

Ahead of the Curve

January 26, 2018

Market focus this week will be on the preliminary report for 4Q17's GDP and December's remittances

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- **Gross Domestic Product (4T17 P).** On Tuesday, *INEGI* will publish its preliminary estimation of GDP, which we believe will show a 1.6% yoy growth for the Mexican economy during 4Q17, marginally above the 1.5% observed in 3Q17. It is likely that Mexico's economic growth was partially explained by the moderate expansion in services (2.7% yoy) and the contraction in industrial production (-1% yoy)
- **Family remittances (December).** On Thursday, 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\$2,542.6 million to their families in Mexico during December. This would imply an 8.5% yoy expansion. We highlight that the remittances inflows will be explained by the 6.7% depreciation of the Mexican currency within the first 25 days of December

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Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Tue 30-Jan	9:00am	GDP	4Q17 (P)	% yoy	<u>1.6</u>	--	1.5
		(sa)		% q/q	<u>0.9</u>	--	-0.3
		Primary activities		% yoy	<u>6.7</u>	--	0.9
		Industrial production		% yoy	<u>1.0</u>	--	-0.7
		Services		% yoy	<u>2.7</u>	--	2.4
Tue 30-Jan	10:00am	International reserves	27-Jan	US\$ mn	--	--	173.0
Tue 30-Jan	12:30pm	Government weekly auction: 1-, 3-, 6-, 12-month CETES; 10y Mbono (Jun'27); 30y Udibonos (Nov'46); 5y Bondes D					
Tue 30-Jan	11:00pm	Budget balance	December	MXN bn	--	--	69.7
Wed 31-Jan	10:00am	Comercial banking credit	December	% yoy	<u>4.1</u>	--	3.7
		Consumption		% yoy	<u>1.9</u>	--	1.5
		Housing		% yoy	<u>2.5</u>	--	2.2
		Non-banking private firms		% yoy	<u>5.4</u>	--	5.1
Thu 1-Feb	10:00am	Family remittances	December	US\$ mn	<u>2,542.6</u>	--	2,258.6
Thu 1-Feb	10:00am	Banxico's survey of economic expectations					
Thu 1-Feb	9:00am	PMI's survey (IMEF)	January				
		Manufacturing		index	<u>51.6</u>	--	51.7
		Non-manufacturing		index	<u>52.2</u>	--	52.0

Source: Banorte; Bloomberg

Proceeding in chronological order...

Mexico's preliminary GDP will stand at 1.6% yoy in 4Q17. On Tuesday, *INEGI* will publish its preliminary estimation of GDP. For this preliminary figure, *INEGI* uses the economic reports published for the first two months of each quarter, and adds the available information for the third month. The missing figures for the last month of the quarter are estimated using econometric models. In this regard, the preliminary estimation of GDP will cover 80% with the direct information available, and will estimate the remaining 20%.

We believe that the preliminary estimation will show a 1.6% yoy growth for the Mexican economy during 4Q17, marginally above the 1.5% observed in 3Q17. It is likely that Mexico's economic growth was partially explained by the moderate expansion in services and the contraction in industrial production.

In the first case, the majority of services –including wholesale and retail sales– are likely to show a significant deceleration, as a result of the upward trend in inflation. Therefore, we believe that services will expand a moderate 2.7% yoy.

By contrast, we also forecast a moderate deceleration in manufacturing activity, and a significant contraction in mining and construction output. In this context, we consider that industrial activity will fall 1% during the fourth quarter of 2017.

Weekly international reserves report. Additionally on Tuesday, at 10:00am (ET), Banco de Mexico will release its weekly balance report. Last week, net international reserves increased by US\$70 million amounting to US\$173 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\$220 million during 2018 (please refer to the table below).

