

Ahead of the Curve

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Market focus this week will be on August's inflation and consumer confidence

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- **Monthly inflation report (August).** On Friday, at 9:00am, *INEGI* will release its monthly inflation report for August. We are forecasting a 0.60% m/m increase in the headline index, while we expect the core component to climb 0.27% m/m. Inflation during the period in question will be mainly explained by the increase in the prices of agricultural goods, both meat & egg as well as fruits & vegetables. In addition, we also expect pressures from energy prices, particularly gasoline. With these results, 12-month inflation will stand at 4.92% in August, higher than the 4.81% seen in July.
- **Consumer confidence (August).** On Wednesday, at 9:00am (EDT), Banxico and *INEGI* will publish its monthly survey on consumer confidence for August, where we expect a 11.4% yoy expansion, with the index reaching 98.6 points, down from the 105pts seen in July. Nevertheless, in seasonally adjusted terms, we expect confidence levels to fall 4% in the monthly comparison.

Document for distribution among the general public

Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Sat 1-Sep		New Congress starts					
Mon 3-Sep	10:00am	Family remittances	Jul	US\$ mn	<u>2,835.3</u>	--	3,140.7
Mon 3-Sep	10:00am	Banxico's survey of economic expectations	Aug				
Mon 3-Sep	1:00pm	PMI's survey (IMEF)	Aug				
		Manufacturing		index	<u>50.7</u>	--	49.7
		Non-manufacturing		index	<u>50.1</u>	--	50.0
Tue 4-Sep	10:00am	International reserves	Aug-31	US\$ bn	--	--	173.6
Tue 4-Sep	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 5y Mbono (Dec'23); 10y Udibono (Nov'28)					
Wed 5-Sep	9:00am	Consumer confidence	Aug	index	<u>98.6</u>	--	105.0
Wed 5-Sep	4:30pm	Citibanamex bi-weekly survey of economic expectations					
Thu 6-Sep	9:00am	Gross fixed investment	Jun	% yoy	<u>2.2</u>	--	0.9
		Machinery and equipment		% yoy	<u>4.1</u>	--	3.3
		Domestic		% yoy	<u>3.8</u>	--	4.1
		Imported		% yoy	<u>4.4</u>	--	2.8
		Construction		% yoy	<u>0.7</u>	--	-1.1
Fri 7-Sep	9:00am	CPI inflation	Aug	% m/m	<u>0.60</u>	--	0.54
				% yoy	<u>4.92</u>	--	4.81
		Core		% m/m	<u>0.27</u>	--	0.29
				% yoy	<u>3.65</u>	--	3.63

Source: Banorte; Bloomberg

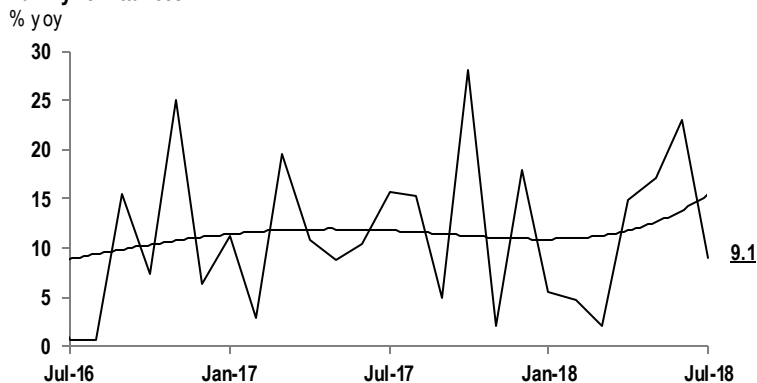
Proceeding in chronological order...

New Congress will start sessions on September 1st. On Saturday, both chambers of the new Congress –derived from recent election-, will session for the first time. These officials were already sworn in on the 29th of August and among their first tasks will be the reception of President Peña-Nieto’s last State of the Union.

