Ahead of the Curve

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Market focus this week will on September's PMI surveys

- **September's PMI surveys.** On Thursday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators. We expect manufacturing PMI at 52.4 in September, above the 51.8 observed in August (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 50 points

- **Gross fixed investment.** Next Friday at 9:00am (EDT), *INEGI* will publish its July's gross fixed investment (GFI) report. We anticipate GFI up by 4.3% yoy. We believe that within the report we will probably see a 3.2% yoy expansion in imported machinery and equipment given that trade balance figures for July showed a similar growth rate. Moreover, we expect a 10.5% growth in domestic machinery and equipment. Finally, we believe that construction spending could increase 3.5% yoy

Mexico weekly calendar

DATE	HOUR (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 28-Sep	9:00am	Unemployment rate	Aug	% yoy	4.62	4.67	4.72
Tue 29-Sep	10:00am	International reserves	25-Sep	US$ bn	--	--	183
Tue 29-Sep	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 30y Mbono (Nov'42); 5y Bondes D					
Wed 30-Sep	10:00am	Comercial banking credit	August	% yoy	7.9	--	7.7
		Consumption		% yoy	4.1	--	3.9
		Housing		% yoy	9.8	--	9.6
		Non-banking private firms		% yoy	9.7	--	9.5
Wed 30-Sep	3:30pm	Budget balance (year to date)	August	MXN bn	--	--	-375.4
Thu 1-Oct	10:00am	Family remittances	August	US$ mn	2,242.4	--	2,232
Thu 1-Oct	1:00pm	PMI's survey (IMEF)	September				
		Manufacturing		index	52.4	--	51.8
		Non-manufacturing		index	50.0	--	49.5
Fri 2-Oct	9:00am	Gross fixed investment	July	% yoy	4.3	4.1	8.6
		Machinary and equipment		% yoy	5.5	--	22.1
		Domestic		% yoy	10.5	--	16.1
		Imported		% yoy	3.2	--	24.8
		Construction		% yoy	3.5	--	0.6
Fri 2-Oct	10:00am	Banxico's survey of economic expectations	September				

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

Unemployment rate in August will stand at 4.62%. Next Monday, *INEGI* will publish its employment report for the eighth month of 2015, in which we estimate an unemployment rate of 4.62% nsa, below the 4.72% observed in July. In seasonally-adjusted terms, we believe that the unemployment rate could stand at 4.27%, which implies a monthly fall of 0.04%-pts.

It is likely that the job creation in August was positively affected by better growth dynamics of the economy. In this regard, we believe that the Mexican labor market will continue to recover given the recent upward trend in the Mexican economy, which will eventually reduce the level of unemployed workers.

Looking ahead, we are still positive on the outlook regarding the recovery Mexico's economic activity, which will have a positive impact on firms' expectations about domestic demand, resulting in a more dynamic labor market.

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$479mn amounting to US $183bn on September 18. 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$35mn; (2) US$800mn decrease explained by the introduction of Banxico's USD daily auction without minimum price; along with a (3) US$356mn 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. In this context, the central bank has an accumulated reduction of US$10,240mn international reserves this year (please refer to the table below).

Banxico's foreign reserve accumulation details
US$, million

	2014	18/Sep/2015	18/Sep/2015	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	193,239	182,999	-479	-10,240
(B) Gross international reserve	195,682	185,236	664	-10,446
Pemex	--	--	1205	3,828
Federal govt	--	--	-98	-829
Market operations	--	--	-800	-13,205
Other	--	--	357	-240
(C) Short-term government's liabilities	2,443	2,237	1,142	-206

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 30-year fixed-rate Mbonos (Nov'42) as well as 5-year Bondes D, 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, September 29, 2015)

	Maturity	Coupon rate, %	To be auctioned[1]	Previous yield[2]
Cetes				
1m	29-Oct-15	- -	5,500	3.02
3m	31-Dec-15	- -	9,500	3.15
6m	31-Mar-16	- -	11,000	3.31
Mbono				
30y	13-Nov-42	7.75	2,500	6.68
Bondes D				
5y	24-Sep-20	- -	5,000	0.25

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 7.9% yoy increase in August. Banco de Mexico will make available its banking credit report on Wednesday (September 30) at 10:00am (EDT). It is our take that banking credit continued flowing in August given the significant spike in credit supply from the banking sector. In particular, we estimate a 7.9% yoy expansion in banking credit (in real terms) as a result of increases in the area of 4.1%, 9.8%, and 9.7% yoy in consumer, housing and business credit, respectively.

The MoF's monthly report. On Wednesday, the Ministry of Finance (MoF) will make its finance report available for the first eight months of 2015. 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 continue to 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 11.9% yoy expansion. On Thursday, 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$2,242.4 mn to their families in Mexico during August. This would imply a 11.9% yoy expansion.

We believe that remittances in August will benefit from the significant depreciation of the Mexican currency and the better growth dynamics of the Mexican immigrant labor force in the U.S. In the first case, 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. In the second case, analyzing data from the Current Population Survey, the unemployment rate for illegal immigrants has fallen in the last four months which implies that we will probably continue to see an upward trend in these inflows.

September's PMI surveys. On Thursday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators. We expect manufacturing PMI at 52.4 in September, above the 51.8 observed in August (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 50 points. 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 September, which will be reflected in September's non-manufacturing PMI.

We expect a 4.3% yoy expansion in July's GFI. Next Friday at 9:00am (EDT), *INEGI* will publish its July's gross fixed investment (GFI) report. We anticipate GFI up by 4.3% yoy. We believe that within the report we will probably see a 3.2% yoy expansion in imported machinery and equipment given that trade balance figures for July showed a similar growth rate. Moreover, we expect a 10.5% growth in domestic machinery and equipment. Finally, we believe that construction spending could increase 3.5% yoy.

Gross fixed investment's estimate

%yoy	Jul-15	Jul-14	Jan-Jul, '15	Jan-Jul, '14
Total	4.3	3.2	5.2	0.0
Machinery and equipment	5.5	5.1	9.2	2.6
Domestic	10.5	7.6	11.4	0.2
Imported	3.2	4.0	8.2	3.7
Construction	3.5	2.0	2.8	-1.6
Annual contribution	**Jul-15**	**Jul-14**	**Difference**	
Total	4.3	3.2	1.1	
Machinery and equipment	2.1	2.0	0.2	
Domestic	1.3	0.9	0.4	
Imported	0.9	1.1	-0.2	
Construction	2.1	1.2	0.9	
%m/m sa	**Jul-15**	**Jun-15**	**Difference**	
Total	-1.4	1.7	-3.1	
Machinery and equipment	-7.9	3.1	-11.0	
Domestic	0.7	3.9	-3.2	
Imported	-10.3	4.3	-14.6	
Construction	3.6	0.4	3.1	

Source: Banorte-Ixe; INEGI

Banxico's survey of economic expectations. Finally, also 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 2.82% (Banorte-Ixe: 3%); (2) mid-term inflation expectations—quite important for the central bank's board—that are currently at 3.43% (Banorte-Ixe: 3%); and (3) the analysts' assessments of GDP growth for 2015 given the recent downward revisions made by several economists (currently at 2.34%; Banorte-Ixe: 2.5%).

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