

Ahead of the Curve

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Market focus this week will be on the electoral process and Banxico's minutes

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- 2018 Electoral Process.** On Sunday, general elections will take place to designate a new President as well as 128 Senators and 500 Representatives at a federal level. Moreover, there will be a gubernatorial election in nine states (Chiapas, Mexico City, Guanajuato, Jalisco, Morelos, Puebla, Tabasco, Veracruz and Yucatán). In addition, 1,132 local Representatives as well as 1,636 Municipal leaders will be chosen. Polling stations will open at 7:00am (ET) and will remain open for 10 hours, with the final stations closing at 7:00pm, accounting for time differences.
- Banxico's minutes (June).** Next Thursday, at 9:00 am, Banxico will publish the minutes of its June 21th meeting, in which its Board decided to hike the reference rate by 25bps, taking it to 7.75%. In our opinion, this decision was accompanied by a hawkish communiqué, in which the monetary authority left the door open to further increases in the future. In this regard, we expect the minutes to show the discussions among board members with respect to the three main factors that they pay special attention: (1) The potential pass-through from exchange rate volatility to prices; (2) the relative monetary policy stance with the US; and (3) the slack in the economy.

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Mexico weekly calendar

DATE	HOOR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Sun 1-Jul		2018 Electoral Process					
Mon 2-Jul	10:00am	Family remittances	May	US\$ mn	<u>2,868.0</u>	2,852.0	2,716.9
Mon 2-Jul	10:00am	Banxico's survey of economic expectations	June				
Mon 2-Jul	1:00pm	PMI's survey (IMEF)	June				
		Manufacturing		index	<u>50.5</u>	--	51.0
		Non-manufacturing		index	<u>50.8</u>	--	51.1
Tue 3-Jul	10:00am	International reserves	30-Jun	US\$ bn	--	--	173.2
Tue 3-Jul	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 30y Mbono (Nov'47); 5y Bondes D					
Thu 5-Jul	9:00am	Consumer confidence	June	index	<u>88.7</u>	--	88.3
Thu 5-Jul	9:00am	Gross fixed investment	April	% yoy	<u>8.1</u>	9.5	-4.1
		Machinery and equipment		% yoy	<u>13.2</u>	--	-2.1
		Domestic		% yoy	<u>5.8</u>	--	-1.7
		Imported		% yoy	<u>18.4</u>	--	-2.4
		Construction		% yoy	<u>4.5</u>	--	-5.6
Thu 5-Jul	10:00am	Banxico's minutes	June				
Thu 5-Jul	4:30pm	Citibanamex bi-weekly survey of economic expectations					

Source: Banorte; Bloomberg

Proceeding in chronological order...

2018 Electoral Process. On Sunday, general elections will take place to designate a new President as well as 128 Senators and 500 Representatives at a federal level. Moreover, there will be a gubernatorial election in nine states (Chiapas, Mexico City, Guanajuato, Jalisco, Morelos, Puebla, Tabasco, Veracruz and Yucatán). In addition, 1,132 local Representatives as well as 1,636 Municipal leaders will be chosen. Polling stations will open at 7:00am (ET) and will remain open for 10 hours, with the final stations closing at 7:00pm, accounting for time differences.

Family remittances will post an 11% yoy expansion in May. Next Monday, at 10:00am (ET), Banxico will make its family remittances monthly data available. We expect Mexican workers living abroad -mainly in the US-, to have sent US\$2,867.5.8 million to their families in Mexico during May. This would imply an 11% yoy expansion.

We believe that the remittances inflows will be explained by two factors: (1) The positive growth dynamics in the US economy, which has fostered a higher job creation for Mexican migrant workers and an increase in real wages; and (2) the *Mother's Day*, given that Mexican migrant workers tend to send a higher amount to their families during this holiday. Looking ahead, we believe that the flow of remittances will be mainly explained by the above-trend growth in the US labor market and Trump's anti-migration policy.

Banxico's survey of economic expectations. Also on Monday, at 10:00am (ET), Banco de Mexico will publish its monthly survey of economic expectations. Market focus will be on inflation forecasts for 2018, which as of last survey stand at 3.94% (Banorte: 4.3%), as well as inflation expectations for the medium and long term. Moreover, attention will also be on monetary policy forecasts, particularly on its path for 2018, given that the forecast for YE18 currently stands at 7.5%. Additionally, we will be looking into 2018's GDP forecast, which we expect at 2.5% (consensus: 2.3%). Furthermore, we expect marginal upward revisions to FX forecasts, and we will be particularly attentive to its trajectory throughout the next twelve months.

June's PMI surveys. In addition, on Monday, *IMEF (Mexican Institute of Financial Executives)* will publish its PMI business confidence indicators for June. We expect the manufacturing PMI at 50.5 points (seasonally adjusted figures), below May's 51 pts. We believe that the fall in the manufacturing PMI during the month will be explained by the announcement to Mexican exports of steel and aluminum tariffs to the US.

