

Country Insight Snapshot

Mexico

July 2017



Written 14 July 2017

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OVERVIEW

OVERALL COUNTRY RISK RATING: DB3d

Slight risk : Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

A

Rating Outlook: Stable

CORE OUTLOOK

+ Economic, legislative and political reforms will, if implemented, pave the way for greater private investment in key sectors.

- Uncertainty surrounding US trade and immigration policies has heightened near-term economic risks.

- Mexico still possesses one of the world's most rigid labour markets, despite recent reforms.

- The country will need to improve its educational policies if it is to benefit from its favourable demographics.

KEY DEVELOPMENT

Resilient inflation continues to breach the central bank's upper threshold and prompts further monetary tightening.

CREDIT ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

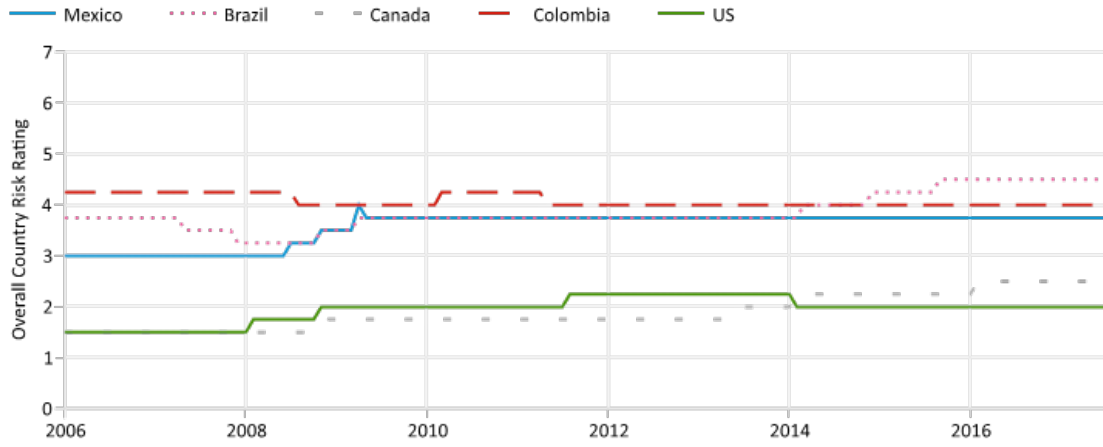
Trend: Deteriorating

Key Development has had a negative impact on the outlook.



