

# FX Watch

## Mexican peso to be resilient

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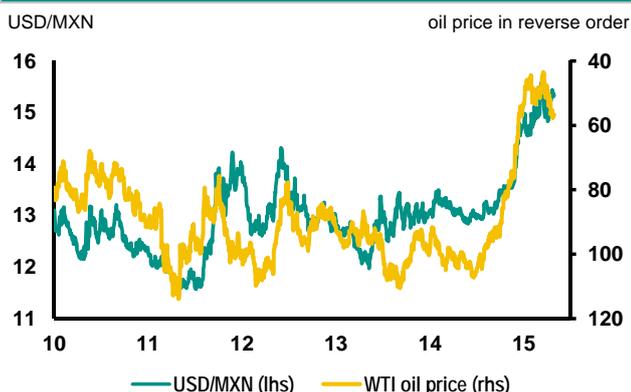
30 April 2015

- **Mexican peso failed to live up to expectations...**
- **...going forward we expect a better performance...**
- **...but the peso will unlikely outperform the US dollar...**
- **...because of lower economic performance and later rate hikes by the Banxico**

### MXN failed to live up to expectations...

Since May 2013 the Mexican peso has weakened sharply versus the US dollar. USD/MXN has moved from 12.0 to 15.25 or more than 25%. There are several reasons for its weakness: slow growth, lower oil prices and weak general emerging market sentiment. Indeed, the Mexican economy has not lived up to expectations of strong growth. The main reasons have been weaker-than expected US growth (Q1 last year, Q1 this year) and weak investments in the energy sector. Initially, investments in the energy sector were held back by the lack of energy reforms, later on the sharp fall in the oil price prompted a change in strategy of oil companies. These companies are now less eager to invest in the Mexican energy sector mainly because of the low oil price. In short, the prospect of major energy investments by foreign companies did not materialize yet because of the sharp fall in oil prices.

### Oil price weakness weigh on peso



Source: Bloomberg

### ...going forward any better?

We think better times are ahead. We expect the Mexican economy to profit from a strong pick-up in the US economy. In addition, we expect the recovery in oil prices to should support the peso. This will warm up foreign investors to invest in the Mexican energy sector and it will also support energy exports. Both forces will have a positive impact on the overall investor sentiment towards Mexico. Currently, this sentiment is still negative reflected in the net-short peso positioning by speculators (see graph below).

### Speculative investors are still short peso



Source: Bloomberg

### Peso unlikely to outperform the dollar though

The Fed tapering dry run in 2013 hurt the peso, because of a deterioration of investor sentiment towards emerging markets and economies with weaker fundamentals. It is likely that the Fed will start normalising interest rates later this year. This could weigh on investor sentiment again. However, we expect the peso to be relatively resilient, because it does not have major imbalances in the economy. The peso will be resilient as long as US growth will be strong and oil prices will be recovering. However, it is unlikely that the economy will outperform the US economy and that the Banxico will hike before the Fed. Therefore, we no longer see the peso outperforming the US dollar this year. Our new USD/MXN for the end of this year and end of 2016 are 15.50 (previous: 15.00) and 15.00 (previous: 14.50) respectively. As a result, we have adjusted our USD/MXN forecast to reflect this. Indirectly, we expect the peso to outperform the euro because of monetary policy divergence.

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