

# Ahead of the Curve

November 22, 2019

## GDP likely revised up to -0.3% yoy, also with focus on Banxico

- Gross domestic product (3Q19 F).** We anticipate a revision of about 10bps higher from the preliminary estimate, to -0.3% yoy. In seasonally-adjusted terms, we do not expect changes from the 0.1% already published. The main driver would be industry, up by around 30bps, to -1.4% yoy. In services we see a modest improvement, to zero from -0.1%. If our forecast materializes, performance would be slightly more positive when compared to the previous quarter and consistent with September's IGAE at -0.6% yoy (-0.1% m/m), slightly above the -0.8% yoy implied by the preliminary GDP
- Banxico's Quarterly Report (QR) and monetary policy minutes.** We expect both documents to reaffirm that Banxico will continue the easing cycle in a prudent manner. In the QR, we anticipate: (1) A reduction in the GDP forecast range for this year, at -0.1 to 0.3%, with the mid-point at 0.1% (previous: 0.5%) and for 2020, the point estimate cut between 60-70bps, to 1.3-1.4%; and (2) a downward adjustment in headline inflation for 4Q19 (to 3.0%) including marginal declines in the trajectory, while the core would be moved upwards in the forecast horizon mainly on concerns about the minimum wage hike for 2020. In the minutes, we will focus on potential discussions about some risks in the short-term, including recent developments in the US-China trade war, the approval of USMCA and the *2020 Budget* among the most relevant

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### Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS	
Mon 25-Nov	7:00am	GDP	3Q19 (F)	% yoy	-0.3	-0.3	-0.4	
		sa		% q/q	0.1	0.1	0.1	
		Primary activities		% yoy	5.4	--	5.4	
		Industrial production		% yoy	-1.4	--	-1.7	
		Services		% yoy	0.0	--	-0.1	
Mon 25-Nov	7:00am	Global economic indicator	September	% yoy	-0.6	--	-0.9	
		sa		% m/m	-0.1	--	0.1	
		Primary activities		% yoy	13.0	--	0.2	
		Industrial production		% yoy	-1.8	--	-1.3	
		Services		% yoy	-0.6	--	-0.7	
Mon 25-Nov	10:00am	Current account	3Q19 (F)	US\$ bn	2,748.0	-1,070.0	5,142.7	
Tue 26-Nov	7:00am	Retail sales	September	%yoy	2.1	1.3	2.6	
		sa		% m/m	0.6	--	0.3	
Tue 26-Nov	10:00am	International reserves	Nov-22	US\$ bn	--	--	180.6	
Tue 26-Nov	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 5y Mbono (Sep'24); 10y Udibonos (Nov'28)						
Wed 27-Nov	7:00am	Trade balance	October	US\$ mn	-1,938.2	--	-116.2	
		Total exports		% yoy	-2.3	--	-1.3	
		Oil exports		% yoy	-33.8	--	-29.3	
		Non-oil exports		% yoy	-0.2	--	1.0	
		Total imports		% yoy	-4.4	--	-1.7	
Wed 27-Nov	7:00am	Unemployment rate	October	%	3.50	3.60	3.80	
		sa		%	3.52	--	3.54	
Wed 27-Nov	1:00pm	Banxico's Quarterly Report						
Thu 28-Nov	10:00am	Banxico's minutes						
Fri 29-Nov	10:00am	Comercial banking credit	October	% yoy	4.8	--	4.6	
		Consumption		% yoy	2.6	--	2.7	
		Housing		% yoy	7.5	--	7.4	
		Non-banking private firms		% yoy	4.5	--	4.3	
Fri 29-Nov		Budget balance (PSBRs)	October	MXN bn	--	--	-172.5	

Source: Banorte; Bloomberg

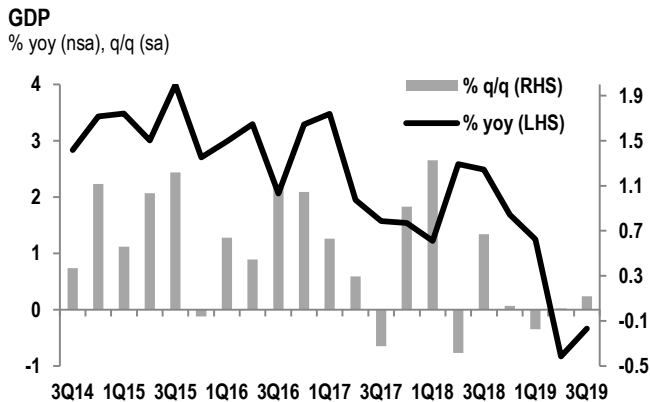
### Proceeding in chronological order...

