Ahead of the Curve

May 17, 2019

We expect 1Q19 GDP to be revised from 1.3% to 1.4% yoy

www.banorte.com
@analisis_fundam

Juan Carlos Alderete, CFA
Senior Economist, Mexico
juan.alderete.macal@banorte.com

Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

- **Gross domestic product (1Q19 F).** We expect an upward revision to 1.4% yoy nsa from the 1.3% published in the preliminary report. In a similar fashion, quarter-on-quarter figures would be revised from -0.2% to -0.1%. In this respect, implied growth in March according to the GDP-proxy (*Global Economic Activity Indicator*, IGAE) would increase from a preliminary print of around 1.2% yoy to 1.6%. This revision would be driven by both services (from 1.9% in the quarter to 2.1%) and industry (from -0.7% to -0.6%). Despite this likely revision, economic activity in 1Q19 was weak, impacted by transitory shocks and the usual deceleration at the start of a new federal administration

- **Inflation report (1H-May).** We estimate headline inflation at -0.19% 2w/2w, and the core component at 0.13%. Inflation during the period will be mostly explained by the extension of electricity tariffs discounts. However, these would be partially offset by pressures on agricultural and core goods. With these results, annual inflation would increase from 4.41% in April to 4.55%, while core inflation would come down slightly to 3.81% from 3.87%

Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Tue 21-May	10:00am	International reserves	May 18	US$ bn	--	--	176.9
Tue 21-May	12:30pm	Government weekly auction: 1-, 3-, 6-, 12-month CETES; 20y Mbono (Nov'38); 30y Udibonos (Nov'46); 5y Bondes D					
Tue 21-May	4:30pm	Citibanamex bi-weekly survey of economic expectations					
Wed 22-May	9:00am	Retail sales	March	% yoy	2.1	--	1.8
		(sa)		% m/m	0.3	--	1.2
Thu 23-May	9:00am	CPI inflation	1H May	% 2w/2w	-0.19	--	0.06
				% yoy	4.55	--	4.41
		Core		% 2w/2w	0.13	--	-0.02
				% yoy	3.81	--	3.87
Fri 24-May	9:00am	GDP	1Q19 F	% yoy	1.4	--	1.3
		(sa)		% q/q	-0.1	--	-0.2
		Primary activities		% yoy	5.9	--	5.9
		Industrial production		% yoy	-0.6	--	-0.7
		Services		% yoy	2.1	--	1.9
Fri 24-May	9:00am	Economic activity indicator	March	% yoy	1.6	--	1.11
		(sa)		% m/m	-0.6	--	0.35
		Primary activities		% yoy	5.0	--	9.2
		Industrial production		% yoy	-0.1	--	-0.8
		Services		% yoy	2.3	--	1.7
Fri 24-May	9:00am	Trade balance	April	US$ mn	-234.5	--	1,429.5
		Total exports		% yoy	0.0	--	-1.2
		Oil exports		% yoy	2.4	--	-2.0
		Non-oil exports		% yoy	-0.2	--	-1.2
		Total imports		% yoy	-0.1	--	-0.5
Fri 24-May	10:00am	Current account	1Q19	US$ mn	-9,155	--	-3,424.0

Source: Banorte; Bloomberg

Proceeding in chronological order...

Weekly international reserves report. Last week, net international reserves increased US$229 million, closing at US$176.9 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$2.1 billion during 2019 (please refer to the following table).

Banxico's foreign reserve accumulation detail
US$, million

	2018	May 10, 2019	May 10, 2019	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	174,793	176,924	229	2,132
(B) Gross international reserve	176,384	184,554	170	8,170
Pemex	--	--	-1	198
Federal government	--	--	-1	6,128
Market operations	--	--	0	0
Other	--	--	171	1,844
(C) Short-term government's liabilities	1,592	7,629	-59	6,038

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), 30-year inflation-linked 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, May 21st, 2019)

	Maturity	Coupon rate, %	To be auctioned[1]	Previous yield[2]
Cetes				
1m	20-Jun-19	- -	6,000	8.05
3m	22-Aug-19	- -	10,000	8.25
6m	21-Nov-19	- -	11,500	8.22
12m	23-Apr-20	- -	13,500	8.15
Bondes D				
5y	25-Apr-24	- -	6,000	0.14
Mbonos				
20y	18-Nov-38	8.50	2,700	8.37
Udibonos				
30y	08-Nov-46	4.00	UDIS 450	4.04

