

# Ahead of the Curve

July 29, 2016

Market focus this week will on July's PMI surveys and consumer confidence

- July's PMI surveys.** On Monday, *IMEF* will publish its PMI business confidence indicators for July. We expect manufacturing PMI at 49.1, above the 47.5 observed in June (seasonally adjusted terms), but still below the 50 points threshold. We believe that the marginal growth in the manufacturing PMI during July will be explained by the sluggishness in the US manufacturing sector, coupled with the recent difficulty to import inputs for the manufacturing industry experienced by some Mexican exporters. In addition, we believe that the non-manufacturing PMI will stand at 52.5 points from 47.8 points
- Consumer confidence will fall in July.** On Thursday at 9:00am (EDT), Banxico and *INEGI* will publish its July's monthly survey on consumer confidence, where we expect a 1.4% yoy contraction. In seasonally adjusted terms, we expect confidence levels to fall 1.1% m/m. We believe that the reduction in consumer confidence will be explained by the uncertainty caused by certain political and economic events in the weeks prior to the survey

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Mexico weekly calendar

DATE	HOUR (EDT)	EVENT	PERIOD	UNIT	BANORTE-		
					IXE	CONSENSUS	PREVIOUS
Mon 1-Aug	9:00am	PMI's survey (IMEF)	July				
		Manufacturing		index	<u>49.1</u>	<u>48.5</u>	47.5
		Non-manufacturing		index	<u>52.5</u>		47.8
Mon 1-Aug	10:00am	Family remittances	June	US\$ mn	<u>2,415</u>	2,319	2,478
Mon 1-Aug	10:00am	Banxico's survey of economic expectations	July				
Tue 2-Aug	10:00am	International reserves	29-Jul	US\$ bn	--	--	177.1
Tue 2-Aug	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 10y Mbono (Mar'26); 5y Bondes D					
Wed 3-Aug	9:00am	Gross fixed investment	May	% yoy	<u>1.6</u>	2.0	1.6
		Machinery and equipment		% yoy	<u>2.5</u>	--	2.2
		Domestic		% yoy	<u>8.1</u>	--	7.6
		Imported		% yoy	<u>-0.1</u>	--	-0.1
		Construction		% yoy	<u>1.0</u>	--	1.3
Thu 4-Aug	9:00am	Consumer confidence	July	index	<u>90.9</u>	92.5	93.5
Fri 5-Aug	4:30pm	Banamex bi-weekly survey of economic expectations					

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

**July's PMI surveys.** On Monday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators for July. We expect manufacturing PMI at 49.1, above the 47.5 observed in June (seasonally adjusted terms), but still below the 50 points threshold. We believe that the marginal growth in the manufacturing PMI during July will be explained by the sluggishness in the US manufacturing sector, coupled with the recent difficulty to import inputs for the manufacturing industry experienced by some Mexican exporters.

In addition, we believe that the non-manufacturing PMI will stand at 52.5 points from 47.8 points. In this regard, we believe that the recent upward trend in domestic demand, given the recovery in both the labor market and the household's purchasing power, could have triggered a faster growth within the services, which will be reflected in the non-manufacturing PMI.

**Family remittances will post a 12% yoy expansion in June.** On Monday, at 10:00am (EDT), Banxico will make its family remittances monthly data available. We expect Mexican workers living abroad -mainly in the US-, to have sent US\$2,415 million to their families in Mexico during June. This would imply a 12% yoy expansion.

We believe that remittances inflows in June will benefit from the depreciation of the Mexican currency during the second and third week of June. In this regard, and as we have mentioned throughout our publications, we highlight that the flow of remittances in the short-run is very sensitive to high fluctuations in Mexican peso. In particular, a sharp depreciation may encourage Mexican migrant workers to increase their remittances, given that the purchasing power of the amount remitted is greater in Mexico than in the U.S.

**Banxico's survey of economic expectations.** Also on Monday at 10:00am (EDT), Banco de Mexico will publish its monthly survey of economic expectations. In our view, market participants' focus will be on three issues: (1) 2016 inflation expectations that currently are at 3.1% (Banorte-Ixe: 2.8%); (2) mid-term inflation expectations—quite important for the central bank's board—that are currently at 3.35% (Banorte-Ixe: 3%); and (3) the analysts' assessments of GDP growth for 2016 which stands at 2.4% yoy (Banorte-Ixe: 2.3%).

**Weekly international reserves report.** On Tuesday, at 10:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US\$211mn amounting to US \$177.1 billion on July 22. According to Banxico’s report, this figure comes mainly as a result of: (1) Dollar sales by Banxico to the Federal Government for US\$72mn; and (2) US\$139mn reduction due to changes in the valuation of the Central Bank’s assets. In this context, the Central Bank has accumulated US\$369mn international reserves this year (please refer to the table below).

