MONARCH
GLOBAL STRATEGIES

Monarch News

July/August 2019

CEO's Executive Summary

As the dog days of summer come to an end, we are pleased to take this opportunity to bring you up to speed on the latest key events in the U.S.-Mexico relationship. Regrettably, we begin with expressing our sadness and outrage regarding the recent mass shooting in El Paso, Texas, a border community we know well and love. While much has already been written about it, we want simply to add our voice to the chorus of Mexicans and Americans who are deeply concerned by what the shooting in El Paso represents: the targeting of Latinos, of whatever nationality, simply because of who they are. The shootings unequivocally represent the nadir of what has been a slow but steady degradation of our shared values and our shared commitment to one another as neighbors, friends, family, and allies, spurred by grotesque and hateful rhetoric coming out of the highest levels of the U.S. government in Washington. Monarch condemns the violence, the rhetoric and the complicity that arises when leaders who know better fail to speak out and take action to arrest this troubling trend, which goes well beyond issues of gun violence and gun rights. We join the people of El Paso and the entire border community in their mourning but also in their determination to keep fighting for a better and stronger future that is shared by our *hermanos y hermanas* on both sides of the border and that is committed to a peaceful and prosperous partnership between neighbors.

The events in El Paso did not eclipse other important developments in the bilateral relationship, which we now turn to. The USMCA negotiations between the U.S. Trade Representative's office and a working group of congressional Democrats established by House Speaker Nancy Pelosi are on-going, now coupled with district-level lobbying efforts by the Trump administration and the U.S. Chamber of Commerce to pressure vulnerable Democrats. When, or if, the agreement will be ratified, however, depends heavily on Speaker Pelosi's willingness to bring it up for a vote.

Mexican implementation of the migration agreement reached in June has been quite successful, significantly reducing the flow of Central American migrants through Mexico on route to the United States, reducing tensions on this front for now. At the same time, the El Paso shooting, in which eight Mexican nationals lost their lives, opened a new front in the cross-border security challenge. With the USMCA, migration, and security issues continuing to complicate the bilateral relationship, it is good news that the United States once again has an ambassador in Mexico City, Christopher Landau, who has been well-received during his short time in Mexico.

On the economic front, the Mexican economy is fully stagnant, growing just 0.04% over the last five quarters, marking the first time in 25 years the U.S. and Mexican economies have been so far out of sync. This result reflects low investment driven by weak investor confidence reinforced by tight fiscal and monetary policies. Our sector reporting in this newsletter focuses on healthcare, the Mexico City airport, and cannabis, in addition to energy, where a new business plan for Mexico's national oil company fell flat. It failed to convince market-watchers that Pemex will be able to reverse a continuing slide in production, raising the likelihood that its debt will be downgraded to junk in the fall. A new plan for the national electricity system put clean energy production on the back-burner, and a gas pipeline dispute further undercut investor confidence in President López Obrador's willingness to respect contracts and property rights.

Despite the economic weakness in Mexico, AMLO's approval rating continues to be high, at 66%, even as trends behind this headline number indicate some softening of support. This increases pressure on AMLO and the Morena-led legislature to deliver the goods in the months ahead. At the same time, state legislatures approved controversial measures—including a law making most protests illegal in Tabasco and another that would extend the term of the incoming governor in Baja California—that further reinforce concerns about weakening rule of law and democracy in Mexico.

Finally, two corruption scandals have dominated headlines of late. The federal government issued an arrest warrant for the former Pemex director and placed the former Secretary for Social Development in jail on corruption charges associated with the so-called "Master Scam" in which US$300 million in public funds were misused or stolen. And while the murder rate continues to climb in Mexico, drug lord Joaquín "El Chapo" Guzmán, was sentenced to life plus 30 years in prison in U.S. court and ordered to forfeit $12.6 billion.

