

Ahead of the Curve

March 29, 2019

Consumer confidence to reach a new historical high in March

- Consumer confidence (March).** We expect consumer confidence at a new historical high of 119.2pts (non-seasonally adjusted), above the previous maximum in August 2001 at 117.6pts. We keep thinking that this indicator remains heavily influenced by sentiment about the federal administration, which has stayed highly positive according to recent surveys. Other possible drivers may also be favorable, including the relative stability of the exchange rate and the reintroduction of fiscal stimulus to gasoline prices. In contrast, potential catalysts such as the downgrade of Mexico's and Pemex's sovereign rating outlook by *S&P Global Ratings*, will likely not have a significant effect
- Family remittances (February).** We estimate remittances in January at US\$ 2,399.4 million (+6.9% yoy), broadly in line with its recent performance in terms of growth but still slower than the full-year 2018 advance of 10.5%. In our view, flows could reflect slower growth in migrants' employment. We continue believing that remittances this year could moderate but will remain healthy, mainly due to the expected deceleration in economic activity in the US.

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Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 1-Apr	11:00am	Family remittances	February	US\$ mn	<u>2,339.4</u>	<u>2,440</u>	2,414.9
Mon 1-Apr	11:00am	Banxico's survey of economic expectations	March				
Mon 1-Apr	2:00pm	PMI's survey (IMEF)	March				
		Manufacturing		index	<u>51.3</u>	<u>52.0</u>	54.3
		Non-manufacturing		index	<u>51.4</u>	<u>51.8</u>	50.7
Tue 2-Apr	11:00am	International reserves	Mar-31	US\$ bn	--	--	176.5
Tue 2-Apr	1:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 3y MBono (Dec'21); 3y Udibonos (Jun'22)					
Thu 4-Apr	10:00am	Consumer confidence	March	index	<u>119.2</u>	-	116.8
Fri 5-Apr	5:30pm	Citibanamex bi-weekly survey of economic expectations					

Source: Banorte; Bloomberg

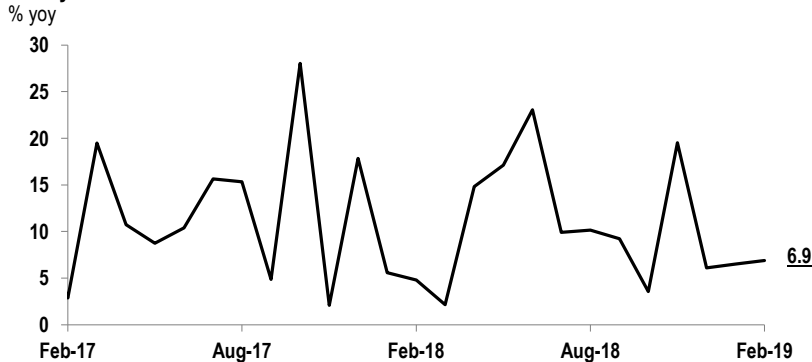
Proceeding in chronological order...

Remittances could be modestly impacted by residual uncertainty after the government shutdown. We expect remittances in January at US\$ 2,399.4 million (+6.9% yoy), broadly in line with its recent performance in terms of growth but still slower than the full-year 2018 advance of 10.5%. In our view, flows during the month could reflect slower growth in migrants' employment, both with citizenship (3.8% yoy vs. 5.8% in January, lowest in six months) and without citizenship (1.5% vs. 1.9% previously). On the other hand, the USD/MXN exchange rate was broadly stable, from 19.03 in January to 19.26 per dollar (end of period levels), albeit still with a 2.3% yoy increase.

In our view, the abovementioned employment figures could be reflecting some of the negative effects of the government shutdown, which despite ending officially on January 25th could have impacted for some additional time. It is worth remembering that negotiations about funding for the Border Wall continued until February 15th, when President Trump declared a national emergency while simultaneously signing a bipartisan bill to keep the government opened. We believe this could have reduced the average amount sent on higher cautiousness about expenditures and transfers, a metric that has been decelerating at least since the beginning of the year despite still growing in its annual comparison

With these results, the 12-month accumulated flow of remittances would stand at US\$ 33.7 billion (+10.7% yoy), still elevated but lower than the 11.9% pace observed in the same month of the previous year. All in all, we continue believing that remittances this year could moderate in terms of growth but will remain healthy, mainly due to the expected deceleration in economic activity in the US that could have an impact on the rate of employment creation for Mexican migrants, as observed in the most recent figures.

Family remittances



Source: Banxico

Banxico's survey of economic expectations. As usual, market focus will center on inflation forecasts. The median for 2019 stands at 3.65%, still above our 3.5% forecast. Moreover, the medium-term estimates remain above target, standing at 3.45%. In addition, estimates for the reference rate will also be published. Our expectation is for Banxico to start an easing cycle as soon as the June, starting with a 25bps cut in said meeting.

Moreover, forecasts for GDP will also be published. In the last survey, economists expected growth in 2019 at 1.6% (Banorte: 1.5%), which we believe could be revised down. For 2020 it stands at 2.0%. Finally, regarding the exchange rate, we could see a marginal revision, considering that the YE19 forecast stands at USD/MXN 20.13 (Banorte: 21.30).

Mixed performance of PMI indices in March. Using seasonally adjusted figures, we expect the manufacturing index to fall to 51.3pts from 54.3pts in February. It is worth noting that the index's advance in the previous month was the second highest historically (+4.1pts), reaching a maximum since June 2017 at 54.3pts. Considering the latter, coupled with the modest decrease in the US PMI manufacturing index in March from 53.0 to 52.5pts –along the decline in most regional subindices- we anticipate a correction lower. In particular, we believe that the “inventories” component could lead to the downside after increasing 8.9pts in February to 55.1pts, as it is our take that this metric could have been distorted by supply chain disruptions during the first half of that month.

