

Ahead of the Curve

Expected slowdown in 1Q19 aggregate demand to 1.4% yoy

- Aggregate supply and demand (1Q19).** We expect a 1.4% yoy increase, significantly below the 2.7% of the previous quarter. The most relevant drivers behind this slowdown would be a decline in government spending – typical in the first year of a new federal administration– and less dynamism in trade. Consumption is expected relatively stable when compared to 4Q18 at 1.5%, while investment added two consecutive quarters in contraction at -0.9%. In our view, this result would be weak considering that the previously-reported GDP print at 1.2% was arguably benefitted by a positive base-effect due to the Easter holiday. Going forward, we believe investment and net exports are likely to remain challenged at least in 2Q19, with both of them impacted by trade tensions, among other factors. On the other hand, consumption is flashing some warning signs. We maintain our 2Q19 GDP forecast of 1.5% yoy, albeit with clear downside risks

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Mexico weekly calendar

DATE	TIME (EDT)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Tue 18-Jun	10:00am	International reserves	Jun-14	US\$ bn	--	--	178.3
Tue 18-Jun	12:30pm	Government weekly auction: 1-, 3-, 6-, 12-month CETES; 10y Mbono (My'29); 30y Udibonos (Nov'46); 5y Bondes D					
Thu 20-Jun	3:30pm	Citibanamex survey of economic expectations					
Fri 21-Jun	9:00am	Aggregate Demand	1Q19	% yoy	<u>1.4</u>	--	2.7
		Private consumption		% yoy	<u>1.5</u>	--	1.4
		Government consumption		% yoy	<u>-1.1</u>	--	0.2
		Gross-fixed investment		% yoy	<u>-0.9</u>	--	-2.3

Source: Banorte; Bloomberg

Proceeding in chronological order...

Weekly international reserves report. Last week, net international reserves increased US\$435 million, closing at US\$178.3 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\$3.5 billion during 2019 (please refer to the following table).

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

	2018	Jun 7, 2019	Jun 7, 2019	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	174,793	178,291	435	3,498
(B) Gross international reserve	176,384	185,690	273	9,306
Pemex	--	--	-5	181
Federal government	--	--	-26	5,863
Market operations	--	--	0	0
Other	--	--	304	3,262
(C) Short-term government's liabilities	1,592	7,400	-162	5,808

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), 30-year Udibonos (Nov'46), 5-year Bondes D, in addition to the 1-, 3-, 6-, and 12-month zero-coupon Cetes (see following table). As usual, results will be released at 12:30pm (ET).

Auction specifics (Tuesday, June 18th, 2019)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	18-Jul-19	--	6,000	8.28
3m	19-Sep-19	--	10,000	8.30
6m	19-Dec-19	--	11,500	8.31
12m	18-Jun-20	--	13,000	8.28
Bondes D				
5y	25-Apr-24	--	6,000	0.14
Mbonos				
10y	31-May-29	8.50	10,200	8.24
Udibonos				
30y	08-Nov-46	4.00	UDIS 450	4.01

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

Citibanamex Survey. Market focus will center on analysts' inflation forecasts for the first half of June (to be published on Monday, June 24th) along with the 2019 year-end estimate. It will be important to see monetary policy assessments, particularly with sights on the June 27th monetary policy meeting. We will also be paying attention to forecasts for GDP growth and USD/MXN exchange rate.

Aggregate demand in 1Q19 likely dragged by government spending and less dynamism in trade. We expect a 1.4% yoy increase in aggregate supply and demand, significantly below the 2.7% observed in the previous quarter. The most relevant factors behind this should be a decline in government spending – in a context of the first year of a new federal administration– and less dynamism in overall trade. On the other hand, consumption is expected to be relatively stable when compared to 4Q18, at 1.5% vs. 1.4%, while investment would add two consecutive quarters in contraction, published already at -0.9% from -2.3% previously.

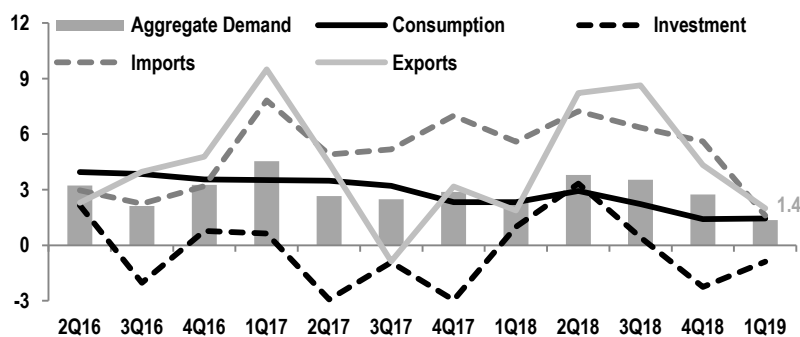
This result would be weak considering that the previously-reported GDP print at 1.2%, which was arguably benefitted by a positive base-effect due to the Easter holiday. In this context, activity in March was weak across the board.

Going into details of demand, we estimate government expenditures to decline 1.1% yoy. On a positive note, it should be considered that the base effect from 1Q18 is not that challenging, particularly when compared to the last two electoral years, likely a result of austerity measures by the previous administration. In particular, spending in that quarter grew 1.3%, while in 2012 was +5.1% and 2006 at 5.3%. Nevertheless and on the contrary, expenditures have fallen quite strongly according to public finance reports, with spending of the Federal Government declining 2.2% during the quarter, weakest in slightly more than a year. Moreover, several reports have documented a sizable reduction across several ministries under the government’s renewed push of austerity measures.

On the other hand, we expect exports and imports at 2% and 1.6% yoy, both lower when compared to 4Q18 at 4.3% and 5.6%, respectively. We highlight that, based on historical data, trade (net exports) is among the most sensitive to the *Holy Week* seasonality. Despite of the latter, March trade balance figures were quite weak, with both total exports and imports actually falling in the annual comparison, with this month as the main driver behind the expected slowdown.

Going forward, we believe investment and net exports are likely to remain challenged at least in 2Q19, with both impacted by trade tensions. The former could also be limited by low public investment and high local uncertainty; the latter, by the global slowdown in manufacturing including the US, which has exhibited an additional moderation. Consumption has also shown increasing warning signs, expected at a more modest pace for a second consecutive quarter when compared to average growth of 2.5% during the four quarters ended in 3Q18. We maintain our 2Q19 GDP forecast of 1.5% yoy, albeit with clear downside risks.

Aggregate demand
% yoy (nsa)



Source: INEGI, Banorte

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