I. USMCA and U.S.-Mexico Trade

Under Trade Promotion Authority rules, the White House could have sent the USMCA to Congress for its authorization as early as July 9. It has instead tried to find a compromise between the USTR's office and a working group of congressional Democrats established by House Speaker Nancy Pelosi. The sticking points continue to be labor, environment, enforcement, and biologics. The two sides were reported to be working through their differences before the congressional summer recess, but two wild cards threatening ratification remain in the deck. First is Speaker Nancy Pelosi's willingness to give the president a victory with the 2020 presidential campaign already underway. Second is President Donald Trump's willingness to announce a withdrawal from NAFTA as a means of pressuring the Congress to act. While the president has been silent on the issue of late, *Inside Trade* reported (*subscription required*) that Representative Kevin Brady recently noted that this gambit is still on the table.

In this context, a delegation of U.S. lawmakers traveled to Mexico in mid-July to discuss their USMCA concerns with Mexican officials, including a July 19 meeting with President López Obrador. Discussions focused on Mexico's capacity to implement the agreement, especially its labor and environmental provisions. While Mexico expressed its willingness to aggressively implement the accord, it also made clear that it will not accept a renegotiation.

In a rare demonstration of bipartisanship, Representatives Kevin Brady (R-TX) and Henry Cuellar (D-TX) met in mid-August with senior Mexican officials to discuss Mexican labor reforms and USCMA ratification. Following the visit, both Brady and Cuellar issued statements strongly supportive of prompt congressional ratification.

Inside Trade also reported that, during the August congressional recess, the Trump administration and business groups have stepped up their effort to convince local officials and voters in congressional districts where both Trump and a Democratic member of Congress won. Their aim is to step up pressure on vulnerable, moderate Democrats while they are at home in their districts and thus close to their constituents.

Meanwhile, the cross-border tomato dispute was finally resolved. As a reminder, in early May the U.S. imposed a 17.5% tariff on tomatoes imported from Mexico when the two sides were unable to extend a 2013 agreement suspending a U.S. anti-dumping investigation. The increasingly acrimonious negotiations were stuck on a U.S. demand that all Mexican tomato imports be inspected at the border. The Mexican side long rejected this demand as likely to create a logistical nightmare at the border. The last-minute agreement reached on August 21 avoids duties on Mexican tomato exports to the U.S. but subjects the majority of them to inspection. With this resolved, there is only one major trade dispute outstanding: the July 8 U.S. decision to impose duties on Mexican (and Chinese) fabricated steel imports that the U.S. believes are unfairly subsidized.

II. U.S.-Mexico Relations

After 15 months without an ambassador in Mexico, Christopher Landau was ratified by the U.S. Senate on August 2 and arrived in Mexico City on August 16, during one of the most difficult phases in the bilateral relationship in decades. His testimony at his May 21 Senate hearing and multiple biographies paint a picture of a highly capable, Spanish-speaking, conservative lawyer who is the son of a foreign service officer and has a zeal to do well, but comes to the role without any formal diplomatic background or previous involvement in Mexican affairs. Ambassador Landau has hit the ground running and, through a deft use of social media, has already demonstrated, in our view, a strong ability to connect with the Mexican people on issues related to culture and shared values. His fluency in Spanish is clearly an asset. Undoubtedly, he faces a significant challenge being the face of what many considered an extremely antagonistic U.S. government, but we wish him very well as he embarks on his important mission.

Beyond the USMCA, bilateral relations recently have been dominated by the June migration/tariff agreement and the El Paso shooting that killed eight Mexican and 22 U.S. citizens. On the migration front, Mexico has aggressively implemented the June agreement that required it to radically reduce the number of Central American migrants transiting through Mexico on route to the United States. Mexico deployed 15,000 troops from its new National Guard to its northern border, in addition to the 6,500 already deployed to its southern border, to contain the migrants. Their very visible enforcement efforts seem to have stemmed the flow for now.

