

Ahead of the Curve

July 28, 2017

Market focus this week will be on 2Q17's preliminary GDP report

- **Gross Domestic Product (2Q17 P).** On Monday, *INEGI* will publish its preliminary estimation of GDP. Given the economic figures published for April and May, we believe that the preliminary estimation will show a 1.5% yoy growth for the Mexican economy during 2Q17, below the 2.8% observed in 1Q17. Taking a look at the breakdown, we believe that services will continue to show a favorable performance (3.1% yoy), while we expect a 1.2% yoy reduction in the industrial sector derived from the recession in the mining industry, and the scant growth in construction output given the contraction in public investment projects.

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Document for distribution among the general public

Mexico weekly calendar

DATE	HOURL (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 31-Jul	9:00am	GDP	2Q17	% yoy	<u>1.5</u>	1.8	2.8
		(sa)		% q/q	<u>0.2</u>	0.2	0.7
		Primary activities		% yoy	<u>0.2</u>	--	6.6
		Industrial production		% yoy	<u>-1.0</u>	--	0.5
		Services		% yoy	<u>3.1</u>	--	3.7
Mon 31-Jul	10:00am	Comercial banking credit	June	% yoy	<u>10.1</u>	--	7.7
		Consumption		% yoy	<u>4.5</u>	--	4.1
		Housing		% yoy	<u>4.0</u>	--	3.6
		Non-banking private firms		% yoy	<u>10.4</u>	--	10.0
Tue 1-Aug	10:00am	Family remittances	June	US\$ mn	<u>2,414.6</u>	2,419.8	2,586.4
Tue 1-Aug	10:00am	Banxico's survey of economic expectations	July				
Tue 1-Aug	10:00am	International reserves	28-Jul	US\$ bn	--	--	173.6
Tue 1-Aug	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 30y Mbono (Nov'47); 5y Bondes D					
Tue 1-Aug	1:00pm	PMI's survey (IMEF)	July				
		Manufacturing		index	<u>52.3</u>	53.0	54.1
		Non-manufacturing		index	<u>52.6</u>	53.0	54.5
Thu 3-Aug	9:00am	Consumer confidence	July	index	<u>84.9</u>	86.8	87.2
Fri 4-Aug	9:00am	Gross fixed investment	May	% yoy	<u>3.1</u>	2.6	-8.6
		Machinery and equipment		% yoy	<u>11.3</u>	--	-6.6
		Domestic		% yoy	<u>6.1</u>	--	-1.2
		Imported		% yoy	<u>13.9</u>	--	-9.2
		Construction		% yoy	<u>-2.4</u>	--	-9.9

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

Mexico's preliminary GDP will stand at 1.5% yoy in 2Q17. On Monday, *INEGI* will publish its preliminary estimation of GDP. For this preliminary figure, *INEGI* uses the economic reports published for the first two months of each quarter, and adds the available information for the third month. The missing figures for the last month of the quarter are estimated using econometric models. In this regard, the preliminary estimation of GDP will cover 80% with the direct information available, and will estimate the remaining 20%.

Given the economic figures published for April and May, we believe that the preliminary estimation will show a 1.5% yoy growth for the Mexican economy during 2Q17, below the 2.8% observed in 1Q17. Taking a look at the breakdown, we believe that services will continue to show a favorable performance (3.1% yoy) driven by the above-trend growth in banking credit, and the expansion of the Mexican formal labor market (4.3% yoy in 2Q17). By contrast, we expect a 1.2% yoy reduction in the industrial sector derived from the recession in the mining industry, and the scant growth in construction output given the contraction in public investment projects.

Banking credit will show a 8.1% yoy increase in June. Banco de Mexico will make available its banking credit report on Monday at 10:00am (EDT). It is our take that banking credit continued flowing in June. In particular, we estimate an 8.1% yoy expansion in banking credit (in real terms), as a result of increases in the area of 4.5%, 4%, and 10.4% yoy in consumer, housing and business credit, respectively.

Family remittances will post a 4.7% 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\$2,414.6 million to their families in Mexico during June. This would imply a 4.7% yoy expansion.

We believe that the expansion in the flow of remittances during June will be determined by Immigration policy implemented in the US, since Mexican migrants without citizenship are probably discounting a higher probability of being deported. In this context, we consider that the flow of remittances during the next couple of months will be also determined by this factor. However, June's growth will be bounded by the 3.36% appreciation of the Mexican currency.

