



LatAm

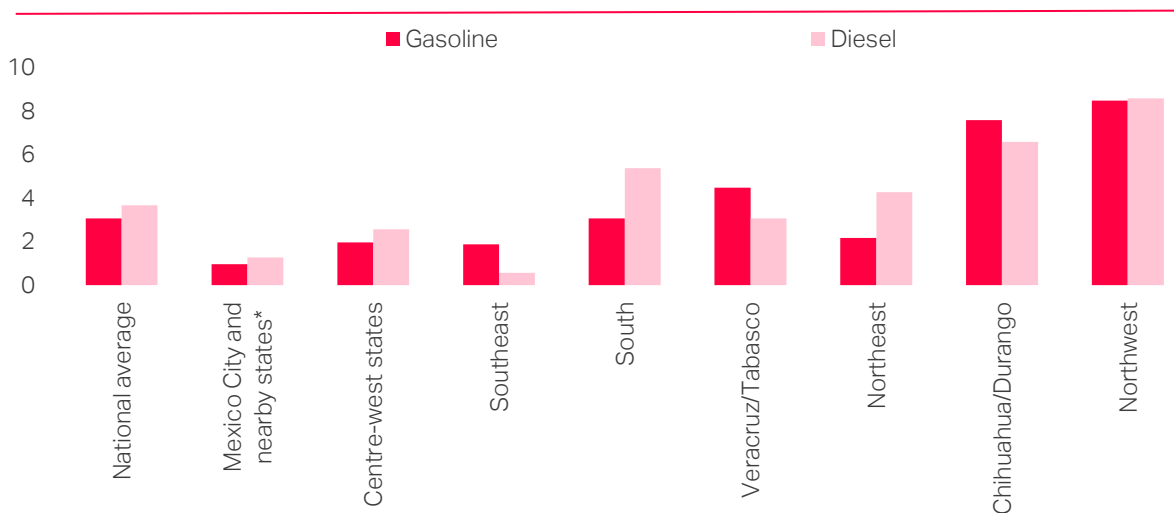
MEXICO: NEW YEAR, NEW FUEL CRISIS

Grace Fan

- The partial fuel distribution shortage in Mexico’s central region and the capital worsened this week as traders warned of growing potential shocks
- Pemex is belatedly working to normalize supplies, but if the shortage drags on well into next week, the economy would suffer a real hit
- Key industry groups and Banxico also sounded alarm bells, even as the AMLO government insisted it will not relent in its fight against fuel theft
- On a positive note, the Finance Ministry has cut the IPO tax rate to 10% among other moves to aid financial inclusion, as consumer confidence hit a 12-yr high
- In a sign of fiscal discipline, the ministry has also limited new tax incentives in the northern border region; but the jury is out on whether the stimulus will work

Mexico has only 3 days of gasoline stocks on average

No. of days of supplies



*This includes the states of México, Puebla, Querétaro, Hidalgo, Tlaxcala and Morelos. Sources: Energy Ministry, El Universal.

