

Ahead of the Curve

June 23, 2017

Market focus this week will be on April's IGAE and May's trade balance report

- **Global Economic Activity Indicator (Apr).** On Monday *INEGI* will release its monthly global economic indicator for April (GDP monthly proxy), where we expect a 0.9% yoy contraction. However, we highlight that April's figure will be explained by the artificial base of comparison given the *Holy Week*, which subtracted working days to the annual comparison. Controlling by calendar-adjusted figures, we believe that the economic activity will increase around 2.1% yoy. We believe that Mexico's economic growth will be explained by a 0.5% contraction in industrial production, coupled with a 3.4% yoy increase in services output (calendar adjusted figures)
- **Trade balance (May).** On Tuesday at 9:00am (EDT), Banxico and *INEGI* will make available its preliminary trade report for May, where we expect to see a US\$345.3 million surplus. On the exports side, we will probably see a 16.4% yoy expansion while on the imports side, we estimate a 6.7% yoy expansion in total imports, as a result of the increase in oil related imports

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Document for distribution among the general public

Mexico weekly calendar

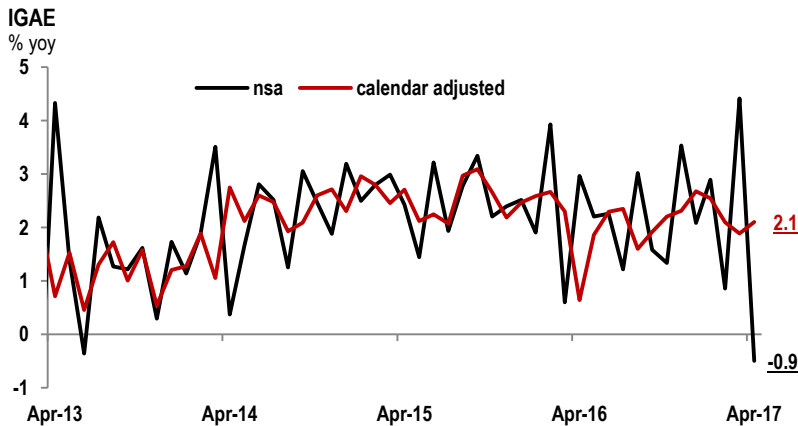
DATE	HOUR (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 26-Jun	9:00am	Global economic indicator	July	% yoy	-0.9	-0.9	4.4
		(sa)		% m/m	-0.1	--	-0.2
		Primary activities		% yoy	-1.3	--	3.8
		Industrial production		% yoy	-4.4	--	3.4
		Services		% yoy	1.3	--	5.0
Mon 26-Jun	9:00am	Unemployment rate	May	%	3.47	3.55	3.46
		sa		%	3.44	3.49	3.57
Tue 27-Jun	9:00am	Trade balance	May	US\$ mn	345.3	285.2	617
		Total exports		% yoy	9.3	--	3.6
		Oil exports		% yoy	16.4	--	26.9
		Non-oil exports		% yoy	8.9	--	2.6
		Total imports		% yoy	6.7	--	-5.0
Tue 27-Jun	10:00am	International reserves	24-Jun	US\$ bn	--	--	174.5
Tue 27-Jun	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 3y Mbono (Jun'20); 3y Udibonos (Dec'20)					
Fri 30-Jun	10:00am	Commercial banking credit	May	% yoy	10.1	--	9.6
		Consumption		% yoy	6.3	--	4.9
		Housing		% yoy	6.5	--	4.5
		Non-banking private firms		% yoy	13.0	--	12.6
Fri 30-Jun	3:30pm	Budget balance	May	MXN bn	--	--	367.5

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

We expect a 0.9% yoy contraction in April's IGAE. On Monday *INEGI* will release its monthly global economic indicator for April (GDP monthly proxy), where we expect a 0.9% yoy contraction. However, we highlight that April's figure will be explained by the artificial base of comparison given the *Holy Week*, which subtracted working days to the annual comparison. Controlling by calendar-adjusted figures, we believe that the economic activity will increase around 2.1% yoy. Mexico's economic growth will be explained by a 0.5% contraction in industrial production, coupled with a 3.4% yoy increase in services output (calendar adjusted figures).

