Ahead of the Curve

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Market focus this week will be on INEGI's GFI report

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- **GFI (March).** On Friday at 9:00am (EDT), *INEGI* will publish its March's gross fixed investment (GFI) report. We anticipate GFI down by 3.6% yoy. However, the contraction will be partially explained by a calendar effect, as GFI's accounting was affected by the *Holy Week* holiday that started in March (vs. April in 2015). We believe that within the report we will probably see a 9.2% yoy contraction in imported machinery and equipment given that trade balance figures showed a similar decline for capital goods imports. Moreover, we expect a 1.9% growth in domestic machinery and equipment. Finally, we believe that construction spending fell 2% yoy derived from the lower construction spending observed in the latest industrial production figures

- **May's PMI surveys.** On Wednesday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators for May. We expect manufacturing PMI at 52.4, above the 51.8 observed in April (seasonally adjusted terms). We believe that manufacturing activity was supported by the recovery of consumer spending in Mexico. In addition, other indicators, such as the formal employment report, continue to show that the manufacturing sector has already initiated its recovery process. In addition, we believe that the non-manufacturing PMI will stand at 51 points from 50.5 points

Mexico weekly calendar

DATE	HOUR (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 30-May	**15:30pm**	**Budget balance**	April	MXN bn	--	--	-61.6
Tue 31-May	**10:00am**	**Comercial banking credit**	April	% yoy	10.5	--	11.1
		Consumption		% yoy	9.6	--	9.8
		Housing		% yoy	9.1	--	9.7
		Non-banking private firms		% yoy	11.7	--	12.7
Tue 31-May	**10:00am**	**International reserves**	27-May	US$ bn	--	--	177.3
Tue 31-May	**12:30pm**	**Government weekly auction: 1-, 3-, and 6-months Cetes; 3y MBono (Dec'19); 3y Udibono (Jun'19)**					
Wed 1-Jun	**10:00am**	**Family remittances**	April	US$ mn	2,117	--	2,201
Wed 1-Jun	**10:00am**	**Banxico's survey of economic expectations**	May				
Wed 1-Jun	**1:00pm**	**PMI's survey (IMEF)**	May				
		Manufacturing		index	52.4	--	51.8
		Non-manufacturing		index	51.0	--	50.5
Fri 3-Jun	**9:00am**	**Gross fixed investment**	March	% yoy	-3.6	--	5.2
		Machinary and equipment		% yoy	-6.0	--	9.7
		Domestic		% yoy	1.9	--	6.9
		Imported		% yoy	-9.2	--	11.0
		Construction		% yoy	-2.0	--	2.5

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

The MoF's monthly report. On Monday, the Ministry of Finance (MoF) will make its monthly finance report available for April. On the revenue side, we will be looking at non-oil tax collection as it provides additional information about domestic demand dynamics. Moreover, markets will focus on the spending side of the report, in order to assess the execution of the fiscal cut announced by the MoF on February 17. Finally, it will be important to evaluate the evolution of public sector debt, which currently represents about 48% of GDP.

Banking credit will show a 10.5% yoy increase in April. Banco de Mexico will make available its banking credit report on Tuesday at 10:00am (EDT). It is our take that banking credit continued flowing in April. In particular, we estimate a 10.5% yoy expansion in banking credit (in real terms), as a result of increases in the area of 9.6%, 9.1%, and 11.7% yoy in consumer, housing and business credit, respectively.

Weekly international reserves report. On Tuesday, at 10:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US$330mn amounting to US $177.3bn on May 20. According to Banxico's report, this figure comes mainly as a result of: (1) Dollar sales by Banxico to the Federal Government for US$52mn; along with a (2) US$278mn decrease due to changes in the valuation of the Central Bank's assets. It is worth noting that Pemex is currently the only significant source of reserve accumulation. In this context, the Central Bank has accumulated US$588mn international reserves this year (please refer to the table below).

Banxico's foreign reserve accumulation details
US$, million

	2015	20/May/2016	20/May/2016	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,735	177,323	-330	588
(B) Gross international reserve	177,597	179,713	-19	2,116
Pemex	--	--	80	2,474
Federal govt	--	--	-78	2,307
Market operations	--	--	0	-5,562
Other	--	--	-22	2,897
(C) Short-term government's liabilities	861	2,390	310	1,529

Source: Banco de México

Weekly government bond auction. On Tuesday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent-, will offer 3-year fixed-rate Mbonos (Dec’19) as well as 3-year inflation-linked Udibonos (Jun’19), 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 (EDT).

Auction specifics (Tuesday, May 31, 2016)

	Maturity	Coupon rate, %	To be auctioned[1]	Previous yield[2]
Cetes				
1m	30-Jun-16	- -	5,500	3.90
3m	01-Sep-16	- -	9,500	4.20
6m	24-Nov-16	- -	11,000	4.30
Mbono				
3y	11-Dec-19	5.00	7,500	5.00
Udibono				
3y	13-Jun-19	4.00	750	2.25

Source: Banorte-Ixe 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

Family remittances will post a 5.5% yoy expansion in April. On Wednesday, at 10:00am (EDT), Banxico will make its family remittances monthly data available. We expect Mexican workers living abroad -mainly in the US-, to have sent US$2,117 million to their families in Mexico during April. This would imply a 5.5% yoy expansion.

We believe that remittances inflows in April will benefit from the U.S. labor market. In particular, during the first four months of the year, the unemployment rate for both Mexican migrant workers with and without citizenship has maintained a downward trend, which implies that the Mexican migrant population has benefited from the favorable growth dynamics of the U.S. labor market.

Banxico’s survey of economic expectations. On Wednesday at 10:00am (EDT), Banco de Mexico will publish its monthly survey of economic expectations. In our view, market participants' focus will be on three issues: (1) 2016 inflation expectations that currently are at 3.2% (Banorte-Ixe: 2.8%); (2) mid-term inflation expectations—quite important for the central bank's board—that are currently at 3.35% (Banorte-Ixe: 3%); and (3) the analysts' assessments of GDP growth for 2016.

May's PMI surveys. On Wednesday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators for May. We expect manufacturing PMI at 52.4, above the 51.8 observed in April (seasonally adjusted terms). We believe that manufacturing activity was supported by the recovery of consumer spending in Mexico. In addition, other indicators, such as the formal employment report, continue to show that the manufacturing sector has already initiated its recovery process.

In addition, we believe that the non-manufacturing PMI will stand at 51 points from 50.5 points. In this regard, we believe that the recent upward trend in domestic demand, given the recovery in both the labor market and the household's purchasing power, could have triggered a faster growth within the services, which will be reflected in the non-manufacturing PMI.

We expect a 3.6% yoy contraction in March's GFI. Finally, on Friday at 9:00am (EDT), *INEGI* will publish its March's gross fixed investment (GFI) report. We anticipate GFI down by 3.6% yoy. However, the contraction will be partially explained by a calendar effect, as GFI's accounting was affected by the *Holy Week* holiday that started in March (vs. April in 2015).

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