Politics

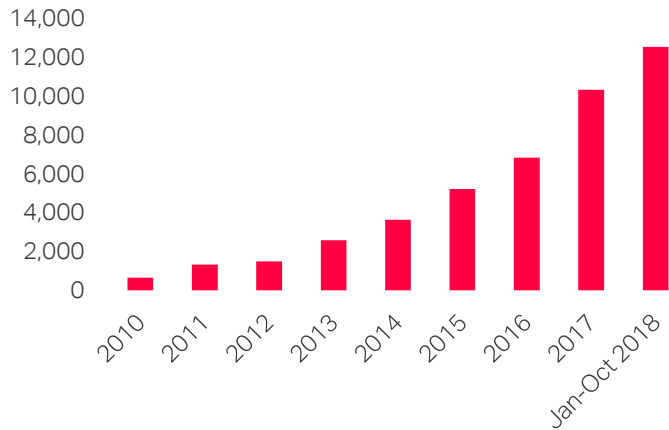
Top issues	Comment	Expected market impact
AMLO government's fight against fuel theft unleashes supply woes in central region, with widespread shortages reported in at least six states and Mexico City	Fuel supply shortages worsened this week, after the government of President Andrés Manuel López Obrador (AMLO) in late Dec launched a plan to fight fuel theft by closing down key pipelines without a clear strategy for distributing fuel; worse, the central region on average has only 1-2.6 days of gasoline/diesel stocks. Jalisco, Querétaro, Guanajuato, Michoacán, México and Hidalgo have been hard-hit alongside Mexico City as of Fri; up to 10 states are reporting problems.	Neutral, if it improves by this weekend, negative if it drags on well into next week; while most back AMLO's fight against fuel theft, which caused an estimated USD3 bn in losses last year (see Charts 1-3 on p. 3), poor implementation has sparked fiery criticism
Economic impact to spread if fuel supplies are not normalized soon, warn top business groups and Banxico	Banxico Governor Alejandro Díaz de León said on Thurs that the fuel crisis could fan inflation if it is not soon resolved; employers' confederation Coparmex slammed the situation as "disastrous" and said 4 states – Guanajuato, Michoacán, Querétaro, México – already had food and raw material shortages and may lose up to 10,000 jobs this week.	Negative if it continues; Mexico's auto industry association and private transport association also said that operations could be suspended soon, which would hurt confidence (Chart 4)
AMLO, Energy Minister vow the govt will not back down, as Pemex attempts an alternative plan to resupply central region	Energy Minister Norma Rocío Nahle once again affirmed on Thurs that the fuel shortage would last "as long as necessary" to stop the fuel thieves, even as Pemex has come up with a new distribution plan using more private trucks to help restock supplies; even so, the supply-demand gap is still big.	Positive if Pemex's plan works, but transporting fuel costs 14 times more via truck than pipeline, adding to inflationary fears if pipelines are kept offline to stop illegal taps
Finance Ministry announces IPO tax rate cut to 10% from 30%, among other measures for financial inclusion	The move on Tues was widely applauded by the market; the Finance Ministry also cut a tax on foreign corporate bondholders and said that pension funds would be given more flexibility to make investments.	Positive, as this is likely to encourage more IPOs from mid-sized and family firms
Corporate tax incentives for northern border zone limited to 2019-20 period	In a decree that took effect 1 Jan, only select sectors too will be granted tax credits to halve their value-added tax to 8% and to pay a corporate income tax of 20% vs 30%.	Positive for fiscal discipline, negative for attracting big investment inflows

Economics

Top issues	Comment	Expected market impact
CPI ends 2018 tamer than expected at 4.83%	But inflation was still far higher than Banxico's inflation target of 3%, +/- 1pp (see Chart 5).	Neutral, as all eyes will be on Jan inflation
Dec auto output drops 9.7% yoy, as firms switch production lines	Still, Dec exports rose 2.3% yoy. In 2018, output edged down to 3.91 mn light vehicles, -0.6% yoy, while exports hit 3.45 mn units, up 6% yoy (Chart 6).	Neutral, but automakers fear the fuel crisis will hurt Jan data
Consumer confidence hits 12-yr high in Dec	New populist spending programmes and the new minimum wage hike has boosted optimism (Chart 4).	Positive, but high rates will curtail credit growth

Chart 1: Fuel theft in Mexico

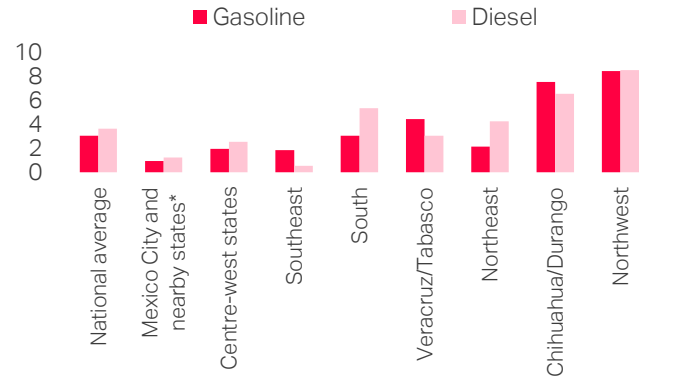
No. of illegal fuel taps



Source: Pemex.

