

Ahead of the Curve

October 27, 2017

Market focus this week will be on the preliminary GDP report for 3Q17 and September's remittances

- Gross Domestic Product (3Q17 P).** On Tuesday, *INEGI* will publish its preliminary estimation of GDP, where we forecast a 1.6% yoy growth for the Mexican economy during 3Q17, below the 1.8% observed in 2Q17. It is likely that Mexico's lower economic growth was partially explained by the impact of the earthquakes on September's economic figures. In the particular case of services, trade figures are likely to show a significant expansion, as a result of increased sales of food and beverages, health supplies, and hardware equipment. However, we also forecast a significant deceleration in manufacturing activity, in the wake of the work stoppage of several workers during the days following the earthquakes.
- Family Remittances (September).** On Wednesday, 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\$2,510.5 million to their families in Mexico during September. This would imply a 5.7% yoy expansion. We believe that the flow of remittances will be explained, among other factors, by the earthquakes that affected Mexico City and the states of Oaxaca, Chiapas, Puebla, Guerrero, Mexico and Morelos. It is likely that Mexican migrants in the US increased the average amount sent to Mexico to support the affected population within these federal entities. Remittances income within these states represents around 27% of the total national remittances income.

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Document for distribution among the general public

Mexico weekly calendar

DATE	HOUR (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSU S	PREVIOUS S
Mon 30-Oct	1:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 5y Mbono (Jun'22); 10y Udibonos (Nov'28)					
Mon 30-Oct		Budget balance	September	MXN bn	--	--	105.4
Tue 31-Oct	10:00am	GDP	3Q16 (P)	% yoy	<u>1.6</u>	<u>1.5</u>	1.8
		(sa)		% q/q	<u>0.1</u>	<u>0.0</u>	0.6
		Primary activities		% yoy	<u>-1.7</u>	--	0.7
		Industrial production		% yoy	<u>-1.0</u>	--	-1.1
		Services		% yoy	<u>3.1</u>	--	3.2
Tue 31-Oct	11:00am	Comercial banking credit	September	% yoy	<u>5.7</u>	--	6.2
		Consumption		% yoy	<u>2.3</u>	--	2.6
		Housing		% yoy	<u>2.4</u>	--	2.7
		Non-banking private firms		% yoy	<u>8.2</u>	--	8.6
Tue 31-Oct	11:00am	International reserves	27-Oct	US\$ bn	--	--	173.0
Wed 1-Nov	11:00am	Family remittances	September	US\$ mn	<u>2,511</u>	2,380	2,469
Wed 1-Nov	11:00am	Banxico's survey of economic expectations	October				
Wed 1-Nov	2:00pm	PMI's survey (IMEF)	October				
		Manufacturing		index	<u>52.5</u>	--	52.9
		Non-manufacturing		index	<u>52.2</u>	--	52.5
Thu 2-Nov		Markets closed due to Day of the Dead celebration					

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

Logistics – The Daylight Savings Time comes to an end. As of Sunday, there will now be a two-hour difference with respect to EST (instead of the usual one hour difference), as Daylight Savings Time will end on Sunday in Mexico. This two-hour difference will last only for one week as the United States will also end DST on next Sunday (Nov 5). In addition, next week Mexico will have a short week with a banking holiday on Thursday (November 2), as the country observes the *Day of the Dead* holiday.

Weekly government bond auction. On Monday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent–, will offer 5-year fixed rate Mbonos (Jun’22) and 10-year inflation-linked Udibonos (Nov’28), in addition to the “more traditional” 1-, 3- and 6-month zero-coupon Cetes (please refer to the table on the next page). As usual, the results will be released at 12:30pm (EDT).

Auction specifics (Monday, October 30, 2017)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	30-Nov-17	--	7,000	7.02
3m	01-Feb-18	--	11,000	7.10
6m	26-Apr-18	--	11,500	7.22
M Bono				
5y	09-Jun-22	6.50	8,000	6.71
Udibono				
10y	30-Nov-28	4.00	UDIS 600	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

The MoF’s monthly report. Also on Monday, the Ministry of Finance (MoF) will release its monthly finance report available for the ninth month of the year. On the revenue side, we will be looking at non-oil tax collection, as it will provide additional information about domestic demand behavior, particularly given the volatile dynamics in income tax collection seen in the year. Moreover, given the instability in Mexico’s crude oil basket price during the year, 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 cut announced by the *MoF* in Mexico’s Fiscal Budget for 2017. Finally, it will be important to evaluate the evolution of public sector debt, which currently represents around 43.9% of Mexico’s GDP.

