

Ahead of the Curve

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Market focus this week will be on May's trade balance and unemployment rate

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- Trade balance (May).** On Wednesday at 9:00am (ET), Banxico and *INEGI* will make available their preliminary trade report for May, where we expect to see a US\$480.4 million deficit. On the exports side, we will probably see a 60.9% yoy expansion of oil exports as a result of the higher prices for the Mexican crude oil basket (45.4% yoy). In addition, non-oil exports could have increased 7.2% yoy, on the back of a 7.1% increase in manufacturing exports. On the imports side, we estimate a 7.4% yoy expansion in total imports, as a result of the growth in oil related imports. Moreover, taking a look at the breakdown, we believe that non-oil consumption goods imports edged-up 4% yoy, while imports of intermediate goods could have advanced 5.3% yoy. Finally, we estimate a null growth in capital goods imports.
- Unemployment rate (May).** On Tuesday, *INEGI* will publish its unemployment report for the fifth month of 2018, in which we estimate an unemployment rate of 3.43% nsa, similar to the 3.40% observed in April. In addition, in seasonally adjusted terms, we believe that the unemployment rate could stand at 3.38%, which implies a 0.02%-pts increase from last month's figures. We believe that the marginal increase in the unemployment rate (seasonally adjusted) will be explained by the statistical variation given the design of the survey. However, it is worth noting that the unemployment rate continues to stand at low levels.

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Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 25-Jun	9:00am	Retail sales	April	% yoy	<u>2.8</u>	--	1.2
Tue 26-Jun	9:00am	Unemployment rate	May	%	<u>3.43</u>	--	3.40
		sa		%	<u>3.38</u>	--	3.36
Tue 26-Jun	10:00am	International reserves	Jun-22	US\$ bn	--	--	173.2
Tue 26-Jun	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 3y Mbono (Jun'20); 3y Udibonos (Dec'20)					
Wed 27-Jun	9:00am	Trade balance	May	US\$ mn	<u>-480.4</u>	--	-289.1
		Total exports		% yoy	<u>9.7</u>	--	17.0
		Oil exports		% yoy	<u>60.9</u>	--	54.4
		Non-oil ex ports		% yoy	<u>7.2</u>	--	15.0
		Total imports		% yoy	<u>7.4</u>	--	21.4
Fri 29-Jun	10:00am	Comercial banking credit	May	% yoy	<u>6.4</u>	--	5.9
		Consumption		% yoy	<u>3.1</u>	--	3.2
		Housing		% yoy	<u>3.0</u>	--	3.5
		Non-banking private firms		% yoy	<u>9.4</u>	--	9.3
Fri 29-Jun	3:30pm	Budget balance	May	MXN bn	--	--	5.8

Source: Banorte; Bloomberg

Proceeding in chronological order...

Retail sales will post a 2.8% yoy expansion in April. On Monday at 9:00am (ET), *INEGI* will release its report on retail sales in the fourth month of 2018, where we anticipate a 2.8% yoy expansion, above the 1.2% growth observed in March.

We believe that retail sales expansion will be mainly explained by a greater dynamism in non-durable goods sales. In this regard *ANTAD* same-store sales show a 1% growth in real terms, while imports of non-oil consumption goods increased 17.2% yoy. However, vehicle sales posted a 6.8% yoy contraction, which could partially offset positive effects in other sectors.

The unemployment rate in May will stand at 3.43%. On Tuesday, *INEGI* will publish its unemployment report for the fifth month of 2018, in which we estimate an unemployment rate of 3.43% nsa, above the 3.40% observed in April. In addition, in seasonally adjusted terms, we believe that the unemployment rate could stand at 3.38% which implies a 0.02%-pts increase from last month's figures.

We believe that the marginal increase in the unemployment rate (seasonally adjusted) will be explained by the statistical variation given the design of the survey. However, it is worth noting that the unemployment rate continues to stand at low levels.

Weekly international reserves report. On Tuesday, at 10:00am (ET), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US\$104 million amounting to US\$173.2 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\$370 million during 2018 (please refer to the following table).

Banxico's foreign reserve accumulation detail

US\$, million

	2017	Jun 15, 2018	Jun 15, 2018	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	172,802	173,172	-104	370
(B) Gross international reserve	175,450	178,038	459	2,588
Pemex	--	--	1	-537
Federal government	--	--	328	1,909
Market operations	--	--	0	0
Other	--	--	130	1,216
(C) Short-term government's liabilities	2,648	4,865	563	2,217

Source: Banco de México

Weekly government bond auction. Also on Tuesday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent–, will offer 3-year fixed rate Mbonos (Nov’38), 3-year inflation-linked Udibonos (Nov’46), 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 (ET).

Auction specifics (Tuesday, June 26, 2018)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	19-jul-18	--	9,000	7.62
3m	20-sep-18	--	12,500	7.90
6m	20-dic-18	--	11,500	7.99
M Bono				
3y	18-nov-38	8.50	2,000	7.89
Udibono				
3y	08-nov-46	4.00	UDIS 400	3.86

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

Strong recovery in oil exports. On Wednesday at 9:00am (ET), Banxico and INEGI will make available their preliminary trade report for May, where we expect to see a US\$480.4 million deficit. On the exports side, we will probably see a 60.9% yoy expansion of oil exports as a result of the higher prices for the Mexican crude oil basket (45.4% yoy). In addition, non-oil exports could have increased 7.2% yoy, on the back of a 7.1% growth in manufacturing exports.

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Banking credit will show a 6.3% yoy increase in May. 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 May. In particular, we estimate a 6.3% yoy expansion in banking credit (in real terms), as a result of a 3.1% increase in consumer credit, coupled with a 3% and 9.4% expansion in mortgage and business credit, respectively.

MoF’s monthly report. Finally on Friday, the Ministry of Finance (MoF) will release its monthly finance report for May. 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 particular comparing spending in 2018 vs. 2017. Finally, it will be important to evaluate the evolution of public sector debt, which currently represents close to 43.5% of Mexico’s GDP.

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