**Mexico's final 3Q19 GDP slightly higher on less drag from industry.** We anticipate 3Q19 GDP at -0.3% yoy, about 10bps higher than the preliminary estimate. In seasonally-adjusted terms, we do not expect changes from the 0.1% already published.

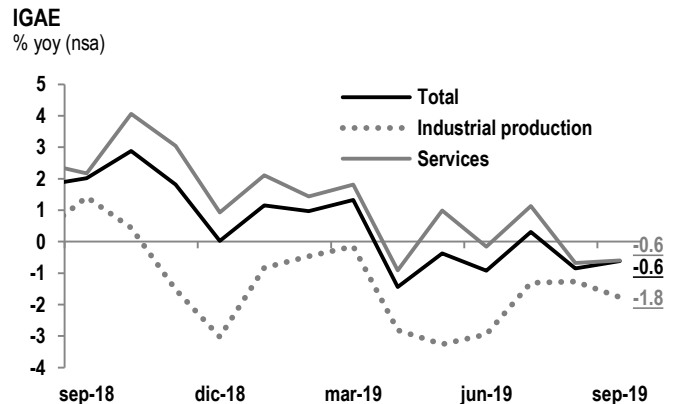
The main driver of the revision would be secondary activities. In particular, the monthly industrial production series in July was increased from -1.8% yoy originally to -1.3%, enough to drive the quarter up about 30bps, to -1.4%. Despite of the latter, most recent data for September was negative, particularly in construction. For details, see: "*Industrial production – Weakness still present in September*", [pdf](#), November 11, 2019. Moreover, we expect weakness to prevail in the short-term, with manufacturing impacted by autos in October due to GM's labor strike in the US and the closing of two Ford plants, both temporary shocks. Moreover, construction has failed to provide more definite signs of improving. On the contrary, mining is likely to be less of a drag for the whole of industrial activity, mainly on efforts to increase production by Pemex.

In services, we expect a modest improvement, to zero from -0.1% yoy in the first estimate. This figure incorporates our retail sales estimate for September at 2.1%. (see below). Overall performance remains discreet, a situation we believe is related to high uncertainty that has induced higher savings. Going forward, the IMEF non-manufacturing index for October stabilized at 48.1pts, suggesting that this sector stayed relatively weak at the start of the fourth quarter.

If our forecasts materialize, performance in seasonally-adjusted terms would be slightly more positive when compared to the previous quarter. Industry would be at 0.1% from -0.2% in the previous quarter, back to positive for the first time in a year and better than the preliminary estimate, suggesting that it has potentially bottomed out –although still with strong challenges–. Services would be marginally positive (0.04%), also revised slightly upwards from the first print albeit slowing down from the 0.2% in 2Q19, confirming the steep deceleration of domestic demand this year. Last but not least, this estimate is consistent with September's IGAE at -0.6% (-0.1% m/m), slightly higher than the -0.8% implied by preliminary GDP figures. As mentioned above, services would still be disappointing at -0.6% yoy (-0.5% m/m), with industry at -1.8% yoy (flat in monthly terms). Primary activities would surge 13% yoy, a series which is very volatile historically and helped to some extent by a more favorable base effect.



Source: INEGI, Banorte



Source: INEGI, Banorte

**Current account (3Q19): Banorte: US\$2,748 million; previous: US\$5,143 million.** Next Monday, at 10:00am, Banxico will release its balance of payments report for the third quarter of the year. We are forecasting a US\$2.7bn surplus in the current account. According to data already released, the trade balance during the period in question showed a deficit of US\$458 million, while net transfers increased as a result of 15% yoy advance in remittances.