As we had mentioned in our last report, IP's contraction in April was partially explained by the 9.6% yoy reduction in mining activity (calendar-adjusted figures), as a result of the significant contraction in Mexico's oil production, and the lower investment in Mexico's drilling projects. Moreover, construction output declined 2.7% yoy, while manufacturing output grew 5% yoy. In addition, we believe that the 3.4% yoy estimated expansion in services (calendar-adjusted figures; 1.3% original figures) will be explained by the lower growth dynamics in domestic demand. In this regard, most of April's indicators for consumption, like *ANTAD*'s retail sales suggest that Mexican households spent less, which will be reflected in the services sub-index.



Source: INEGI; Banorte-Ixe

Unemployment rate in May will stand at 3.47%. Also on Monday, *INEGI* will publish its employment report for the fifth month of 2017, in which we estimate an unemployment rate of 3.47% nsa, marginally above the 3.46% observed in May. However, in seasonally adjusted terms, we believe that the unemployment rate could stand at 3.44% which implies a monthly 0.13%-pts increase. It is likely that May's labor market report will probably correct some of the volatility seen in March and April, due to the heavy seasonal effect of the *Holy Week*. Moreover, we believe that the fall in unemployment (seasonally adjusted figures) will reflect the better-than-expected growth dynamics of the Mexican economy as well as the lower uncertainty environment contributing to better expectations in the short term.

Exports will continue to recover. On Tuesday at 9:00am (EDT), Banxico and INEGI will make available its preliminary trade report for May, where we expect to see a US\$345.3 million surplus. On the exports side, we will probably see a 16.4% yoy expansion of oil exports as a result of the higher prices for the Mexican crude oil basket (18.3% yoy). In addition, non-oil exports could have increased 8.9% yoy, on the back of an 8.2% hike in manufacturing exports.

On the imports side, we estimate a 6.7% yoy expansion in total imports, as a result of the increase in oil related imports. However, taking a look at the breakdown, we believe that non-oil consumption goods imports increased 4% yoy, while imports of intermediate goods could have expanded 6.2% yoy. Finally, we estimate a 6.5% expansion in capital goods imports, as a result of the significant appreciation of the Mexican currency within the last three months.

Weekly international reserves report. On Tuesday, at 10:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US\$73 million amounting to US\$174.5 billion. According to Banxico's report, this figure comes mainly as a result of: (1) US\$182 million dollar sales from Banxico to the Federal Government; and (2) a positive revalorization in central bank assets amounting to US\$109 million. In this context, the Central Bank's international reserves have diminished by US\$2 billion this year (please refer to the table on the next page).

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

	2016	Jun 16, 2017	Jun 16, 2017	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,542	174,504	-73	-2,038
(B) Gross international reserve	178,025	175,818	12	-2,208
Pemex	--	--	193	-541
Federal government	--	--	-174	-1,443
Market operations	--	--	0	-2,000
Other	--	--	-7	1,776
(C) Short-term government's liabilities	1,483	1,313	84	-170

Source: Banco de México

Weekly government bond auction. On Tuesday, 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, June 27, 2017)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	27-Jul-17	--	7,000	6.87
3m	28-Sep-17	--	11,000	7.04
6m	21-Dec-17	--	11,500	7.14
M Bono				
3y	11-Jun-20	8.00	8,500	7.28
Udibonos				
3y	10-Dec-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

Banking credit will show a 10.1% yoy increase in May. Banco de Mexico will make available its banking credit report on Friday at 10:00am (EDT). It is our take that banking credit continued flowing in May. In particular, we estimate a 10.1% yoy expansion in banking credit (in real terms), as a result of increases in the area of 6.3%, 6.5%, and 13% yoy in consumer, housing and business credit, respectively.

The MoF's monthly report. Finally on Friday, the Ministry of Finance (MoF) will make its monthly finance report available for the fifth 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 dynamics, particularly given the volatile dynamics in income tax collection seen in the year. Moreover, given the volatile trend in Mexico's crude oil basket price, 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 44.3% of Mexico's GDP.

Disclaimer

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