U.S. detentions of migrants attempting to enter the United States dropped 28% in June and 21% in July, prompting President Trump to comment that “Mexico is really doing a good job” in securing its southern border. And during his July 21 visit to Mexico, U.S. Secretary of State Mike Pompeo thanked Mexico for its immigration enforcement efforts. So, for now, the tariff threat is off the table, as are U.S. efforts to force Mexico to sign a safe third country agreement, something Mexico has repeatedly insisted it will never accept. Nor are there likely to be any political repercussions in Mexico to the government’s new stance since polls show strong public support for the increased enforcement efforts.

And yet, in an August 8 presidential memorandum on the drug war, Trump turned up the heat on Mexico once again. Identifying Mexico as a major drug transit and producing country, the memo gave Mexico 12 months to improve its anti-drug efforts or face sanctions.

Turning to the El Paso shooting, Mexico understandably reacted strongly, calling it “an act of terrorism” targeting Mexican-Americans and Mexican citizens. It promised to demand the extradition of the shooter and bring legal action against the seller of the weapon. It also sent a strongly-worded diplomatic note that foreign minister Ebrard said would demand “effective, prompt, expeditious, and forceful legal actions” to protect Mexican citizens in the United States. The U.S. responded promising every effort to prosecute this case and prevent future incidents, and to share relevant information with the Mexican government.

III. Mexican Economy

Stagnant growth driven by weak production and decreasing investment…

Contrary to expectations, the Mexican economy narrowly avoided falling into a technical recession in the second quarter. The growth figures instead showed a completely stagnant economy. Initially reported at 0.1% (and later revised down to 0.0%) growth in the second quarter followed up a -0.2% contraction in the first quarter, for a total expansion of 0.04% over the last five quarters. This marks the first time in 25 years that the U.S. and Mexican business cycles have been so out of sync.

The Finance Ministry lowered its growth forecast for the year to just 1.1%, which remains above the current IMF estimate of 0.9%. The drivers of this anemic performance are neither exports, which are performing well, nor consumer confidence, which remains above pre-AMLO levels despite having fallen for four consecutive months. Growth is instead being undermined by declining industrial output and decreasing investment coupled with tight monetary and fiscal policies.

Statistics released in July and August show that May industrial production experienced the largest drop in 10 years (falling 2.1% from the April figures and 3.1% over the May 2018 level), and while the June numbers recovered from their dismal May levels, they still registered another large drop year-on-year. These numbers reflect a broad-based decline including mining, manufacturing, utilities, and construction, which was also hit by a 24% drop in public construction investment.

…caused by increased uncertainty and diminished investor confidence…

Despite a statement from the head of the Office of the President, Alfonso Romo, suggesting that the honeymoon between business and the government continues, real investment and measures of investor confidence tell a very different story. Investment in May, the most recent numbers available, fell 6.9% from their April numbers, marking four consecutive months of decline and registering the largest contraction since 2013. Suggesting a continuation of this trend, imports of capital goods in June were 21.2% below their 2018 level, their largest drop since 2009.

This reflects the low level of investor confidence, which, as registered by the Mexican statistics agency, is at its lowest level since June 2017. Even more illuminating is the Bank of Mexico's most recent poll of economic analysts, which shows fully 77% believe it is a bad time to invest in Mexico, and interviews with investors. A Bloomberg report based on interviews with high-ranking Mexican business executives emphasizes low confidence levels. In the words of one executive, "everyone is paralyzed," noting the negative impact of AMLO's erratic decision-making process as much as the content of those decisions. These attitudes were likely reinforced by AMLO's recent statements during an early August interview with Bloomberg. AMLO stated that his administration wants "to create a new [economic] paradigm" in which distributing wealth is emphasized as much as creating it and politics, not economics, drives economic policy.

