



- Official Presidential campaigning starts
- NAFTA negotiations likely to move forward

## THE POLITICAL LANDSCAPE

Mexico's electoral campaign officially kicked-off on March 30<sup>th</sup>, with Andrés Manuel López Obrador (AMLO), Ricardo Anaya, José Antonio Meade, Margarita Zavala and Jaime Rodríguez ("El Bronco") as presidential candidates.

According to various polls, front-runner Lopez Obrador (backed by Morena) maintains an average lead of 9%. He is followed by Anaya (backed by PAN-PRD-MC) and Meade (PRI-PVEM-PANAL), with the former having an edge of 5-9% over the latter. Opinion polls also show nearly 80% of voters believe some kind of political change is needed. High levels of crime and corruption scandals have played to the benefit of AMLO, who has positioned himself as the 'outsider' candidate with his newly established Morena party and populist rhetoric.

Analysts believe Trump's anti-Mexican' sentiment has further aided Obrador's cause. Characterized by his leftist nationalistic tone, he is seen by 37% of voters as the best candidate to stand-up to the American President and to clean-up the political elite. The possibility of a victory in his third attempt to become President has raised concern amongst investors who fear the left-wing candidate could reverse government reforms to modernize energy and education. However, polls also show an unprecedented amount of undecided voters at this stage. A significant amount of "strategic voting" may take place in which citizens may migrate to whichever candidate they think has the best chance of defeating Lopez Obrador.

There are still two months of campaigning left. The first of three televised Presidential debates took place on April 22<sup>nd</sup>. In this first debate, the leftist front-runner candidate was the target for criticism from other candidates. Anaya, the PAN candidate was probably the most articulate but still has to cover significant ground to potentially win over AMLO. However, this debate could make an inflexion point in current trends and vote intentions.

The environment is charged for a very dynamic scenario in the run-up to the election. We will keep you posted as events develop.

## THE ECONOMIC ENVIRONMENT

There have been multiple rounds of NAFTA negotiations to date and analysts believe a conclusion could be reached relatively soon. The United States is expected to open-up to negotiation on important matters such as rules of origin in the automotive sector. It is in their best interest to make significant progress before elections in July, as a change in Mexico party power would further delay negotiations. Similarly, as the U.S. midterm elections approach, there is a possibility that Republicans could lose the House of Representatives, changing the track of NAFTA negotiations.

Furthermore regarding trade agreements, the TPP 11, the third largest trade agreement, was signed in March by 11 countries, including Mexico. This is a revamp of the deal previously known as the Trans-Pacific Partnership, from which the US withdrew last year. Additionally, substantial progress has been made with the renegotiation of the Mexican trade agreement with the European Union, which is expected to conclude this May.

The so-called "Trump-tariffs" threaten to descend China and the US into a trade war. This could ultimately benefit Mexican manufacturers. According to detailed US import data, Mexico and Japan would be among the top alternative suppliers of the 1,300 tariffed Chinese product lines. The steel and aluminum tariffs imposed by the US on March 8<sup>th</sup>, gave unspecified temporary exemptions to Mexican and Canadian products, on the condition that they continue in negotiations for NAFTA.

Regarding domestic monetary policy, we believe that the Mexican Central Bank's (Banxico) cycle of interest rate increases is nearing its end. Experts predict one more rate hike in the year to reach Banxico's inflation target. Inflation in the first quarter of the year was lower than in the same quarter last year and in-line with annual expectations of around 5%.

Despite the political headwinds, our key volatility indicator, the peso/dollar exchange rate, has actually stabilized in a relatively narrow range, perhaps discounting that an AMLO victory would not necessarily hurt the economy.