**September retail sales to expand for second consecutive month.** We anticipate a 2.1% yoy advance, below the 2.6% of the previous month. Nevertheless, in seasonally-adjusted terms we expect a 0.6% advance, stronger than the 0.3% in August. Although the period had the same number of working days in annual terms, we believe a boost in the monthly comparison is likely as the holiday for Independence Day was on a Monday, allowing for a long weekend, helping to compensate for one weekend day less.

The main positive signal in this respect came from non-oil consumption goods imports, at 4.2% yoy (+1.8% m/m). Nevertheless, other data was weaker. In particular, auto sales as a proxy for durables goods consumption extended their decline, standing at -12.3% yoy vs -9.7% in August, with eight consecutive months in negative territory. ANTAD sales were also down at -1.4% yoy in real terms, likely affected by a more difficult base effect.

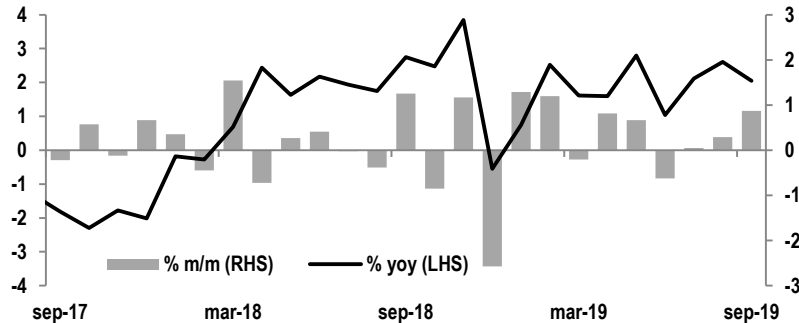
Fundamentals keep suggesting a relatively strong performance in private consumption. Among them, the strong advance in remittances and higher real wages. Moreover, formal job creation surged with 145,416 new posts, not seen since February 2016, while the unemployment rate inched lower to 3.54% (seasonally-adjusted). Last but not least, consumer confidence increased again in all components, although it should be taken cautiously as this indicator continues exhibiting a relatively poor correlation with actual performance as opposed to sentiment in the political front.

Given these factors, our main concern remains the lack of dynamism in private consumption (0.4% in 1H19 according to GDP data, below the 2.7% of the same period of 2018) despite retail sales holding up relatively well at 1.9% accumulated up to August. In our view, this is likely related to higher savings within a context of cautious consumers on the back of high levels of uncertainty.

Although looking for an improvement, austerity measures by the Federal Government and the more modest pace of activity are additional headwinds to a strong acceleration in coming months.

#### Retail sales

% yoy (nsa), % m/m (sa)



Source: INEGI, Banorte

**Weekly international reserves report.** Last week, net international reserves increased US\$289 million, closing at US\$180.6 billion. According to Banxico's report, this comes mainly from a positive valuation effect in central bank assets. In this context, the central bank's international reserves have increased US\$5.8 billion during 2019 (please refer to the following table).

#### Banxico's foreign reserve accumulation detail

US\$, million

	2018	Nov 15, 2019	Nov 15, 2019	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	174,793	180,567	289	5,774
(B) Gross international reserve	176,384	184,274	320	7,890
Pemex	--	--	-63	9
Federal government	--	--	256	2,296
Market operations	--	--	0	0
Other	--	--	128	5,585
(C) Short-term government's liabilities	1,592	3,707	31	2,115

Source: Banco de México

**Weekly government bond auction.** The Ministry of Finance (MoF) –via Banco de Mexico as its financial agent, will offer 5-year fixed-rate Mbonos (Sep'24), and 10-year inflation-linked Udibonos (Nov'28), 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, November 26<sup>th</sup>, 2019)

	Maturity	Coupon rate, %	To be auctioned <sup>1</sup>	Previous yield <sup>2</sup>
<b>Cetes</b>				
1m	26-Dec-19	--	6,000	7.43
3m	27-Feb-20	--	15,000	7.44
6m	21-May-20	--	15,000	7.38
<b>M Bono</b>				
5y	05-Sep-24	8.00	11,000	6.67
<b>Udibonos</b>				
10y	30-Nov-28	4.00	UDIS 950	3.25