Investor confidence was further tested by the surprise resignation of Finance Minister Carlos Urzúa on July 9. AMLO's quick decision to elevate Mexico's well-respected deputy finance minister, Arturo Herrera Gutiérrez, to replace Urzúa helped calm markets. But Urzúa's scathing resignation letter—accusing the administration of conflicts of interests, impulsive and extremist decision-making, and forcing officials with no knowledge of finance on the ministry—further dented confidence in economic policy-making in the AMLO administration. In an interview with *Proceso* magazine, Urzúa insisted that he left due to frustrations over a mounting series of policy disagreements with the president and key members of his policy team, but AMLO had other facts. He instead blamed the departure on a personal dispute with Alfonso Romo and insisted that he would make no changes in his policy-making process. The latter was not a reassuring signal about the future course of economic policy in Mexico.

Finally, a new asset recovery law will allow the government to confiscate and sell the property of individuals involved in illegal activities, even before they are convicted of a crime. Mexico's Coparmex business association complained loudly about the threat this law poses to property rights, raising concerns about the potential for expropriation. This again raises questions about the reach of AMLO's respect for contracts and property rights.

…while monetary and fiscal policy struggle to do their part

The Bank of Mexico lowered the benchmark interest rate for the first time in five years at its August 15 meeting, taking it from 8.25% to 8.00%. The Bank's board cited slow growth and lower inflation in Mexico (3.78% through July, its lowest level since December 2016, and just 3.29% in the first half of August) and the external economic situation in their decision process. It also made clear that this move should not be interpreted as the initiation of looser monetary policy, but one of Banxico's board members suggested that if inflation continued its current downward trajectory, the Bank could further relax monetary policy. In the meantime, Mexican interest rates remain among the highest in Latin America, adding to the headwinds for economic growth.

In fiscal policy, the second quarter was marked by continued moves to sustain a 1% primary surplus, including deepened austerity efforts by adjusting spending to match falling tax receipts and lower Pemex revenue. At the end of July, however, the Finance Ministry announced a stimulus package designed to pull the economy out of its doldrums and to tap half of the nearly $13 billion in Mexico's oil-financed stabilization fund to further this effort. The stimulus includes increased funding for infrastructure projects, credits to small and medium-sized firms, and financing for government providers and contractors. While this stimulus is seen as positive by economic analysts, it is also unlikely to alter current growth estimates of about 1% for the Mexican economy in 2019.

Regarding the 2020 budget that the administration will present to Congress in September, AMLO has insisted time and again that it will not include any new taxes, any tax increases, or an increase in gasoline prices. The new budget is likely to incorporate, however, the implications of a constitutional amendment AMLO will present to Congress in September that will eliminate the president's authority to forgive unpaid back taxes owed by Mexican companies. Previous administrations have used this tool to bring firms back into the tax system, but it was a controversial practice since it only benefited a few companies. Meanwhile, the head of AMLO's party in the lower house of Congress suggested that the fiscal surplus could be halved for 2020. Given tight budget constraints, it is likely that the 2020 primary surplus will shrink. But AMLO has made it clear time and again that he will not borrow to pay off existing debt, so whatever the primary surplus, it will be large enough to cover debt payments.

Following its wild ride in June due largely to the U.S. tariff threat, the peso-dollar exchange rate steadied at around 18 pesos per U.S. Dollar in July. A heating up of the U.S.-China trade war coupled with the early August release of a business plan for Pemex that failed to impress (more below) sent the peso above 20 once again despite record levels of remittances, which reached $16.9 billion in the first half of the year. Since then, the peso has bounced around, hitting 20 once again at the time of publication in late August.

Sector Focus: Energy

The Pemex Conundrum

The AMLO administration continues to grapple with PEMEX's anemic performance and financial deterioration. The government presented a new business plan for Pemex on July 16, which, in addition to merging Pemex's four sub-units in a cost-saving measure and ending farmouts, replaces risk contracts with service contracts, effectively placing the firm in the same situation as before the reform.