Mexico's preliminary GDP will stand at 1.6% yoy in 3Q17. 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 3Q17, below the 1.8% observed in 2Q17. It is likely that Mexico's lower economic growth was partially explained by the impact of the earthquakes on September's economic figures.

In the particular case of services, trade figures are likely to show a significant expansion, as a result of increased sales of food and beverages, health supplies, and hardware equipment. Hence, we believe that services will expand 3.1% in the third quarter of the year.

However, we also forecast a significant deceleration in manufacturing activity, in the wake of the work stoppage of several workers during the days following the earthquakes. In this context, we consider that industrial activity in September will fall by 1.3% yoy, which means that industrial production will fall 1% during the third quarter of the year.

Banking credit will show a 5.7% yoy increase in September. Banco de Mexico will make available its banking credit report on Tuesday at 10:00am (ET). It is our take that banking credit continued flowing in September. In particular, we estimate a 5.7% yoy expansion in banking credit (in real terms), as a result of increases in the area of 2.3%, 2.4%, and 8.2% yoy in consumer, housing and business credit, respectively.

Weekly international reserves report. Also on Tuesday, at 10:00am (EDT), Banco de Mexico will also release its weekly balance report. Last week, net international reserves decreased by US\$201 million amounting to US\$172.9 billion. According to Banxico's report, this figure comes mainly as a result of a negative valuation effect in central bank assets. In this context, the Central Bank's international reserves have diminished by US\$3.6 billion this year (please refer to the table in the next page).

Banxico's foreign reserve accumulation detail

US\$, million

	2016	Oct 20, 2017	Oct 20, 2017	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,542	172,985	-201	-3,557
(B) Gross international reserve	178,025	176,919	-104	-1,106
Pemex	--	--	-52	-798
Federal government	--	--	-92	-2,045
Market operations	--	--	0	-2,000
Other	--	--	40	3,737
(C) Short-term government's liabilities	1,483	3,934	97	2,451

Source: Banco de México

Family remittances will post a 5.7% yoy expansion in September. On Wednesday, 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\$2,510.5 million to their families in Mexico during September. This would imply a 5.7% yoy expansion.

We believe that the flow of remittances will be explained, among other factors, by the earthquakes that affected Mexico City and the states of Oaxaca, Chiapas, Puebla, Guerrero, Mexico and Morelos. It is likely that Mexican migrants in the US increased the average amount sent to Mexico to support the affected population within these federal entities. Remittances income within these states represents around 27% of the total national remittances income.

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. Additionally on Wednesday, at 10:00am (EDT), Banco de Mexico will publish its monthly survey of economic expectations. Market focus will be on inflation forecasts for YE17, which as of last survey stand at 6.3% (Banorte: 6.4%), as well as inflation expectations for the medium and long term. Moreover, attention will also be on monetary policy forecasts, where we don't expect to have changed from last survey's results.

Additionally, we will be looking into 2017's GDP forecasts, which we expect at 1.9% (consensus: 2.1%). Furthermore, we expect marginal upward revisions to FX forecasts, which we continue to forecast at USD/MXN18.10 by YE17.

October's PMI surveys. Also on Wednesday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators for October. We expect the manufacturing PMI at 52.5 points (seasonally adjusted terms). We believe that the reduction in the manufacturing PMI during October will be explained by a slowdown in manufacturing exports, which in turn will negatively impact production and new orders components. Additionally, it is likely that the uncertainty regarding the prospects of the Mexican manufacturing industry under Trump's economic policies will continue to weigh in a lesser manner on the index.

Regarding the non-manufacturing PMI, we believe that it will stand at 52.2 points from 52.5 points. We consider that recent inflation dynamics, as well as a slightly slower private demand could continue to impact the index negatively.

Disclaimer

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