

Ahead of the Curve

November 16, 2018

We expect a modest upward revision in 3Q18 GDP and inflation for the first half of November at 0.63% 2w/2w

- Gross domestic product (3Q18 F).** We expect GDP at 2.7% yoy, slightly higher than the 2.6% observed in the preliminary report. By components, the primary sector would grow 2.2%, industrial production 1.4%, and services 3.4%. We believe that this revision would be mostly driven by a stronger performance of industrial activity, with a more positive relative performance in construction and manufacturing, confirming an important rebound of activity during the quarter
- Bi-weekly inflation report (1H-November).** We forecast a 0.63 % 2w/2w increase in the headline index and +0.17% at the core level. Inflation will be mostly driven by the end of summer discounts in electricity tariffs in some areas of the country, explaining 44bps of the projected increase in the headline. Nevertheless, we expect the rest of energy to show a more modest behavior, along a contribution of 6bps from agricultural goods. we believe November's holiday period and the temporary contingency in Mexico City as a result of maintenance works in the Cutzamala water supply system will keep pressuring other goods (+6.5bps), particularly air fares and tourism services. With these results, 12-month inflation would stand at 4.57%, lower than the 4.90% registered in October.

www.banorte.com
@analisis_fundam

Delia Paredes

Executive Director of Economic Analysis
delia.paredes@banorte.com

Juan Carlos Alderete, CFA

Senior Economist, Mexico
juan.alderete.macal@banorte.com

Francisco Flores

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

Document for distribution among the general public

Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 19-Nov		Banking holiday: Mexican Revolution					
Tue 20-Nov	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 10y Mbono (Jun'27); 5y Bondes D					
Tue 20-Nov	3:30pm	Citibanamex bi-weekly survey of economic expectations					
Wed 21-Nov	10:00am	International reserves	Nov-16	US\$ bn	--	--	173.6
Thu 22-Nov	9:00am	CPI inflation	1H-Nov	% 2w/2w	<u>0.60</u>	0.70	0.14
				% yoy	<u>4.54</u>	4.61	4.87
		Core		% 2w/2w	<u>0.17</u>	0.19	0.10
				% yoy	<u>3.61</u>	--	3.72
Fri 23-Nov	9:00am	GDP	3Q18 (F)	% yoy	<u>2.7</u>	2.6	2.6
		(sa)		% q/q	<u>0.8</u>	0.9	0.9
		Primary activities		% yoy	<u>2.2</u>	--	2.2
		Industrial production		% yoy	<u>1.4</u>	--	1.1
		Services		% yoy	<u>3.4</u>	--	3.4
Fri 23-Nov	9:00am	Global economic indicator	September	% yoy	<u>3.2</u>	2.8	1.7
		(sa)		% m/m	<u>0.8</u>	--	-0.1
		Primary activities		% yoy	<u>4.1</u>	--	1.0
		Industrial production		% yoy	<u>2.5</u>	--	0.2
		Services		% yoy	<u>3.5</u>	--	2.4
Fri 23-Nov	10:00am	Current account	3Q18	US\$ bn	<u>-5.9</u>	-4.4	-3.8

Source: Banorte; Bloomberg

Proceeding in chronological order...

Financial markets will remain closed in Mexico on Monday. On the logistics side it is worth noting that next week Mexico will experience a short week with a banking holiday on Monday (Nov 20), as the country observes the 107th Anniversary of the Mexican Revolution.

Weekly government bond auction. The Ministry of Finance (MoF) –via Banco de Mexico as its financial agent–, will offer 10-year fixed-rate Mbonos (Jun’27), 5-year Bondes D, in addition to the “more traditional” 1-, 3-, and 6-month zero-coupon Cetes (please refer to the following table). As usual, results will be released at 12:30pm (ET).

Auction specifics (Tuesday, November 20th, 2018)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	20-Dec-18	--	7,000	7.79
3m	21-Feb-19	--	11,000	8.25
6m	23-May-19	--	11,000	8.28
Bondes D				
5y	01-Nov-23	--	5,000	0.19
M Bono				
10y	03-Jun-27	7.50	7,000	8.17

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 November (to be published on Thursday, November 22nd). Furthermore, attention will be on monetary policy assessments, given the tone of the last monetary policy *communiqué*, which was published on November 15th. In addition, this publication will contain forecasts for growth and the USD/MXN exchange rate.

Weekly international reserves report. Last week, net international reserves decreased by US\$72 million, amounting to US\$173.6 billion. According to Banxico’s report, this figure comes mainly from a negative valuation effect in central bank assets. In this context, the central bank’s international reserves have increased by US\$759 million during 2018 (please refer to the following table).