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

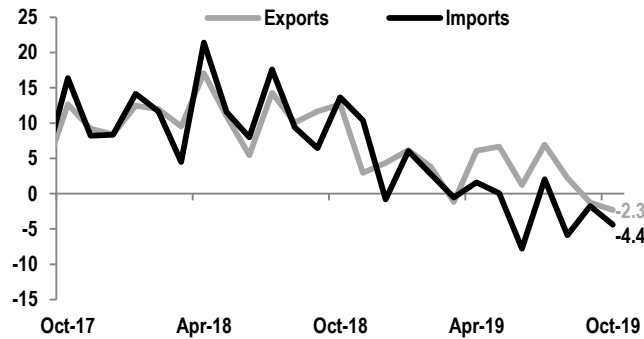
**Trade balance deficit in October on auto sector's shock.** We estimate a US\$1,938.2 million deficit, mainly on a steep moderation in the non-oil balance surplus driven by a temporary shock in auto exports. Imports would still be somewhat limited by capital goods. Moreover, we see a slightly higher oil balance deficit, with strong annual declines in both deliveries and purchases. As a result, total exports would drop 2.3% and imports -4.4%. If our forecast materializes, it would be the third month with a deficit above US\$1 billion so far in 2019. Nevertheless, the accumulated balance in the year would be a US\$749 million surplus, above the US\$13,157 million *deficit* of the same period of 2018.

The non-oil balance is estimated with at +US\$143.7 million, a minimum so far this year. As mentioned above, these would be due to a relatively high contraction of 4.3% in auto exports, driving down total manufacturing to -0.5%, its first fall since March. According to AMIA, exports of finished vehicles plunged 19.5% yoy, weakest since mid-2009 in the midst of the financial crisis. This would be a result of hefty declines in GM (affected by the labor strike in the US that lasted almost the complete month) along the temporary closure (either full or partial) of two plants by Ford, and one by Volkswagen. US industrial production in the period was also weak, falling 12%. Other manufacturing would be more favorable, expected to stay positive but decelerating, with signals such as imports within the US ISM index pointing to a slowdown. In imports, we highlight that seasonality in consumption goods is stronger starting in October, mostly in anticipation of the Christmas season. Intermediate goods, closely related to manufacturing, would also moderate (0.8% from 1.7% in September), although in our view less impacted relative to sales to foreigners. Capital goods would remain challenged (-16.4%), with business confidence retracing some of its recent gains across all sectors and still with missing signs about a stronger dynamism.

In oil, we expect a deficit of US\$2,081.9 million, higher than the -US\$1,558.3 million of the previous month. Oil exports would be relatively more impacted, at -33.8% yoy vs imports at -26.9%. The price of the Mexican mix fell sequentially, averaging US\$48.83 per barrel (-34.1% yoy) from US\$58.19 in September, lowest in slightly more than two years. Available data suggests volumes, both deliveries of crude oil and gasoline purchases, also declined at a strong pace. Meanwhile, US gasoline prices were broadly stable, supporting our call of a more sizable impact in exports.

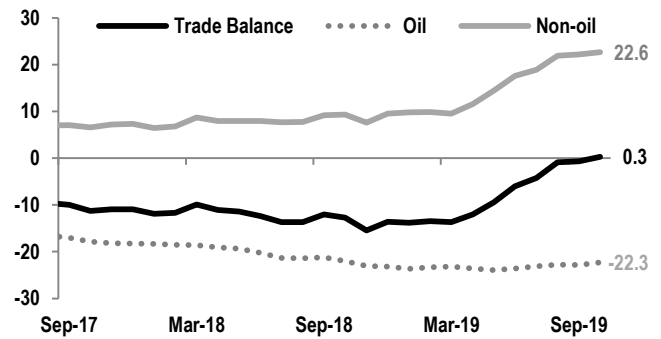
Similar to September, performance will be distorted by the one-off shock in autos. Recent surpluses have been categorized as “negative” for growth as they signaled slower investment and consumption. In this respect, the projected deficit, which would be elevated relatively to recent history, would also be for the “wrong reasons”, namely a slowdown in manufacturing exports coupled with still contained consumption and capital goods imports.

