

Ahead of the Curve

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Market focus this week will be on February's family remittances and March's consumer confidence

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- **Family remittances (February).** On Monday, at 10:00am (ET), Banxico will make its family remittances monthly data available. We expect Mexican workers living abroad -mainly in the US-, to have sent US\$2,314.9 million to their families in Mexico during February. This would imply a 12.5% yoy expansion. We believe that the remittances inflows will be explained by the growth dynamics in the US economy, which has fostered a higher job creation for Mexican migrant workers and an increase in real wages.
- **Consumer confidence (March).** On Thursday, at 9:00am (ET), Banxico and INEGI will publish its monthly survey on consumer confidence, where we expect a 4.3% yoy expansion, with the index reaching 84.6 points. In seasonally adjusted terms, we expect confidence levels to increase 0.9% m/m. We believe that the 0.9% increase in consumer confidence will be explained by: (1) The marginal appreciation of the Mexican currency during the first 20 days of March (period in which INEGI conducts its consumer confidence survey); (2) the growth momentum in the Mexican labor market; and (3) inflation's downward trend.

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Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Sun 1-Apr		Mexico's begins Daylight Saving Time (DST)			-		
Mon 2-Apr	10:00am	Family remittances	February	US\$ mn	<u>2,314.9</u>	--	2,216.6
Mon 2-Apr	10:00am	Banxico's survey of economic expectations	March				
Mon 2-Apr	1:00pm	PMI's survey (IMEF)	March				
		Manufacturing		index	<u>51.9</u>	--	52.6
		Non-manufacturing		index	<u>52.9</u>	--	53.4
Tue 3-Apr	10:00am	International reserves	Mar-31	US\$ bn	--	--	173.2
Tue 3-Apr	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 3y MBono (Jun'20); 3y Udibonos (Dec'20)					
Thu 5-Apr	9:00am	Gross fixed investment	January	% yoy	<u>-0.8</u>	--	-0.4
		Machinery and equipment		% yoy	<u>4.7</u>	--	-4.5
		Domestic		% yoy	<u>8.0</u>	--	-13.2
		Imported		% yoy	<u>3.1</u>	--	2.4
		Construction		% yoy	<u>-4.1</u>	--	2.8
Thu 5-Apr	9:00am	Consumer confidence	March	index	<u>80.5</u>	--	82.0
Thu 5-Apr	4:30pm	Citibanamex bi-weekly survey of economic expectations					

Source: Banorte; Bloomberg

Proceeding in chronological order...

Family remittances will post a 12.5% yoy expansion in February. On Monday, at 10:00am (ET), Banxico will make its family remittances monthly data available. We expect Mexican workers living abroad -mainly in the US-, to have sent US\$2,314.9 million to their families in Mexico during February. This would imply a 12.5% yoy expansion.

We believe that the remittances inflows will be explained by the growth dynamics in the US economy, which has fostered a higher job creation for Mexican migrant workers and an increase in real wages. Looking ahead, we believe that the flow of remittances will be mainly explained by the above-trend growth in the US labor market and Trump's anti-migration policy.

Banxico's survey of economic expectations. Also on Monday, at 10:00am (ET), Banco de Mexico will publish its monthly survey of economic expectations. Market focus will be on inflation forecasts for 2018, which as of last survey stand at 4.13% (Banorte: 4.3%), as well as inflation expectations for the medium and long term. Moreover, attention will also be on monetary policy forecasts, particularly on its path for 2018, given that the forecast for YE18 currently stands at 7.5%.

Additionally, we will be looking into 2018's GDP forecast, which we expect at 2.5% (consensus: 2.3%). Furthermore, we expect marginal revisions to FX forecasts, and we will be particularly attentive to its trajectory throughout the next twelve months.

March's PMI surveys. Also on Monday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators for March. We expect the manufacturing PMI at 51.9 points (seasonally adjusted figures), marginally below February's 52.6 pts. We believe that the contraction in the manufacturing PMI during the month will be explained by a slowdown in the production and new orders components. In this sense, it is likely that the uncertainty regarding the prospects of the Mexican manufacturing industry under Trump's economic policies will continue to weigh on the other components of the index.