More broadly, the business plan promises to move forward with the Dos Bocas refinery project while also stabilizing crude production at 1.7 million barrels a day, increasing gradually to 2.7 million barrels in 2024. To achieve this, it calls for $104.6 billion in investment that will be financed from Pemex revenue, a promised 65% reduction in operating costs, and government support. This support includes an 11% reduction in the profit-sharing tax (to "just" 54%) that will generate $6.6 billion in savings over two years, and a promised government injection of $7.2 billion over three years. The annual total of $4.7 billion is significant, but nowhere near Pemex's own estimated capital injection needs of $10-$15 billion per year. Citi Research thus described this promised capitalization of the firm as "highly underwhelming," while a Moody's analyst said that the plan did not change Moody's financial expectations for the firm, noting that "we still have a negative outlook."

Regarding oil production, it fell again in May, bringing production to its lowest monthly level since 1990. It recuperated a bit in June (the July numbers are not yet available), but the monthly average is still running about 140 million barrels less than 2018. Although the initiation of production at one of the oil fields auctioned to private firms

(Italy's Eni in this case) under Mexico's 2014 energy reform has commenced, it is unclear how much this will help to improve Pemex's situation given AMLO's steadfast determination to effectively freeze core elements of the energy reform. On the up side, Pemex has cut its second quarter losses by 70% compared with last year, but it still registered red ink to the tune of $2.7 billion. Nor are global markets likely to ease Pemex's burden as new International Maritime Organization (IMO) laws will require ships to burn low sulfur fuels beginning in 2020, likely reducing global demand and thus the price for Mexico's high sulfur crude, which will, in turn, disrupt the country's national refining system due to excess inventories.

As we went to print, the *Financial Times* reported (*subscription required*), citing a senior government official, that the government was planning to make a significant change in its petroleum policy to allow Pemex to enter into joint ventures and to restart oil auctions for deepwater tracks among a selected group of firms. If the leaked policy change is not reversed by AMLO, as he has done several times previously, this would be a huge policy change. Previously, AMLO has stated that he would restart the auction process if private companies benefiting from previous auctions began to produce oil. With Eni initiating production (as noted above), AMLO met with the head of the company and praised its activities in Mexico, potentially a sign that the pragmatic AMLO could be trumping the ideological AMLO in this instance. If so, it would be very good news as it would create an opportunity for Pemex to avoid a downgrade to junk later this year.

A New National Electricity Plan

In the electricity sector, the Energy Ministry released Mexico's National Electricity System Development Plan in early July. This plan calls for a focus on combined cycle and cogeneration plants, including the CFE's fuel oil-burning facilities, throughout the first four years of AMLO's administration. Only in the last two years will the Federal Electricity Commission (CFE) turn to clean energy projects. This included eight geothermal plants planned, but the CFE will also be open to evaluating other clean energy projects in 2023 and 2024. This will hinder clean energy development in Mexico, and the country's associated capacity to meet its 2024 clean energy generation target of 35%. Meanwhile, the Baja California Sur independent grid and the Yucatán Peninsula are operating dangerously close to margin reserves and have been unable to meet electricity demand in several instances, which has caused repeated blackouts.

A Major Pipeline Investment Dispute

In late June, CFE head Manuel Bartlett called for international arbitration to annul several key terms in seven gas pipeline contracts that would require the CFE to pay $800 million this year to the four involved companies. He also demanded repayment of $3 billion of previous government transfers to the four firms: TransCanada, IEnova (a subsidiary of Sempra Energy), Grupo Carso, and Fermaca.

The key clauses under dispute are considered standard for these kinds of contracts. They include the so-called “take-or-pay” provision that requires the CFE to pay for gas that was never delivered, and a force majeure provision that required the government to cover losses associated with community disputes and bad weather.

Given that arbitration would have taken a long time and the resolution could easily have gone against Mexico, the administration initiated informal negotiations among the affected contractors in early July. The government and three of the four contractors announced an agreement on August 27. The accord extends the pipeline contract for 10 years with a fee structure that will cost the government more in the short term but save it money over the life of the contract. The AMLO administration insists that the accord will save the government $4.5 billion over time, but a *Wall Street Journal* analysis (*subscription required*) places this figure at $600 million.

