

What We (Don't) Want to See from the AMLO Administration

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On December 1, 2018, Andrés Manuel López Obrador (AMLO) will become President of Mexico. He begins his term on shaky ground with investors following a poorly executed referendum and subsequent cancelation of a Mexico City airport project in late October. Since the referendum, Mexican assets have been quite volatile—equities and the peso have sold off and 10-year government bond yields have risen. Is this reaction justified or have investors overreacted to AMLO's tactics?

Here are three things that we don't want to see from AMLO's administration:

1. Interference with the central bank. The Banco de México (Banxico) is a strong, credible, and autonomous central bank. Any attempt to exert undue influence or interfere with monetary policy would be very concerning.
2. Any moves to undermine the new U.S.-Mexico-Canada Agreement (USMCA). AMLO, initially a foe of NAFTA, has made positive comments about the new trade deal. He's expected to sign the deal, along with U.S. and Canadian leaders at the G20 summit. However, legislators from the three countries still need to approve the agreement before it goes into effect.
3. A reversal of the previous administration's historic energy reforms. It's clear that AMLO will take a more nationalistic approach to energy than his predecessor; however, his new Secretary of Energy has spoken about a pragmatic energy agenda, mixing old and new ideas together. Although we are disappointed with some of AMLO's proposed energy policies, a reversal of the 2013 energy reform would be an unambiguous negative.

AMLO has been keenly aware of the frosty reception he has received from investors, who are worried about how his policies will affect the Mexican economy and asset prices. Therefore, he has quietly been paying attention to market sentiment as it relates to the peso and MBonos. We think it is a constructive sign that AMLO is factoring in market sentiment, though we will be closely looking for any of the warning signs above. AMLO and his Morena party will be looking to build momentum over the next three years; if they manage to build a two-thirds legislative majority after the 2021 midterm elections, it will remain to be seen whether they will amend the constitution and rollback the important reforms enacted by his predecessors. In our opinion, this fourth and biggest wildcard risk is something to watch closely in the longer term.

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