

Ahead of the Curve

On watch for early signs of a potential impact from the Coronavirus

- IMEF indicators (February).** We expect the manufacturing indicator at 47.4pts, lower than in January (48.2pts) and breaking with three consecutive months higher. The main driver would be the impact from the Coronavirus, with the brunt felt in ‘deliveries’ and ‘inventories’, resenting the shock in global supply chains. Nevertheless, there could be some benefit as Mexico could substitute for some goods imported from China. On the other hand, uncertainty is high as our country also imports several intermediate goods from them. We forecast the non-manufacturing indicator also lower, back to contraction territory at 49.5pts. A large part of the decrease will come from ‘deliveries’, despite no expecting a marked impact from the epidemic, at least not yet
- Gross fixed investment (December).** We anticipate GFI at -1.4% y/y in December, above the -3.5% of the previous month. This would be mostly driven by a positive base effect. With this, GFI would have contracted 4.8% y/y in 2019, way below the +0.9% of 2018. With seasonally-adjusted figures, we expect a 0.6% m/m contraction after +1.1% in the previous month. We expect construction at -2.9% y/y despite support from civil engineering in part due to higher capex by the Federal Government. In machinery and equipment, we forecast a 0.7% increase, first positive print since January. This would be on the back of a more modest fall in the imported component. Despite of the latter, investment keeps showing signs of weakness, in a context in which business confidence has failed to rebound

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Juan Carlos Alderete, CFA

 Director of Economic Research
 juan.alderete.macal@banorte.com

Francisco Flores

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

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Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 2-Mar	10:00am	Family remittances	January	US\$ mn	<u>2,661.7</u>	--	3,059.8
Mon 2-Mar	10:00am	Banxico's survey of economic expectations	February				
Mon 2-Mar	1:00pm	PMI's survey (IMEF)	February				
		Manufacturing		index	<u>47.4</u>	--	48.2
		Non-manufacturing		index	<u>49.5</u>	--	50.3
Tue 3-Mar	10:00am	International reserves	Feb-28	US\$ bn	--	--	183.3
Thu 5-Mar	7:00am	Consumer confidence	February	index	<u>43.7</u>	--	44.2
Thu 5-Mar	4:30pm	Citibanamex bi-weekly survey of economic expectations					
Fri 6-Mar	7:00am	Gross fixed investment	December	% y/y	<u>-1.4</u>	--	-3.5
		sa		% m/m	<u>-0.6</u>	--	1.1
		Machinery and equipment		% y/y	<u>0.7</u>	--	-4.9
		Domestic		% y/y	<u>2.4</u>	--	2.1
		Imported		% y/y	<u>-0.3</u>	--	-9.0
		Construction		% y/y	<u>-2.9</u>	--	-2.5

Source: Banorte; Bloomberg

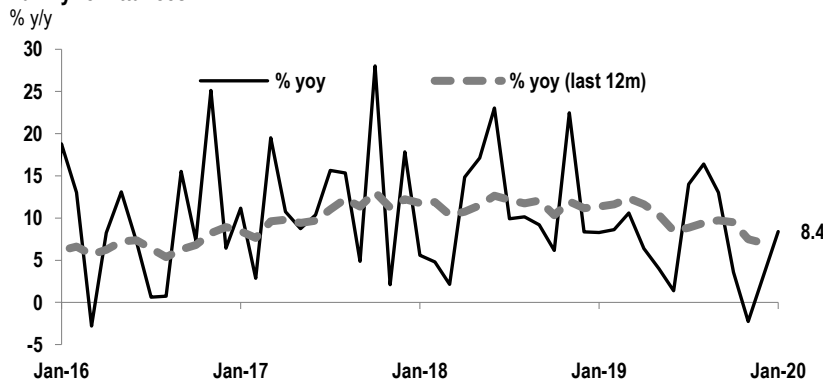
Proceeding in chronological order...

Remittances to accelerate at the turn of the year. We expect remittances at US\$2,661.7 million, up 8.4% y/y, its largest increase since September. We note the period is typically skewed to the downside as payback after December's increase, in which remittances go up due to the holiday period. Overall, the figure would be positive, particularly considering dynamics of the labor market in the US for Mexican migrants, which haven't been very favorable in recent months. In particular, employment for 'non-native with citizenship' and 'without a citizenship' migrants deteriorated further in January, while 'natives' marginally improved.

Moreover, news reports about migration were not positive, including a resolution from the Supreme Court that permanent residency can be denied if considered that migrants might need social assistance in the future. There were also updated rules on visas for pregnant women and efforts to restrict the issuance of driver licenses to undocumented migrants. Overall, we think this might result in a higher flow of remittances. Going to other variables, the Mexican peso appreciated, averaging USD/MXN 18.80 (previous: 19.11). The path was stable, registering its best levels on the 20th. We believe the impact could be negative, at least in the margin.