**Exports and Imports**  
% yoy



Source: INEGI, Banorte

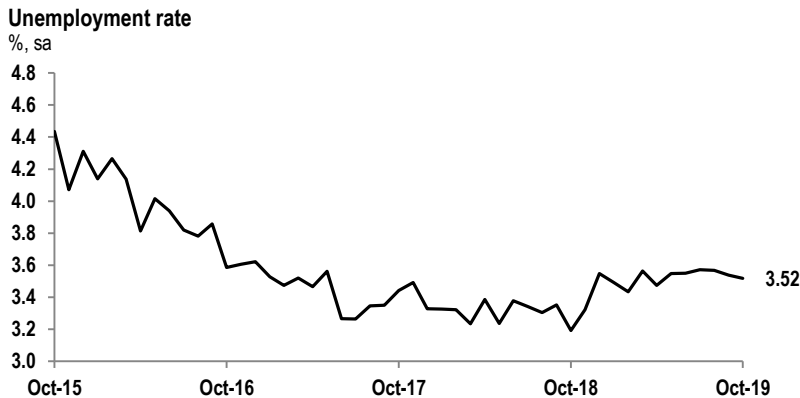
**Trade balance**  
US\$ billion, 12-month rolling sum



Source: INEGI, Banorte

**October’s unemployment rate slightly lower again despite manufacturing weakness.** We estimate a 2bps decline to 3.52% sa, which would be its lowest level since last April. Similar to the previous month, the main driver would be strong formal job creation, with 159,998 new jobs, and a new year-to-date high. It should be mentioned that net creation in October is typically high, most likely in anticipation of upcoming Christmas sales. Nevertheless, it comes on top of the 145,416 of the previous month, which was unusually high. In our view, this suggests resiliency in spite of the temporary shock in the auto sector due to GM’s strike in the US, contrary to our expectations. It should be mentioned that, according to the company, 6,000 workers were left on temporary leave as the plant in Guanajuato suspended operations, with about 400 more also affected in Coahuila. Nevertheless and to the best of our knowledge, these were likely not counted as unemployed as they kept receiving wages and other benefits. In this respect, we fade the signal provided by the “employment” component within the IMEF manufacturing index, which plunged to 43.8pts from 48.6pts in the previous month, lowest since May. The specific question in the latter is: *“Relative to last month, the number of employees in your company...”*. This has five possible responses, from “increased too much” to “decreased too much”. We do not rule out more negative responses due to concerns over the effect of this event, which ended on October 25<sup>th</sup>. The same component within the non-manufacturing index actually increased slightly, from 47.4pts in September to 47.8pts. On the contrary, we recognize the possibility of indirect negative effects, mainly to suppliers in the sector. Additionally, business confidence retraced some of its recent gain across all subsectors. Despite of this, we believe evidence available suggests a slight decline once again.

Despite of its recent performance, the key limiting factor to keep falling is the slowdown in activity, which has extended to 3Q19 according to preliminary GDP data. As a result, we maintain our view that the unemployment rate will finish the year around 3.6%, despite risks being slightly skewed to the downside if our forecast materializes.



Source: INEGI, Banorte

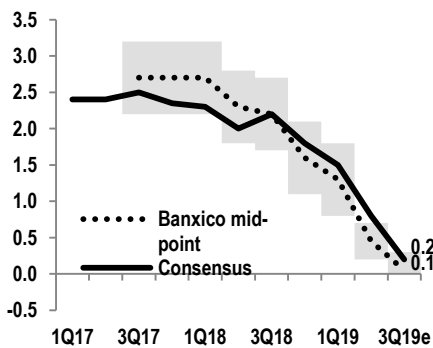
**Banxico’s Quarterly Report and minutes.** The week will be busy, with the *Quarterly Report* (QR) for 3Q19 on Wednesday at around 1:00pm (ET), accompanied by a press conference led by Governor Diaz de Leon, and the minutes of last week’s monetary policy meeting on Thursday at 10:00am (ET). We expect both documents to confirm that Banxico is in the midst of an easing cycle, continuing in a prudent manner in December and into 2020. Regarding the QR, the main focus of market participants will be on:

