

33 Days Before AMLO's Inauguration, Investors Are Fleeing Mexico

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Andres Manuel Lopez Obrador Photographer: Mauricio Palos/Bloomberg

Andres Manuel Lopez Obrador's honeymoon with investors came to a screeching halt 33 days before he's due to assume the Mexican presidency.

His decision to rip up a \$13 billion airport project when he takes office in December sent markets into a tailspin. The peso sank 3.5 percent and pierced 20 per dollar, the stock market lost more than \$17 billion in value and JPMorgan Chase & Co. [slashed its 2019 economic growth forecast](#), saying the central bank will now likely have to raise interest rates to slow capital flight.



Construction at the New International Airport of Mexico City (NAICM) in Texcoco, in April 2018.

Photographer: Brett Gundlock/Bloomberg

It's not so much that investors loved [the airport project](#). It was far from perfect. The problem, though, is that calling for its termination — just one day after a haphazard referendum indicated a majority of Mexicans disapproved of the project — sent a broader message to investors: Existing contracts can be pulled at a moment's notice. It's the airport construction today and, perhaps, oil contracts tomorrow and mining the next day. For an investor community that was always leery of AMLO, as the leftist is known, it's an unnerving message.

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The referendum “sends a grave message of uncertainty to international markets, to investors and to all Mexican citizens,” [Juan Pablo Castanon](#), the national business chamber head whose handshake with Lopez Obrador in July helped to calm markets, said at a news conference Monday. “It's a breach of the commitments of the Mexican state and a breaking of the current legal framework.”

While Lopez Obrador made canceling the airport one of his campaign promises, Mexican assets rallied following his election as he met with businessmen and pledged an orderly transition. The calm was shattered by Monday's decision. It sent the nation's currency, stocks and bonds to their worst sell-offs since the surprise

election of Donald Trump in 2016 raised the specter of Mexico being forced to pay for a border wall and the end of the North American Free Trade Agreement. Eurasia Group said the result shows that the influence of more market-friendly advisers like chief of staff Alfonso Romo, who had been the incoming leader's top envoy for courting investors, will be limited.

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Lopez Obrador said the decision on the most important infrastructure project in decades was taken by the Mexican people, but the vote -- organized and administered by his Morena party -- had the participation of just 1.07 million voters, compared with more than 45 million in [July's presidential election](#). It was rife with accusations of ballot stuffing, with videos on social media showing people, including apparent volunteers at polling stations, voting multiple times.

The process was also tainted by the perception that Lopez Obrador himself favored his proposed alternative, the conversion of a military base at Santa Lucia, and that the referendum question was [designed to tip the scales toward that outcome](#), according to Eurasia Group. That option was chosen by 70 percent of participants. While Lopez Obrador says his plan is cheaper than the current project at the town of Texcoco, which features a terminal designed by Norman Foster, the cancellation costs could wipe out potential savings, analysts say.

Lopez Obrador doubled down on the referendum process Monday, saying he supports changing the constitution to make it easier to organize them.

Referendums, Pemex

The 64-year-old former mayor of Mexico City said he would use the referendum process for decisions like whether to build a tourist train for the Yucatan Peninsula in the nation's south, which some analysts doubt can be profitable. To the president-elect's thinking, Mexico would never have [opened its energy market to foreign companies](#) in 2014 had the question been put to a referendum.

The incoming leader's own plans for the energy industry caused Fitch Ratings Inc. earlier this month to [cut its outlook](#) for state-owned oil producer [Petroleos Mexicanos](#), the nation's largest company. Lopez Obrador wants Pemex to prioritize making gasoline for Mexicans and stop sending barrels of crude abroad.

Lopez Obrador's decision to cancel the airport is reminiscent of President Trump because it shows a commitment to following through on campaign promises no matter the consequences and public or business outcry, said Duncan Wood, director of the Mexico Institute at the Woodrow Wilson International Center for Scholars in Washington.

It also has parallels to the Brexit referendum in the U.K. in that both were called voluntarily by leaders who were under no legal obligation to do so, and the results were met with swift market rejection.

“It sets a terrible precedent for how he’s going to govern and the relationship with international markets,” Wood said of the referendum. “If you want to really test the will of the people, then you have to do it in a fully legitimate way.”

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