Banxico's survey of economic expectations. Also on Tuesday at 10:00am (EDT), Banco de Mexico will publish its monthly survey of economic expectations. Our attention will focus on monetary policy forecasts, given that other surveys show that analysts do not expect another move in the reference rate in the remainder of the year.

Moreover, we will be looking into inflation forecasts for 2017, currently at 6% yoy, and medium and long-term inflation expectations, which we expect will remain relatively unchanged. Moreover, we expect marginal downward revisions to FX forecasts, which we now believe to stand at USD/MXN18.10 by YE17. Additionally, market participants will focus on 2017's GDP (median: 2%), where we expect some revisions given the latest data.

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\$256 million amounting to US\$173.6 billion. According to Banxico's report, this figure comes mainly as a result of: (1) US\$551 million dollar sales from Banxico to the Federal Government; and (2) a positive revalorization in central bank assets amounting to US\$295 million. In this context, the Central Bank's international reserves have diminished by US\$2.9 billion this year (please refer to the table on the next page).

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

	2016	Jul 21, 2017	Jul 21, 2017	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,542	173,621	-256	-2,920
(B) Gross international reserve	178,025	176,617	686	-1,408
Pemex	--	--	792	626
Federal government	--	--	-575	-2,698
Market operations	--	--	0	-2,000
Other	--	--	468	2,664
(C) Short-term government's liabilities	1,483	2,995	942	1,512

Source: Banco de México

Weekly government bond auction. On Tuesday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent-, will offer 30-year fixed-rate Mbonos (Nov'47), 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, July 25, 2017)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	31-Aug-17	--	7,000	6.99
3m	01-Nov-17	--	11,000	7.08
6m	1-Feb-18	--	11,500	7.17
Bondes D				
5y	14-Jul-22	--	3,750	0.18
M Bono				
30y	7-Nov-47	8.00	3,500	7.17

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

July's PMI surveys. Also on Tuesday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators for July. We expect manufacturing PMI at 52.3 (seasonally adjusted terms). We believe that the contraction in the manufacturing PMI during July will be explained by a decrease in the deliveries and inventories sub-components, despite a marginal increase in new orders and production. We think that the uncertainty regarding the prospects of the Mexican manufacturing industry under Trump's economic policies will continue to weigh, albeit in a lesser manner, on the index.

In addition, we believe that the non-manufacturing PMI will stand at 52.6 points from 54.5 points. It is worth noting that the index has stayed above the 50pts threshold during the last two months, so we expect a marginal fall as an adjustment. Looking ahead that uncertainty might continue to impact the behavior of the index, although in a reduced manner.

Consumer confidence will fall 0.8% m/m 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 4.5% yoy contraction, with the index reaching 84.9 points. In seasonally adjusted terms, we expect confidence levels fall 0.8% m/m.

We believe that consumer confidence (measured in seasonally adjusted terms) will show a moderate contraction despite the significant appreciation of the Mexican currency. CPI continued its upward trend during the first half of the month, as a result of the 2.74% 2w/2w increase in agricultural goods prices. In addition, processed foods reached a 7.24% yoy increase, its highest since February 2012. The upward trend in inflation will result in a deterioration of consumers' perspectives regarding the country and the households present economic conditions.

We expect a 3% yoy expansion in May's GFI. Finally on Friday, at 9:00am (EDT), *INEGI* will publish its May's gross fixed investment (GFI) report. We anticipate GFI up by 3.1% yoy. We believe that within the report we will probably see a 13.9% yoy expansion in imported machinery and equipment, given that trade balance figures showed a similar growth for capital goods imports. Moreover, we expect a 6.1% growth in domestic machinery and equipment. Finally, we believe that construction spending posted a 2.4% yoy contraction derived from the lower public construction projects as a result of the Federal Government's austerity program.

GFI forecasts

% yoy; %-pts

% yoy	May-17	May-16	Jan-May, '17	Jan-May, '16
Total	3.1	0.3	-1.2	0.7
Machinery and equipment	11.3	2.1	3.9	0.7
Domestic	6.1	9.9	5.7	7.2
Imported	13.9	-1.4	3.1	-2.2
Construction	-2.4	-0.9	-4.4	0.6
Annual contribution	May-17	May-16	Difference	
Total	3.1	0.3	2.8	
Machinery and equipment	4.5	0.8	3.7	
Domestic	0.8	1.2	-0.4	
Imported	3.7	-0.4	4.1	
Construction	-1.4	-0.5	-0.9	

Source: Banorte-Ixe

Disclaimer

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