WEALTH MANAGEMENT INTERNATIONAL, LTD.
Proactive Investment Management & Financial Planning

Economic Chart of the Week

October 3, 2018

One of the main news items in recent weeks was the preliminary agreement between the United States, Canada, and Mexico to update the North American Free Trade Agreement (NAFTA). The deal helped ease fears of disruptive trade protectionism among the NAFTA partners, so the markets responded positively to the news. However, a separate, long-standing development in Mexico isn't getting nearly as much attention, even though it is helping to create significant economic risks going forward.

As recently as 2007, total Mexican crude oil production was above 3.0 million barrels per day. More than half of that was exported to the United States and other countries, making Mexico the eighth largest oil exporter in the world. However, as shown in this week's chart, declining productivity and insufficient investment in Mexico's oil fields have resulted in a sustained slide in output over the last decade. In 2017, total production stood just below 2.0 million barrels per day. That reduced the amount of oil available for sale abroad, so Mexico dropped to 14th in the world in terms of export market share. The on-going slide in Mexican production and exports is a problem because it comes on top of falling output in Venezuela, sporadic outages caused by civil conflict in Africa, and now the threat of renewed U.S. economic sanctions against Iran. Besides, U.S. production seems to have hit a plateau after years of big gains. Against the backdrop of continued good economic growth and briskly rising oil demand around the world, these supply constraints are starting to bite, and oil prices are on the upswing again. On the positive side, we think we can profit from those price increases by maintaining a healthy exposure to commodity funds in our more aggressive strategies. On the other hand, higher oil prices could boost inflation further and eventually short-circuit the U.S. economic expansion, so the tightening oil market has also helped convince us to start dialing down overall risk across our various strategies.

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