

Ahead of the Curve

September 29, 2017

Market focus this week will be on September's consumer confidence report

- **Consumer confidence (September).** On Thursday at 9:00am (EDT), Banxico and INEGI will publish its September's monthly survey on consumer confidence, where we expect a 5.2% yoy contraction, with the index reaching 79.9 points, its lowest level since February. In seasonally adjusted terms, we expect confidence levels to fall 8.9% m/m.

We believe that the 8.9% m/m reduction in consumer confidence will be explained by the recent earthquakes in Chiapas, Tabasco, and Oaxaca on September 7 and by the earthquake in Mexico City, Puebla, Guerrero, and Morelos on September 19. It is likely that consumers probably discounted a less favorable future scenario for both the Mexican economy and Mexican households given the economic impact of these events. However, since the last earthquake in Mexico City and its neighboring states took place on September 19, and the consumer confidence survey is collected during the first 20 days of each month, consumer sentiment is also likely to show a significant contraction in October.

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Document for distribution among the general public

Mexico weekly calendar

DATE	HOUR (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 2-Oct	10:00am	Family remittances	August	US\$ mn	<u>2,423</u>	2,444	2,459.7
Mon 2-Oct	10:00am	Banxico's survey of economic expectations	September				
Mon 2-Oct	1:00pm	PMI's survey (IMEF)	September				
		Manufacturing		index	<u>53.2</u>	--	54.0
		Non-manufacturing		index	<u>52.8</u>	--	54.0
Tue 3-Oct	10:00am	International reserves	29-Sep	US\$ bn	--	--	173.3
Tue 3-Oct	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 5y Mbono (Jun'22); 10y Udibono (Nov'28)					
Wed 4-Oct	9:00am	Gross fixed investment	July	% yoy	<u>-1.8</u>	-0.5	-0.9
		Machinery and equipment		% yoy	<u>1.7</u>	--	-0.4
		Domestic		% yoy	<u>1.0</u>	--	-2.8
		Imported		% yoy	<u>2.0</u>	--	0.8
		Construction		% yoy	<u>-4.2</u>	--	-1.3
Thu 5-Oct	9:00am	Consumer confidence	September	index	<u>79.9</u>	--	88.5
Thu 5-Oct	3:30pm	Citibanamex bi-weekly survey of economic expectations					

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

Family remittances will post a 6.8% yoy expansion in August. On Monday, 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\$2,423.2 million to their families in Mexico during August. This would imply a 6.8% yoy expansion.

We believe that the flow of remittances will be mainly explained by the Trump's anti-migration policy. The employment of Mexican migrants with citizenship has increased by 729,738 workers during the first eight months of the year, while the number of Mexican migrant workers without citizenship – which account for the main source of remittances in our country– has increased by a scant 69,641 during the same period.

As we have mentioned in our recent publications, Trump's current anti-migration policy has been reflected in a greater flow of remittances to Mexico, despite the fact that labor opportunities for Mexican migrants without citizenship have become scarce. In this context, we believe that this phenomenon will continue to explain the flow of remittances in the coming months.

Banxico's survey of economic expectations. Also on Monday, at 10:00am (EDT), Banco de Mexico will publish its monthly survey of economic expectations. Market focus will be on inflation forecasts for YE17, which as of last survey stand at 6.2% (Banorte: 6.4%), as well as inflation expectations for the medium and long term. Moreover, attention will also be on monetary policy forecasts, although it is worth noting that the survey was conducted before Banxico's last monetary policy decision, which took place on September 28.

Additionally, we will be looking into 2017's GDP forecasts, which we expect at 1.9% (consensus: 2.2%). Furthermore, we expect marginal downward revisions to FX forecasts, which we continue to forecast at USD/MXN18.10 by YE17.