KEY INDICATORS

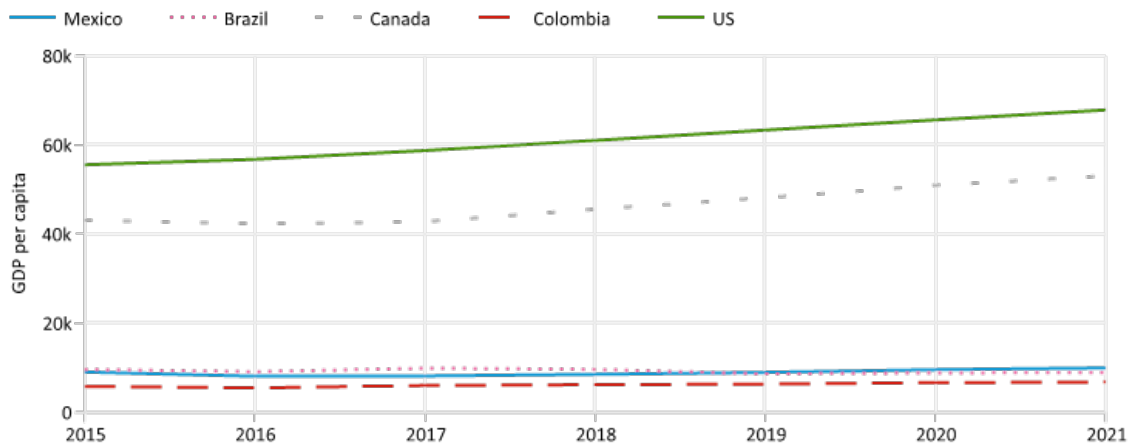
Rating History and Comparison



Source : Dun & Bradstreet

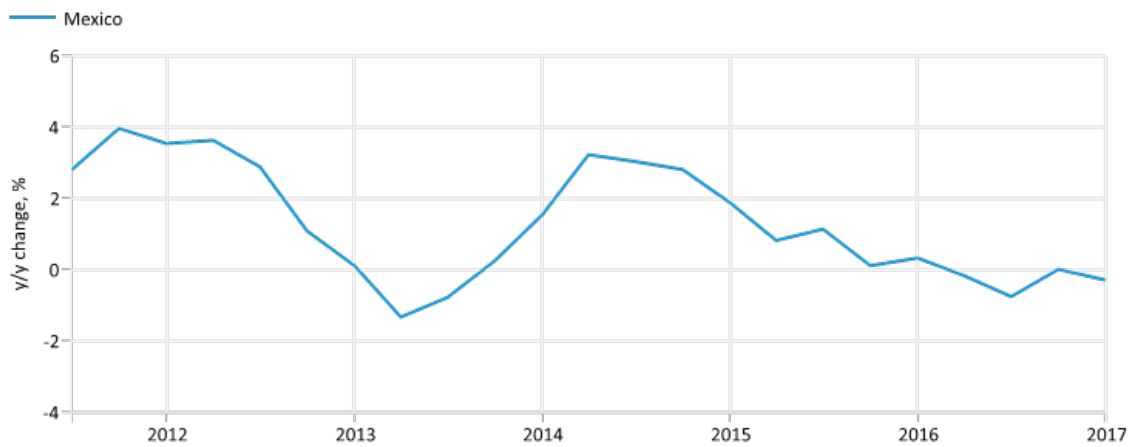
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2014	2015	2016	2017f	2018f	2019f	2020f	2021f
C/A balance % GDP	-1.9	-2.8	-2.1	-1.9	-2.4	-2.6	-2.3	-2.2
Govt balance, % GDP	-4.0	-2.9	-2.6	-2.0	-2.4	-2.3	-2.2	-2.1
Inflation, annual avge %	4.0	2.7	2.8	5.6	3.7	3.9	3.7	3.6
Real GDP Growth, %	2.1	2.5	2.1	1.9	2.0	1.6	2.0	2.4
Unemployment, %	4.7	4.4	4.0	4.6	4.7	4.5	4.5	4.5

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The peso rallied to MXN17.5306:USD on 14 July, its highest level in 14 months, as weak US economic data for June suggested a slowing in the pace of Fed funds rate hikes for the rest of this year. The US CPI for June declined to 1.6% y/y - below the Fed target of 2% - while retail sales contracted by 0.2%. The US Federal Reserve raised its target Fed Funds rate by 25bp, its second rate cut in 2017. The peso which started the year at MXN20.1516:USD has been buoyed by Banxico's intervention in the FX market and monetary tightening in H1. Meanwhile, FX reserves stood at USD173.93bn on 16 July with import cover of roughly six months. USD liquidity remains solid which, with an open capital account, will facilitate easy currency convertibility in our outlook period.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: LC

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: SD

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-90 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-1 month

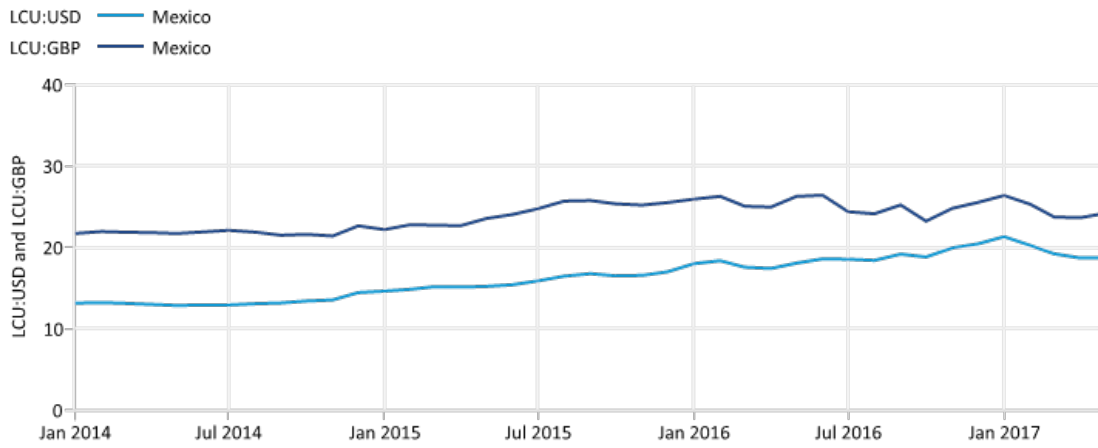
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



