

AMLO's Presidential Address

Building bridges to the private sector?

So AMLO not only defended but extolled the results of his government in his first (or was it the third?) Informe. The fight against corruption was yielding results, such that gasoline theft has been thwarted. His pro-development construction projects, such as the Mayan Train, were advancing. PEMEX was being strengthened and oil production declines were being reversed. Fiscal policy was prudent, helping stabilize the peso against the dollar. While economic growth (itself, a neo-liberal obsession) was low, income distribution was improving, the minimum wage has risen by 16%, and 300,000 jobs had been created. Democracy was vibrant, with a clear separation between political and economic power.

AMLO recognized that in violence and security more needs to be done, and that these were the main challenges his government faced. He said that employment generation and the National Guard (NOW AT 58,600 STRONG AND TO GROW BY ANOTHER 21,000 BY YEAR END) would bring results. IN RESPONSE TO CRITICISMS OF LACK OF AVAILABILITY OF MEDICINES, HE SAID THAT AN ADDITIONAL US\$2BN FUNDING FOR THE HEALTH SECTOR WAS BEING MADE AVAILABLE.

Notwithstanding his usual tirades against neo-liberalism, AND HIS FIERCE ATTACKS ON THE OTHER POLITICAL PARTIES, AMLO was surprisingly supportive of the private sector. ("López Obrador tiende más puentes a los empresarios en su primer informe" was how the "El País" headline described the state of the union speech). AMLO thanked Carlos Slim, Carlos Salazar and Antonio de Valle for helping solve the gas pipeline dispute. He talked about the importance of the private sector to growth and employment.

This somewhat pragmatic pro-business message comes after last week's gas pipeline dispute resolution and positive signals on new openness to PEMEX oil farmouts. With growth and investment stagnant, is AMLO inching to the economic center, and trying to re-gain the business class trust? Let us hope so.

Meanwhile economists become increasingly bearish on the outlook for growth in Mexico. BANXICO published Monday results from the monthly survey of the private sector economic forecasters. <http://www.banxico.org.mx/publicaciones-y-prensa/encuestas-sobre-las-expectativas-de-los-especialis/%7BBB1710A25-D945-B135-7AC3-C6E1862EB09E%7D.pdf>. As to be expected there was a sharp decline from July to August in outlook for GDP growth in 2019 (0.8% to 0.5%) and for 2020 (1.5% to 1.4%), and overnight interest rates (for 2019 8.0% to 7.75% and for 2020 7.50% to 7.0%).

Damian Fraser.

Main Economic and Financial Data of the Presidential Address

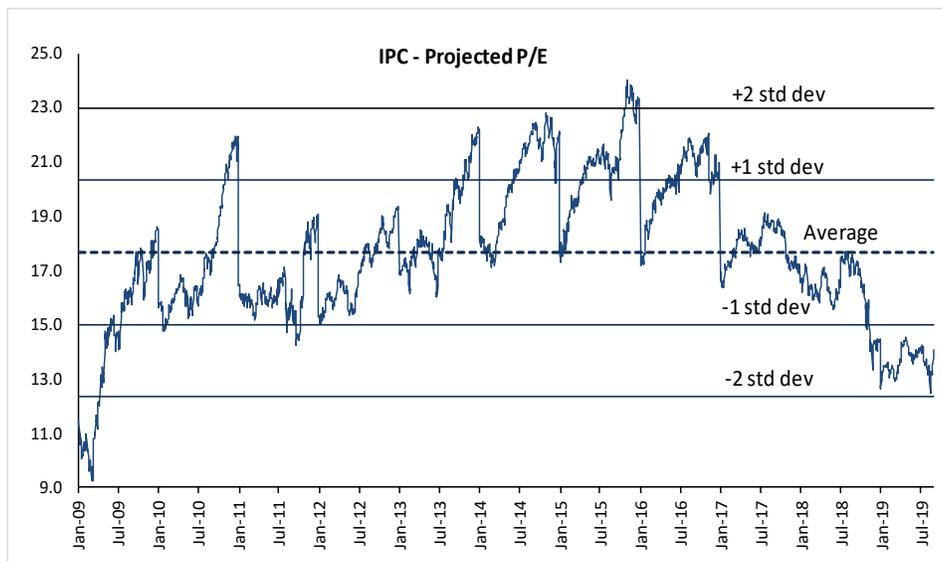
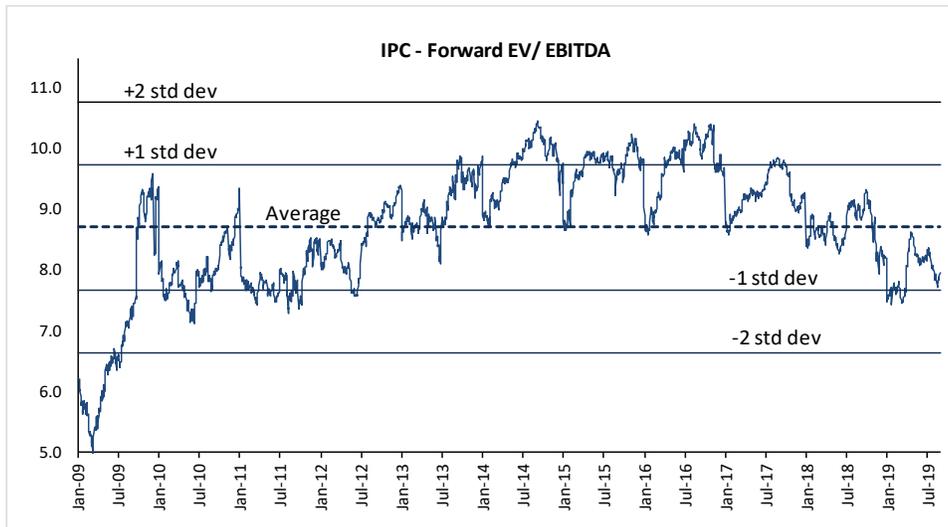
- By presidential decree, the tax cancellation to large businesses and financial corporations was prohibited
- No tax has increased in real terms and no tax has been created
- Public debt has not grown, and will not grow
- Inflation is 3.8%, the lowest since December 2016
- The goal of achieving a primary surplus of 1% of GDP will be met

- The government will have a new productive policy: strengthen the popular economy, promote projects for regional development, encourage the participation of the private initiative, promote the intensification of foreign trade and foreign investment
- US\$16.8 billion were received as remittances and US\$18 billion have been collected as foreign direct investment
- In January, the free zone on the northern border began, which implied a reduction in the income tax to 20%, in the VAT to 8%, a reduction in energy prices and an increase in minimum wages
- Entrepreneurs are cooperating with greater social commitment, as they invest, they create jobs, accept reasonable profits and pay their contributions
- 344 thousand interest-free loans have been granted with the program for wellness
- The Mexican Stock Exchange (BMV) has remained stable with an increase in 2% so far during the current administration
- Tax collection increased by 2.6% compared to the previous year
- There is little economic growth, but there is no recession
- A trade surplus of US\$5 billion was achieved
- International reserves have grown by US\$54.2 billion
- The Mexican peso has remained stable relative to the dollar

S&P / BMV IPC Valuation

After rebounding 6.92% last week, the Mexican S&P / BMV IPC Index is currently trading at a forward EV/EBITDA of 8.0x, which is marginally above the first negative standard deviation of the last 10 years. The projected P/E stands at 14.1x, between the second and first negative standard deviations. We believe that investors will focus mainly on the upcoming release of the 2020 Economic Package, which is scheduled for next September 8th.

Martin Lara.



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