September's PMI surveys. Also on Monday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators for September. We expect manufacturing PMI at 53.2 (seasonally adjusted terms). We believe that the reduction in the manufacturing PMI during September will be explained by a decrease in the new orders and production subcomponents. We think that the uncertainty regarding the prospects of the Mexican manufacturing industry under Trump's economic policies will continue to weigh in a lesser manner on the index.

In addition, we believe that the non-manufacturing PMI will stand at 52.8 points from 54 points. We consider that recent inflation dynamics, as well as a slightly slower private demand could impact this month's figure.

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\$94 million amounting to US\$173.3 billion. According to Banxico’s report, this figure comes mainly as a result of: (1) US\$9 million dollar sales from Banxico to the Federal Government; and (2) a negative revalorization in central bank assets amounting to US\$85 million. In this context, the Central Bank’s international reserves have diminished by US\$3.3 billion this year (please refer to the table in the next page).

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

	2016	Sep 22, 2017	Sep 22, 2017	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,542	173,276	-94	-3,265
(B) Gross international reserve	178,025	175,554	835	-2,471
Pemex	--	--	-7	-716
Federal government	--	--	280	-3,546
Market operations	--	--	0	-2,000
Other	--	--	562	3,792
(C) Short-term government's liabilities	1,483	2,278	929	795

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 5-year fixed rate Mbonos (Jun’22), 10-year inflation-linked Udibonos (Nov’28), 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, October 3, 2017)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	01-Nov-17	--	7,000	7.00
3m	04-Jan-18	--	11,000	7.07
6m	28-Mar-18	--	11,500	7.14
M Bono				
5y	09-Jun-22	6.50	8,000	6.78
Udibono				
10y	30-Nov-28	4.00	600	3.20

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 1.8% yoy contraction in July’s GFI. On Wednesday at 9:00am (EDT), *INEGI* will publish its July’s gross fixed investment (GFI) report. We anticipate GFI down by 1.8% yoy. We believe that within the report we will probably see a 2% yoy increase in imported machinery and equipment, given that trade balance figures showed a similar growth for capital goods imports. Moreover, we expect a 1% growth in domestic machinery and equipment. Finally, we believe that construction spending fell 4.2% yoy derived from the lower public construction spending observed in the latest industrial production figures.

GFI estimates: July 2017

% yoy; %-pts

%yoy	Jul-17	Jul-16	Jan-Jul, '17	Jan-Jul, '16
Total	-1.8	-5.2	-1.3	-0.5
Machinery and equipment	1.7	-5.9	2.6	-0.9
Domestic	1.0	-0.6	2.5	6.2
Imported	2.0	-8.3	2.6	-4.0
Construction	-4.2	-4.8	-3.8	-0.3
Annual contribution	Jul-17	Jul-16	Difference	
Total	-1.8	-5.2	3.4	
Machinery and equipment	0.7	-2.3	3.0	
Domestic	0.1	-0.1	0.2	
Imported	0.5	-2.3	2.8	
Construction	-2.5	-2.9	0.4	

Source: Banorte-Ixe

Consumer confidence affected by September's earthquakes. On Thursday at 9:00am (EDT), Banxico and *INEGI* will publish its September's monthly survey on consumer confidence, where we expect a 5.2% yoy contraction, with the index reaching 79.9 points, its lowest level since February. In seasonally adjusted terms, we expect confidence levels to fall 8.9% m/m.

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Citibanamex Survey: Market participants will focus on inflation and monetary policy forecasts. On Thursday around 3:30pm (EDT) *Citibanamex* will release its bi-weekly survey of economic expectations, where focus will be on analysts' monetary policy assessments, given that we believe that the latest monetary policy statement could have been interpreted by market participants with a slightly more hawkish tone.

Furthermore, analysts will also focus on inflation forecasts for September (to be published on Monday, October 9), as well as on CPI estimations for 2017. In addition, *Citibanamex* will also publish consensus' growth and FX forecasts for 2017. In the first case, we do not expect strong revisions to the median GDP forecast. In the second case, we expect moderate downward revisions to the FX estimates for 2017.

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