**Banxico's foreign reserve accumulation details**

US\$, million

	2015	22/Jul/2016	22/Jul/2016	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,735	177,105	-211	369
(B) Gross international reserve	177,597	179,025	-818	1,428
Pemex	--	--	-525	3,086
Federal government	--	--	-257	1,568
Market operations	--	--	0	-5,562
Other	--	--	-35	2,337
(C) Short-term government's liabilities	861	1,921	-607	1,060

Source: Banco de México

**Weekly government bond auction.** Also on Tuesday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent-, will offer 10-year fixed-rate Mbonos (Mar’26) as well as 5-year Bondes D, in addition to the “more traditional” 1-, 3-, and 6- month zero-coupon Cetes (please refer to the table below). As usual, the results will be released at 12:30pm (EDT).

**Auction specifics (Tuesday, August 2, 2016)**

	Maturity	Coupon rate, %	To be auctioned <sup>1</sup>	Previous yield <sup>2</sup>
<b>Cetes</b>				
1m	1-Sep-16	--	5,500	4.21
3m	3-Nov-16	--	9,500	4.40
6m	2-Feb-17	--	11,000	4.61
<b>Mbono</b>				
10y	5-Mar-26	5.75	7,000	6.08
<b>Bondes D</b>				
5y	22-Jul-21	--	3,000	0.22

Source: Banorte-Ixe 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

**We expect a 1.6% yoy expansion in May's GFI.** On Wednesday at 9:00am (EDT), *INEGI* will publish its May's gross fixed investment (GFI) report. We anticipate GFI up by 1.6% yoy. We believe that within the report we will probably see a 1% yoy contraction in imported machinery and equipment, given that trade balance figures showed a similar decline for capital goods imports. Moreover, we expect an 8.1% growth in domestic machinery and equipment. Finally, we believe that construction spending increased a scant 1% yoy derived from the lower public construction spending observed in the latest industrial production figures.

**GFI estimates: May 2016**

<b>%yoy</b>	<b>May-16</b>	<b>May-15</b>	<b>Jan-May, '16</b>	<b>Jan-May, '15</b>
Total	1.6	2.3	1.0	4.9
Machinery and equipment	2.5	4.5	1.2	7.0
Domestic	8.1	9.6	8.1	9.3
Imported	-0.1	2.4	-1.8	6.0
Construction	1.0	0.8	1.0	3.6
<b>Annual contribution</b>	<b>May-16</b>	<b>May-15</b>	<b>Difference</b>	
Total	1.6	2.3	-0.7	
Machinery and equipment	1.0	1.7	-0.8	
Domestic	1.0	1.1	-0.1	
Imported	0.0	0.6	-0.7	
Construction	0.6	0.5	0.1	

Source: Banorte-Ixe

**Consumer confidence will fall in July.** On Thursday at 9:00am (EDT), Banxico and *INEGI* will publish its July's monthly survey on consumer confidence, where we expect a 1.4% yoy contraction, with the index reaching 90.9 points. In seasonally adjusted terms, we expect confidence levels to fall 1.1% m/m.

We believe that the reduction in consumer confidence will be explained by the uncertainty caused by certain political and economic events in the weeks prior to the survey, which include: (1) The blocks made by the *CNTE* (National Coordinators of Education Workers) that took place in Oaxaca, and the demonstrations in favor of the education workers in several states; (2) the results of the *Brexit* referendum, which resulted in a significant depreciation of the Mexican currency, and therefore on inflation expectations; and (3) the 50bps hike in Banxico's reference rate, given that it probably affected the sub-index that measures consumer expectations regarding their future economic outlook.

**Banamex Survey: Market participants will focus on monetary policy forecasts.** Finally, on Friday at 4:30pm (EDT) *Banamex* will release its bi-weekly survey of economic expectations, where market participants will focus on analysts' monetary policy assessments given the Fed's latest monetary policy announcement, in which the central bank adopted a more hawkish tone. We believe that the probability of a Fed's rate hike in September increased and more analysts in Mexico will move towards our forecast of a 50bps rate hike in Banxico's reference rate in September.

Furthermore, analysts will also focus on the inflation report for July (to be published on Tuesday, August 9), as well as on CPI estimations for 2016 and 2017. Moreover, *Banamex* will also publish consensus' growth and FX forecasts for 2016-17. In the first case, we do not expect strong revisions to the median GDP forecast. In the second case, we expect moderate upward revisions to the FX estimates for 2016.

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