Regarding the non-manufacturing PMI, we believe that it will stand at 52.9 points, down from 53.4 points in February (seasonally adjusted figures). We consider that the decrease will be explained by a slowdown in new orders and production, given the prospects of slower private demand given the persistence of high inflation.

Weekly international reserves report. On Tuesday, at 10:00am (ET), Banco de Mexico will release its weekly balance report. Last week, net international reserves increased by US\$186 million amounting to US\$173.2 billion. According to Banxico's report, this figure comes mainly as a result of a positive valuation effect in central bank assets. In this context, the Central Bank's international reserves have increased by US\$418 million during 2018 (please refer to the table below).

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

	2016	Mar 23, 2018	Mar 23, 2018	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	172,802	173,220	186	418
(B) Gross international reserve	175,450	176,847	-164	1,397
Pemex	--	--	-472	-631
Federal government	--	--	-33	1,588
Market operations	--	--	0	0
Other	--	--	342	441
(C) Short-term government's liabilities	2,648	3,627	-350	979

Source: Banco de México

Weekly government bond auction. Also on Tuesday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent–, will offer 3-year fixed rate Mbonos (Jun'20), 3-year inflation-linked Udibonos (Dec'20), 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 (ET).

Auction specifics (Tuesday, April 3, 2018)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	03-May-18	--	7,000	7.49
3m	05-Jul-18	--	11,000	7.68
6m	27-Sep-18	--	11,500	7.75
M Bono				
3y	11-Jun-20	8.00	8,500	7.47
Udibonos				
3y	10-Dec-20	2.50	UDIS 950	3.79

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

We expect a visible recovery in consumer confidence during March. On Thursday, at 9:00am (ET), Banxico and *INEGI* will publish their monthly survey on consumer confidence, where we expect a 4.3% yoy expansion, with the index reaching 84.6 points. In seasonally adjusted terms, we expect confidence levels to increase 0.9% m/m.

We believe that the 0.9% increase in consumer confidence will be explained by: (1) The marginal appreciation of the Mexican currency during the first 20 days of March (period in which *INEGI* conducts its consumer confidence survey); (2) the growth momentum in the Mexican labor market; and (3) inflation's downward trend. In this regard, headline inflation in the first half of March stood at 5.17% yoy from the 6.77% observed in December.

We expect a 1.9% yoy expansion in January's GFI. On Thursday at 9:00am (ET), *INEGI* will publish its January's gross fixed investment (GFI) report. We anticipate GFI up by 1.9% yoy. We believe that within the report we will probably see an 8.2% yoy expansion in imported machinery and equipment, given that trade balance figures showed a similar increase for capital goods imports.

However, we expect an 11.8% contraction in domestic machinery and equipment. Finally, we believe that construction spending increased 3.1% yoy given that construction output within the industrial production report showed a similar result.

GFI estimates: January 2018

% yoy nsa; %-pts; % m/m sa

%yoy	Jan-18	Jan-17	2017	2016
Total	1.9	0.7	-1.5	1.1
Machinery and equipment	0.2	5.6	1.5	3.1
Domestic	-11.8	2.9	-0.3	7.3
Imported	8.2	7.5	2.8	0.3
Construction	3.1	-2.4	-3.7	-0.3

Annual contribution	Jan-18	Jan-17	Difference
Total	1.9	0.7	1.2
Machinery and equipment	0.1	2.1	-2.1
Domestic	-1.9	0.5	-2.4
Imported	2.0	1.7	0.3
Construction	1.8	-1.5	3.3

%m/m sa	Jan-18	Dec-17	Difference
Total	1.3	-0.3	1.6
Machinery and equipment	-0.2	-1.9	1.6
Domestic	-6.0	-4.4	-1.6
Imported	2.1	-1.1	3.1
Construction	2.5	2.0	0.5

Source: Banorte

Citibanamex Survey: Market participants will focus on inflation and monetary policy forecasts. On Thursday around 3:30pm (ET) *Citibanamex* will release its bi-weekly survey of economic expectations, where focus will be on analysts' inflation forecasts for March (to be published on April 9). Furthermore, attention will be on monetary policy assessments. In addition, the survey will also contain forecasts for growth and FX estimations. In the first case, we do not expect strong revisions to the median GDP forecast for 2018. In the second case, we expect marginally downward revisions given the latest performance of the Mexican peso.

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