(1) *Lower GDP growth, again.* In the latest communique, Banxico left no doubt about this when stating that: “...Based on incoming information, the foreseen trajectory of GDP growth for 2019 and for the next year would likely be below that published in Banxico’s *Quarterly Report for April-June 2019*...”. This would be the sixth and fourth consecutive downward revision for this year and 2020, respectively, with the final release of 3Q19 GDP coming Monday (see above). In particular, we expect a reduction of 40bps in the mid-point for 2019, to 0.1% yoy (previous: 0.5%, Banorte: 0.3%), with the range tightened to -0.1% to 0.3% from 0.2-0.7%. The magnitude of the adjustment for 2020 will likely be higher, estimated to subtract between 60-70bps towards a mid-point of 1.3-1.4% (see charts below, left and center), close to our 1.4%. For reference, the latest median in Banxico’s survey is 0.2% in 2019 and 1.2% in 2020. In *Citibanamex*’s survey, they stand at 0.1% and 1.1%, in the same order.

Weakness in global growth is likely to explain some of the revision, as expressed by institutions such as the IMF (chart below, right). We believe industrial weakness will remain relevant, including the expectation of a hit in manufacturing due to temporary shocks in the auto sector. Lower growth in 3Q19 is also likely to be mentioned as, until recently, they had expected more dynamism in the second half of the year, with investment (both public and private) and consumption behind the slowdown. We do not discard some mention of lower government spending, which according to the public finance report as of September, accumulates a 1.9% decline and is below budget. The central bank has said that risks remain to the downside, in an environment characterized by high levels of uncertainty. Lastly, it will be very important to watch the central bank’s updated estimates of the output gap in the full forecast horizon, for which we do not rule out that: (1) They will be maintained in negative territory, moderating only gradually towards zero next year; and (2) they will be below the path estimated in the previous report.

**GDP forecasts - 2019**

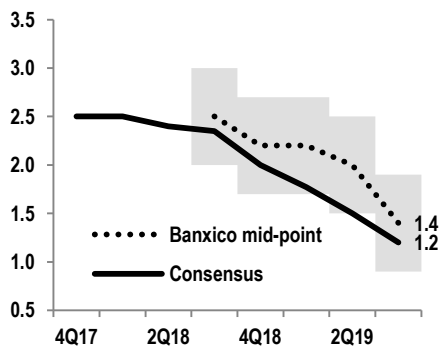
% yoy, nsa



\*Note: Market consensus corresponds to the median in Banxico's survey at the time of publication of the QR. Shaded area represents Banxico's forecast range  
Source: Banxico

**GDP forecasts - 2020**

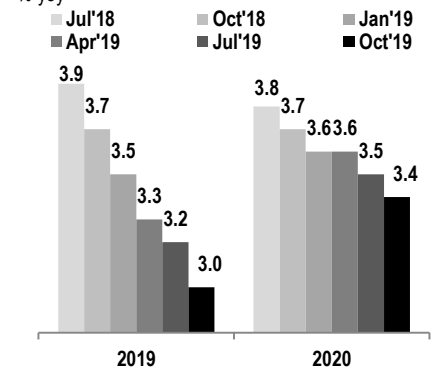
% yoy, nsa



\*Note: Market consensus corresponds to the median in Banxico's survey at the time of publication of the QR. Shaded area represents Banxico's forecast range  
Source: Banxico

**IMF global growth forecasts**

% yoy



Source: IMF

(2) *Favorable headline inflation, but persistence to the upside of the core.* The latest monetary policy communique stated that “...*The recent behavior of the factors that affect the foreseen headline inflation trajectory suggests that it may lie slightly below the trajectory set forth in Banco de México’s past Quarterly Report...*”. This leads us to believe that a revision is virtually certain for 4Q19, particularly when considering that inflation has averaged 3.05% yoy in the quarter up to the 1<sup>st</sup> half of November. It is our take the estimate could fall to 3.00% from 3.20%, in line with recent dynamics and our year-end estimate. For the following quarters, we could see some marginal adjustments to the downside, still underpinned by favorable dynamics within the non-core component. Within the latter, energy will probably continue as the main driver despite some risks (particularly for the price of LP gas), standing at -2.2% yoy in the latest bi-weekly print. On the other hand, agricultural goods seem to be starting to reverse part of the decline seen in previous months, now at 3.8%.

