

Ahead of the Curve

February 8, 2019

We expect weaker manufacturing activity in December

- Industrial production (December).** We estimate a weak print, at -1.8% yoy. With seasonally adjusted figures, this would result in a 0.4% m/m contraction, more modest than the 0.6% observed in November. In our view, one of the drivers behind the plunge is that despite the same number of working days relative to 2017, workers likely had an additional incentive to miss work given that both Christmas and the New Year were on Tuesday instead of Monday in the previous year. Moreover, we have also seen signs of lower dynamism, as portrayed by several leading indicators. In particular, we expect a 1.0% yoy advance in manufacturing consistent with a monthly contraction using seasonally adjusted data. Auto production and intermediate-goods imports decelerated strongly while US manufacturing has provided mixed signals. Going forward, we believe this sector could be affected by the recent bottlenecks in the supply chain due to railway blockades and a moderation in global trade

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Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 11-Feb	9:00am	Industrial production	December	% yoy	-1.8	--	-1.3
		(sa)		% m/m	-0.4	--	-0.6
		Mining		% yoy	-6.7	--	-8.0
		Utilities		% yoy	3.0	--	0.8
		Construction		% yoy	-4.9	--	-3.3
		Manufacturing		% yoy	1.0	--	1.4
Tue 12-Feb	10:00am	International reserves	Feb-8	US\$ bn	--	--	175.5
Tue 12-Feb	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 10y Mbono (May'29); 5y Bondes D					

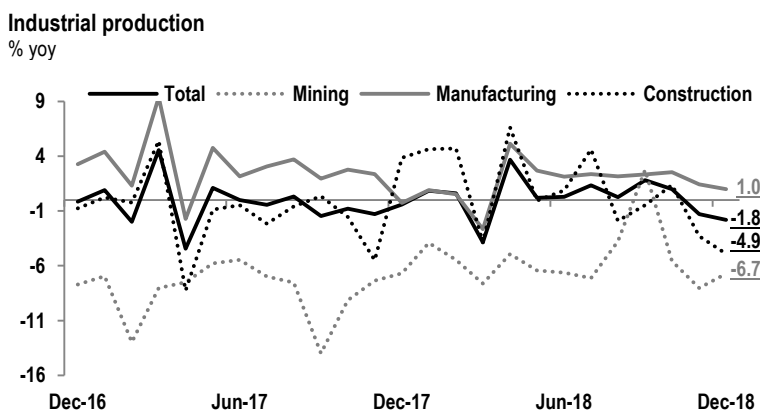
Source: Banorte; Bloomberg

Proceeding in chronological order...

Industrial production to stay weak in December. We estimate a weak print at -1.8% yoy from -1.3% in the previous month. This would be consistent with the 0.7% contraction in industrial activity during 4Q18 already observed in the preliminary GDP print. With seasonally adjusted figures, this would equate with a 0.4% m/m contraction, more modest than the 0.6% observed in November. In our view, one of the drivers behind the plunge is that despite the same number of working days relative to 2017, workers likely had an additional incentive to miss work given that both Christmas and the New Year were on Tuesday instead of Monday in the previous year. Nevertheless, we have also seen signs of lower dynamism in the month, as portrayed by several leading indicators.

We expect mining to fall 6.7% yoy. In particular, crude oil production remains as a heavy drag, with Pemex data showing a decline of 8.3% in this category, while gas increased 1.4%. It is worth noting that with this figures, crude oil production fell 5.9% in 2018, still weak but less than the -9.5% of 2017. We also expect non-oil mining to decline, albeit less profoundly than recent months. We believe construction is poised to contract around 4.9 yoy during the month. The main factor behind this is the likely weakness in civil engineering as a result of the start of a new federal administration. Moreover, among the sectors in the business confidence survey, the weakest reading was in construction, particularly the “adequate moment to invest” sub-index.

Going to manufacturing, almost all indicators suggest more modest growth, which we expect at 1.0% yoy. This would be consistent with a monthly contraction when using seasonally adjusted data. In particular, auto production fell 9.7%, adding four consecutive months in negative territory. Moreover, intermediate-goods imports decelerated strongly when compared to the rest of the quarter, increasing by 1.9%. On the other hand, US manufacturing production was not that bad as it grew 3.2% despite the ISM signaling a steep decline. Considering the latter, and taking into account recent bottlenecks in the supply chain due to railway blockades along lower global trade volumes, industrial activity is likely to face stronger headwinds at least in coming months.



Source: INEGI, Banorte

Weekly international reserves report. Last week, net international reserves rose by US\$367 million, closing at US\$175.5 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\$730 million during 2019 (please refer to the following table).

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

	2018	Feb 1, 2019	Feb 1, 2019	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	174,793	175,523	367	730
(B) Gross international reserve	176,384	180,019	74	3,635
Pemex	--	--	-566	97
Federal government	--	--	304	3,142
Market operations	--	--	0	0
Other	--	--	336	396
(C) Short-term government's liabilities	1,592	4,496	-293	2,904

Source: Banco de México

Weekly government bond auction. The Ministry of Finance (MoF) –via Banco de Mexico as its financial agent–, will offer 10-year fixed-rate Mbonos (May’29), 5-year Bondes D, in addition to the “more 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, February 12th, 2019)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	14-Mar-19	--	5,000	7.90
3m	16-May-19	--	6,000	8.14
6m	15-Aug-19	--	10,000	8.28
Bondes D				
5y	21-Dec-23	--	5,500	0.15
M Bono				
10y	31-May-29	8.50	10,200	8.71

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

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