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

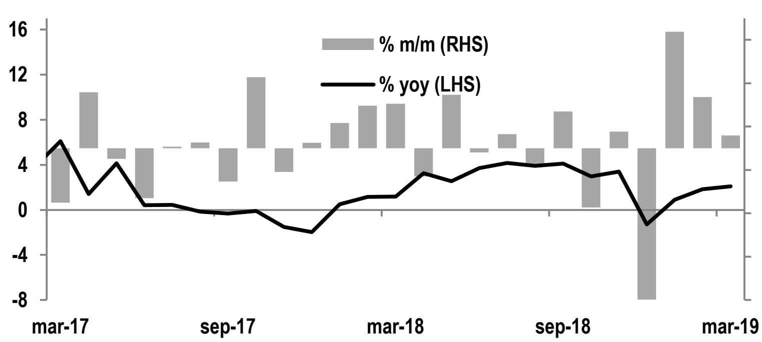
***Citibanamex* Survey.** Market focus will center on analysts' inflation forecasts for the first half of May (to be published on Thursday, May 23th) along with the 2019 year-end estimate. It will be important to see monetary policy assessments for the rest of the year, particularly considering the more hawkish tone that we perceived in the latest communiqué from Banxico. We will also be paying attention to forecasts for GDP growth and USD/MXN exchange rate.

March retail sales likely exhibiting a slower pace of activity. We estimate a 2.1% yoy increase, stronger than the 1.8% of the previous month. Nevertheless, we should state that the annual comparison will be benefitted by a calendar effect due to the Easter holiday. In seasonally-adjusted terms, we expect a 0.3% m/m advance, lower than the 1.2% observed in February. Broadly speaking, advanced figures so far suggest a less dynamic performance.

In particular, both *ANTAD* and *Walmart* same-store sales showed a relative deceleration in their annual comparison, standing at -3.3% and +0.4% yoy, in the same order. Moreover, gasoline sales according the Pemex dropped 10.1%, although these could be skewed to the downside due to the entry of new suppliers into the market. An additional negative factor according to already-released data was non-oil consumption goods imports, which after two months up declined 4.6% yoy, suggesting some payback from the strong print of 2.6% observed in February. Nevertheless, we should remind the reader that each of these indicators is influenced in different magnitudes by the previously mentioned seasonal effect, complicating estimates for the period. On the other hand, auto sales according to *AMIA* were down for a second consecutive month at -1.5%, albeit moderating relative to the -5.5% of the previous month.

In terms disposable real income, data has remained positive overall in spite of some slowdown in growth at the margin. First, real wages grew 2.6%, about the same rate observed since the beginning of the year and which is considerably above the 0.8% average in full-year 2018. Formal job creation has decelerated further and stands at 2.8% yoy, lowest since February 2014 but still in positive territory. CPI remained stable during the month at around 4%, below the 4.8% registered at the beginning of the year. Remittances in local currency terms grew 7.8%, with the FX rate hovering around 19.20 pesos per dollar (3.3% higher than the same period of 2018).

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



Source: INEGI, Banorte

Inflation in 1H-May pressured by agricultural and core goods. We estimate headline inflation at -0.19% 2w/2w, lower than the previous print of 0.06%. Core inflation would stand at 0.13%, higher than the latest figure at -0.02%. Inflation will be mostly explained by the continuation of discounts on electricity tariffs. However, these would be partially offset by pressures on agricultural and core goods.

In particular, we expect electricity to subtract 38bps to the headline figure, remembering that this month seasonal discounts apply to a greater number of cities within the index. Regarding gasoline, we expect a marginal +0.5bps contribution from low-grade, in our view driven by the slight decrease in the tax subsidy during the last days of the period in question. On agricultural, we anticipate an overall +11bps contribution, with 7bps stemming from fresh fruits and vegetables. Within the latter, there were some localized pressures in avocadoes, among other goods. On the other hand, meat and egg would add the remaining 4bps, mostly form an increase in the price of chicken.

Overall core goods would contribute 7.5bps, with small but generalized increases in both processed foods (+4.5bps) and other goods (+3.0bps). In addition, housing will continue to add albeit at a slower pace than in previous fortnights, with a +1.7pbs contribution. Finally, other services would only participate with +0.5bps, benefited by a negative contribution in airfares and tourism services as prices continue to come down after the Easter holiday.