Going to the non-manufacturing index, we expect a pickup to 51.4pts from 50.7pts in the previous month. It is worth noting that private demand indicators so far have been better than expected, in particular in terms of real income gains as both the unemployment rate and inflation have been moderating since the start of the year. Subsidies to gasoline that started in March have also had a favorable effect in terms of dampening recent prices increases, especially during the second half of the month, benefitting disposable income at the margin. On the other hand, the exchange rate had a relatively stable performance, trading on average at a similar level relative to February, even with a slight appreciation by the end of the month, trying to break below the 19.00 psychological figure when the survey sample period began. All in all, we expect these subindices to reflect the message from other data that suggests manufacturing has moderated (partially because of been impacted by recent transitory shocks) while private consumption has held up relatively better.

Weekly international reserves report. Last week, net international reserves grew by US\$431 million, closing at US\$176.5 billion. According to Banxico's report, this figure comes mainly from a positive valuation effect in central bank assets. In this context, the central bank's international reserves have increased US\$1.7 billion during 2019 (please refer to the following table).

Banxico's foreign reserve accumulation detail
US\$, million

	2018	Mar 22, 2019	Mar 22, 2019	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	174,793	176,476	431	1,683
(B) Gross international reserve	176,384	182,031	522	5,647
Pemex	--	--	111	240
Federal government	--	--	-5	3,994
Market operations	--	--	0	0
Other	--	--	416	1,412
(C) Short-term government's liabilities	1,592	5,555	91	3,963

Source: Banco de México

Weekly government bond auction. The Ministry of Finance (MoF) –via Banco de Mexico as its financial agent, will offer 3-year fixed-rate Mbonos (Dec’21), 3-year inflation-linked Udibonos (Jun’22), in addition to the “traditional” 1-, 3-, and 6-month zero-coupon Cetes (please refer to the following table). As usual, results will be released at 12:30pm (ET).

Auction specifics (Tuesday, April 2nd, 2019)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	02-May-19	--	5,000	7.85
3m	04-Jul-19	--	6,000	8.07
6m	26-Sep-19	--	11,000	8.15
Mbonos				
3y	09-Dec-21	7.25	9,700	8.01
Mbonos				
3y	09-Jun-22	2.00	UDIS 950	4.16

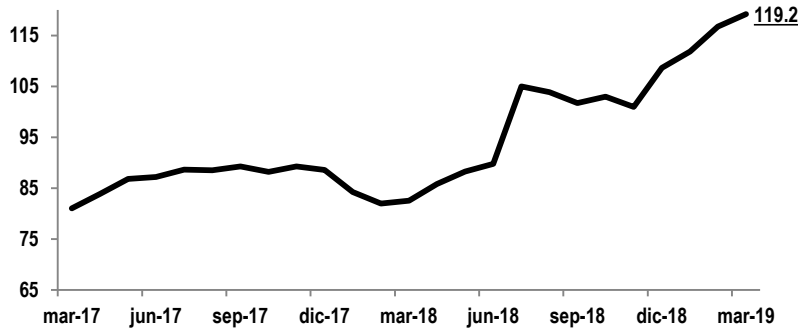
Source: Banorte with data from Banco de México 1. Except for Udibonos, which are expressed in UDI million, everything else is expressed in MXN million. 2. Yield-to-maturity reported for Cetes, Mbonos and Udibonos

Consumer confidence could reach a new historical high in March. We expect consumer confidence to maintain its upward trend to reach 119.2pts, surpassing its previous historical high of 117.6pts in August 2001. We keep thinking that this indicator remains heavily influenced by sentiment about the new federal administration, which as explained in previous documents, has dominated short-term dynamics since last July.

In this respect, it is worth mentioning that survey data about the president’s popularity is not homogeneous in both frequency and methodologies, making it hard to track on a monthly basis. Despite of the latter, last Wednesday the *GEA-ISA* poll showed AMLO’s approval rating increased during the quarter from 57% to 64%. Nevertheless, its disapproval percentage also rose, from 20% to 25%. Other outlets that released polls in advance of the first 100 days of his administration on March 11th, 2019 have also shown higher approval ratings, ranging from 67.1% by *Mitofsky* up to 86% by *Parametría*. In spite of the comparability issues, we believe these metrics suggest that confidence could remain supported by political optimism, although more limited at the margin in its additional impact given that approval ratings already stand at very high levels.

On the other hand, other drivers may also be favorable for confidence, including the relative stability of the exchange rate and the reintroduction of fiscal stimulus to gasoline prices, which likely helped dampen price pressures during the second of the month. In contrast, we believe more negative news, such as the downgrade of Mexico’s and Pemex’s sovereign rating outlook by *S&P Global Ratings* at the beginning of the month, will not have a significant effect.

Consumer confidence
Index, nsa



Source: INEGI

Citibanamex Survey. Market focus will center on analysts' inflation forecasts March (to be published on Tuesday, April 9th) along with the 2019 year-end estimate. Furthermore, it will be important to see monetary policy assessments for the rest of the year, particularly after the last monetary policy statement, which in our view reflected a more dovish tone when compared to the previous communiqué. We will also be watching forecasts for GDP growth and USD/MXN exchange rate.

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HOLD	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
SELL	<i>When the share expected performance is lower than the MEXBOL estimated performance.</i>

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