This dispute raised a red flag in the business community by once again calling into question the strength of AMLO’s promise to honor contracts inherited from the previous administration. The U.S. Chamber of Commerce and the Canadian ambassador in Mexico blasted the proposal. In response, AMLO called the contracts “abusive” and insisted that his administration is rightly defending the assets and interests of the Mexican people.

Ultimately, this agreement will help reassure skittish investors since it is seen to be a win for both the government and the private companies and was applauded by Moody’s for the certainty it will provide investors in the sector. But it alone is insufficient to restore investor confidence in the AMLO administration. Investors will thus continue to look for more reassuring signs from AMLO, and to this end they are currently focused on AMLO’s September 1 annual state of the nation address.

Sector Focus: Healthcare

To meet his campaign promise to provide free healthcare for all Mexicans, on July 12 AMLO announced he would send to Congress a proposal to establish the Instituto de Salud para el Bienestar (Health Institute for Well-Being) to replace the *Seguro Popular* program, which has provided healthcare coverage via grants to each state for the majority of Mexicans who are not covered by one of the employment-based social security institutes. Unlike *Seguro Popular*, which functions like an insurance program, the new Institute will manage its own facilities and medical staff, but with a workforce of just ten public servants. The new institute will focus on primary care and prevention.

One of the most controversial aspects of his proposal was the announcement that about 40 billion pesos (about $2 billion dollars) to fund the new institute would be drawn from the Fund for Protection from Catastrophic Expenditures (FPGC for its name in Spanish). Health Secretary Jorge Alcocer subsequently clarified that FPGC funds would be used to purchase medication and not for personnel or infrastructure expenses. Also controversial is the plan to provide all medications at no charge by eliminating the more limited list of essential medicines (or *cuadro básico)* that clinics must offer. The Chamber of Deputies began consideration of this initiative on August 7.

During his public remarks, López Obrador derided *Seguro Popular* as neither *seguro* nor *popular*, and strongly criticized the program's management as inefficient and corrupt. AMLO's assessment of *Seguro Popular's* deficiencies is largely accurate. Direct resource transfers from the federal government to individual states have led to differentiated levels of care across the states. Further, the lack of transparency and accountability surely led to inefficiencies if not direct diversion of resources. But the decision to eliminate *Seguro Popular*, rather than to address the problems in the program, was strongly criticized by six former Mexican secretaries of health in an open letter urging a national debate with input from all stakeholders. In a public presentation by the letter's authors, *Seguro Popular's* founder Julio Frenk, who served under President Vicente Fox, observed that none of the achievements in the health sector resulted from sudden, unstudied changes. The former secretaries also cautioned that elimination of *Seguro Popular* would deny care to the poorest Mexicans. AMLO reacted in typical fashion to the criticism, noting that anyone defending *Seguro Popular* did not have adequate information about the proposed reforms.

Sector Focus: Infrastructure – Mexico City Airport

AMLO's plans to build a new airport at the military base in Santa Lucía, Hidalgo, and to turn the site of the abandoned New International Airport (NAIM) project into an urban park remain on hold following a series of judicial rulings. The most important ruling suspended work at Santa Lucía and required the government to preserve the semi-completed NAIM work site until the legal challenges to AMLO's plans are resolved. López Obrador called this ruling "legal sabotage" and insisted that the Santa Lucía airport project will move forward without delays. In the meantime, the government has called for bids for a project to expand the second terminal at Mexico City's current airport.