Family remittances will post a 9.1% yoy expansion in July. Next Monday, at 10:00am (ET), Banxico will make its family remittances monthly data available. We expect Mexican workers living abroad –mainly in the US–, to have sent US\$2,835.3 million to their families in Mexico during July. This would imply a 9.1% yoy expansion.

We believe that the remittances inflows will be explained by the dynamism of the labor market in the US, which has translated into more favorable conditions for Mexican workers. However, this will be partially offset by the appreciation registered by the MXN during the month. Looking ahead, we believe that the flow of remittances will be mainly explained by the growth trend in the US labor market and Trump’s anti-migration policy.

Family remittances



Source: Banxico

Banxico’s survey of economic expectations. Also on Monday, at 10:00am (ET), Banco de Mexico will publish its monthly survey of economic expectations. Market focus will be on inflation forecasts, particularly that of 2018, which as of last survey stands at 4.25% (Banorte: 4.3%), as well as inflation expectations for the medium and long term.

Moreover, attention will also be on monetary policy forecasts, for which we do not expect further movements in the next 18 months. In addition, we will be looking into 2018’s GDP forecast, which we expect at 2.1% (consensus: 2.3%). Furthermore, we expect downward revisions to FX forecasts given the recent announcement regarding the trade relationship between the US and Mexico, and we will be particularly attentive to its trajectory throughout the next twelve months.

August's PMI surveys. In addition, on Monday, *IMEF (Mexican Institute of Financial Executives)* will publish its PMI business confidence indicators for July. We expect the manufacturing PMI at 50.7 points (seasonally adjusted figures), above July's 50.0pts. We believe that the increase in the manufacturing PMI during the month will be explained by the recent news regarding the deal reached between Mexico and the US on bilateral issues. Regarding the non-manufacturing PMI, we believe that it will stand at 50.1 points, up from 49.7 points in July (sa figures). We also consider that the favorable news regarding commerce will boost the non-manufacturing index.

Weekly international reserves report. On Tuesday, at 10:00am (ET), Banco de Mexico will release its weekly balance report. Last week, net international reserves increased by US\$240 million amounting to US\$173.6 billion. According to Banxico's report, this figure comes mainly as a result of a negative valuation effect in central bank assets. In this context, the central bank's international reserves have increased by US\$768 million during 2018 (please refer to the following table).

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

	2017	Aug 24, 2018	Aug 24, 2018	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	172,802	173,569	240	768
(B) Gross international reserve	175,450	176,318	23	868
Pemex	--	--	-161	-710
Federal government	--	--	-121	286
Market operations	--	--	0	0
Other	--	--	305	1,292
(C) Short-term government's liabilities	2,648	2,749	-217	101

Source: Banco de México

Weekly government bond auction. In addition, on Tuesday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent–, will offer 5-year fixed-rate Mbonos (Dec'23), 10-year inflation-linked Udibonos (Nov'28), 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 (ET).

Auction specifics (Tuesday, August 28th, 2018)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	04-Oct-18	--	7,000	7.72
3m	06-Dec-18	--	11,000	7.89
6m	28-Feb-19	--	11,500	8.04
M Bono				
5y	07-Dec-23	8.00	8,500	7.59
M Bono				
10y	30-Nov-28	4.00	UDIS 700	3.55

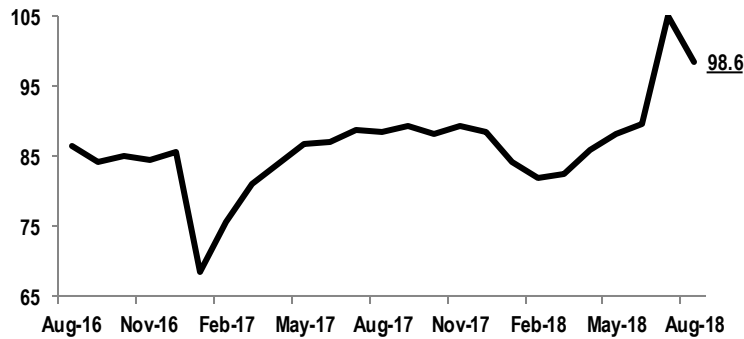
Source: Banorte with data from Banco de México 1. Except for Udibonos, which are expressed in UDI million, everything else is expressed in MXN million. 2. Yield-to-maturity reported for Cetes, Mbonos and Udibonos

