Ahead of the Curve

We expect April industrial production to remain muted

- **Industrial production (April).** We estimate a 2.8% yoy contraction, below the -0.1% in the previous month. This figure is distorted to the downside by the timing of the *Holy Week*. Using seasonally-adjusted data, we expect a modest advance of 0.5% m/m. Nevertheless, this would not be enough to compensate for the 1.3% contraction seen in March. Manufacturing held up relatively well, with some better indicators in autos and intermediate-goods imports. Nevertheless, it will likely be limited by poor dynamics in US industrial activity. Moreover, we do not discard some impact from crossing delays at the Northern Border. On the other hand, construction and mining are likely to remain a drag. Although we anticipate a slight monthly rebound, challenges for the sector remain elevated. In our view, the probability of an additional deterioration in industry is high

June 7, 2019

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Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 10-Jun		**Wage negotiations**	May	%	5.9	--	4.9
Mon 10-Jun	**9:00am**	**Industrial production**	April	% yoy	-2.8	--	-0.1
		(sa)		% m/m	0.5	--	-1.3
		Mining		% yoy	-8.2	--	-6.0
		Utilities		% yoy	-2.3	--	0.9
		Construction		% yoy	-3.2	--	-2.9
		Manufactures		% yoy	-1.0	--	2.8
Tue 11-Jun	**10:00am**	**International reserves**	Jun-8	US$ bn	--	--	177.9
Tue 11-Jun	**12:30pm**	**Government weekly auction: 1-, 3-, 6-month CETES; 5y Mbono (Sep'24); 10y Udibonos (Nov'28)**					

Source: Banorte; Bloomberg

Proceeding in chronological order...

We forecast wage negotiations up 5.9% in May. This would represent an increase in comparison to the 4.9% of the previous month. It should be noted that this latter figure was driven by a rise in the number of workers in the public sector who got a wage increase –considering that these are usually lower vs. those seen in the private sector–, relative to the average amount. Considering that this should be a one-time effect, we expect negotiations in the private sector to continue to dominate in the number of workers benefited. In this context, we expect May’s figure to post a similar advance to the year-to-date figure, which stands at 5.7%. Although during the month the announcement was made over the increase to teachers affiliated to the *Sindicato Nacional de Trabajadores de la Educación* (SNTE), which stood at 6.25% for elementary teachers, it should be noted that the actual adjustments happen section by section, which usually comprises part or a whole state. Considering the latter, we expect this impact to be felt in coming months. Going forward, and as mentioned in other releases, wage negotiations will likely remain skewed to the upside due to the minimum wage revision, as well as a lagged impact from high inflation in the previous two years. However, we do not rule out a moderation in the 2nd half of the year as inflation inches closer towards target and activity slows down, resulting in a wider output gap.

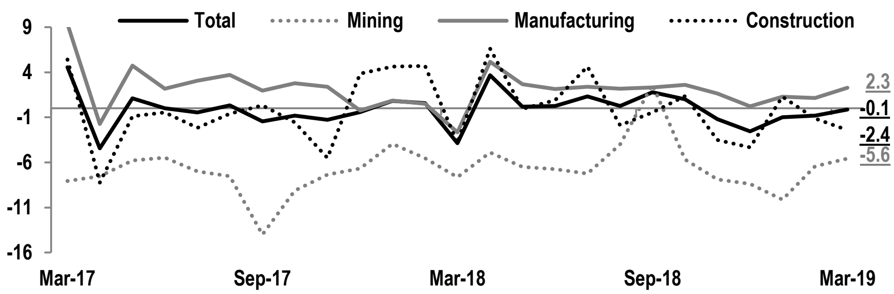
Industrial production could rebound modestly in April. We estimate a -2.8% yoy contraction, lower than the -0.1% of the previous print. Nevertheless, we should remember this figure is distorted by the timing of the *Holy Week,* which subtracted labor days to the annual comparison. Adjusting for the latter and using seasonally-adjusted data, we expect a modest advance of 0.5% m/m, a slight rebound after falling 1.3% in March. Intermediate-goods imports also rebounded to 3.5%, accelerating relative to 0.6% previously. In a similar fashion, the PMI manufacturing index increased to 52.0pts (sa), with the production component also stronger. Nevertheless, we see two potential headwinds. First, US industrial production was weak at -0.2% yoy, its lowest in almost three years. Second, we do not discard that some impact is felt from the delays in freight transportation at the Northern Border, albeit so far with limited evidence that this occurred according to hard data.

We expect mining to deepen its contraction, at -8.2% yoy. According to Pemex, oil production fell 10.3% and stood slightly below 1.7 million barrels per day, its second lowest print in history. Gas was also pressured at -1.1% after two consecutive months in expansion. In this respect, formal employment in the sector keeps contracting, with the pace of decline at its worst since October 2016.

Last but not least, construction is expected to remain negative at -3.2%, with the trend worsening since late last year and the sector still limited by the usual deceleration in public infrastructure spending at the start of a new administration. Regarding the private sector, sentiment about the adequate moment to invest has deteriorated in recent weeks despite the headline index rebounded modestly. Similar to mining, employment contracted -1.8%, a pace not seen since the start of the decade.

Although we anticipate a slight rebound compared to March, challenges for the sector remain high, with an elevated probability of an additional deterioration. Among the factors supporting this, we highlight: (1) Global industrial activity on the downside, including renewed pressures on trade volumes; (2) a pick-up in uncertainty given that tensions between the US and Mexico have increased significantly on threats of tariffs to all Mexican exports; and (3) higher volatility in financial markets which has impacted the Mexican peso.

Industrial production
% yoy



Source: INEGI, Banorte

Weekly international reserves report. Last week, net international reserves increased US$534 million, closing at US$177.9 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$3.1 billion during 2019 (please refer to the following table).

Banxico's foreign reserve accumulation detail
US$, million

	2018	May 31, 2019	May 31, 2019	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	174,793	177,856	534	3,063
(B) Gross international reserve	176,384	185,417	558	9,033
Pemex	--	--	-47	186
Federal government	--	--	-55	5,890
Market operations	--	--	0	0
Other	--	--	660	2,958
(C) Short-term government's liabilities	1,592	7,561	24	5,970

Source: Banco de México

Weekly government bond auction. The Ministry of Finance (MoF) –via Banco de Mexico as its financial agent, will offer 5-year fixed-rate Mbonos (Sep'24), 10-year Udibonos (Nov'28), in addition to the 1-, 3-, and 6-month zero-coupon Cetes (see following table). As usual, results will be released at 12:30pm (ET).

Auction specifics (Tuesday, June 11th, 2019)

	Maturity	Coupon rate, %	To be auctioned[1]	Previous yield[2]
Cetes				
1m	11-Jul-19	- -	8,000	8.30
3m	12-Sep-19	- -	12,000	8.35
6m	05-Dec-19	- -	12,000	8.35
Mbonos				
5y	05-Sep-24	8.00	10,000	7.94
Udibonos				
10y	30-Nov-28	4.00	UDIS 800	3.84

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

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