

Ahead of the Curve

August 28, 2015

Market focus this week will on President Peña Nieto's Third State of the Nation

- Third State of the Nation Address (*Informe de Gobierno*).** On Tuesday, President Enrique Peña Nieto will present his Third State of the Nation Address. We believe that in this third report, President Peña Nieto will highlight the following topics: (1) The significant deceleration of the global economy and its impact in oil prices. In this regard, we believe that the President will announce another budget cut for 2016; (2) the moderate growth of Mexico's economy; and (3) further details on infrastructure plans that the Federal Government has begun
- Consumer confidence.** On Friday, at 9:00am (EDT), Banxico and *INEGI* will publish its August's monthly survey on consumer confidence, where we expect a 0.9% yoy expansion, with the index reaching 90.6 points (vs. 89.7 in August 2014). However, in seasonally adjusted terms, we expect confidence levels to decrease 1.8% m/m

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Mexico weekly calendar

DATE	HOURL (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 31-Aug	10:00am	Comercial banking credit	July	% yoy	<u>7.3</u>	--	7.0
		Consumption		% yoy	<u>3.4</u>	--	3.2
		Housing		% yoy	<u>8.1</u>	--	8.0
		Non-banking private firms		% yoy	<u>9.1</u>	--	8.9
Tue 1-Sep	10:00am	Family remittances	July	US\$ mn	<u>2,056.1</u>	<u>2,134</u>	2,168.3
Tue 1-Sep	10:00am	Banxico's survey of economic expectations	August				
Tue 1-Sep	10:00am	International reserves	28-Aug	US\$ bn	--	--	187.3
Tue 1-Sep	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 10y Mbono (Dec'24); 5y Bondes D					
Tue 1-Sep	1:00pm	PMI's survey (IMEF)	August				
		Manufacturing		index	<u>53.2</u>	<u>52.8</u>	52.7
		Non-manufacturing		index	<u>51.6</u>	<u>51.6</u>	51.3
Tue 1-Sep		Third Presidential	2014-2015				
Thu 3-Sep	9:00am	Gross fixed investment	June	% yoy	<u>8.2</u>	<u>6.7</u>	2.3
		Machinery and equipment		% yoy	<u>18.6</u>	--	3.7
		Domestic		% yoy	<u>7.2</u>	--	6.8
		Imported		% yoy	<u>23.8</u>	--	2.3
		Construction		% yoy	<u>1.9</u>	--	1.2
Fri 4-Sep	9:00am	Consumer confidence	August	index	<u>90.6</u>	<u>92.2</u>	92.2

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

Banking credit will show a 7.3% yoy increase in July. Banco de Mexico will make available its banking credit report on Monday (August 31) at 10:00am (EDT). It is our take that banking credit continued flowing in July given the significant spike in credit supply from the banking sector. In particular, we estimate a 7.3% yoy expansion in banking credit (in real terms) as a result of increases in the area of 3.4%, 8.1%, and 9.1% yoy in consumer, housing and business credit, respectively.

Family remittances will post 2.9% yoy expansion. On Tuesday, at 10:00am (EDT), Banxico will make its family remittances monthly data available. We expect Mexican workers living abroad -mainly in the US-, to have sent US\$2,056.1 mn to their families in Mexico during July. This would imply a 2.9% yoy expansion.

We believe that remittances in July will benefit from the better growth dynamics of the Mexican immigrant labor force in the U.S. Analyzing data from the Current Population Survey, the unemployment rate for illegal immigrants has fallen in the last four months which implies that we will probably continue to see an upward trend in these inflows.

Banxico's survey of economic expectations. Also on Tuesday, at 10:00am (EDT), Banco de México will publish its monthly survey of economic expectations. In our view, market participants' focus will be on three issues: (1) 2015 inflation expectations that currently are at 2.82% (Banorte-Ixe: 3%); (2) mid-term inflation expectations—quite important for the central bank's board—that are currently at 3.39% (Banorte-Ixe: 3%); and (3) the analysts' assessments of GDP growth for 2015 given the recent downward revisions made by several economists (currently at 2.55%; Banorte-Ixe: 2.5%).

