Mexico’s woes

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GTR (Global Trade Review)

Following the election result, the Mexican peso was the hardest hit, falling by 14% against the dollar, mostly based on fears that the president elect will renegotiate the North American Free Trade Agreement (NAFTA) and limit Mexican imports. Arnulfo Rodriguez, senior economist at BBVA Bancomer in Mexico City, believes these fears are partly unfounded.

“We think NAFTA is probably going to be renegotiated but we don’t think that the main manufacturing sectors in Mexico such as automobile and electronics will be hit by tariffs because the global value chain is too important to the US manufacturing sector. We expect US companies to lobby to counteract damaging NAFTA renegotiation,” he tells GTR.

However, he expects the Mexican central bank to continue hiking interest rates to keep the inflation spurred by the currency’s depreciation in check. Mexico’s revenue could also be affected by Trump’s promise that he would limit foreign remittances, the country’s largest source of foreign currency after foreign direct investment (FDI).

Talking about FDI, Rodriguez also believes investment flows into Mexico will be affected by Trump’s protectionist policies - after all, one of the most attractive aspects of doing business in the country is its proximity and ease of access to the US market. “Investment in Mexico has been taking a toll, and we expect it to go down again in Q1 of next year based on the Trump uncertainty,” he adds.