

Ahead of the Curve

Investment to extend its weakness in October

- Gross fixed investment (October).** We expect weakness to persist, forecasting a 7.6% yoy contraction, below the already weak -6.8% observed in September. With these, investment would accumulate a year-to-date decline of 5.1%. Using seasonally-adjusted figures, we expect a 0.8% m/m drop, adding two months in negative territory. Inside, we forecast an 8.0% yoy plunge in construction, still lacking dynamism in an environment of low business confidence. Machinery and equipment is expected to drop 7.1%. Within the latter, we believe adverse shocks in the auto sector during the period –both in our country and the US–will impact transportation, especially in the imported component relative to the domestic one

January 10, 2020

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 Document for distribution among the
 general public

Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 14-Jan	7:00am	Gross fixed investment	October	% yoy	<u>-7.6</u>	-7.8	-6.8
		sa		%m/m	<u>-0.8</u>	--	-1.3
		Machinery and equipment		% yoy	<u>-7.1</u>	--	-6.1
		Domestic		% yoy	<u>-3.0</u>	--	-0.6
		Imported		% yoy	<u>-9.6</u>	--	-9.9
		Construction		% yoy	<u>-8.0</u>	--	-7.3
Tue 15-Jan	10:00am	International reserves	Jan-10	US\$ mn	--	--	181.2
Tue 15-Jan	12:30pm	Government bonds weekly auction: 1-, 3-, 6-month CETES; 10y MBono (May'29); 5y Bondes D					

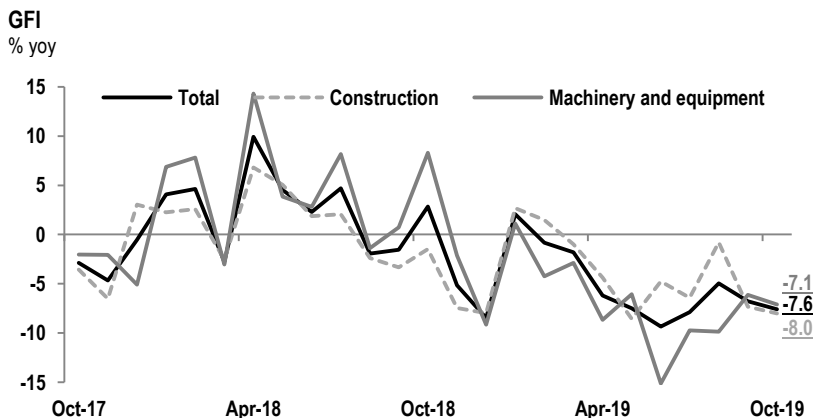
Source: Banorte; Bloomberg

Proceeding in chronological order...

Gross fixed investment to stay weak. We anticipate GFI at -7.6% yoy, below the -6.8% observed in September. Year-to-date, performance would fall further, to -5.1% from -4.8%, adding downside risks to our already muted full-year forecast of -4.6%. With seasonally-adjusted figures we anticipate a second month in a row in contraction, at -0.8% m/m. Overall, investment remains a drag, anticipating some impact in machinery and equipment due to shocks in the auto sector, as already reflected in both [industrial production](#) and the [trade balance](#), while construction keeps failing to gather momentum.

We expect construction at -8.0% yoy, with the signal for the sector provided by IP staying weak at -9.3%. Both edification and civil engineering –the latter more closely related to government spending, which stayed pressured– contracted more in annual terms relative to the previous month. Business confidence also weakened, with incipient signs of a recovery only until December. The latter could have been driven by lower domestic uncertainty, including the agreement on changes to the USMCA and the first phase of the government’s Infrastructure Plan. In our view, a necessary but not sufficient condition for a more supportive backdrop in construction is that confidence builds up on these recent gains. Although we are optimistic this could eventually materialize, short-term dynamics have not provided enough positive signals to call confidently that a bottom has been reached.

In machinery and equipment (M&Eq) we estimate a 7.1% decline, lower than the -6.1% of the previous month. The imported component will likely continue as the main drag, falling 9.6%. In this respect, capital goods imports plunged 13.1%, anticipating that weakness in transportation within M&Eq will extend. It is worth remembering that GM’s strike in the US finished until October 25th. This component would be impacted, as already observed in supply-side data (particularly industrial production). Recognizing that the strike also impacted domestic auto production, we believe this event also had negative implications for transportation within the domestic component, albeit anticipating a more modest contraction in this case, at -3.0%.



Source: INEGI, Banorte

Weekly international reserves report. Last week, net international reserves increased US\$428 million, closing at US\$181.2 billion. According to Banxico's report, this comes from a positive valuation effect in central bank assets. In this context, the central bank's international reserves closed 2019 at US\$180.9 billion, which represents a US\$6.1 billion increase during the year (please refer to the following table).

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

	2019	Jan 3, 2020	Jan 3, 2020	2019
	Balance		Flows	
International reserves (B)-(C)	180,877	181,177	428	6,085
(B) Gross international reserve	183,028	183,151	-1,030	6,644
Pemex	--	--	-71	3
Federal government	--	--	-1,419	542
Market operations	--	--	0	0
Other	--	--	460	6,098
(C) Short-term government's liabilities	2,151	1,974	-1,457	559

Source: Banco de México

Weekly government bond auction. The Ministry of Finance (MoF) –via Banco de Mexico as its financial agent, will offer 10-year fixed-rate Mbonos (May'29), 5-year Bondes D, in addition to 1-, 3-, and 6-month zero-coupon Cetes (see following table). As usual, results will be released at 12:30pm (ET).

Auction specifics (Tuesday, January 14th, 2020)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	13-Feb-20	--	5,000	7.26
3m	16-Apr-20	--	6,000	7.22
6m	16-Jul-20	--	10,500	7.24
Bondes D				
5y	19-Dec-24	--	6,500	0.15
M Bono				
10y	31-May-29	8.50	10,000	7.14

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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