Weekly international reserves report. On Tuesday, at 10:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US\$1,014mn amounting to US \$187.3bn on August 21. According to Banxico's report, this figure comes mainly as a result of: (1) Dollar sales by the Central Bank to the Federal Government for US\$9mn; (2) US\$1,000mn decrease explained by the introduction of Banxico's USD daily auction without minimum price and US\$233mn with minimum price; along with a (3) US\$228mn increase due to changes in the valuation of the Central Bank's assets and other operations. It is worth noting that Pemex is currently the only significant source of reserve accumulation. In this context, the central bank has an accumulated reduction of US\$5,906mn international reserves this year (please refer to the table below).

Banxico's foreign reserve accumulation details

US\$, million

	2014	21/Aug/2015	21/Aug/2015	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	193,239	187,333	-1,014	-5,906
(B) Gross international reserve	195,682	188,595	-1,273	-7,087
Pemex	--	--	-239	2,751
Federal govt	--	--	-205	-838
Market operations	--	--	-1033	-8,702
Other	--	--	203	-298
(C) Short-term government's liabilities	2,443	1,262	-259	-1,181

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 10-year fixed-rate Mbonos (Dec'24) as well as 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 (EDT).

Auction specifics (Tuesday, September 1, 2015)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	01-Oct-15	--	5,500	3.12
3m	03-Dec-15	--	9,500	3.45
6m	03-Mar-16	--	11,000	3.53
Mbono				
10y	05-Dec-24	10.00	8,000	6.07
Bondes D				
5y	30-Jul-20	--	4,000	0.24

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

August's PMI surveys. On Tuesday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators. We expect manufacturing PMI at 53.2 in August, above the 52.7 observed in July (seasonally adjusted terms). We believe that manufacturing activity was supported by the recovery of consumer spending in Mexico and the significant depreciation of the MXN. However, we believe that the strong recovery in retail sales might have affected the “inventories” component.

Moreover, we believe that the non-manufacturing PMI will stand at 51.6 points. In this regard, we believe that the recent upward trend in domestic demand, given the recovery in both the labor market and the household's purchasing power, could have triggered a faster growth within the services in August.

President Enrique Peña Nieto will give his Third State of the Nation Adress (*Informe de Gobierno*). On Tuesday, President Enrique Peña Nieto will present his Third State of the Nation Adress. We believe that in this third report, President Peña Nieto will highlight the following topics: (1) The significant deceleration of the global economy and its impact in oil prices. In this regard, we believe that the President will announce another budget cut for 2016; (2) the moderate growth of Mexico's economy; and (3) further details on infrastructure plans that the Federal Government has begun.

We expect a 8.2% yoy expansion in June's GFI. Next Thursday at 9:00am (EDT), *INEGI* will publish its June's gross fixed investment (GFI) report. We anticipate GFI up by 8.2% yoy. We believe that within the report we will probably see a 23.8% yoy expansion in imported machinery and equipment given that trade balance figures for June showed a similar growth rate. Moreover, we expect a 7.2% growth in domestic machinery and equipment. Finally, we believe that construction spending could increase 1.9% yoy.

Consumer confidence will continue to show a contraction in August. On Friday, at 9:00am (EDT), Banxico and *INEGI* will publish its August's monthly survey on consumer confidence, where we expect a 0.9% yoy expansion, with the index reaching 90.6 points (vs. 89.7 in August 2014).

However, in seasonally adjusted terms, we expect confidence levels to decrease 1.8% m/m. We believe that consumer confidence (measured in seasonally adjusted terms) could show a contraction given the sharp depreciation of the Mexican currency, which could undermine consumers' expectations regarding Mexico's future economic outlook, and the purchasing power component.

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