

Ahead of the Curve

November 27, 2015

Market focus this week will on PMI's surveys

- PMI's surveys.** On Tuesday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators. We expect manufacturing PMI at 52 in November, above the 51.6 observed in October (seasonally adjusted terms). We believe that manufacturing activity was supported by the recovery of consumer spending in Mexico and the significant depreciation of the MXN. However, we believe that the strong recovery in retail sales might have affected the "inventories" component. Moreover, we believe that the non-manufacturing PMI will stand at 51.1 points from 50.4
- Consumer confidence.** On Friday, at 9:00am (EST), Banxico and *INEGI* will publish its November's monthly survey on consumer confidence, where we expect a 2.2% yoy contraction, with the index reaching 90.8 points. However, in seasonally adjusted terms, we expect confidence levels to increase 0.4% m/m

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Document for distribution among the general public

Mexico weekly calendar

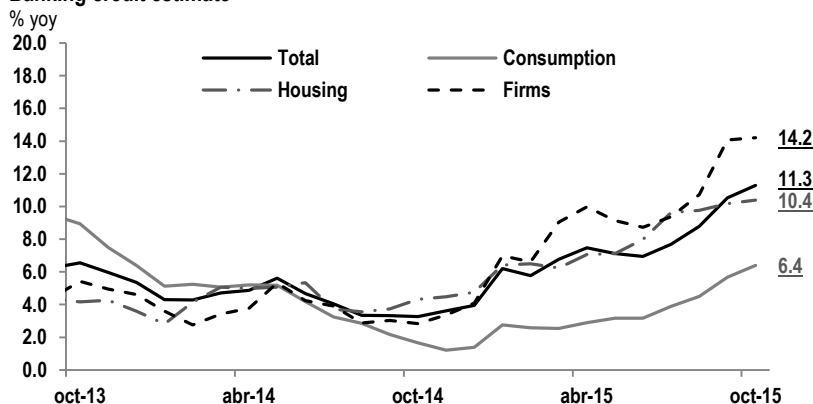
DATE	HOURL (EST)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 30-Nov	10:00am	Comercial banking credit	October	% yoy	<u>11.3</u>	--	10.5
		Consumption		% yoy	<u>6.4</u>	--	5.7
		Housing		% yoy	<u>10.4</u>	--	10.2
		Non-banking private firms		% yoy	<u>14.2</u>	--	14.1
Mon 30-Nov	3:30pm	Budget balance (year to date)	October	MXN bn	--	--	-438.9
Tue 1-Dec	10:00am	International reserves	27-Nov	US\$ bn	--	--	172.2
Tue 1-Dec	10:00am	Family remittances	October	US\$ mn	<u>2,104.5</u>	<u>2,141</u>	2,060
Tue 1-Dec	10:00am	Banxico's survey of economic expectations	November				
Tue 1-Dec	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 5y Mbono (Jun'21); 10y Udibono (Dec'25)					
Tue 1-Dec	13:00pm	PMI's survey (IMEF)	November				
		Manufacturing		index	<u>52.0</u>	<u>51.1</u>	51.6
		Non-manufacturing		index	<u>51.1</u>	--	50.4
Thu 3-Dec	9:00am	Gross fixed investment	September	% yoy	<u>5.5</u>	<u>4.9</u>	2.9
		Machinery and equipment		% yoy	<u>12.2</u>	--	7.7
		Domestic		% yoy	<u>9.4</u>	--	7.2
		Imported		% yoy	<u>13.5</u>	--	8.0
		Construction		% yoy	<u>1.6</u>	--	-0.1
Fri 4-Dec	9:00am	Consumer confidence	November	index	<u>90.8</u>	<u>92.1</u>	91.3

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

Banking credit will show a 11.3% yoy increase in October. Banco de Mexico will make available its banking credit report on Monday (November 30) at 10:00am (EST). It is our take that banking credit continued flowing in October given the significant spike in credit supply from the banking sector. In particular, we estimate an 11.3% yoy expansion in banking credit (in real terms) as a result of increases in the area of 6.4%, 10.4%, and 14.2% yoy in consumer, housing and business credit, respectively.

Banking credit estimate



Source: Banorte-Ixe; Banxico

The MoF’s quarterly report. On Monday, the Ministry of Finance (MoF) will make its finance report available for the first ten months of 2015. On the revenue side, we will be looking at non-oil tax collection as it provides additional information about domestic demand dynamics. Moreover, we will focus on spending dynamics, which will continue to incorporate part of the fiscal cut announced by the MoF in January. Finally, it will be important to evaluate the evolution of public sector debt, which currently represents about 42% of Mexico’s GDP.

Weekly international reserves report. On Tuesday, at 10:00am (EST), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US\$915mn amounting to US \$172.2bn on November 20. According to Banxico’s report, this figure comes mainly as a result of: (1) Dollar sales by the Central Bank to the Federal Government for US\$150mn; (2) US\$800mn decrease explained by the introduction of Banxico’s USD daily auction without minimum price; along with a (3) US\$35mn increase due to changes in the valuation of the Central Bank’s assets. It is worth noting that Pemex is currently the only significant source of reserve accumulation. In this context, the central bank has an accumulated reduction of US\$21,003mn international reserves this year (please refer to the table below).

