

Ahead of the Curve

We expect a rebound in gross fixed investment in October despite signs of slower economic activity so far in 4Q18

- **Gross fixed investment (October).** We anticipate GFI at +3.1% yoy in October after two consecutive months in contraction. We believe the rebound would be driven by a 6.4% yoy increase in machinery and equipment. In particular, we estimate +10.7% in the imported component (as suggested by trade balance figures), while domestic could show null growth even considering a positive base effect. In construction, we expect a 0.6% rebound after two months in contraction. In spite a relatively strong figure in the annual comparison which implies a +1.7% m/m with seasonally adjusted figures, we believe the outlook for investment will remain unfavorable. Among the main factors that could weigh on investment, we highlight higher uncertainty and financial volatility that have impacted financial markets along significantly lower business confidence levels and the recent downward revision in growth prospects for 2019.

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Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 14-Jan	9:00am	Gross fixed investment	October	% yoy	<u>3.1</u>	3.6	-0.9
		Machinery and equipment		% yoy	<u>6.4</u>	--	-0.2
		Domestic		% yoy	<u>0.0</u>	--	-5.0
		Imported		% yoy	<u>10.7</u>	--	3.2
		Construction		% yoy	<u>0.6</u>	--	-1.4
Tue 15-Jan	10:00am	International reserves	Jan-11	US\$ mn	--	--	174.9
Tue 15-Jan	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 5y MBono (Nov'38); 5y Bondes D					

Source: Banorte; Bloomberg

Proceeding in chronological order...

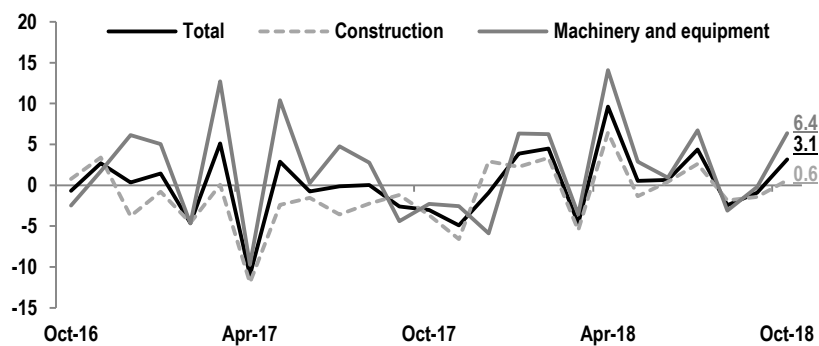
GFI to bounce back on strong imports of machinery and equipment. We anticipate gross fixed investment at +3.1% yoy in October after two consecutive months in contraction, reaching its highest since July. With seasonally adjusted figures, we expect a 1.7% m/m expansion.

Within the report and using original figures, we believe the rebound would be driven by a 6.4% yoy increase in machinery and equipment. In particular, we anticipate the imported component at +10.7% given the strength of capital goods imports within trade balance figures. Moreover, we expect null growth in the domestic component after the strong fall in the last four months. It is worth noting that our expectation is also influenced by a favorable base effect given the 11% contraction in October 2017, which we think was explained by the impact of the earthquakes in late September.

Lastly, we also expect a 0.6% pickup in construction after two months in contraction. In this context, the industrial production report points to an expansion while confidence levels remained relatively strong in the sub-indices related to expectations, both for the country and businesses. Nevertheless, there was a relevant fall in the time to invest component. Moreover, the latter index has shown a significant contraction in the last two months of 2018.

Going forward, we believe that the outlook for investment will be unfavorable despite the pickup in October. In particular, uncertainty and financial volatility have increased significantly, impacting long-term interest rates and the Mexican currency. Finally, global and domestic growth expectations have been revised down and business confidence levels have taken a hit, which could result in more caution in terms of the willingness to invest.

GFI
% yoy nsa



Source: INEGI, Banorte

Weekly international reserves report. At the end of 2018, international reserves stood at US\$174.8 billion, which represents a US\$1.9 billion increase from YE17. Last week, net international reserves rose US\$328 million, closing at US\$174.9 billion. According to Banxico’s report, this figure comes mainly from a positive valuation effect in central bank assets (please refer to the following table).

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

	2018	Jan 4, 2019	Jan 4, 2019	Year-to-date (2018)
	Balance		Flows	
International reserves (B)-(C)	174,793	174,937	328	1,991
(B) Gross international reserve	176,384	176,633	566	934
Pemex	--	--	236	-838
Federal government	--	--	32	22
Market operations	--	--	0	0
Other	--	--	298	1,751
(C) Short-term government's liabilities	1,592	1,695	238	-1,056

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 “more traditional” 1-, 3-, and 6-month zero-coupon Cetes (please refer to the following table). As usual, results will be released at 12:30pm (ET).

Auction specifics (Tuesday, January 15th, 2019)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	14-Feb-19	--	6,000	8.00
3m	17-Apr-19	--	10,000	8.28
6m	18-Jul-19	--	10,000	8.50
Bondes D				
5y	21-Dec-23	--	5,500	0.17
M Bono				
10y	18-Nov-38	8.50	2,700	9.59

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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	Reference
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