

# Ahead of the Curve

June 26, 2015

Market focus this week will on PMI surveys

- IMEF's PMI surveys.** On Wednesday, IMEF (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators. We expect manufacturing PMI at 53 in June, above the 52.4 observed in May (seasonally adjusted terms). We believe that manufacturing activity was supported by the recovery of consumer spending in Mexico and the significant depreciation of the MXN. However, we believe that the strong recovery in retail sales might have affected the “inventories” component. Moreover, we believe that the non-manufacturing PMI will stand at 51.7 points, above the 51.1 observed in May
- Gross fixed investment report.** Next Friday at 9:00am (EDT), INEGI will publish its April's gross fixed investment (GFI) report. We anticipate GFI up by 4.2% yoy. We believe that within the report we will probably see a 2.6% yoy expansion in imported machinery and equipment given that trade balance figures for April showed a similar growth rate. Moreover, we expect a 10.8% growth in domestic machinery and equipment. Finally, we believe that construction spending could increase 3.8% yoy

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Document for distribution among the general public

## Mexico weekly calendar

DATE	HOURL (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Tue 30-Jun	10:00am	<b>Comercial banking credit</b>	May	% yoy	<u>7.5</u>	--	7.6
		Consumption		% yoy	<u>3.0</u>	--	2.9
		Housing		% yoy	<u>7.2</u>	--	7.1
		Non-banking private firms		% yoy	<u>10.1</u>	--	10.1
Tue 30-Jun	10:00am	<b>International reserves</b>	26-Jun	US\$ bn	--	--	193.2
Tue 30-Jun	12:30pm	<b>Government weekly auction: 1-, 3-, and 6-month Cetes; 3y MBono (Dec'18); 3y Udibono (Jun'19)</b>					
Tue 30-Jun	3:30pm	<b>Budget balance</b>	May	MXN bn	--	--	-121.6
Wed 1-Jul	10:00am	<b>Family remittances</b>	May	US\$ mn	<u>2,338</u>	2301.5	2,012
Wed 1-Jul	1:00pm	<b>PMI's survey (IMEF)</b>	June				
		Manufacturing		index	<u>53.0</u>	52.1	52.4
		Non-manufacturing		index	<u>51.7</u>	51.5	51.1
Fri 3-Jul	9:00am	<b>Gross fixed investment</b>	April	% yoy	<u>4.2</u>	4.5	6.6
		Machinery and equipment		% yoy	<u>5.0</u>	--	10.5
		Domestic		% yoy	<u>10.8</u>	--	8.6
		Imported		% yoy	<u>2.6</u>	--	11.2
		Construction		% yoy	<u>3.8</u>	--	4.1
Fri 3-Jul	10:00am	<b>Banxico's survey of economic expectations</b>	June				

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

**Banking credit will show a 7.5% yoy increase in May.** Banco de Mexico will make available its banking credit report on Tuesday (June 30) at 10:00am (EDT). It is our take that banking credit continued flowing in May given the significant spike in credit supply from the banking sector. In particular, we estimate a 7.5% yoy expansion in banking credit (in real terms) as a result of increases in the area of 3%, 7.2%, and 10.1% yoy in consumer, housing and business credit, respectively.

**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 \$57mn amounting to US \$193.2bn on June 19. According to Banxico's report, this figure comes mainly as a result of: (1) Dollar sales by the Central Bank to the Federal Government for US \$80mn; (2) US \$260mn decrease explained by the introduction of Banxico's USD daily auction; along with a (3) US \$283mn increase due to changes in the valuation of the Central Bank's assets. It is worth noting that Pemex is currently the only significant source of reserve accumulation, given that on November 2011, the FEC (Federal Exchange Commission) decided to shut down the options scheme that Banxico also used to accumulate reserves. In this context, the central bank has an accumulated reduction of US \$57mn international reserves this year (please refer to the table below).

