

Ahead of the Curve

November 24, 2017

Market focus this week will be on trade balance figures and family remittances for October

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- **Trade balance (October).** On Monday at 9:00am (ET), Banxico and *INEGI* will make available its preliminary trade report for October, where we expect to see a US\$2,238.4 million deficit. On the exports side, we will probably see an 8.5% yoy expansion of oil exports as a result of the higher prices for the Mexican crude oil basket (18.5% yoy). In addition, non-oil exports could have increased 8.8% yoy, on the back of an 8.6% hike in manufacturing exports. On the imports side, we estimate a 12.6% yoy expansion in total imports, as a result of the increase in oil related imports.
- **Family remittances (October).** On Friday, 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\$2,406.7 million to their families in Mexico during October. This would imply an 8.4% yoy expansion. We highlight that the remittances inflows during October will be explained by the 4.9% depreciation of the Mexican currency. 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.

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Document for distribution among the general public

Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS	
Mon 27-Nov	9:00am	Trade balance	October	US\$ mn	-2,238.40		-1,886.4	
		Total exports		% yoy	8.8	--	3.4	
		Oil exports		% yoy	8.6	--	1.1	
		Non-oil exports		% yoy	8.8	--	3.6	
		Total imports		% yoy	12.6	--	4.3	
Mon 28-Nov	9:00am	Unemployment rate	October	%	3.45	--	3.60	
		sa		%	3.27	--	3.30	
Tue 29-Nov	10:00am	International reserves	25-Nov	US\$ bn	--	--	172.7	
Tue 29-Nov	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 5y Mbono (Jun'22); 10y Udibonos (Nov'28)						
Wed 30-Nov	10:00am	Commercial banking credit	October	% yoy	5.1	--	5.5	
		Consumption		% yoy	2.3	--	2.5	
		Housing		% yoy	2.4	--	2.8	
		Non-banking private firms		% yoy	6.8	--	7.3	
Wed 30-Nov		Budget balance	October	MXN bn	--	--	63.2	
Thu 1-Dec	10:00am	Family remittances	October	US\$ mn	2,406.7	--	2,349.3	
Fri 2-Dec	10:00am	Banxico's survey of economic expectations	November					
Thu 1-Dec	9:00am	PMI's survey (IMEF)	November					
		Manufacturing		index	52.1	--	52.4	
		Non-manufacturing		index	52.3	--	51.9	

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

Oil exports will continue to recover. On Monday at 9:00am (ET), Banxico and *INEGI* will make available its preliminary trade report for October, where we expect to see a US\$2,238.4 million deficit. On the exports side, we will probably see an 8.5% yoy expansion of oil exports as a result of the higher prices for the Mexican crude oil basket (18.5% yoy). In addition, non-oil exports could have increased 8.8% yoy, on the back of an 8.6% hike in manufacturing exports.

On the imports side, we estimate a 12.6% 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 edged-up to 10.7% yoy, while imports of intermediate goods could have increased 13.7% yoy. Finally, we estimate a moderate 2.1% expansion in capital goods imports.

Unemployment rate in October will stand at 3.45%. On Tuesday, *INEGI* will publish its unemployment report for the tenth month of 2017, in which we estimate an unemployment rate of 3.45% nsa, below the 3.6% observed in September. In seasonally adjusted terms, we believe that the unemployment rate could stand at 3.27% which implies a 0.03%-pts reduction from last month's figures.

We believe that the fall in the unemployment rate (seasonally adjusted) will be due to the dynamism seen in formal job creation, which, during October, reached a new historical high with 194.8 thousand new positions.

Looking ahead, we believe that the unemployment rate will hover around this level as a result of: On the positive side: (1) the higher growth of domestic demand –particularly within the services–, will continue to foster the formal labor market; (2) the recovery of external demand will push forward job creation within the manufacturing industry; and on the downside: (3) the downward trend in public spending has translated in a higher number of unemployed workers, which has already affected private investment projects.

Weekly international reserves report. Also on Tuesday, at 10:00am (ET), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US\$131 million amounting to US\$172.7 billion. According to Banxico's report, this figure comes mainly as a result of: (1) US dollar sales from the Central Bank to the Federal Government totaling US\$202 million; and (2) a positive valuation effect in central bank assets of around US\$71 million. In this context, the Central Bank's international reserves have diminished by US\$3.9 billion this year (please refer to the table in the next page).

Banxico's foreign reserve accumulation detail

US\$, million

	2016	Nov 17, 2017	Nov 17, 2017	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,542	172,672	-131	-3,870
(B) Gross international reserve	178,025	174,440	-114	-3,585
Pemex	--	--	-295	-856
Federal government	--	--	-183	-4,260
Market operations	--	--	0	-2,000
Other	--	--	364	3,531
(C) Short-term government's liabilities	1,483	1,768	17	285

Source: Banco de México

Weekly government bond auction. Additionally on Tuesday, 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 (ET).

Auction specifics (Tuesday, November 28, 2017)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	28-dic-17	--	7,000	7.02
3m	01-mar-18	--	11,000	7.14
6m	24-may-18	--	11,500	7.25
M Bono				
5y	09-jun-22	6.50	8,000	7.10
Udibonos				
10y	30-nov-28	4.00	UDIS 600	3.42

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 5.1% yoy increase in October. Banco de Mexico will make available its banking credit report on Thursday at 10:00am (ET). It is our take that banking credit continued flowing in October, albeit at a slower pace. In particular, we estimate a 5.1% yoy expansion in banking credit (in real terms), as a result of increases in the area of 2.3%, 2.4%, and 6.8% yoy in consumer, housing and business credit, respectively.

The MoF’s monthly report. Also on Thursday, the Ministry of Finance (MoF) will release its monthly finance report available for the tenth 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 44.2% of Mexico's GDP.

Family remittances will post an 8.4% yoy expansion in October. On Friday, 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\$2,406.7 million to their families in Mexico during October. This would imply an 8.4% yoy expansion.

We highlight that the remittances inflows during October will be explained by the 4.9% depreciation of the Mexican currency. 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. Additionally on Friday, at 10:00am (ET), 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 now expect at 2.1% (consensus: 2.1%). Furthermore, we expect marginal upward revisions to FX forecasts, which we continue to forecast at USD/MXN18.10 by YE17.

November's PMI surveys. Finally on Friday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators for November. We expect the manufacturing PMI at 52.1 points (seasonally adjusted terms). We believe that the reduction in the manufacturing PMI during the month 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 52.3 points from 51.9 points. We consider that the *Good Weekend (El Buen Fin)* promotions, which act as Black Friday in the US, will boost private consumption during the month, which in turn will be reflected on the index.

Disclaimer

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