Sector Focus: Agriculture – Two Monarch Initiatives

Foro Global de Agronegocios

Since the passage of NAFTA, both the U.S. and Mexican agricultural sectors have observed significant growth, as both nations act as the proverbial fruit and bread basket to the world. Yet commerce in the sector, with some exceptions, has largely been limited to commodities trade and its corresponding tensions, as witnessed by the tomato dispute reported above. Yet unlike other sectors—including automotives, aerospace, and electronics—the agricultural sector has not witnessed the kind of value and supply chain integration and coproduction that one might expect. As a result, Monarch, leveraging its presence in California, and in collaboration with key partners in Mexico, will be helping to organize a Global Agro-Business Summit in December 2019 in Mexico City. We expect to bring a delegation of leading researchers and businesses from the United States to meet together with counterparts in Mexico to explore how to catalyze and stimulate a new, thriving "Ag-tech" sector that will enable Mexico and the U.S. to collaborate together to manufacture and export leading technologies in the food cultivation and production industry. If any of our readers are interested in attending or learning more, please contact Monarch CEO Michael Camuñez at mcamunez@monarch-global.com. And look out for future updates on the conference!

Mexican Cannabis Initiative

In light of five separate Supreme Court decisions allowing for the personal consumption of cannabis, which under Mexican jurisprudence establishes a precedent, and the personal conviction held by both AMLO and Secretary of Interior Olga Sánchez Cordero, the Mexican Congress began deliberation on a legislative proposal (introduced by Sánchez Cordero while she served in the Senate in late 2018) to legalize the cultivation, consumption, and sale of cannabis and its derivatives. Our discussions with senior Mexican officials in the past few months indicate that Congress will resume its deliberations, with AMLO's full support, in September. The Morena legislation will regulate but not decriminalize cannabis and will focus on the social implications of the cannabis industry, including its impact on women and those parts of Mexico that have suffered most from illegal drug trafficking.

Recognizing the potential opportunities created by this legislative action for both cannabis and its derivatives (such as CBD-containing products and industrial hemp), Monarch is pleased to announce a new strategic collaboration with Privus Capital, a Canadian investment and advisory firm. Monarch and Privus will collaborate with clients to explore these opportunities, drawing on our collective experience and relationships and on the Canadian legalization process. A separate newsletter describing the status of the legislative initiative and the associated opportunities will be published early next month. If any of our readers are interested in this initiative, please contact Monarch Managing Director Andrew Rudman at arudman@monarch-global.com.

IV. Mexican Politics

On July 1, AMLO celebrated the anniversary of his electoral victory by addressing thousands of his supporters in Mexico's central square, the Zócalo. He told the audience that his victory "wasn't a simple change of government," but instead was a vote for a "profound transformation" of Mexico that will end the corrupt, neoliberal regime that had governed Mexico for three decades.

Polls suggest that Mexicans continue to support this vision for Mexico. According to *El Financiero*, AMLO's support has held steady at two-thirds of Mexicans throughout May, June, and July. Much has been made of the fact that his four predecessors had similar numbers half-way through their first year in office, but none of them presided over a shrinking economy and rising insecurity. That said, the *El Financiero* poll points to potential problems for AMLO, showing strong dissatisfaction with the government's performance on the economy, corruption, and poverty. And relying on a baseball analogy, the poll shows that 37% of Mexicans think AMLO has hit a homerun thus far in his presidency (the base that will never abandon AMLO), but the other 29% of his supporters think he has only hit a single.

These numbers suggest that AMLO needs to deliver the goods to his more tepid supporters. To this end, AMLO is calling on the legislature to extend its sessions and work harder to approve his priorities for the fall legislative session. These include a constitutional reform to enable a mid-term presidential recall and increase popular consultations, preventing the government from forgiving back taxes, the creation of the new health institute, and an amnesty law for low-level offenders. To this list, Morena congressional leaders have added a proposal to cut funding to political parties by 50%, the elimination of criminal immunity for politicians, and, as noted above, the legalization and regulation of cannabis. In addition, Ricardo Monreal, the leader of Morena in the Senate, promises to revive his proposal to eliminate banking fees.

Morena's efforts to advance this agenda in the Senate, where it lacks a two-thirds majority, was made easier by the August 12 election of a new leader for the former-ruling Institutional Revolutionary Party (PRI). In an election marred by voting irregularities and 70% abstentionism, the candidate considered to be close to AMLO and Morena, Alejandro Moreno Cárdenas ("Alito" as he is known), the former governor of Campeche, emerged victorious.