**Banxico's foreign reserve accumulation details**

US\$, million

	2014	19/Jun/2015	19/Jun/2015	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	193,239	193,181	-57	-57
(B) Gross international reserve	195,682	195,052	-333	-630
Pemex	--	--	378	3,370
Federal govt	--	--	-728	148
Market operations	--	--	-260	-3,684
Other	--	--	277	-464
(C) Short-term government's liabilities	2,443	1,870	-276	-573

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 (Dec'18) as well as 3-year inflation-linked Udibonos (Jun'19), in addition to the “more traditional” 1-, 3-, and 6- month zero-coupon Cetes (refer to the table below). As usual, the results will be released at 12:30pm (EDT).

**Auction specifics (Tuesday, June 30, 2015)**

	Maturity	Coupon rate, %	To be auctioned <sup>1</sup>	Previous yield <sup>2</sup>
<b>Cetes</b>				
1m	30-Jul-15	--	5,500	2.98
3m	01-Oct-15	--	9,500	3.11
6m	24-Dec-15	--	11,000	3.26
<b>Mbono</b>				
3y	13-Dec-18	8.50	9,000	5.01
<b>Udibono</b>				
3y	13-Jun-19	4.00	850	2.00

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 Tuesday, the Ministry of Finance (MoF) will make its monthly finance report available. On the revenue side, we will be looking at non-oil tax collection as it provides additional information about domestic demand dynamics. Moreover, we will focus on spending dynamics, which will now incorporate part of the fiscal cut announced by the MoF in January. Finally, it will be important to evaluate the evolution of public sector debt, which currently represents about 42% of Mexico's GDP.

**Family remittances will post a 9.5% yoy expansion.** On Wednesday, at 10:00am (EDT), Banxico will make its family remittances monthly data available. We expect Mexican workers living abroad -mainly in the US-, to have sent US\$2,338.4 mn to their families in Mexico during May. This would imply an 8.3% yoy expansion.

We believe that remittances in May will benefit from a seasonal effect, since Mexican migrants send more remittances in May due to Mother's Day. Thus, it is likely that remittances will reach its highest level of the year. Moreover, it is likely that remittances inflows also benefited from the better growth dynamics of the Mexican immigrant labor force in the U.S. Analyzing data from the Current Population Survey, the unemployment rate for illegal immigrants has fallen in the last three months which implies that we will probably continue to see an upward trend in these inflows.

**June's PMI surveys.** On Wednesday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators. We expect manufacturing PMI at 53 in June, above the 52.4 observed in May (seasonally adjusted terms). We believe that manufacturing activity was supported by the recovery of consumer spending in Mexico and the significant depreciation of the MXN. However, we believe that the strong recovery in retail sales might have affected the "inventories" component.

Moreover, we believe that the non-manufacturing PMI will stand at 51.7 points, above the 51.1 observed in May. In this regard, we believe that the recent upward trend in domestic demand, given the recovery in both the labor market and the household's purchasing power, could have triggered a faster growth within the services in June.

**We expect a 4.2% yoy expansion in April's GFI.** Next Friday at 9:00am (EDT), *INEGI* will publish its April's gross fixed investment (GFI) report. We anticipate GFI up by 4.2% yoy. We believe that within the report we will probably see a 2.6% yoy expansion in imported machinery and equipment given that trade balance figures for April showed a similar growth rate. Moreover, we expect a 10.8% growth in domestic machinery and equipment. Finally, we believe that construction spending could increase 3.8% yoy.

**Banxico's survey of economic expectations.** On Friday, at 10:00am (EDT), Banco de México will publish its monthly survey of economic expectations. In our view, market participants' focus will be on three issues: (1) 2015 inflation expectations that currently are at 2.96% (Banorte-Ixe: 3%); (2) mid-term inflation expectations—quite important for the central bank's board—that are currently at 3.4% (Banorte-Ixe: 3%); and (3) the analysts' assessments of GDP growth for 2015 given the recent downward revisions made by Banxico and the Ministry of Finance (currently at 2.7%; Banorte-Ixe: 3.2%).

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