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

	2016	Jan 19, 2018	Jan 19, 2018	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	172,802	173,022	70	220
(B) Gross international reserve	175,450	179,142	1,984	3,692
Pemex	--	--	328	-231
Federal government	--	--	1,549	3,890
Market operations	--	--	0	0
Other	--	--	107	34
(C) Short-term government's liabilities	2,648	6,121	1,913	3,473

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 10-year fixed rate Mbonos (Jun’27), 30-year inflation-linked Udibonos (Nov’46) and 5-year Bondes D, in addition to the “more traditional” 1-, 3-, 6-, and 12-month zero-coupon Cetes (please refer to the table below). As usual, the results will be released at 12:30pm (ET).

Auction specifics (Tuesday, January 30, 2018)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	01-Mar-18	--	9,500	7.25
3m	03-May-18	--	12,500	7.40
6m	02-Aug-18	--	11,500	7.61
12m	31-Jan-19	--	12,500	7.78
Bondes D				
5y	05-Jan-23	--	4,500	0.16
M Bono				
10y	03-Jun-27	7.50	9,000	7.53
Udibonos				
30y	08-Nov-46	4.00	UDIS 400	3.74

Source: Banorte-ix e 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

The MoF’s monthly report. Also on Tuesday, the Ministry of Finance (MoF) will release its monthly finance report available for the twelfth month of the year. This report is particularly important since it will provide information of public finances throughout 2017

On the revenue side, we will be looking at non-oil tax collection, as it will provide additional information about domestic demand behavior, given the volatile dynamics in income tax collection seen in the year. Moreover, considering the increase in oil prices during 2017, the behavior of oil revenues generated by the Federal Government will be particularly relevant.

In addition, markets will focus on the spending side of the report, in order to assess the execution of the fiscal budget for 2017, as well as the use of Banxico’s Operational Surplus. Finally, it will be important to evaluate the evolution of public sector debt, which currently represents around 43.7% of Mexico’s GDP.

Banking credit will show a 4.1% yoy increase in December. Banco de Mexico will make available its banking credit report on Wednesday at 10:00am (ET). It is our take that banking credit continued flowing in December, albeit at a slower pace. In particular, we estimate a 4.1% yoy expansion in banking credit (in real terms), as a result of increases in the area of 1.9%, 2.5%, and 5.4% yoy in consumer, housing and business credit, respectively.

Family remittances will post an 8.5% yoy expansion in December On Thursday, 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\$2,542.6 million to their families in Mexico during December. This would imply an 8.5% yoy expansion. We highlight that the remittances inflows will be explained by the 6.7% depreciation of the Mexican currency within the first 25 days of the month. In this regard, we highlight that the flow of remittances in the short-run is very sensitive to high fluctuations in Mexican peso. In particular, a sharp depreciation may encourage Mexican migrant workers to increase their remittances, given that the purchasing power of the amount remitted is greater in Mexico than in the U.S.

Looking ahead, we believe that the flow of remittances will be mainly explained by the Trump's anti-migration policy, which has fostered a greater flow of remittances to Mexico, despite the fact that labor opportunities for Mexican migrants without citizenship have become scarce.

Banxico's survey of economic expectations. Also on Thursday, 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% (Banorte: 4.3%), as well as inflation expectations for the medium and long term. Moreover, attention will also be on monetary policy forecasts, since private surveys have shown a great diversity of forecasts.

Additionally, we will be looking into 2017 and 2018's GDP forecasts, which we expect at 2.1% and 2.5% respectively (consensus: 2017: 2.1%; 2018: 2.2%). Furthermore, we expect marginal revisions to FX forecasts, and we will be particularly attentive to the trajectory throughout 2018.

January's PMI surveys. Finally on Thursday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators for January. We expect the manufacturing PMI at 51.6 points (seasonally adjusted figures), marginally below December's 51.7 pts. We believe that the reduction in the manufacturing PMI during the month will be explained by a marginal slowdown in the production and new orders components. Moreover, 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 index.

Regarding the non-manufacturing PMI, we believe that it will stand at 52.2 points from 52 points in December (seasonally adjusted figures). We consider that the slight increase will reflect a more positive outlook expecting lower inflation and higher consumption in the coming months.

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