Chart 2: Average gasoline/diesel stocks by region

No. of days of supplies

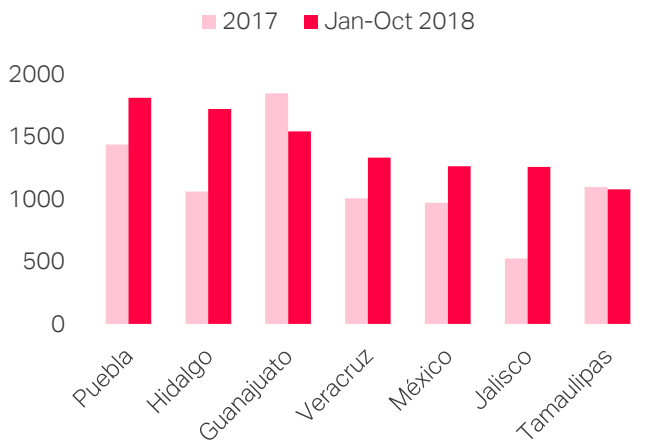


*This includes the states of México, Puebla, Querétaro, Hidalgo, Tlaxcala and Morelos.

Sources: Energy Ministry, El Universal.

Chart 3: Worst states for fuel theft

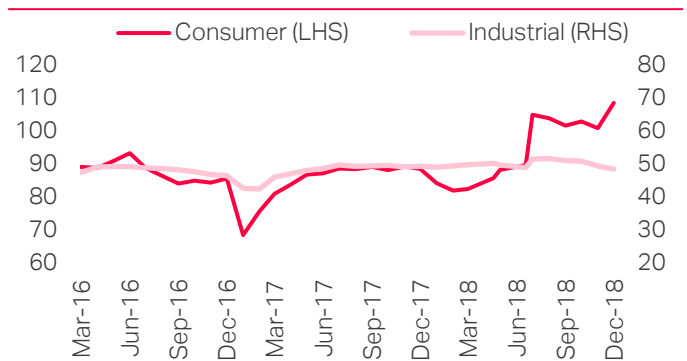
No. of illegal fuel taps



Source: Pemex.

Chart 4: Consumer vs industrial confidence

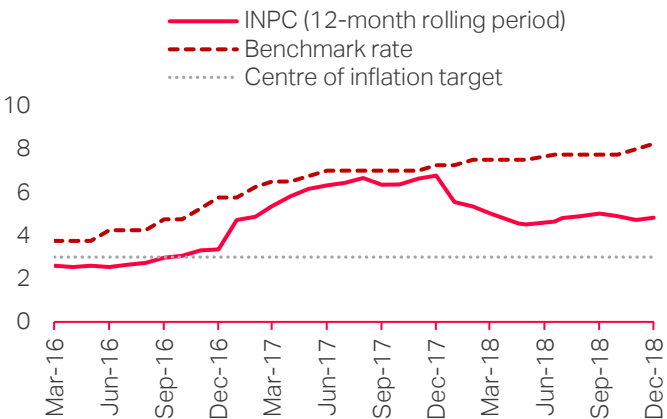
Index: 2003=100 pts (LHS) / Index: 50+ pts = confidence (RHS)



Source: INEGI.

Chart 5: CPI (INPC) vs key rate

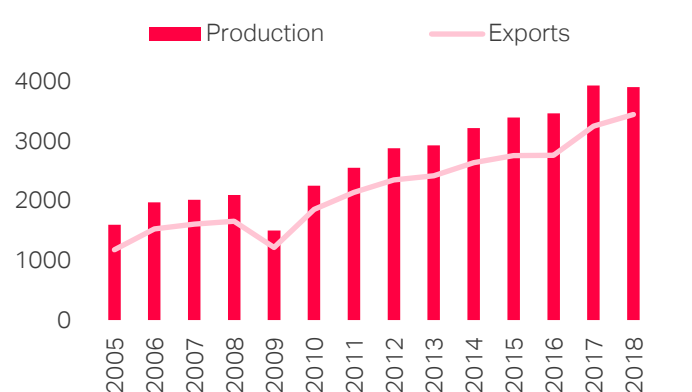
%



Sources: INEGI, Banxico.

Chart 6: Auto output and exports

Thousand units



Sources: AMIA, INEGI.

Authors



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