

Ahead of the Curve

We expect GDP for 1Q19 at 1.5% yoy, a slowdown in March remittances and a decline in IMEF's PMI indices in April

- Gross Domestic Product (1Q19 P).** We expect GDP to grow 1.5% yoy. With seasonally-adjusted figures we anticipate +0.2% q/q, the same magnitude as in the previous quarter. In case of materializing, this would be a positive outcome considering high uncertainty in the period, particularly due to a series of transitory shocks during the first two months. We should also consider the typical slowdown in government spending associated with the first year of a new Federal administration (which has been confirmed in public finance reports) and a challenging global environment, particularly for trade. By component, we forecast 5.3% growth in primary activities (previous: 3.0%), a 0.3% contraction in industry (previous: -0.9%) and 2.2% in services (previous: 2.7%). The contraction in IP would be mainly explained by the fall in January and February as we expect it to rebound in March. Finally, services would continue to show some strength despite early signs of a deceleration in the last month of the quarter

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www.banorte.com
@analisis_fundam

Juan Carlos Alderete, CFA
Senior Economist, Mexico
juan.alderete.macal@banorte.com

Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

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Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 29-Apr	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 3y Mbono (Dec'21); 3y Udibonos (Jun'22)					
Tue 30-Apr	9:00am	GDP	1Q19 (P)	% yoy	<u>1.5</u>	1.4	1.7
		(sa)		% q/q	<u>0.2</u>	--	0.2
		Primary activities		% yoy	<u>5.3</u>	--	3.0
		Industrial production		% yoy	<u>-0.3</u>	--	-0.9
		Services		% yoy	<u>2.2</u>	--	2.7
Tue 30-Apr	10:00am	Comercial banking credit	March	% yoy	<u>6.2</u>	--	6.1
		Consumption		% yoy	<u>2.3</u>	--	2.2
		Housing		% yoy	<u>5.7</u>	--	5.7
		Non-banking private firms		% yoy	<u>7.6</u>	--	7.5
Tue 30-Apr	10:00am	International reserves	Apr-26	US\$ bn	--	--	176.5
Tue 30-Apr	3:30pm	Budget balance	March	MXN bn	--	--	-9.9
Wed 1-May		Markets closed due to Labor Day					
Thu 2-May	10:00am	Family remittances	March	US\$ mn	<u>2,791.0</u>	2,833.0	2,387.4
Thu 2-May	10:00am	Banxico's survey of economic expectations					
Thu 2-May	1:00pm	PMI's survey (IMEF)					
		Manufacturing		index	<u>48.6</u>	--	50.2
		Non-manufacturing		index	<u>50.6</u>	--	51.2

Source: Banorte; Bloomberg

Proceeding in chronological order...

Weekly government bond auction. The Ministry of Finance (MoF) –via Banco de Mexico as its financial agent, will offer 3-year fixed-rate Mbonos (Dec’21), 3-year inflation-linked Udibonos (Jun’22), in addition to the “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 (Monday, April 29th, 2019)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	30-May-19	--	5,000	7.75
3m	01-Aug-19	--	10,000	8.07
6m	24-Oct-19	--	11,500	8.16
Mbonos				
3y	09-Dec-21	7.25	9,700	7.87
Udibonos				
3y	09-Jun-22	2.00	UDIS 950	4.04

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

Mexico’s preliminary GDP expected at 1.5% in 1Q19. This figure would be lower than the 1.7% observed in 4Q18. With seasonally-adjusted figures we anticipate a 0.2% q/q, the same magnitude as in the previous quarter. In case of materializing, this would be a positive outcome considering high uncertainty during the period, particularly due to a series of transitory shocks during the first two months. Additionally, we should also consider the typical slowdown in government spending associated with the first year of a new Federal administration (which has been confirmed in public finance reports) and a challenging global environment, particularly for trade.