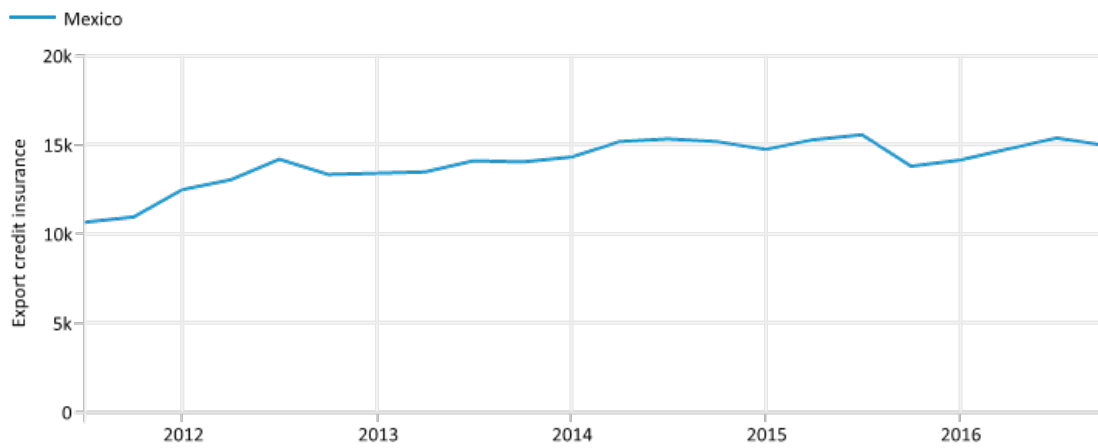
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Mexican peso

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Resilient inflation persists

In June, headline inflation remained robust with the CPI rising by 0.25% m/m to take the 12-month rate to 6.3% up from 6.16% in May and its highest rate since December 2008. Similarly, the 12-month core inflation rate, which excludes food and energy prices, is also above target having risen to 4.8% following a 0.3% m/m rise in June. Significantly, headline inflation remains above the central bank's target range of 2.0-4.0%. The consistent rise in price pressures this year is largely attributable to the impact of higher fuel prices on related non-energy sectors; energy prices rose by 15.2% y/y in June, while food and beverage prices were up by 6.9% y/y. On 1 January, government removed subsidies on petrol and diesel which resulted in fuel price rises of as much as 20%. We have nudged our forecast upwards for average annual inflation to 5.6% in 2017 - up from 2.8% in 2016 - and an eventual easing to 3.6% in 2018. Relatedly, on 22 June, Banxico hiked its policy rate by 25bp to bring it to 7%. The bank signalled that it will pause its tightening cycle which started in December 2015, and has included four rate increases so far in 2017. Banxico expects inflation to stay above its upper limit of 4% this year, even as it seeks to contain second-round effects and anchor inflation expectations.

Business Regulatory Environment

NAFTA renegotiation triggered

On 18 May, US President Donald Trump officially notified the US congress of his intention to renegotiate the terms of the North American Free-Trade Agreement (NAFTA), the trilateral trade bloc comprising Canada, the US and Mexico which was signed into force on 1 January 1994. Given that the requisite 90-days notice to Congress will expire in August, talks could begin soon. While America's objectives for the revamping of the agreement have not been articulated as yet, 'tearing up' the agreement would have profound negative impacts on the three trade partners, with Mexico arguably bearing the brunt economically, socially and politically. Today, as Mexico's single largest export market, the US accounts for around 80% of Mexico's exports which are mainly comprised of vehicles, electronic equipment, machines, engines, pumps, oil, medical and technical equipment.

