

Ahead of the Curve

October 28, 2016

Market focus this week will on GDP preliminary report

- GDP preliminary report.** On Monday, *INEGI* will publish its preliminary GDP report. Given the economic figures published for July and August, we believe that the preliminary estimation will show a 1.9% yoy growth for the Mexican economy during 3Q16, below the 2.5% observed in 2Q16. In this regard, the lower growth of the Mexican economy will be mainly explained by the contraction in the industrial sector (-0.7% yoy) derived from the sharp deceleration in the manufacturing industry, coupled with the recession in the mining sector, and the marginal fall in construction output given the contraction in public investment projects. Moreover, we believe that services will continue to show a favorable performance (3.2% yoy) driven by the strong growth of banking credit (10.7% yoy in real terms over the same period), and the higher growth of the Mexican labor market (3.8% yoy)
- September's Remittances.** On Tuesday, at 11:00am (EDT), *Banxico* will release its monthly data available. We expect Mexican workers living abroad -mainly in the US-, to have sent US\$2,250 million to their families in Mexico during September. This would imply a 9.5% yoy expansion. Looking ahead, we continue to believe that remittances inflows will grow around 6% in 2016.

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Document for distribution among the general public

Mexico weekly calendar

DATE	HOUR (EDT)	EVENT	PERIOD	UNIT	BANORTE-			
					IXE	CONSENSUS	PREVIOUS	
Mon 31-Oct	10:00am	GDP (sa)	3Q16 (P)	% yoy	<u>1.9</u>	<u>1.9</u>	2.5	
				% q/q	<u>0.9</u>	<u>0.9</u>	-0.2	
				Primary activities	% yoy	<u>7.6</u>	--	3.8
				Industrial production	% yoy	<u>-0.7</u>	--	1.0
				Services	% yoy	<u>3.2</u>	--	3.2
Mon 31-Oct	11:00am	Comercial banking credit	September	% yoy	<u>12.0</u>	--	13.0	
				Consumption	% yoy	<u>9.9</u>	--	10.3
				Housing	% yoy	<u>7.9</u>	--	8.1
				Non-banking private firms	% yoy	<u>14.1</u>	--	16.4
Mon 31-Oct	1:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 5y Mbono (Jun'21); 10y Udibonos (Dec'25)						
Tue 1-Nov	10:00am	PMI's survey (IMEF)	October	Manufacturing	index	<u>52.1</u>	51.7	51.7
				Non-manufacturing	index	<u>51.2</u>	51.2	51.6
				Family remittances	September	US\$ mn	<u>2,250</u>	2,190
Tue 1-Nov	11:00am	Banxico's survey of economic expectations						
Tue 1-Nov	11:00am	International reserves						
Tue 1-Nov	11:00am	28-Oct US\$ bn -- -- 175.2						
Wed 2-Nov	Banking Holiday: Mexico's Day of the Dead celebration							
Fri 4-Nov	10:00am	Gross fixed investment	August	% yoy	<u>1.8</u>	0.7	-3.6	
				Machinery and equipment	% yoy	<u>8.2</u>	--	-4.6
				Domestic	% yoy	<u>5.0</u>	--	3.7
				Imported	% yoy	<u>9.8</u>	--	-8.4
				Construction	% yoy	<u>-2.4</u>	--	-3.0

Source: Banorte-IXE; Bloomberg

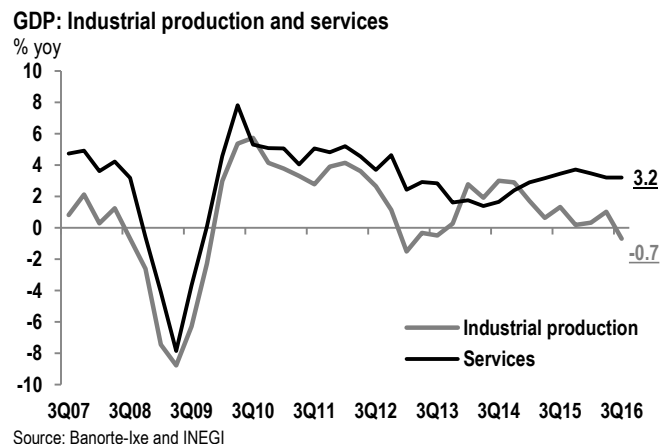
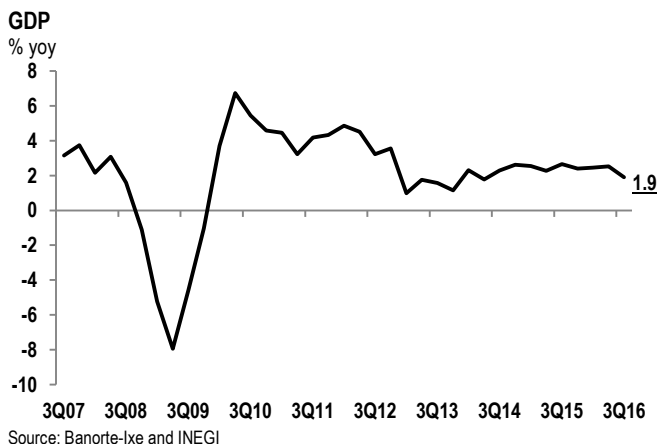
Proceeding in chronological order...

Logistics – The Daylight Savings Time comes to an end. As of Sunday, there will now be a two-hour difference with respect to EST (instead of the usual one hour difference), as Daylight Savings Time will end on Sunday in Mexico. This two-hour difference will last only for one week as the United States will also end DST on next Sunday (Nov 6). In addition, next week Mexico will have a short week with a banking holiday on Wednesday (November 2), as the country observes the *Day of the Dead* holiday.