Going forward, we expect remittances to keep growing, although maintaining some caution about the possibility of a deceleration in the US labor market. In addition, we will be looking into the electoral cycle in the US, given that, in case of a resumption of threats against migrants, they could opt to send a higher amount of resources.

Family remittances



Source: Banxico

Banxico's survey of economic expectations. As usual, market participants will focus on inflation, growth, the reference rate, and exchange rate forecasts. Regarding the first, analysts expect 2020 year-end inflation at 3.5%, below our 3.6% estimate. Medium and long-term expectations could remain unchanged, still above target. On growth, the estimate for this year is at 1.0% (Banorte: 0.8%) but could inch lower. The current view on the reference rate by YE20 is 6.50%, in line with our expectations. Finally, the exchange rate for year-end 2020 stands at USD/MXN 19.66 (Banorte: 19.80).

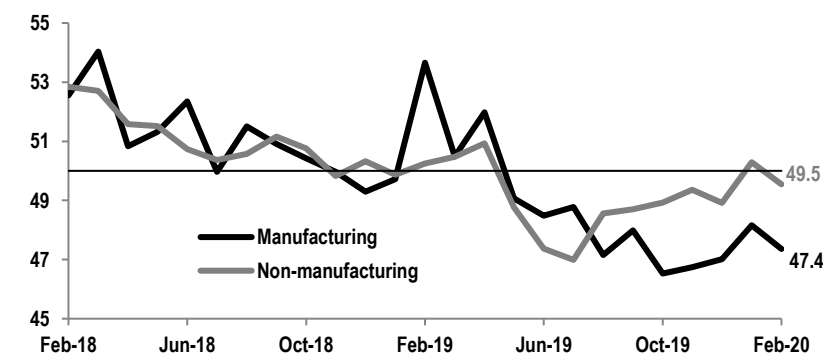
Slight retracement in February’s IMEF indicators. We expect the IMEF manufacturing indicator at 47.4pts, lower than in January (48.2pts) and breaking with three consecutive months higher. The main driver would be the impact from the Coronavirus, which has already been seen in other global indicators, such as the US manufacturing PMI for the same month (from 51.4pts in January to 50.8pts). We think the brunt of the impact will be felt in the ‘deliveries’ and ‘inventories’, starting to feel the shock in global supply chains. Nevertheless, there could be some benefit as Mexico could substitute for some goods imported from China, driving ‘new orders’ and ‘production’ slightly up. But uncertainty is high as our country also imports several intermediate goods from them. In addition, the final approval of USMCA in the US late last month could also have a positive effect on these two final categories.

We also forecast the non-manufacturing indicator lower, with the index back to contraction territory at 49.5pts (previous: 50.3pts). We believe large part of the decrease will come from an adjustment in ‘deliveries’, which posted a steep 4.0pts expansion in January. Nevertheless, we believe the recent trend in both consumption (related to services and commerce) as well as construction could result in additional improvements in the rest of categories. In this case, we do not expect a marked impact from the epidemic, at least not yet

Despite this slight decline, mostly because of transitory effects and temporal adjustments, the performance of certain key subsectors in both indicators could be more favorable. This in turn, could be positive looking towards the rest of the quarter and into 2Q20, in which we expect an acceleration of economic activity, banning a prolonged extension of the disruptions caused by the virus.

IMEF indices

Indices, seasonally-adjusted



Source: IMEF

Weekly international reserves report. Last week, net international reserves increased US\$677 million, closing at US\$183.3 billion. According to Banxico’s report, this was mainly due to: (1) US\$400 million sales by Pemex to the central bank; and (2) a positive valuation effect in Banco de México’s assets of US\$277 million. In this context, the central bank’s international reserves have increased by US\$2.5 billion during 2020 (please refer to the following table).

Banxico's foreign reserve accumulation detail

US\$, million

	2019	Feb 21, 2020	Feb 21, 2020	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	180,877	183,337	677	2,460
(B) Gross international reserve	183,028	188,233	-870	5,205
Pemex	--	--	659	1,705
Federal government	--	--	-1,753	2,395
Market operations	--	--	0	0
Other	--	--	224	1,105
(C) Short-term government's liabilities	2,151	4,896	-1,547	2,746

