

# Ahead of the Curve

April 28, 2017

Market focus this week will be on March's remittances and February's GFI

- **Family remittances (March).** On Tuesday, 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\$2,297.9 million to their families in Mexico during March. This would imply a 5% yoy expansion. We believe that the moderate expansion in the flow of remittances in March will be determined by the 7.4% appreciation of the Mexican currency during the period in question, given that Mexican migrants tend to reduce the amount sent to their families
- **Gross Fixed Investments (February).** On Thursday, at 9:00am (EDT), INEGI will publish its February's gross fixed investment (GFI) report. We anticipate GFI down by 0.6% yoy. We believe that within the report we will probably see a 3.7% yoy expansion in domestic machinery and equipment. coupled with a 6.5% contraction in imported machinery and equipment. Finally, we believe that construction spending posted a scant 1.1% yoy expansion derived from the lower public construction spending observed in the latest industrial production figures

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Mexico weekly calendar

DATE	HOUR (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 1-May							
Tue 2-May	10:00am	Family remittances	March	US\$ mn	<u>2,297.9</u>	2,340	2,052
Tue 2-May	10:00am	Banxico's survey of economic expectations	April				
Tue 2-May	1:00pm	PMI's survey (IMEF)	April				
		Manufacturing		index	<u>46.5</u>	46.2	45.9
		Non-manufacturing		index	<u>47.4</u>	48.2	48.0
Tue 2-May	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 3y Mbono (Jun'20); 3y Udibonos (Dec'20)					
Wed 3-May	10:00am	International reserves	Apr-28	US\$ bn	--	--	175.0
Thu 4-May	9:00am	Gross fixed investment	February	% yoy	<u>-0.6</u>	-0.1	-0.5
		Machinery and equipment		% yoy	<u>-3.2</u>	--	4.1
		Domestic		% yoy	<u>3.7</u>	--	5.4
		Imported		% yoy	<u>-6.5</u>	--	3.5
		Construction		% yoy	<u>1.1</u>	--	-3.3
Fri 5-May	4:30pm	Citibanamex bi-weekly survey of economic expectations					

Source: Banorte-IXE; 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 (May 1st), as the country observes the Labor Day.

**Family remittances will post a 5% yoy expansion in March.** On Tuesday, 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\$2,297.9 million to their families in Mexico during March. This would imply a 5% yoy expansion. We believe that the moderate expansion in the flow of remittances in March will be determined by the 7.4% appreciation of the Mexican currency during the period in question, given that Mexican migrants tend to reduce the amount sent to their families.

**Banxico’s survey of economic expectations.** On Tuesday at 10:00am (EDT), Banco de Mexico will publish its monthly survey of economic expectations. The report is particularly relevant considering the latest GDP figure, which posted a 2.7% yoy increase during the first quarter of 2017. The analysts' assessments of GDP growth for 2017 currently stand at 1.5% yoy, below our 1.6% yoy forecast.

Moreover, we expect marginal revisions to FX forecasts, which we now believe to stand at USD/MXN19.50 by YE17. Additionally, market participants will focus will be on 2017 inflation expectations that currently are at 5.6% (Banorte-Ixe: 5.7%), which might be marginally revised upward

**Weekly government bond auction.** On Wednesday, 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 (EDT).

**Auction specifics (Tuesday, May 2, 2017)**

	Maturity	Coupon rate, %	To be auctioned <sup>1</sup>	Previous yield <sup>2</sup>	
<b>Cetes</b>					
	1m	1-jun-17	--	7,000	6.50
	3m	3-ago-17	--	11,000	6.68
	6m	26-oct-17	--	11,500	6.82
<b>M Bono</b>					
	3y	11-jun-20	8.00	8,500	6.97
<b>Udibonos</b>					
	3y	10-dic-20	2.50	800	3.23

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

**April’s PMI surveys.** Also on Tuesday, IMEF (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators for April. We

expect manufacturing PMI at 46.5, above March's figure (seasonally adjusted terms). We believe that marginal growth in the manufacturing PMI during April will be explained by a slight recovery in the new orders and production components. However the uncertainty regarding the prospects of the Mexican manufacturing industry under Trump's economic policies will continue to weigh on the index.

In addition, we believe that the non-manufacturing PMI will stand at 47.4 points from 48 points. Despite March's marginal increase –which will be explained by the recovery in consumer confidence– the headline index will stand well below the 50 points threshold. In this regard, we believe that the lower growth prospects for the overall economy will also translate into a lower growth outlook for the construction and services industries, which encompass most of the firms measured in IMEF's non-manufacturing survey.

**Weekly international reserves report.** On Tuesday, at 10:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves increased by US\$31 million amounting to US\$175.0 billion. According to Banxico's report, this figure comes mainly as a result of: (1) US\$31 million dollar sales from Federal Government to Banxico; and (2) positive changes in valuation of the Central Bank's assets amounting to US\$84 million. In this context, the Central Bank's international reserves have diminished by US\$1.5 billion this year (please refer to the table below).

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

	2016	Apr 19, 2017	Apr 19, 2017	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,542	175,023	53	-1,519
(B) Gross international reserve	178,025	178,998	2,210	975
Pemex	--	--	14	-600
Federal government	--	--	1,691	1,174
Market operations	--	--	0	-2,000
Other	--	--	505	2,401
(C) Short-term government's liabilities	1,483	3,976	2,156	2,492

Source: Banco de México

**We expect a 0.6% yoy contraction in February's GFI.** On Thursday, at 9:00am (EDT), INEGI will publish its February's gross fixed investment (GFI) report. We anticipate GFI down by 0.6% yoy. We believe that within the report

we will probably see a 3.7% yoy expansion in domestic machinery and equipment. However, we expect a 6.5% contraction in imported machinery and equipment given that trade balance figures showed a similar reduction for capital goods imports. Finally, we believe that construction spending posted a scant 1.1% yoy expansion derived from the lower public construction spending observed in the latest industrial production figures.

#### GFI forecasts

% yoy; %-pts

%yoy	Feb-17	Feb-16	Jan-Feb, '17	Jan-Feb, '16
Total	-0.6	5.2	-0.5	2.5
Machinery and equipment	-3.2	9.7	0.5	3.2
Domestic	3.7	7.5	4.6	8.0
Imported	-6.5	10.8	-1.5	1.0
Construction	1.1	2.6	-1.1	2.1
Annual contribution	Feb-17	Feb-16	Difference	
Total	-0.6	5.2	-5.7	
Machinery and equipment	-1.2	3.6	-4.8	
Domestic	0.5	0.9	-0.4	
Imported	-1.7	2.7	-4.4	
Construction	0.7	1.6	-1.0	

Source: Banorte-Ixe

**Citibanamex Survey: Market participants will focus on inflation and monetary policy forecasts.** On Friday around 4:30pm (EDT) Citibanamex will release its bi-weekly survey of economic expectations, where market participants will focus on analysts' monetary policy assessments. Furthermore, analysts will also focus on the inflation forecasts for April (to be published on Tuesday, May 9), as well as on CPI estimations for 2017. In addition, Citibanamex will also publish consensus' growth and FX forecasts for 2017.

#### Disclaimer

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