

Ahead of the Curve

April 27, 2018

Market focus this week will be on GDP for the 1Q18 and March's remittances

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- Gross Domestic Product (1Q18 P).** On Monday, *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. Given the economic figures published for January and February, we believe that the preliminary estimation will show a 1.4% yoy growth for the Mexican economy during 1Q18, marginally below the 1.5% observed in 4Q17. We highlight that the lower GDP growth will be simply explained by a seasonal effect, since the Holy Weeks' vacation period reduced the working days in the annual comparison. Controlling for this effect, the Mexican economy will grow around 2.4% yoy.
- Family remittances (March).** On Wednesday, Banxico will make its family remittances monthly data available. We expect Mexican workers living abroad -mainly in the US-, to have sent US\$2,610 million to their families in Mexico during March. This would imply a 3.5% yoy expansion. We believe that the deceleration in remittances inflows will be explained by the 3.7% appreciation of the Mexican currency in March, which probably discouraged Mexican workers living abroad to send remittances back to Mexico.

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Document for distribution among the general public

Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 1-May	9:00am	GDP	1Q18 (P)	% yoy	<u>1.4</u>	1.7	1.5
		(sa)		% q/q	<u>0.8</u>	0.7	0.8
		Primary activities		% yoy	<u>3.8</u>	--	4.2
		Industrial production		% yoy	<u>-0.6</u>	--	-1.0
		Services		% yoy	<u>2.2</u>	--	2.4
Mon 1-May	10:00am	Comercial banking credit	March	% yoy	<u>6.5</u>	--	6.3
		Consumption		% yoy	<u>3.1</u>	--	2.9
		Housing		% yoy	<u>2.9</u>	--	2.7
		Non-banking private firms		% yoy	<u>9.8</u>	--	9.6
Mon 1-May		Budget balance	March	MXN bn			
Mon 1-May		Markets closed due to Labor Day			--	--	-67.8
Wed 2-May	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 3y Mbono (Dec'21); 3y Udibonos (Dec'20)					
Wed 2-May	10:00am	Family remittances	March	US\$ mn	<u>2,610</u>	2,625	2,198
Wed 2-May	10:00am	Banxico's survey of economic expectations	April				
Wed 2-May	10:00am	International reserves	Apr-27	US\$ bn	--	--	173.3
Wed 2-May	1:00pm	PMI's survey (IMEF)	April				
		Manufacturing		index	<u>53.3</u>	52.9	54.0
		Non-manufacturing		index	<u>53.0</u>	53.5	53.4

Source: Banorte; Bloomberg

Proceeding in chronological order...

Mexico's preliminary GDP will stand at 1.4% yoy in 1Q18. On Monday, *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%.

Given the economic figures published for January and February, we believe that the preliminary estimation will show a 1.4% yoy growth for the Mexican economy during 1Q18, marginally below the 1.5% observed in 4Q17.

We highlight that the lower GDP growth will be simply explained simply by a seasonal effect, since the Holy Weeks' vacation period reduced the working days in the annual comparison. Controlling for this effect, the Mexican economy will grow around 2.4% yoy.

We consider that the 2.4% growth of the Mexican economy during the first quarter of the year will be explained by the favorable performance that the services continued to show, reaching an average annual growth of 3% yoy sa (2.2% yoy nsa), driven by the above-trend growth in banking credit, and the expansion of the Mexican formal labor market.

Similarly, we consider that the Mexican economy was boosted by the recovery in industrial activity given the higher growth of construction output, derived from the electoral process, which has triggered a higher public expenditure within the federal entities and municipalities concentrated in infrastructure projects. Nevertheless, Mexican manufacturing production has decelerated, while the recession continues in the mining industry. All in all, we consider that industrial production will post a 0.5% yoy growth sa (-0.6% yoy nsa).

Banking credit will show a 6.5% yoy increase in March. Banco de Mexico will make available its banking credit report on Monday at 10:00am (ET). It is our take that banking credit continued flowing in March. In particular, we estimate a 6.5% yoy expansion in banking credit (in real terms), as a result of increases in the area of 3.1%, 2.9%, and 9.8% yoy in consumer, housing and business credit, respectively.

Weekly government bond auction. Also on Monday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent–, will offer 3-year fixed rate Mbonos (Dec'21), 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 on the following page). As usual, the results will be released at 12:30pm (ET).

Auction specifics (Monday, April 30, 2018)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	31-May-18	--	7,000	7.45
3m	02-Aug-18	--	11,000	7.63
6m	25-Oct-18	--	11,500	7.66
M Bono				
3y	09-Dec-21	7.25	8,500	7.19
Udibonos				
3y	10-Dec-20	2.50	UDIS 950	3.72

Source: Banorte 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 third 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. Moreover, considering the increase in oil prices compared to last 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 budget for 2018. Finally, it will be important to evaluate the evolution of public sector debt, which currently represents around 46.5% of Mexico's GDP.

Financial markets will remain closed in Mexico on Tuesday. On the logistics side, it is worth noting that next week Mexico will experience a banking holiday on Tuesday (May 1st), as the country observes the Labor Day.

Family remittances will post a scant 3.5% yoy expansion in March. 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\$2,610 million to their families in Mexico during March. This would imply a 3.5% yoy expansion.

We believe that the deceleration in remittances inflows will be explained by the 3.7% appreciation of the Mexican currency in March, which probably discouraged Mexican workers living abroad to send remittances back to Mexico. In particular, a sharp appreciation may encourage Mexican migrant workers to decrease their remittances, given that the purchasing power of the amount remitted is relatively lower in Mexico. Looking ahead, we believe that the flow of remittances will be mainly explained by the above-trend growth in the US labor market and Trump's anti-migration policy.

Banxico's survey of economic expectations. Also on Wednesday, at 10:00am (ET), Banco de Mexico will publish its monthly survey of economic expectations. Market focus will be on inflation forecasts for 2018, which as of last survey stand at 4.09% (Banorte: 4.3%), as well as inflation expectations for the medium and long term. Moreover, attention will also be on monetary policy forecasts, particularly on its path for 2018, given that the forecast for YE18 currently stands at 7.5%. Additionally, we will be looking into 2018's GDP forecast, which we expect at 2.5% (consensus: 2.3%). Furthermore, we expect marginal upward revisions to FX forecasts, and we will be particularly attentive to its trajectory throughout the next twelve months.

Weekly international reserves report. In addition on Wednesday, at 10:00am (ET), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US\$141 million amounting to US\$173.3 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 increased by US\$455 million during 2018 (please refer to the table below).

Banxico's foreign reserve accumulation detail

US\$, million

	2017	Apr 20, 2018	Apr 20, 2018	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	172,802	173,257	-141	455
(B) Gross international reserve	175,450	178,129	1,044	2,679
Pemex	--	--	-79	-526
Federal government	--	--	1,527	2,597
Market operations	--	--	0	0
Other	--	--	-403	608
(C) Short-term government's liabilities	2,648	4,872	1,185	2,224

Source: Banco de México

April's PMI surveys. Finally, on Wednesday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators for April. We expect the manufacturing PMI at 53.3 points (seasonally adjusted figures), marginally below March's 54 pts. We believe that the contraction in the manufacturing PMI during the month will be explained by a slowdown in the production and new orders components. In this sense, it is likely that the uncertainty regarding the prospects of the Mexican manufacturing industry will continue to weigh on the index.

Regarding the non-manufacturing PMI, we believe that it will stand at 53 points, down from 53.4 points in March (seasonally adjusted figures). We consider that the decrease will be explained by a slowdown in new orders and production, given the prospects of slower private demand.

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