Banxico's foreign reserve accumulation detail

US\$, million

	2017	Nov 9, 2018	Nov 9, 2018	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	172,802	173,561	-72	759
(B) Gross international reserve	175,450	176,005	-581	555
Pemex	--	--	-487	-809
Federal government	--	--	-48	435
Market operations	--	--	0	0
Other	--	--	-46	928
(C) Short-term government's liabilities	2,648	2,444	-509	-204

Source: Banco de México

End of summer discounts in electricity tariffs to continue impacting inflation in the first half of November. We forecast a 0.63 % 2w/2w increase in the headline and +0.17% at the core index. Inflation will be mostly driven by the end of summer discounts in electricity tariffs in some areas of the country, explaining 44bps of the projected increase in the headline. Nevertheless, we expect the rest of energy to show a more modest behavior given the stabilization in gasoline (+0.3bps), as well as a slight contraction in the benchmark price for LP gas (-1.5bps). However, we expect higher agricultural prices, mainly due to the increase in the price of chicken. Finally, we believe November's holiday period and the temporary contingency in Mexico City as a result of maintenance works in the Cutzamala water supply system will keep pressuring other goods (+6.5bps), particularly air fares and tourism services.

With these results, 12-month inflation would stand at 4.57%, lower than the 4.90% seen in October. Moreover, we forecast core inflation at 3.61% yoy (previous: 3.73%). Despite this decrease, we believe pressures in the prices of gas (given its highly seasonal behavior), as well as rising agricultural prices, will continue to put upward pressures on inflation. Considering the latter, we maintain our 4.8% year-end forecast, with modest risks to the downside.

We expect a marginal upward revision of GDP in 3Q18. In this regard, we expect GDP at 2.7% yoy, slightly above the 2.6% in the preliminary report. As previously mentioned, this reading was very positive given that 2Q18's data was boosted by a calendar effect. If our forecast stands, it would confirm a healthy rebound for economic activity in the quarter. By components, the primary sector would grow 2.2%, industrial production 1.4%, and services 3.4%.

Relative to the preliminary report, the upward adjustment would be driven by a +30bps revision to industrial output. In particular, and in line with our expectation, mining was benefited by a base effect after the natural disasters that happened last year. However, the uptick was more modest than what we forecasted, growing 2.9% vs. our 4.2% estimate. Nevertheless, and on a more positive note, surprises that helped explain the upward adjustment were concentrated in construction (which although it kept falling in September relative to last year, it was less negative) and manufacturing, which we believe will remain as the more dynamic component in coming months.

Lastly, services could also benefit from greater industrial output, although in our opinion, not enough to warrant a significant adjustment from the original estimate. The most recent signals from recent data were more negative at the margin, which could compensate for the added dynamism in transportation activities related to manufacturing. In this sense, family remittances moderated in September (8.8% yoy vs 9.1% in August and 10.8% YTD). In addition, consumer credit also decelerated slightly (1.5% yoy in September vs. 2.3% YTD), especially in personal loans, which added two consecutive months with declines in its yearly comparison when adjusted for inflation. Even though some of these indicators suggest consumption keeps growing at a healthy pace, we believe this could be at a more modest rate of expansion, thus, limiting services growth.

Economic activity likely rebounded in September. We expect the *Economic Activity Indicator* (IGAE) to post a 3.2% yoy expansion in September, up from the previous month at 1.7% and consistent with our expectation of a slight upward revision in 3Q18 GDP (see above). If our forecast materializes it would help confirm a strong end of the quarter, albeit also helped by a favorable base effect, as the year-ago expansion was only of 0.4%. By component, we estimate a 4.1% advance in the primary sector, 2.5% in secondary activities (in line with the industrial production report) and 3.5% in services

Broadly speaking, economic data during the month was positive in spite of some tentative signs of moderation, both in soft and hard data. In the former, PMI indexes remained in expansion territory, particularly with non-manufacturing picking up to 51.2pts against 50.0 in the previous month (seasonally-adjusted figures), high since last April. Consumer confidence retraced to 101.7pts but has stayed strong, particularly in those components related to current conditions. In the latter, data has moderated but have also been positive. Industrial activity rebounded, supported by manufacturing and, in particular, the auto sector. Nevertheless, consumption-goods imports fell, suggesting some deceleration in domestic demand. On the contrary, ANTAD's same-store sales surged to 6.1% yoy. Last but not least, unemployment ticked higher to 3.32% from 3.29% in August, slightly more negative but with the underemployment rate at its lowest since February. Going forward, we believe economic activity could moderate, influenced by higher local uncertainty that has impacted market prices, coupled with some tentative signs of a deceleration according to indicators such as IMEF indexes and wage negotiations.

The current account deficit in 3Q18 will amount to US\$5,900 million. Finally, on Friday at 10:00am, Banxico will release its balance of payments report for the second quarter of the year. We are forecasting a US\$5.9bn deficit in the current account. According to data already released, trade balance during the period in question amounted to -US\$5,673.6 million, while net transfers increased as a result of a 9.4% yoy increase in remittances.

Disclaimer

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

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 Thalia 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 Ixe 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	<i>When the share expected performance is greater than the MEXBOL estimated performance.</i>
HOLD	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
SELL	<i>When the share expected performance is lower than the MEXBOL estimated performance.</i>

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.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

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 Godínez	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
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 Thalia 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
Francisco Duarte Alcocer	Analyst	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
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	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, 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.cebillos@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
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454