Banxico's foreign reserve accumulation details

US\$, million

	2014	20/Nov/2015	20/Nov/2015	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	193,239	172,236	-915	-21,003
(B) Gross international reserve	195,682	173,132	-1,270	-22,550
Pemex	--	--	-341	2,556
Federal govt	--	--	-165	-1,403
Market operations	--	--	-800	-23,005
Other	--	--	36	-698
(C) Short-term government's liabilities	2,443	896	-355	-1,547

Source: Banco de México

Family remittances will post a 3.1% yoy expansion. On Tuesday, at 10:00am (EST), Banxico will make its family remittances monthly data available. We expect Mexican workers living abroad -mainly in the US-, to have sent US\$2,104.5 mn to their families in Mexico during October. This would imply a 3.1% yoy expansion.

We believe that remittances in October will not benefit from the significant depreciation of the Mexican currency. As we have mentioned throughout our publications, 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. However, a strong depreciation doesn't changes the overall growth dynamics of these inflows. Given that the significant growth in remittances during July and August was mostly explained by the peso depreciation, we believe that the FX will not be a preponderating factor in October's figures.

Therefore, we believe that the better growth dynamics of the Mexican immigrant labor force in the U.S. will explain October's growth. Analyzing data from the Current Population Survey, the unemployment rate for illegal immigrants has fallen in the last five months which implies that we will probably continue to see an upward trend in these inflows.

Banxico's survey of economic expectations. Also on Tuesday, at 10:00am (EST), Banco de Mexico will publish its monthly survey of economic expectations. In our view, market participants' focus will be on three issues: (1) 2015 inflation expectations that currently are at 2.66% (Banorte-Ixe: 2.5%); (2) mid-term inflation expectations—quite important for the central bank's board—that are currently at 3.39% (Banorte-Ixe: 3%); and (3) the analysts' assessments of GDP growth for 2015 given the recent downward revisions made by several economists (currently at 2.29%; Banorte-Ixe: 2.5%).

Weekly government bond auction. Also on Tuesday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent-, will offer 5-year fixed-rate Mbonos (Jun’21) as well as 10-year inflation-linked Udibonos (Dec’25), 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 (EST).

Auction specifics (Tuesday, December 1, 2015)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	31-Dec-15	--	5,500	3.03
3m	03-Mar-16	--	9,500	3.22
6m	26-May-16	--	11,000	3.45
Mbono				
5y	10-Jun-21	6.50	8,500	5.46
Udibono				
10y	04-Dec-25	4.50	750	3.02

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

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Moreover, we believe that the non-manufacturing PMI will stand at 51.1 points from 50.4. 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 in November, which will be reflected in the non-manufacturing PMI.

We expect a 5.5% yoy expansion in September’s GFI. Next Thursday at 9:00am (EST), *INEGI* will publish its September’s gross fixed investment (GFI) report. We anticipate GFI up by 5.5% yoy. We believe that within the report we will probably see a 13.5% yoy expansion in imported machinery and equipment given that trade balance figures for September showed a similar growth rate. Moreover, we expect a 9.4% growth in domestic machinery and equipment. Finally, we believe that construction spending could increase a scant 1.6% yoy.

GFI estimate

%yoy	Sep-15	Sep-14	Jan-Sep, '15	Jan-Sep, '14
Total	5.5	5.7	5.0	1.1
Machinery and equipment	12.2	8.9	9.7	3.8
Domestic	9.4	5.0	10.3	1.9
Imported	13.5	10.9	9.5	4.7
Construction	1.6	4.0	2.1	-0.5
Annual contribution	Sep-15	Sep-14	Difference	
Total	5.5	5.7	-0.3	
Machinery and equipment	4.5	3.2	1.3	
Domestic	1.1	0.6	0.5	
Imported	3.4	2.6	0.8	
Construction	1.0	2.6	-1.5	
%m/m sa	Sep-15	Aug-15	Difference	
Total	1.7	-0.6	2.4	
Machinery and equipment	0.5	-2.8	3.3	
Domestic	-4.6	-6.6	2.0	
Imported	3.6	-0.3	3.9	
Construction	1.7	0.1	1.6	

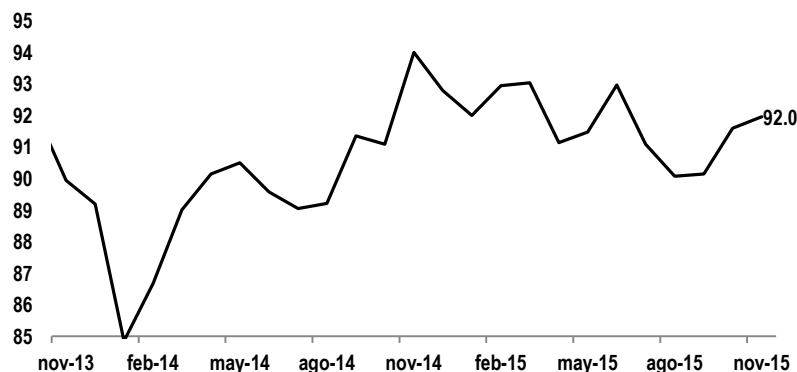
Source: Banorte-ixe; INEGI

Consumer confidence will continue to show early signs of recovery. On Friday, at 9:00am (EST), Banxico and *INEGI* will publish its November's monthly survey on consumer confidence, where we expect a 2.2% yoy contraction, with the index reaching 90.8 points. However, in seasonally adjusted terms, we expect confidence levels to increase 0.4% m/m.

We believe that consumer confidence (measured in seasonally adjusted terms) will benefit from the downward trend in inflation, which will translate in a higher growth for the purchasing power component. Moreover, we believe that the recent recovery in private consumption will be reflected in a higher growth for consumer's expectations regarding the household's present and future economic outlook.

Consumer confidence estimate

Index, sa



Source: Banorte-ixe; INEGI

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