

Ahead of the Curve

Activity and survey indicators to reaffirm signs of more modest economic growth

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- Gross fixed investment (April).** We expect headwinds to extend, anticipating GFI at -6.5% yoy. This would be the lowest year-to-date, albeit distorted to the downside by the timing of the Holy Week. In particular, we anticipate construction at 3.8% yoy, its third month in contraction. On the other hand, machinery and equipment (M&Eq) would reach -10.2%. In the domestic component we see a 8.3% decline, while the imported would fall 11.3%, based on the strong fall observed in capital goods imports according to the trade balance report. In general, the outlook for investment remains to the downside
- Remittances (May).** We expect the monthly flow at US\$ 3,297.1 million (4.5% yoy), a slight improvement relative to the 3.6% of the previous month. In spite of a considerably more difficult base-effect, we see a good performance. We should remember that remittances are benefitted by a temporary surge due to Mother's Day. More importantly, it is our take that tensions at the Border remained high, with renewed attention on migration issues that could have induced migrants to send a higher average amount. With this result, remittances would add up to US\$ 13,818.3 million so far in 2019, 5.5% higher than in the same period of the previous year. We maintain our view that remittances growth is likely to slow down but will remain positive overall, consistent with slower growth in consumption

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Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 2-Jul	10:00am	Family remittances	May	US\$ mn	<u>3,297</u>	--	2,861.1
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>48.9</u>	--	49.4
		Non-manufacturing		index	<u>50.1</u>	--	49.4
Tue 3-Jul	10:00am	International reserves	Jun-28	US\$ bn	--	--	178.6
Tue 3-Jul	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 20y Mbono (Nov'38); 5y Bondes D					
Thu 5-Jul	9:00am	Consumer confidence	June	index	<u>108.9</u>	--	108.1
Thu 5-Jul	9:00am	Gross fixed investment	April	% yoy	<u>-6.5</u>	--	-2.4
		Machinery and equipment		% yoy	<u>-10.2</u>	--	-3.2
		Domestic		% yoy	<u>-8.3</u>	--	-5.8
		Imported		% yoy	<u>-11.3</u>	--	-1.4
		Construction		% yoy	<u>-3.8</u>	--	-1.8
Thu 5-Jul	4:30pm	Citibanamex bi-weekly survey of economic expectations					

Source: Banorte; Bloomberg

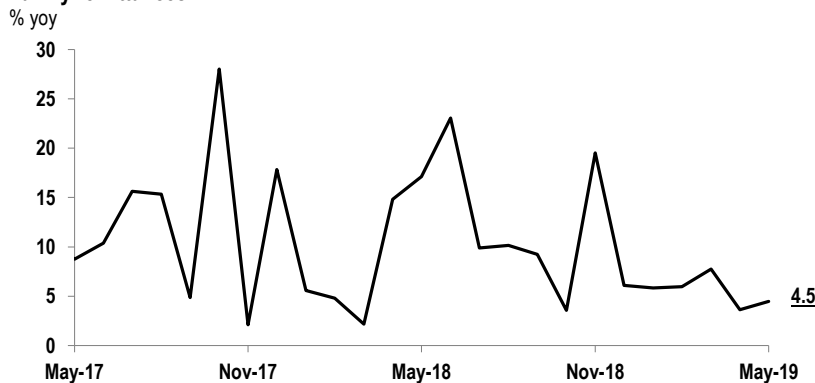
Proceeding in chronological order...

Remittances to maintain a healthy pace in May. We expect remittances at US\$ 3,297.1 million (4.5% yoy), a slight improvement relative to 3.6% previously. In spite of a considerably more difficult base-effect (+17.1% yoy in the same period of 2018), we see a good performance. First, remember that the balance of remittances in May is benefitted by a temporary surge due to Mother’s Day, with last year actually showing a new historical high above US\$ 3 billion for the first time ever last year. Second and more importantly, it is our take that tensions at the Border remain high, with renewed attention on migration that could have induced migrants to send a higher average amount.

The Mexican peso depreciated modestly in the monthly average, from 18.98 in April to 19.12 per dollar, with the bulk of pressures at the end of the period. Nevertheless, on a yearly basis the FX rate was 2.4% lower, with a stronger peso discouraging remittances as its purchasing power in local currency decreases. In this respect, estimated growth is more modest relative to the 5.8% registered during the first four months of the year.

With this result, remittances would add up to US\$ 13,818.3 million so far in 2019, 5.5% above the same period of the previous year. We maintain our view that remittances growth is likely to slow down gradually on lower activity in the US, eventually leading to more modest employment growth of Mexican migrants. Nevertheless, we believe dynamism will remain positive overall, consistent with positive albeit slower growth in consumption.