Consumer confidence will post a slight slowdown in August. On Wednesday, at 9:00am (EDT), Banxico and *INEGI* will publish its monthly survey on consumer confidence for August, where we expect a 11.4% yoy expansion, with the index reaching 98.6 points, down from the 105pts seen in July. Nevertheless, in seasonally adjusted terms, we expect confidence levels to fall 4% in the monthly comparison.

We believe that this contraction in consumer confidence will be explained in part by a reversion after the surge observed in previous month, but will remain at elevated levels. In addition, recent pick-up in inflation (from 4.41% in the second half of April to 4.81% in the first half of August) will also weigh negatively. Moreover, the depreciation seen in the first 20 days of the month (period in which the survey is conducted) might also have an adverse impact.

Consumer confidence

Index, nsa

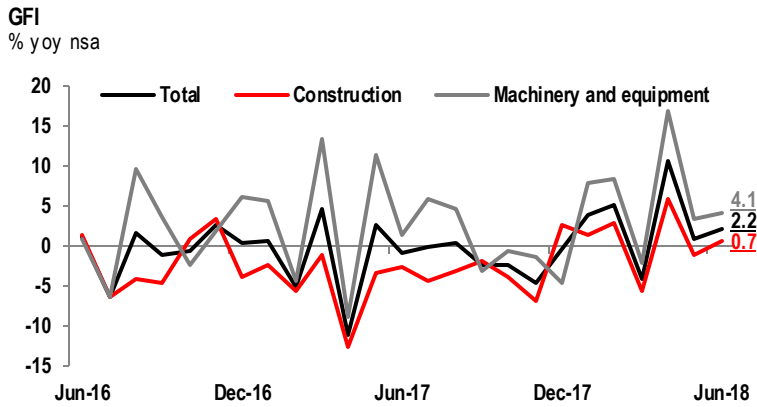


Source: INEGI

Citibanamex Survey. Also on Wednesday, around 4:30pm (ET) *Citibanamex* will release its bi-weekly survey of economic expectations, where market focus will be on analysts' inflation forecasts for August (to be published on Friday, September 7). Furthermore, attention will be on monetary policy assessments, particularly given the information contained in Banxico's last *Quarterly Report*. In addition, the survey will contain forecasts for growth and FX.

We expect a 2.2% yoy expansion in June's GFI. On Thursday at 9:00am (ET), *INEGI* will publish its gross fixed investment (GFI) report for June, where we anticipate GFI up by 2.2% yoy.

We believe that within the report we will probably see a 4.4% yoy growth in imported machinery and equipment, given that trade balance figures showed a 9.8% yoy increase for capital goods imports. In addition, we expect a 3.8% increase in domestic machinery and equipment investment. Finally, we believe that construction investment will be up 0.7% yoy on the back of a 1% yoy in construction output, according to industrial activity figures already published.



Source: INEGI, Banorte

Inflation during August will be explained by an increase in agricultural prices. Finally on Friday, at 9:00am, *INEGI* will release its monthly inflation report for August. We are forecasting a 0.60% m/m increase in the headline index, while we expect the core component to climb 0.27% m/m. Inflation during the period in question will be mainly explained by the increase in agricultural goods, both in meat & egg as well as fruits & vegetables. In addition, we also expect pressures from energy prices, particularly gasoline.

With these results, 12-month inflation will stand at 4.92% in August, higher than the 4.81% seen in July. Moreover, we forecast core inflation at 3.65% yoy (previous: 3.63% yoy). Looking ahead, we will remain vigilant to the behavior of prices of fruits and vegetables as well as the contribution of gasoline prices, which have had significant impacts on the index in the last bi-weekly prints.

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