For core inflation, we see a marginal upward adjustment in the 4Q19 estimate, to 3.7%, in line with the quarter-to-date average. The expected trajectory could also be revised up, reflecting concerns on wage pressures. In the last statement, the Board adjusted its relative ranking of inflation risk factors, now establishing this as the number two concern to the upside. This likely stems from recent news suggesting that the minimum wage (MW) increase for 2020 could be significant. The head of the *National Minimum Wage Commission* (Conasami) – the entity in charge of setting this concept for the country–, signaled a new MW between 128 to 132 pesos per day. This would represent an upward adjustment between 24.7% and 28.6%, surpassing the 16.2% seen for 2019 and our estimate of 10-15%. This is not the final number, which should be released soon. On this matter, Banxico published in 2016 a document (<[pdf](#)>, only available in Spanish), in which they outlined that taking into account only the direct effect, a 10% expansion in the MW would result in an impact of 150bps higher on accumulated inflation on a 12 month horizon. Nevertheless, its performance so far this year points to a much lesser shock. In this context, we do not rule out an update to the study as part of the traditional “grey boxes”.

### Banxico's headline inflation forecasts

% yoy, quarterly average

QR	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
Nov-17 (3Q17)	4.6	4.1	3.6	3.0	3.1	3.3	3.1	3.0						
Feb-18 (4Q17)	5.5	4.8	4.3	3.8	3.2	3.0	3.1	3.2						
May-18 (1Q18)	5.3	4.6	4.3	3.8	3.3	3.1	3.1	3.1	3.1					
Aug-18 (2Q18)		4.6	4.8	4.2	3.8	3.6	3.2	3.3	3.2	3.1				
Nov-18 (3Q18)			4.9	4.7	4.4	4.4	3.8	3.4	3.3	3.1	3.0			
Feb-19 (4Q18)				4.8	4.1	4.3	3.8	3.4	3.5	3.1	2.8	2.7		
May-19 (1Q19)					4.1	4.3	4.0	3.7	3.8	3.2	3.1	3.0	3.0	
Aug-19 (2Q19)						4.2	3.3	3.2	3.4	3.1	3.1	3.0	2.9	3.0
Nov-19 (3Q19)							3.1	--	--	--	--	--	--	--

\*Note: Shaded boxes indicate actual data. Rows refer to the Quarterly Report, while columns show the forecasts by quarter done in the respective document  
Source: Banxico, INEGI

### Banxico's core inflation forecasts

% yoy, quarterly average

QR	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
Nov-17 (3Q17)	4.2	3.9	3.6	3.6	3.3	3.2	3.1	3.1						
Feb-18 (4Q17)	4.4	4.0	3.8	3.6	3.3	3.2	3.1	3.0						
May-18 (1Q18)	4.3	3.7	3.6	3.4	3.2	3.2	3.1	3.0	3.0					
Aug-18 (2Q18)		3.7	3.6	3.5	3.3	3.2	3.0	2.9	3.0	2.9				
Nov-18 (3Q18)			3.6	3.7	3.6	3.6	3.4	3.1	3.0	2.9	2.7			
Feb-19 (4Q18)				3.7	3.5	3.6	3.4	3.2	3.2	2.9	2.8	2.7		
May-19 (1Q19)					3.6	3.8	3.6	3.4	3.4	3.0	3.0	3.0	3.0	
Aug-19 (2Q19)						3.8	3.7	3.5	3.4	3.1	3.0	2.9	2.9	3.0
Nov-19 (3Q19)							3.7	--	--	--	--	--	--	--

\*Note: Shaded boxes indicate actual data. Rows refer to the Quarterly Report, while columns show the forecasts by quarter done in the respective document  
Source: Banxico, INEGI

Regarding the minutes, we expect them to be relevant despite the release of the QR one day before. We will be focused on discussions about financial stability risks, despite identifying a slight reduction in these in the latest communique, both external (trade war, Brexit, USMCA) and domestic (recent measures on Pemex and its effect on the sovereign credit rating). These are important as they continue to be factored-in by Banxico and justify the need of a prudent and cautious approach. Moreover, the central bank has reiterated for some time the possibility of a depreciation of the peso as one of the main upside risks for inflation. In this respect, the currency has been more pressured in recent days, inching closer to the 19.50 per dollar level.