Family remittances



Source: Banxico

Banxico’s survey of economic expectations. As usual, markets will focus on inflation forecasts. The median for 2019 is 3.75%, above our 3.5%. Moreover, the medium-term estimate remains above target, standing at 3.5%. In addition, estimates for the reference rate will be published. Our expectation is for Banxico to start an easing cycle as soon as November with a 25bps cut, with the reference rate by year-end at 8.00% (consensus: 8.00%).

Forecasts for GDP will also be released. In the last survey, economists’ growth for 2019 stood at 1.35%, below our 1.5%. For 2020 it was revised lower to 1.7% from 1.8%. Finally, we could see a marginal revision in the exchange rate, considering that the YE19 forecast stands at USD/MXN 19.83 (Banorte: 20.30).

PMI's mixed in June, with manufacturing down for a second month in a row. We expect the manufacturing index at 48.9pts from 49.4pts sa in May. On balance, the news in this sector were negative. First, at the end of the month, President Trump threatened tariffs on all Mexican exports to the US, giving a deadline that spanned until the first week of June. This could have dampened new orders and production, considering that it seemed all but certain that they would be levied. However, on Friday 7th an agreement was reached, which may have resulted in a slight normalization in these sub-indices. Nevertheless, and given that implementation was delayed by 45 days subject to a review, we do not rule out that some lingering concerns remain, dampening sentiment while pushing forward hiring and investment decisions until uncertainty decreases. In addition, there were also news on Mexico's sovereign credit rating, with Fitch downgrading it (from 'BBB+' to 'BBB', with a 'stable' outlook) and Moody's cutting the outlook ('A3' with a 'negative' outlook). Although these decisions likely did not have a direct impact on production, we think they still could have had a marginally negative effect.

In services, we anticipate a slight pick-up to 50.1pts from 49.4pts. In this regard, we expect services to drive the rebound, with a slightly better performance in deliveries and production, as suggested by a more dynamic print than expected in April's retail sales. Despite a further deceleration in formal job creation, other fundamentals for consumption remain strong, such as real wages, remittances and credit. However, given the relative weight construction also plays within this sub-index, we expect it to drag overall performance. All in all, signals are likely to confirm that activity will be muted. We believe that more headwinds remain in industry, with the possibility of an additional pickup in uncertainty, particularly on the trade front as the electoral season in the US starts to heat up.

Weekly international reserves report. Last week, net international reserves increased US\$303 million, closing at US\$178.6 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\$3.8 billion during 2019 (please refer to the following table).

Banxico's foreign reserve accumulation detail

US\$, million

	2018	Jun 21, 2019	Jun 21, 2019	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	174,793	178,601	303	3,809
(B) Gross international reserve	176,384	186,083	159	9,698
Pemex	--	--	-46	244
Federal government	--	--	-111	5,892
Market operations	--	--	0	0
Other	--	--	315	3,562
(C) Short-term government's liabilities	1,592	7,481	-144	5,890

Source: Banco de México

Weekly government bond auction. The Ministry of Finance (MoF) –via Banco de Mexico as its financial agent, will offer 20-year fixed-rate Mbonos (Nov'38), 5-year Bondes D, 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, July 2nd, 2019)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	01-Ago-19	--	7,000	8.18
3m	03-Oct-19	--	11,000	8.19
6m	02-Jan-19	--	12,500	8.15
Bondes D				
5y	27-Jun-24	--	6,500	0.13
Mbonos				
20y	18-Nov-38	8.50	3,700	8.46

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

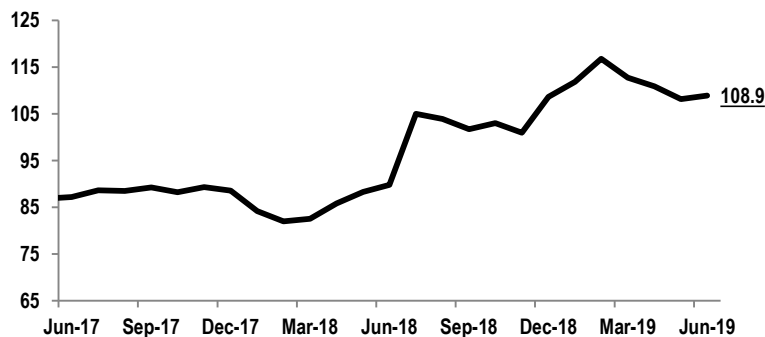
We expect consumer confidence to stabilize in June. We expect confidence at 108.9pts from 108.1pts in May, breaking temporarily with a three month decline. Nevertheless, and with seasonally-adjusted figures, the index would fall 1.3% m/m. As we have previously mentioned, confidence has been strongly related to political sentiment, as shown by its correlation with presidential approval indices. In this regard, and according to *Oraculus*, site which compiles a poll-of-polls of this indicator, net approval by the end of May was 46%, climbing to 47% in June. In addition, the daily poll from *El Economista* newspaper / *Consulta Mitofsky* shows that approval went up from 59.9% (on May 20th, the last day of the survey) to 62.0% one month later.