Source: Banco de México

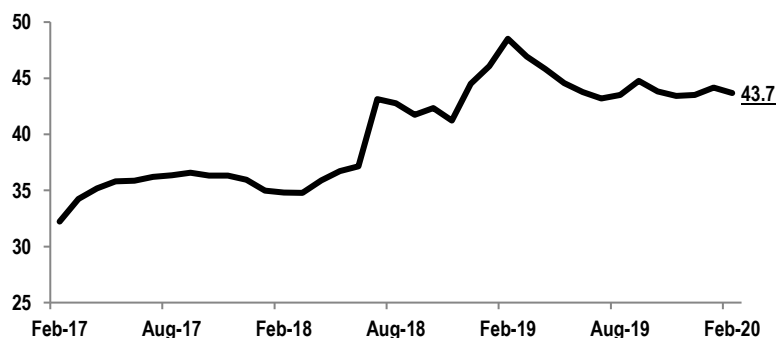
Consumer confidence to decline slightly in February. We expect confidence at 43.7pts (seasonally-adjusted). News were mixed to negative, especially in the political and security front, expecting these to outweigh some favorable performance in inflation. According to the daily poll from *El Economista/Consulta Mitofsky*, presidential approval trended down and reached its lowest so far in this administration, despite remaining high by historical standards. Recent developments on security –particularly related to women murders in the country– has been one of significant driver. It is our take this will probably impact country-related components within confidence, particularly the current situation.

Regarding other drivers, inflation in the 1st half of February climbed to 3.52% in the annual comparison. Nevertheless, bi-weekly dynamics showed lower prices in ‘fruits and vegetables’ and ‘energy’ (both LP gas and gasoline), which are key for consumers. Nevertheless, others such as ‘processed foods’ and ‘other goods’ were still pressured. All in all, we expect prices to be marginally positive for confidence, possibly driving the purchasing power component up, although less so than in January, when it was highly benefited by the minimum wage increase. On the other hand, the unemployment in January picked-up strongly, which might pressure household-related components, especially current conditions. Finally, the exchange rate trended slightly down, spiking until the 20th, day in which the last polls are conducted. In this sense, its overall impact could be slightly negative.

Despite the decline, consumer confidence remains considerably above its long-term average, heavily influenced by high presidential approval ratings. Going forward, we will remain on the look if confidence starts to regain some explaining power on consumption, which differences recently widening between them.

Consumer confidence

Index, sa



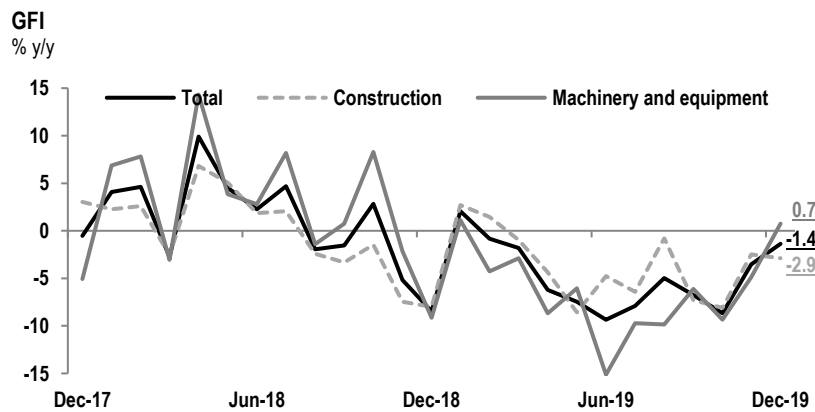
Source: INEGI

Citibanamex survey. Markets will be focused on analysts' inflation forecasts for February (to be published on Monday, March 9th) along with the 2020 year-end estimate. It will be important to see monetary policy assessments after the release of Banxico's *Quarterly Report* and monetary policy minutes. We will also pay attention to GDP growth estimates and the exchange rate at YE20.

Gross fixed investment to continue improving on favorable base effects. We anticipate GFI at -1.4% y/y in December, above the -3.5% of the previous month. As in November, most of the relative improvement would be driven by a positive base effect, centered in imported machinery and-0.6 equipment, which lagged the rest of the components in 2018. With this, GFI would have accumulated a 4.8% y/y decrease in 2019, way below the +0.9% of the previous year. With seasonally-adjusted figures, we expect a 0.6% m/m contraction after increasing 1.1% in the previous month.

We expect construction at -2.9% y/y. In this sense, [the IP report](#) showed a 3.1% fall in edification, back to negative after the +0.9% of November. Meanwhile, civil engineering marginally improved to -7.4%, in part due to higher physical investment by the Federal Government (+13.9% y/y in real terms). Business confidence in the sector increased in December, although reverting again those gains in January, helping moderate our expectations for the next month.

Regarding machinery and equipment (M&Eq), we estimate a 0.7% increase, its first positive print since January. This would be on the back of a more modest fall in the imported component, declining only 0.3% and relatively in line with capital goods imports within the trade balance (-0.6%). Finally, the domestic component would pick up to 2.4%, helped in part by an additional working day in the annual comparison.



Source: INEGI, Banorte

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research and Financial Market Strategy			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Economic Research			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalia Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Corporate Debt			
Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Economic Studies			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
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.cebaldos@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 Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454