Finance Ministry vows more aid for Pemex soon, as AMLO affirms new USD8 bn refinery will be built	The big question is where the funds to help Pemex will come from: AMLO on Tues asserted that the new refinery is advancing, with USD2.5 bn to be invested this year, rebutting Deputy Finance Minister Arturo Herrera, who told the FT it would be delayed.	Negative if the fiscal aid stays palliative , positive if energy reform is reinstituted; more details may come on 18 Mar
Investment plummets in Dec, but edges up in 2018 at +0.6% yoy	Gross fixed investment decreased in Dec by 0.7% mom/sa and 6.4% yoy/sa in real terms (Chart 5) – the worst monthly yoy result since Sept 2013 and a warning sign for 2019.	Negative, as AMLO has failed to launch policies to entice more private sector investment
Possible strike looms for Walmart's Mexico unit, as labour unrest continues	Although Mexico's largest retailer posted better-than-expected sales in Feb, up to one-third of its workers have reportedly threatened to go on strike on 20 Mar if their current demands of a 20% salary hike and a 4% bonus on sales revenues are not met.	Negative if it occurs, as unrest may grow ; in Q4, productivity already fell 0.2% qoq/sa and 1% yoy/sa (Chart 6)

Chart 1: Approval rating of AMLO government vs other administrations



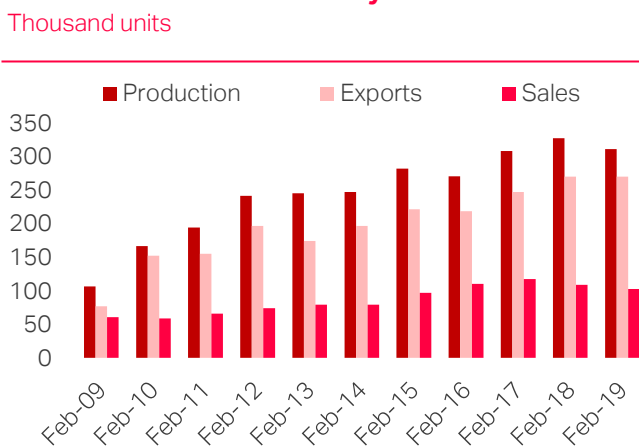
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Sources: Local polls.

Chart 2: Consumer confidence vs CPI (INPC)



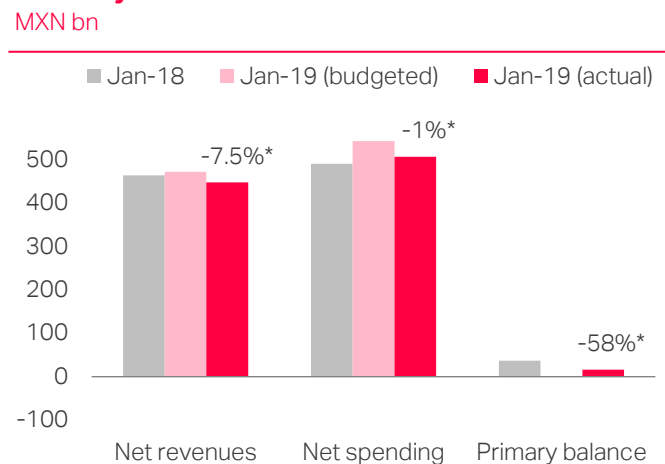
Sources : INEGI, Banxico.

Chart 3: Auto output, exports and domestic sales in February



Sources: AMIA, INEGI.

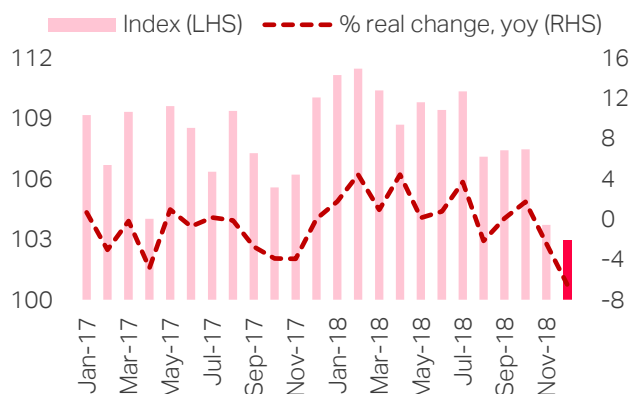
Chart 4: Federal fiscal results in January



*% real change, yoy, from Jan 2018.
Source: Finance Ministry.

Chart 5: Gross fixed investment

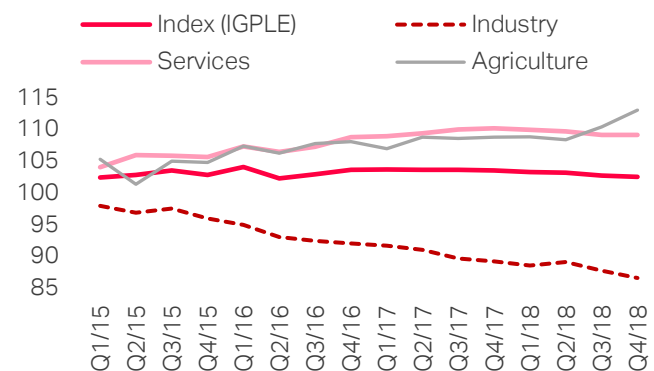
Index: 100 = 2013/sa (LHS) / % (RHS)



Source: INEGI.

Chart 6: Labour productivity

Index: 100 = 2013/sa



Source: INEGI.

Authors



Grace Fan

Senior Director, Latin
America Research