In this context, GDP during the first two months of the year averaged 1.2% yoy according to the *Global Economic Activity Indicator*, so we anticipate 2.2% in March. This latter figure would be pushed higher by a favorable base effect due to the timing of the Easter holiday, which was in April this year vs. March 2018, adding labor days. By component, we forecast 5.3% growth in primary activities (previous: 3.0%), a 0.3% contraction in industrial activity (previous: -0.9%) and 2.2% in services (previous: 2.7%).

The fall in the secondary sector would be mainly explained by the downfall in January and February (-1.0% and -0.8% yoy, respectively), but actually rebounding in March. We should mention that despite the base-effect, industry would advance only marginally in the month, benefited by manufacturing. In this respect, auto production grew 4.8% after dipping 5% in February according to *AMIA*, additionally supported by the fading impact of the abovementioned shocks. On the contrary, manufacturing in the US has slowed down, in lockstep with the global environment. Regarding local drivers, intermediate goods imports surprised negatively as they only grew 0.7% yoy, which is relevant as they are mainly inputs to manufacturing. Mining will keep subtracting to the headline, with this decline marking the 24th consecutive quarter in contraction despite gradually moderating its decline. Construction has shown a mixed performance and would be marginally positive taking into account our forecast.

Lastly, the moderation in services would also be mainly because of the first two months. Although retail sales were favorable in this period (+3.4% when compared to the same period 2018), timely data released so far show a more challenging environment, with *ANTAD* and *Walmart* sales at -3.3% yoy in real terms (vs. -0.6% in February) and +0.4% (from 1.4%). Nevertheless, transportation is expected to be more positive given that it is our take that it was affected previously by the shocks mentioned, so we anticipate that it could accelerate slightly in the month.

Weekly international reserves report. Last week, net international reserves fell by US\$10 million, closing at US\$176.5 billion. According to Banxico's report, this figure comes mainly from a negative valuation effect in central bank assets. In this context, the central bank's international reserves have increased US\$1.7 billion during 2019 (please refer to the following table).

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

	2018	Apr 17, 2019	Apr 17, 2019	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	174,793	176,455	-10	1,663
(B) Gross international reserve	176,384	184,293	-47	7,909
Pemex	--	--	218	336
Federal government	--	--	-143	6,256
Market operations	--	--	0	0
Other	--	--	-122	1,317
(C) Short-term government's liabilities	1,592	7,837	-37	6,246

Source: Banco de México

Banking credit will show a 6.2% yoy increase in March. It is our take that credit to the non-financial sector continued flowing. In particular, we estimate a 6.2% yoy expansion in real terms as a result of a 2.3% increase in consumer credit, coupled with a 5.7% and 7.6% expansion in mortgages and corporate credit, in the same order.

MoF's public finance report (March). In this report, attention will center on the public balance. It should be noted that the public deficit as of the end of February stood at MXN\$27.6bn, better than the MXN\$89.1bn approved deficit. In addition, attention will focus on revenue and spending, especially when compared to the update in the *2020 Macroeconomic Forecasts* from the Ministry of Finance. Finally, we will also look into public debt, which as of February stands at MXN\$10.5tn (as measured by the HBPSBRs), remembering that with this being a quarterly report, will also be measured as a percentage of GDP.

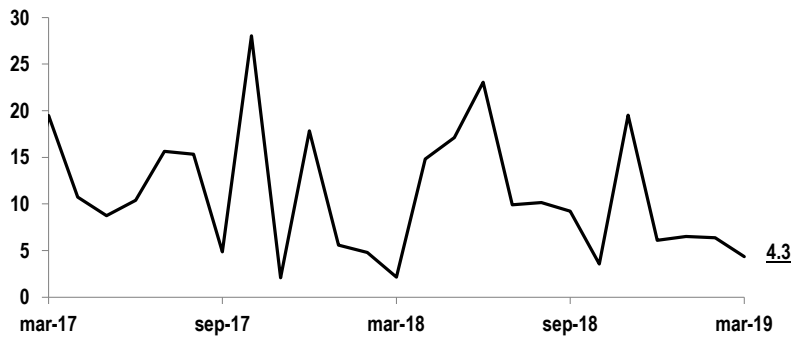
Growth in remittances to slow in March. We expect remittances at US\$ 2,791.0 million (4.3% yoy), moderating relative to the first two months of the year, which on average grew 6.4%. In our view, this would be driven by cooling employment of Mexican migrants in the US. The most impacted were those without citizenship (-0.5% yoy), with their first decline since September. Those with citizenship slowed to 2.9% from 3% in February. Considering both groups, employment decelerated to only 0.5% from 2% in the previous month.