Regarding the non-manufacturing PMI, we believe that it will stand at 50.8 points, down from 51.1 points in May (seasonally adjusted figures). We consider that the decrease will also be explained by the tariff announcement, although it could be partially offset by better private demand prospects.

Weekly international reserves report. On Tuesday, at 10:00am (ET), Banco de Mexico will release its weekly balance report. Last week, net international reserves increased by US\$5 million amounting to US\$173.2 billion. According to Banxico’s report, this figure comes mainly as a result of a positive valuation effect in central bank assets. In this context, the Central Bank’s international reserves have increased by US\$376 million during 2018 (please refer to the following table).

Banxico's foreign reserve accumulation detail

US\$, million

	2017	Jun 22, 2018	Jun 22, 2018	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	172,802	173,177	5	376
(B) Gross international reserve	175,450	177,553	-484	2,103
Pemex	--	--	-198	-735
Federal government	--	--	-98	1,811
Market operations	--	--	0	0
Other	--	--	-189	1,027
(C) Short-term government's liabilities	2,648	4,376	-490	1,728

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 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 (ET).

Auction specifics (Tuesday, July 3, 2018)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	02-Aug-18	--	7,000	7.70
3m	04-Oct-18	--	11,000	7.88
6m	03-Jan-19	--	11,500	8.00
M Bono				
3y	04-May-23	--	5,000	0.16
Udibono				
3y	07-Nov-47	8.00	3,000	7.90

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 will continue to recover in June. On Thursday, at 9:00am (EDT), Banxico and INEGI will publish its June’s monthly survey on consumer confidence, where we expect a 1.7% expansion, with the index reaching 88.7 points. In seasonally adjusted terms, we expect confidence levels to only increase 0.2% in the monthly comparison.

We believe that the 0.2% rise in consumer confidence will be explained by: (1) The growth momentum in the Mexican labor market; and (2) inflation's downward trend. In this regard, headline inflation in the first half of June stood at 4.54% yoy from the 6.78% observed in December. However, this will be partially offset by the volatility of the Mexican currency during the month.

We expect a 8.1% yoy expansion in April's GFI. Also on Thursday at 9:00am (ET), *INEGI* will publish its gross fixed investment (GFI) report for April. We anticipate GFI up by 8.1% yoy, given the *Easter holiday* period, which added working days to the annual comparison.

We believe that within the report we will probably see an 18.4% yoy growth in imported machinery and equipment, given that trade balance figures showed a considerable 25.8% yoy increase for capital goods imports. In addition, we expect a 5.8% increase in domestic machinery and equipment investment.

Finally, we believe that construction investment advanced 4.5% yoy given that construction output within the industrial production report showed 6.1% yoy expansion.

GFI estimates: April 2018

% yoy nsa; %-pts

%yoy	Apr-18	Apr-17	Jan-Apr, '18	Jan-Apr, '17
Total	8.1	-11.0	3.1	-2.7
Machinery and equipment	13.2	-8.8	6.5	1.4
Domestic	5.8	-9.7	2.0	0.3
Imported	18.4	-8.1	9.6	2.2
Construction	4.5	-12.6	0.7	-5.4
Annual contribution	Apr-18	Apr-17	Difference	
Total	8.1	-11.0	19.1	
Machinery and equipment	5.5	-3.6	9.1	
Domestic	1.0	-1.6	2.6	
Imported	4.5	-1.9	6.5	
Construction	2.6	-7.5	10.1	

Source: Banorte

Banxico's minutes. Next Thursday, at 9:00 am, Banxico will publish the minutes of its June 21th meeting, in which its Board decided to hike the reference rate by 25bps, taking it to 7.75%. In our opinion, this decision was accompanied by a hawkish *communiqué*, in which the monetary authority left the door open to further increases in the future. In this regard, we expect the minutes to show the discussions among board members with respect to the three main factors that they pay special attention: (1) The potential pass-through from exchange rate volatility to prices; (2) the relative monetary policy stance with the US; and (3) the slack in the economy.

The previous factors come in a context in which there is still a high degree of uncertainty derived both from the renegotiation of NAFTA and the electoral process. Regarding the latter, Banxico has said that the market seems to have already discounted the electoral result and that the adjustment that it may have will highly depend on the message the winner sends about macroeconomic policy. In our opinion, this uncertainty factor will dissipate with the result of the election, with a high possibility of a rally in financial markets in the days following the event, assuming that the winner maintains a cautious tone.

Regarding the future of monetary policy, we believe that, amid a highly uncertain backdrop, it is difficult to pencil in any rate movements, so we expect Banco de México to maintain its rate unchanged in the next 18 months.

Citibanamex Survey. Finally on Thursday, around 4:30pm (ET) *Citibanamex* will release its bi-weekly survey of economic expectations, where market focus will be on analysts' inflation forecasts for June (to be published on Monday, July 9). Furthermore, attention will be on monetary policy assessments, particularly given Banxico's 25bps hike on its last monetary decision as well as the hawkish tone of the statement. In addition, the survey will contain forecasts for growth and FX.

Disclaimer

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