Beyond the federal government, there were two interesting developments in state governments these past two months. First in Tabasco, the Morena-dominated state legislature passed a law that makes protests impeding the execution of public works or construction projects illegal and punishable by up to 20 years in jail. Clearly directed toward protecting the Dos Bocas refinery project from potential disruptions, the law has produced a backlash in the media and civil society. The law is, ironically, supported by AMLO, a politician who used protest as a core political tool throughout his career.

Second is the state of Baja California, where the state legislature passed a law extending the governor-elect's term from two years to five. The so-called "Bonilla Law," named after the governor-elect, Jaime Bonilla, produced a powerful political backlash including promises to challenge its constitutionality before the Supreme Court. Indeed, the federal attorney general, a former Supreme Court justice, stated that the law seemed unconstitutional. Even AMLO distanced himself from the measure, insisting that he had not been consulted and that if he had been, he would have rejected it. This situation led Senator Monreal to again complain about the absence of keen political operators in AMLO's cabinet, and it appears to have sparked parallel rumors that the interior minister would be replaced before the end of the year. The law itself was not promulgated by the out-going state legislature, leaving it to the new legislature to determine how to move forward.

V. Corruption and Security

On the corruption front, a leading business organization recently noted that its members perceive less corruption under AMLO than under Peña Nieto. This may have something to do with the corruption investigation into the activities of Emilio Lozoya, the Pemex director during the Peña Nieto administration. The government issued a warrant for his arrest along with several members of his family, but Lozoya remains at large fighting the arrest warrant.

The corruption scandal that caught everyone's attention, however, is the so-called "Master Scam." Rosario Robles, the head of the Social Development and Agriculture ministries under Peña Nieto, and several of her associates stand accused of stealing or misusing nearly US $300 million in public funds. Robles herself has not been accused of embezzlement, but rather of knowing about the scheme and doing nothing to stop it. What is striking about this case is the fact that it was discovered not by Mexico's legal authorities but by a media outlet and an NGO. The government has, however, taken up the prosecution zealously.

Robles has been placed in preventative detention, the first time in modern Mexican history that a federal cabinet member has been jailed for corruption. The signal this sends about the new consequences for corrupt acts by government officials in Mexico cannot be overstated. Adding to the intrigue of the case, the decision was made by a judge who is the nephew of a Mexican politician, Dolores Padierna, who along with AMLO has a historical beef with Robles dating to AMLO's time as Mexico City mayor.

With respect to security, polls consistently show that security is the number one concern of Mexicans. This is not surprising since Mexico's murder rate hit a record high in 2018 and is on pace this year to break that record. To deal with this problem (and more recently, with immigration too), the AMLO administration created the National Guard, which began to operate in late June with 70,000 personnel. The process of creating this new police force has not been as smooth a AMLO would have hoped, however. It sparked an open revolt by former members of the federal police in July protesting the conditions under which they were integrated into the new entity. This event so unnerved the government that it provoked Security Minister Alfonso Durazo to accuse former President Felipe Calderón of being behind the rebellion. Ultimately, this labor dispute was resolved in negotiations between the protesting police and the government.

Finally, Joaquín "El Chapo" Guzmán was sentenced in U.S. federal court to life plus thirty years in prison and ordered to forfeit $12.6 billion earned from his activities as the head of the Sinaloa drug cartel. Mexico is angling to receive some of these funds.

VI. Monarch Events, Speeches, Publications & News

It's been a slow summer on the speaking and press circuit for Monarch

July 17: Stanford University announced that Monarch President & CEO Michael Camuñez was elected to the school's Board of Trustees for a renewable five-year term beginning on October 1, 2019.

July 19: Monarch Senior Director Pedro Niembro responded to the *Latin America Advisor: Energy Advisor* Q&A discussion on CFE's decision to challenge natural gas pipeline contracts signed by the previous administration.

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