In our opinion, the most important event was the threat of the possible imposition of tariffs by the US on Mexican imports. Initially, the MXN showed a strong depreciation, reaching a 19.78 per dollar, probably having a negative impact on sentiment. Nevertheless, and after an agreement to delay this imposition on June 7th, the currency erased the loss. In this context, reports showed a strong support by the population for the agreement reached, which probably limited the initial negative impact. We believe that this latter fact is what is mainly reflected in the approval indices previously mentioned. Nevertheless, we have noted an increase in tensions on migration issues, especially in border states. Another relevant risk event was the changes to Mexico's sovereign rating and outlook by two rating agencies. In this context, this could have put additional pressure on the country's sub-indices, more so in expectations than in the current conditions. However, the recent decline in headline inflation, explained in large part by lower agricultural and energy prices could help to limit the impact of this situation.

All in all, we continue to believe that consumer confidence will keep declining gradually as political optimism fades away, eventually returning towards its long-term average especially in a context of a slowdown in economic activity.

Consumer confidence

Index, nsa

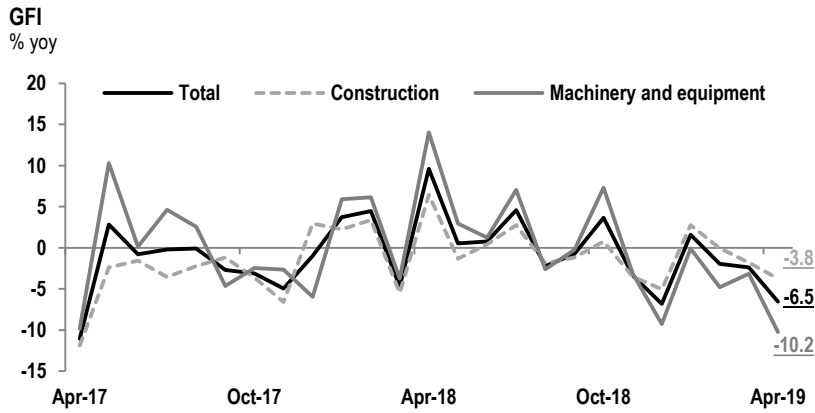


Source: INEGI

Headwinds for gross fixed investment likely built up in April. We anticipate GFI at -6.5% yoy, which would be the lowest year-to-date albeit distorted to the downside by the timing of the Holy Week. Despite of this, we continue seeing investment as the weakest link for GDP.

In particular, we anticipate construction at 3.8% yoy, its third month in contraction. In this respect, IP fell 4.2% both because of weakness in edification (-3.9%) and civil engineering (-5.8%). Regarding the former, we believe high uncertainty and financing costs remain the heaviest drags. In the latter, the non-residential sector's weak performance is mainly due to infrastructure spending by the Federal government, which is typical during the first year of a new administration. On the other hand, we estimate machinery and equipment (M&Eq) at -10.2%. In the domestic component we see a 8.3% decline, marking the 11th consecutive month in contraction. In the imported the decline is estimated at 11.3%. Capital goods imports according to the trade balance fell 9.2%, its worst setback since July 2016. Moreover, the base-effect in this case is particularly challenging as it surged 22.9% in the same month of 2018.

In general, the outlook for investment remains to the downside. First and foremost, growth forecasts for the Mexican economy have been revised further to the downside and business confidence remains limited. In the public sector, the implementation of additional austerity measures could keep weighing in construction, while some of the key projects of the administration have suffered regulatory and/or legal difficulties, such as the Dos Bocas Refinery and the Mayan Train, among others. To the challenges to the residential sector we should add project delays in Mexico City, weighing particularly on private businesses. Regarding M&Eq, the threat of tariffs by the US has impacted the outlook for capex, more so in industries with closer links to external demand.



Source: INEGI, Banorte

Citibanamex Survey. Markets will center on analysts' inflation forecasts for June (to be published on Tuesday, July 9th) along with the 2019 year-end estimate. It will be important to see monetary policy assessments, particularly after the latest monetary policy decision, in which we perceived a slightly dovish tone. We will also pay attention to GDP growth and the exchange rate.

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HOLD	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
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