With these, annual inflation would increase from 4.41% in April to 4.55%. In addition, core inflation would come down slightly to 3.81% from 3.87%. Despite a further increase in the headline, we believe this will be temporary so we reiterate our call that inflation will keep evolving in a favorable way, converging to our 3.5% yoy forecast by year-end.

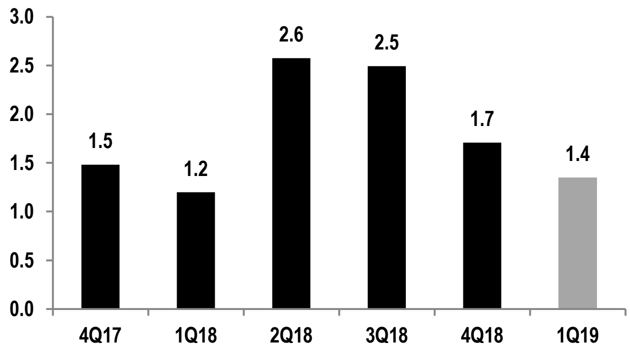
We expect a slight revision to 1Q19 GDP due to a better performance in services and industry. In this context, the annual print would go up from 1.3% to 1.4% yoy nsa, while quarter-on-quarter would be revised from -0.2% to -0.1%. Implied growth in the preliminary GDP-proxy (*Global Economic Activity Indicator*, IGAE) stood around 1.2% yoy in March. Nevertheless, we see an upward revision in both services and industry. As a result, our updated forecast for *IGAE* in the last month of the quarter would be 1.6% (see chart below on the right). It should be noted that March was helped by a calendar effect due to the timing of the Easter holiday, adding days to the annual comparison. Adjusting for this effect, our forecast for economic activity for the month would entail a 0.6% m/m contraction.

Regarding industry, data already published showed a -0.1% yoy fall in March, better than the -0.4% implied by the preliminary estimate. Therefore, the quarterly figure would go from -0.7% yoy to -0.6%. On the other hand, we expect services in 1Q19 at +2.1% yoy, +20bps relative to the previous figure. This would be due to a pickup in March to 2.3% (vs. 1.9% implied). Taking a look at the details in services, the revision would be due in part by a better performance in manufacturing and a positive knock-on effect in transportation.

In addition, we expect favorable calendar effects in wholesale and retail, partly offset by recreational and lodging services.

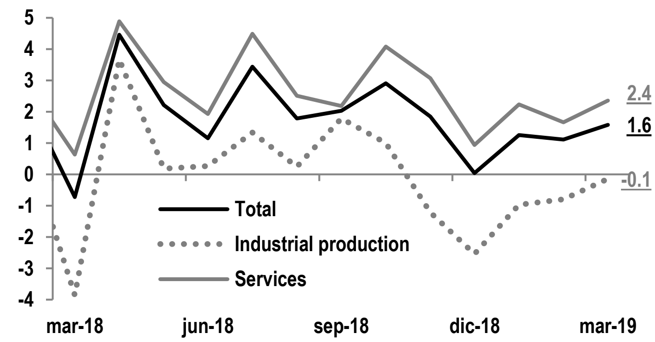
Despite of the likely revision, we consider economic activity during 1Q19 was weak, impacted by transitory shocks –such as delays in fuel distribution, railway blockades and strikes–, on top of the usual deceleration at the start of a new federal administration. Going forward, we do not rule out further transitory weakness in industrial output due to delays in border-crossings to the US, which according to several reports, have taken a toll on economic activity in April. Moreover, US industry has been in a soft patch, taking an additional toll to the sector in Mexico. On the contrary, services could benefit from the rollout of additional government transfer programs, which on top of healthy fundamentals for consumption, should help the sector to hold a relatively better performance.

GDP
% yoy nsa



Source: INEGI, Banorte

Global Economic Activity Indicator
% yoy



Source: INEGI, Banorte

Trade balance in April with a modest deficit, with an unusual number of moving parts. We expect a modest US$234.5 million deficit in April, below the US$ 1,429.5 million surplus of the previous month which was the second consecutive print in positive territory. It is worth noting that several temporary factors could have influenced dynamics, such as: (1) The potential impact and relative magnitude to exports and/or imports from freight transportation delays at the Northern Border, which were present during the whole month; and (2) the effect from seasonality due to the timing of the Easter holiday, but after a weak performance in March despite the theoretical benefit of additional working days. Considering this, among other, we forecast a modest deficit although the month in which Easter takes place (which was April in 2019) has historically been more likely to show a surplus. Overall, we believe the trade balance will reflect a deceleration in industry and investment, with more resilient consumption.

