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Banorte Research and Strategy

Financial Markets Daily

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Main drivers for the financial markets today…

- **Global markets are experiencing a momentary relief rally after the strong correction in recent days. In this context, the USD weakens while we observe a slight recovery in other markets. Some of this optimism comes from attractive valuations, positive data in Europe and good corporate news, which have offset the escalating tensions between the U.S. and Turkey, in tandem with weaker than expected economic figures in China**

- **In spite of the optimism observed in the Turkish markets, the United States reiterated that they will not negotiate tariffs reduction until a U.S. pastor is released. Meanwhile, President Erdoğan called on his citizens to boycott US-produced assets, while he will meet today with his counterpart in Iraq, Haider al-Abadi**

- **In China, the set of economic data was a downside surprise, as industrial production recorded a 6% annual growth (consensus: 6.3%), while retail sales increased 8.8% in annual terms (consensus: 9.1%). Additionally, fixed investments showed a 5.5% annual hike from January to July, that is, its lowest level since 1999**

- **In Germany, the 2Q18 GDP was higher than expected as it climbed 0.5% q/q, leaving the annual comparison at 2.3%. With this, the GDP of the Eurozone was revised from 0.3% q/q to 0.4% q/q for 2Q18, with which annual growth resulted in 2.2%**

- **In the United Kingdom, in June, the unemployment rate stood at 4%, its lowest level since February 1975. However, wage increases marginally slowed, going from 2.5% in May to 2.4% in June**

The most relevant economic data…

Time	Event/Period	Unit	Banorte	Survey	Previous
United Kingdom					
4:30	Unemployment rate - Jun	%	--	4.2	4.2
Eurozone					
5:00	EZ Industrial Production - Jun	% m/m	--	-0.4	1.3
5:00	EZ Gross domestic product* - 2Q18	% q/q	--	0.3	0.3
5:00	EZ Gross domestic product - 2Q18	% y/y	--	2.1	2.1
5:00	GER Gross domestic product* - 2Q18	% q/q	--	0.4	0.3
5:00	GER ZEW Survey (expectations) - Aug	index	--	-21.2	-24.7
Mexico					
10:00	International reserves - 10 Aug	US$bn	--	--	173.30
11:30	Gov. bond auction -1M, 3M, 6M and 12M Cetes, 30-year Mbono, 30-year Udibonos, and Bondes D				

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A glimpse to the main financial assets

	Last	Daily chg.
Equity indices		
S&P 500 Futures	2,833.50	0.3%
Euro Stoxx 50	3,416.86	0.2%
Nikkei 225	22,356.08	2.3%
Shanghai Composite	2,780.97	-0.2%
Currencies		
USD/MXN	19.00	-0.6%
EUR/USD	1.14	-0.1%
DXY	96.27	-0.1%
Commodities		
WTI	68.11	1.4%
Brent	73.61	1.4%
Gold	1,195.66	0.2%
Copper	271.75	-0.5%
Sovereign bonds		
10-year Treasury	2.89	1pb

Source: Bloomberg

Equities

- On Tuesday, stock markets are set to show mixed movements, although the positive bias predominates. At the moment, investors are trying to put aside concerns about the crisis in Turkey, reflecting opportunity purchases following the profit taking in recent days. US futures anticipate an upward opening, with the S&P500 trading at 0.3%, above its theoretical value

- As for Asia, it is important to mention the rise of the Japanese stock market that gained 2.3%, although China reflected losses, with the Shanghai index decreasing 0.2%, after the publishing of retail sales and industrial production figures, which fell short to expectations. In Europe, we have mixed movements, with the Eurostoxx hiking 0.2% after good reports

- In the US, on the corporate front, we only have the results of Home Depot and Tapestry Inc, part of the S&P500 index, both with higher-than-expected results

Sovereign fixed income, currencies and commodities

- Mild profit taking of Treasuries and a better performance in sovereign bonds in emerging markets derived from a temporary relief rally on the Turkish situation. In terms of strategy, we keep our recommendation in the CPI-linked Udibono Jun'22 before a still complex inflation scenario

- The USD is partially dropping part of yesterday's appreciation as the BBDXY is falling 0.2%. The best performance is recorded in emerging currencies with TRY, recovering 4.8%, despite comments from Erdoğan showing his previous rhetoric. The MXN is the fourth best emerging currency, appreciating 0.6% to 19.00 per USD

- Oil is recovering along with greater stability in markets, with attention focused today at 3:30 p.m. to API's oil inventories. In terms of metals, basic ones are trading downwards following the publication of data in China and with labor talks in Chile agreeing to extend negotiations one more day

Corporate Debt

- Fitch Ratings withdrew the national scale rating of 'BBB (mex) vra' with an Ongoing Observation to the subordinated issuance "PLANRIO 05-2U". According to the statement, the withdrawal is due to the fact that *Concesiones y Promociones Malibrán* has not provided sufficient information to allow Fitch to maintain its rating and resolve the Observation. This information includes, among other data, a robust financial model that fully reflects the structure and contractual terms of the issue, as well as final versions of the legal documents that govern the transaction

- Call for Holders Assembly of the issuances PLANFIA 00417 / 00517 / 00617 / 00717 to be held next August 22nd, 2018

Previous closing levels

	Last	Daily chg.
Equity indices		
Dow Jones	25,187.70	-0.5%
S&P 500	2,821.93	-0.4%
Nasdaq	7,819.71	-0.2%
IPC	48,767.02	0.8%
Ibovespa	77,496.45	1.3%
Euro Stoxx 50	3,409.68	-0.5%
FTSE 100	7,642.45	-0.3%
CAC 40	5,412.32	0.0%
DAX	12,358.74	-0.5%
Nikkei 225	21,857.43	-2.0%
Hang Seng	27,936.57	-1.5%
Shanghai Composite	2,785.87	-0.3%
Sovereign bonds		
2-year Treasuries	2.61	1pb
10-year Treasuries	2.88	1pb
28-day Cetes	7.75	0pb
28-day TIIE	8.11	0pb
2-year Mbono	7.73	5pb
10-year Mbono	7.80	4pb
Currencies		
USD/MXN	19.12	1.1%
EUR/USD	1.14	0.0%
GBP/USD	1.28	0.1%
DXY	96.39	0.0%
Commodities		
WTI	67.20	-0.6%
Brent	72.61	-0.3%
Mexican mix	63.02	-2.5%
Gold	1,193.50	-1.4%
Copper	273.10	-0.4%

Source: Bloomberg

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Certification of Analysts.

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 and Francisco José Flores Serrano 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.*
SELL	*When the share expected performance is lower than the MEXBOL estimated performance.*

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