Mexico’s preliminary GDP will stand at 1.9% yoy in 3Q16. 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 July and August, we believe that the preliminary estimation will show a 1.9% yoy growth for the Mexican economy during 3Q16, below the 2.5% observed in 2Q16. In this regard, the lower growth of the Mexican economy will be mainly explained by the contraction in the industrial sector (-0.7% yoy) derived from the sharp deceleration in the manufacturing industry, coupled with the recession in the mining sector, and the marginal fall in construction output given the contraction in public investment projects.

Moreover, we believe that services will continue to show a favorable performance (3.2% yoy) driven by the strong growth of banking credit (10.7% yoy in real terms over the same period), and the higher growth of the Mexican labor market (3.8% yoy).



Banking credit will show a 12% yoy increase in September. Banco de Mexico will make available its banking credit report on Monday at 11:00am (EDT). It is our take that banking credit continued flowing in September. In particular, we estimate a 12% yoy expansion in banking credit (in real terms), as a result of increases in the area of 9.9%, 7.9%, and 14.1% yoy in consumer, housing and business credit, respectively.

Weekly government bond auction. Also on Monday, 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, in addition to the “more traditional” 1-, 3-, and 6- month zero-coupon Cetes (please refer to the table below). The results will be released at 1:30pm (EDT).

Auction specifics (Monday, October 31, 2016)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	01-Dec-16	--	5,500	4.67
3m	02-Feb-17	--	9,500	4.81
6m	27-Abr-17	--	11,000	4.97
Mbono				
5y	10-Jun-21	6.50	7,500	5.82
Udibonos				
10y	4-Dec-25	4.50	650	2.74

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

October’s PMI surveys. On Tuesday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators for October. We expect manufacturing PMI at 52.1, marginally above the 51.7 observed in September (seasonally adjusted terms). We believe that the marginal growth in the manufacturing PMI during October will be explained by the better production outlook for the auto industry, and the recovery in manufacturing exports.

In addition, we believe that the non-manufacturing PMI will stand at 51.2 points from 51.6 points. In this regard, we believe that the deceleration in the overall economy will translate into a lower economic growth for the construction and services industries, which encompass most of the firms measured in *IMEF*’s non-manufacturing survey.

Family remittances will post a 9.5% yoy expansion in September. On Tuesday, at 11:00am (EDT), Banxico will make its family remittances monthly data available. We expect Mexican workers living abroad -mainly in the US-, to have sent US\$2,250 million to their families in Mexico during September. This would imply a 9.5% yoy expansion.

We believe that the strong expansion in the flow of remittances will be explained by the electoral process in the US. In September, the polls showed a virtual tie between Donald Trump and Hillary Clinton. As a result, the Mexican currency depreciated significantly (about 3.3%). We believe that the depreciated peso coupled with the higher probability of a Trump victory encouraged Mexican migrant workers to send a higher flow of remittances. Looking ahead, we continue to believe that remittances inflows will grow around 6% in 2016.

Banxico's survey of economic expectations. Also on Tuesday at 11:00am (EDT), Banco de Mexico will publish its monthly survey of economic expectations. In our view, market participants' focus will be on three issues: (1) 2016 inflation expectations that currently are at 3.2% (Banorte-Ixe: 3.1%); (2) mid-term inflation expectations—quite important for the central bank's board—that are currently at 3.37% (Banorte-Ixe: 3%); and (3) the analysts' assessments of GDP growth for 2016 which stands at 2.1% yoy, marginally above our 2% yoy forecast.

Weekly international reserves report. On Tuesday, at 11:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves increased by US\$11 million amounting to US \$175.2 billion on October 21. According to Banxico's report, this figure comes mainly as a result of: (1) Dollar sales by Banxico to the Federal Government for US\$20 million; along with a (2) US\$31 million increase due to changes in the valuation of the Central Bank's assets. In this context, the Central Bank's international reserves have diminished by US\$1,506 million this year (please refer to the table below).

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

	2015	21/Oct/2016	21/Oct/2016	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,735	175,230	11	-1,506
(B) Gross international reserve	177,597	178,290	397	695
Pemex	--	--	236	3,943
Federal government	--	--	-104	-429
Market operations	--	--	0	-5,562
Other	--	--	265	2,742
(C) Short-term government's liabilities	861	3,061	386	2,199

Source: Banco de México

We expect a 1.8% yoy expansion in August's GFI. Finally, on Friday at 10:00am (EDT), *INEGI* will publish its August's gross fixed investment (GFI) report. We anticipate GFI up by 1.8% yoy. We believe that within the report we will probably see a 9.8% yoy increase in imported machinery and equipment, given that trade balance figures showed a similar growth for capital goods imports. Moreover, we expect a 5% growth in domestic machinery and equipment. Finally, we believe that construction spending fell 2.4% yoy derived from the lower public construction spending observed in the latest industrial production figures.

GFI estimates: August 2016

% yoy; %-pts

%yoy	Aug-16	Aug-15	Jan-Aug, '16	Jan-Aug, '15
Total	1.8	2.9	0.2	5.0
Machinery and equipment	8.2	7.6	0.5	9.2
Domestic	5.0	6.5	6.7	9.4
Imported	9.8	8.1	-2.2	9.0
Construction	-2.4	0.1	-0.1	2.4
Annual contribution	Aug-16	Aug-15	Difference	
Total	1.8	2.9	-1.1	
Machinery and equipment	3.2	2.9	0.4	
Domestic	0.7	0.8	-0.2	
Imported	2.6	2.0	0.6	
Construction	-1.4	0.1	-1.5	

Source: Banorte-Ixe

Disclaimer

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