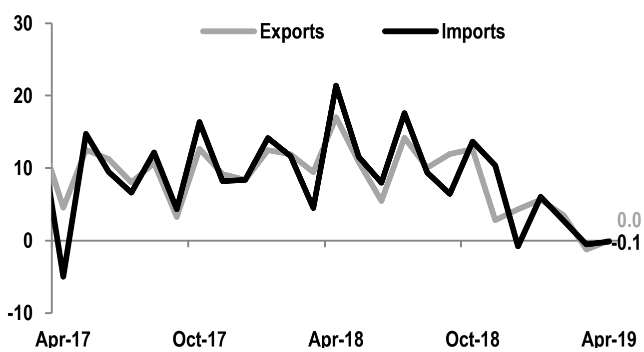
We estimate null annual growth in exports after declining 1.2% in March. This would be comprised of a 2.4% advance in oil-related goods and a 0.2% decline in non-oil. Regarding the former, advanced data suggests crude-oil exports were marginally up in the annual comparison, with the increase mainly supported by a higher average price The Mexican oil mix went from US$/bbl 59.96 to 63.66 in the month, lifting the annual rate to 9% yoy from 7.4%.

On the other hand, we anticipate a 8.5% yoy fall in agricultural goods exports, which according to several news outlets were heavily impacted by border delays. In manufacturing, we expect a marginal increase of 0.4%. In particular, autos are estimated at 2%, relatively good considering the delays and as suggested by exports according to *AMIA*, which picked up 4.9%. Nevertheless, this would be dampened by weakness in the sector in the US as suggested by the IP report. For the rest of manufacturing, we see a more modest performance of -0.5%.

We expect imports at -0.1%, on top of the -0.5% observed in March. Oil-related imports would fall 0.5%, more modest when compared to the previous month and also driven mostly by price changes, with consumption shifting to positive territory but intermediate still in contraction. Non-oil imports would fell 0.1%, with a relatively heavy drag from capital-goods (-8.9%) given the modest performance of investment and an unfavorable base effect. Intermediate goods could show a marginal improvement (+1.5% yoy from +0.7% in March) but would be capped by the abovementioned delays and limited dynamism in manufacturing exports.

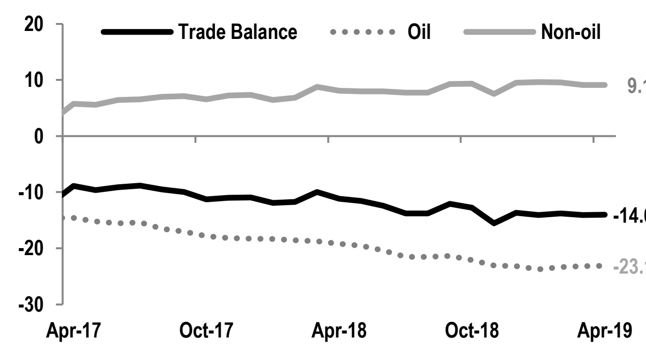
With these figures, the 12-month rolling deficit would moderate to US$ 14,031.7 million from US$ 14,086 million in the previous month, due to a slight improvement of US$ 82.7 million in the oil-balance to -US$ 23,121.3 million deficit, with the non-oil balance mostly unchanged at +US$ 9,089.6 million.

Exports and Imports
% yoy



Source: INEGI, Banorte

Trade balance
US$ billion, 12-month rolling sum



Source: INEGI, Banorte

Current account to widen in 1Q19. Next Friday, at 10:00am, Banxico will release its balance of payments report for the first quarter of the year. We are forecasting a US$9,155 million deficit in the current account, higher than the –US$ 3,424 million observed in the previous quarter. According to data already released, trade balance during the period in question amounted to -US$2,159 million, while net transfers increased as a result of 7.1% y/y increase in remittances.

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, Francisco Duarte Alcocer, 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.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., *through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.*

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	*When the share expected performance is greater than the MEXBOL estimated performance.*
HOLD	*When the share expected performance is similar to the MEXBOL estimated performance.*
SELL	*When the share expected performance is lower than the MEXBOL estimated performance.*

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Economic Analysis			
Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Francisco Duarte Alcocer	Analyst, Global Economist	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Fixed income and FX Strategy			
Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Corporate Debt			
Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Manager, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Corporate Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454