Relatedly, the US and Mexico reached an agreement in early-June to conclude the contentious sugar dispute. The resolution of the sugar dispute was seen as indicative of how the NAFTA renegotiation would fare. The sugar deal included an 8% increase in the price of Mexican sugar exports to the US as well as a reduction in the quantity of Mexican sugar that could enter the US market. Failure to reach an agreement would have led to the US applying anti-subsidy and anti-dumping duties on Mexico's sugar of as high as 80%; since 2008 Mexican sugar has entered the US duty free. Despite the recently-reached deal, Mexico sugar producers continue to call for a probe into alleged dumping of US high-fructose corn syrup in Mexico, which could be construed as a sign of how contentious NAFTA renegotiation talks are likely to be.



COUNTRY PROFILE AND STATISTICS

Overview

Bordered by the Gulf of Mexico, the Caribbean Sea and the Pacific Ocean, Mexico's topography includes a high central plateau, mountains and tropical plains. Mexico has abundant natural resources and has a history of producing agricultural and mineral goods (including petroleum). Economic liberalisation in the 1980s and the North American Free-Trade Agreement (NAFTA) in 1996 spurred the development of manufacturing in northern Mexico, although the south remains less prosperous. NAFTA has also reinforced economic dependency on the US, Mexico's main trading partner. Since assuming office in December 2012, President Enrique Pena Nieto has been pursuing reforms to improve competitiveness and encourage private sector investment in key areas, including energy and telecommunications.

Key Facts

Key Fact	Detail
Head of state	President Enrique PENA NIETO
Capital	Mexico City (Distrito Federal)
Timezone	GMT -4-00
Main language	Spanish
Population (millions)	128.6
GDP (USD billions)	1,051.5
GDP per capita (USD)	8,176
Life expectancy (years)	76.7
Literacy (% of adult pop.)	94.5
Surface area (sq km)	1,958,000

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2012	2013	2014	2015	2016
Real GDP growth (%)	4.0	1.4	2.1	2.5	2.1
Nominal GDP in USDbn	1,175	1,297	1,290	1,159	1,051
Nominal GDP in local currency (bn)	15,506	16,601	17,160	18,314	19,663
GDP per Capita in USD	9,720	10,602	10,422	9,127	8,176
Population (year-end, m)	120.9	122.3	123.8	127.0	128.6
Exchange rate (yr avge, USD-LCU)	13.2	12.8	13.3	15.8	18.7
Current Account in USDbn	-16.4	-33.2	-25.0	-32.1	-22.4
Current Account (% of GDP)	-1.4	-2.6	-1.9	-2.8	-2.1
FX reserves (year-end, USDbn)	160.4	175.4	190.9	173.5	173.5
Import Cover (months)	5.2	6.3	6.7	5.7	5.4
Inflation (annual avge, %)	4.1	3.8	4.0	2.7	2.8
Govt Balance (% GDP)	-3.7	-4.6	-4.0	-2.9	-2.6

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2017f	2018f	2019f	2020f	2021f
Real GDP growth (%)	1.9	2.0	1.6	2.0	2.4
Nominal GDP in USDbn	1,073	1,136	1,208	1,301	1,369
Nominal GDP in local currency (bn)	20,919	22,269	23,794	25,505	26,150
GDP per Capita in USD	8,239	8,607	9,054	9,668	10,052
Population (year-end, m)	130.2	132.0	133.4	134.6	136.2
Exchange rate (yr avge, USD-LCU)	19.5	19.6	19.7	19.6	19.1
Current Account in USDbn	-20.9	-27.5	-32.0	-29.4	-29.7
Current Account (% of GDP)	-1.9	-2.4	-2.6	-2.3	-2.2
FX reserves (year-end, USDbn)	177.0	185.9	195.1	204.9	215.2
Import Cover (months)	5.5	5.8	6.1	6.4	6.7
Inflation (annual avge, %)	5.6	3.7	3.9	3.7	3.6
Govt Balance (% GDP)	-2.0	-2.4	-2.3	-2.2	-2.1

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Mexico	Brazil	Canada	Colombia	US
Income per Capita (USD)	9,127	9,717	43,215	5,918	55,645
Country Population (m)	127.0	208.8	35.9	48.2	319.9
Internet users (% of population)	57.4	59.1	88.5	55.9	74.6
Real GDP Growth (% p.a., 2017 - 2026)	2.5 - 5.0	1.0 - 2.0	1.3 - 2.3	4.2 - 6.7	1.8 - 2.5

Source : Various sources/Dun & Bradstreet



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