We believe immigration policies will keep influencing positively the pace of remittances. According to our news monitoring, no significant developments were observed in the month, with tensions picking up again in April as a result of increased checks at the border crossings along more aggressive rhetoric by President Trump. In this respect, we do not discard a rebound in remittances next month. The FX rate was broadly stable, moving slightly higher during the month from 19.26 to 19.37 per dollar, with the Mexican peso accumulating a YTD gain of 1.4%.

With these figures, remittances in 1Q19 would have grown 5.7% yoy, above the 4% pace observed in the same period of 2018. Additionally, the 12-month rolling flow would be US\$ 33,876.8 million, a 10.8% annual growth from 10.6% in February. Despite data so far supporting our view that remittances will moderate this year, it is worth remembering that the highest growth rate was in 2018 was in the second quarter, so the base-effect will become more difficult in coming months. We still think that remittances will remain healthy as long as the US doesn't fall into recession, which is not our base-case scenario. Nevertheless, the deceleration in activity is likely to continue impacting the pace of job creation for Mexican migrants, as observed in recent figures.

Family remittances

% yoy



Source: Banxico

Banxico's survey of economic expectations. As usual, markets will focus on inflation forecasts. The median for 2019 is 3.6%, still above our 3.5%. Moreover, the medium-term estimate remains above target, standing at 3.5%. In addition, estimates for the reference rate will also be published. Our expectation is still for Banxico to start an easing cycle as soon as June with a 25bps cut in said meeting. Forecasts for GDP will also be published. In the last survey, economists revised growth estimates for 2019 down from 1.6% to 1.5%, in line with our call. For 2020 it was also revised lower to 1.9% from 2.0%. Finally, we could see a marginal revision in the exchange rate, considering that the YE19 forecast stands at USD/MXN 20.13 (Banorte: 20.30).

PMI indices expected to decline in April, especially manufacturing. We expect the manufacturing index to fall to 48.6pts from 50.2pts sa in March, extending its decline of the previous month. It is our take that the indicator will be impacted by delays in the transit of freight transportation at the US border. According to several news outlets, these started on March 29th and have impacted activity in Ciudad Juarez, Tijuana, Nogales, and Nuevo Laredo. Moreover, the heads of the automotive and freight transportation chambers have stated that the impact has been significant and they have persisted until today. In our view, these could impact the deliveries component the most, but also could be reflected in the production sub-index, given the build-up in inventories. US data for April is mixed, with the PMI manufacturing stable and in expansion at 52.4pts but with regional indicators, such as Philly and Richmond, declining. Last but not least, the Mexican peso appreciated from 19.4 per dollar to around 18.93, which in our view is slightly net negative for local producers.

Going to the non-manufacturing index, we expect a modest decrease to 50.6pts from 51.2pts, seeing a slight reversal after increasing for the past four months. Additionally, we see a possible impact from higher inflation during the 1st half of April, which has been coupled with a persistently lower rate of formal job creation that suggests the labor market is cooling off. Nevertheless, consumer fundamentals remain strong, with real wage gains gathering pace since the start of 2019, lifting purchasing power. In this sense, the non-tradeable sector is likely to continue exhibiting a better performance relative to those more exposed to the external front.

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Francisco Duarte Alcocer	Analyst, Global Economist	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Manager, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454