In our view, recent news have been more mixed, on balance. Regarding trade tensions, the widely anticipated "Phase 1" deal between the US and China may be delayed until next year as Beijing is asking for a rollback of tariffs, complicating negotiations. It should also be considered that, on Tuesday, the US Senate approved legislation in favor of Hong Kong protesters, with China warning that these may lead to retaliation (not yet specified) if they become law. Latin American currencies have been roiled on higher political risk premiums due to tensions in countries such as Chile and Bolivia, partially affecting the Mexican peso.

On USMCA, uncertainty is still high despite intense work and a very fluid situation. On one hand, the Democratic Leader of the House, Nancy Pelosi, said concerns are still present about our country's implementation of labor reforms and enforcement provisions. This came after speaking with AFL-CIO union leader, Richard Trumka, which stated that more works needs to be done. If he approves, the vote could be done by Christmas. On the other, the top Democratic negotiator, Richard Neal of the House of Representatives, is still optimistic that it can be agreed this year. Moreover, President Trump has stepped up his pressure, arguing that Pelosi is not advancing the deal to secure votes for his impeachment.

We will be particularly focused on discussions about the fiscal outlook. In this front, Mexico's Lower House approved today the FY2020 Budget, which was due on November 15<sup>th</sup>. In the previous minutes, some members warned that several analysts think some of the assumptions are optimistic, resulting in prevailing risks for fiscal policy. Additionally, any comments about this year's use of the *Stabilization Fund* are also important, with the latest forecast around MXN 150 billion (US\$7.8 billion, or 53.6% of the fund's size as of December 2018). In the same document, one member argued that "*...the use of more resources from the Oil Revenues Stabilization Fund (...) may lead to future pressures on public finances, given that part of the reserves to face future shocks would be depleted...*". Lastly and anytime now, the IMF's board will vote on Mexico's request to renew its Flexible Credit Line, which expires in November 28<sup>th</sup>. There is a high likelihood of a reduction in its size, currently at about US\$ 74 billion, as mentioned by the institution's Western Hemisphere Director, Alejandro Werner, following also our country's expressed intent of doing this. In our view, the resolution of all these factors is likely to be considered by credit rating agencies, with Moody's and S&P Ratings currently with a 'negative' outlook on the sovereign.

Overall, these documents may provide further information to assess the general stance and bias of the central bank, with markets discounting about 140bps in accumulated rate cuts by year-end 2020. In this respect, they could help assess the most likely path towards lower rates, both in terms of the terminal rate within the cycle and the speed of adjustment. We maintain our view of a 25bps rate cut in December, to 7.25%, extending to 2020 with an additional 125bps of easing, likely front-loaded during the first half and with the reference closing next year at 6.00%.

**MoF's public finance report (October).** Attention will center on the public balance and PSBRs, with the latter accumulating an MXN\$172.5bn deficit in the first nine months of the year. It should be noted that the primary balance at the end of September stood at +MXN\$279.9bn, better than the +MXN\$153.1bn forecast. Focus will also be on revenues and spending, especially compared to the MoF's updated *2020 Macroeconomic Forecasts*. In this context and on a year-to-date basis, revenues undershot the forecast by MXN\$12.0bn, while expenditures have done so by MXN\$151.3bn. Finally, we will also look at public debt, which as of September stood at MXN\$11.0tn, equivalent to 43.0% of GDP (as measured by the HBPSBRs).

**We expect banking credit to grow 4.8% yoy in October.** It is our take that credit to the non-financial sector kept expanding during the month. We estimate a 4.8% yoy expansion in real terms, slightly higher than the 4.6% growth of the previous month. This would be driven by a 2.6% increase in consumer credit, coupled with a 7.5% and 4.5% expansion in mortgages and corporate credit, in the same order. Unlike previous months, there shouldn't be an additional boost from inflation, given that it stood at 3.02% in October, marginally higher than the 3.00% in September.

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## Analyst Certification

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Luis Leopoldo López Salinas, Jorge Antonio Izquierdo Lobato and Leslie Thalía Orozco Vélez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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Reference	
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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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