

# Ahead of the Curve

September 27, 2019

## September surveys may show an improvement in activity

- Consumer confidence (September).** We expect confidence to stand at 43.6pts (seasonally adjusted), which would represent a 0.2pts increase relative to last month's print. We believe that a series of factors will drive the improvement, highlighting: (1) The convergence of headline inflation to the central bank's target; (2) the notorious appreciation of the Mexican peso; and (3) the increase in presidential approval. Nevertheless, the recent trend of formal job creation could limit somewhat the likely advance. Going forward, we continue believing that confidence will decline gradually, particularly when taking into account that it remains significantly above its long-term average. Among the factors driving the decline, we highlight the dilution of political optimism and the stagnation of economic activity
- Family remittances (August).** We expect remittances at US\$3,232.9 million, up 12.1% yoy, below the +14.4% of the previous month, which came above both the market and our expectations. We highlight several events that may have impacted remittances, albeit with mixed effects. We believe the mass shooting in El Paso, Texas, in which Hispanic immigrants were targeted, may have triggered increased fear among Mexican migrants. This would have probably tilted them to send more remittances back home. Nevertheless, changes for eligibility for Green Cards, in which users of social benefits would be disqualified for the permits, could have resulted in more savings to avoid using them. On the other hand, the depreciation of the Mexican peso, going from USD/MXN 19.05 in July to 19.69, should have also helped the flow of remittances

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Document for distribution among the general public

### Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 30-Sep	10:00am	Comercial banking credit	August	% yoy	<u>5.2</u>	--	4.7
		Consumption		% yoy	<u>2.7</u>	--	2.4
		Housing		% yoy	<u>7.2</u>	--	6.7
		Non-banking private firms		% yoy	<u>5.5</u>	--	4.9
Mon 30-Sep	3:30pm	Budget balance (as measured by the PSBR)	August	MXN bn	--	--	-114.0
Tue 1-Oct	10:00am	Family remittances	August	US\$ mn	<u>3,232.9</u>	--	3,270.3
Tue 1-Oct	10:00am	Banxico's survey of economic expectations	September				
Tue 1-Oct	10:00am	International reserves	Sep-27	US\$ bn	--	--	180.0
Tue 1-Oct	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 5y Mbono (Sep'24); 10y Udibono (Nov'28)					
Tue 1-Oct	1:00pm	PMI's survey (IMEF)	September				
		Manufacturing		index	<u>48.5</u>	--	47.4
		Non-manufacturing		index	<u>48.6</u>	--	47.7
Thu 3-Oct	7:00am	Consumer confidence	September	indicator	<u>44.0</u>	--	43.8
		sa		indicator	<u>43.6</u>	--	43.4

Source: Banorte; Bloomberg

## Proceeding in chronological order...

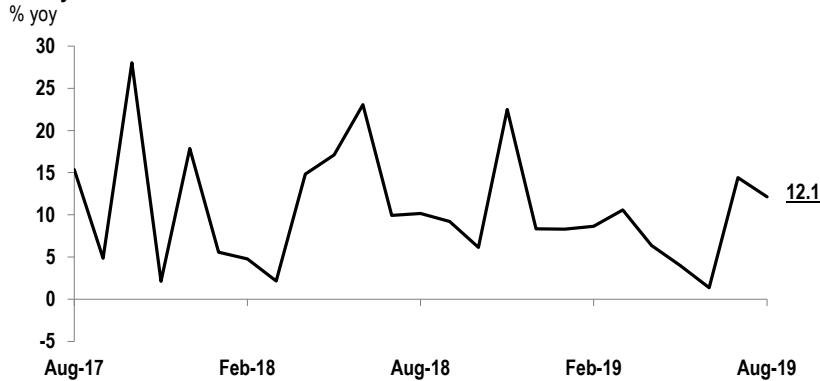
**Banking credit could accelerate towards 5.2% yoy in August.** It is our take that credit to the non-financial sector keeps flowing. We estimate a 5.2% yoy expansion in real terms, higher than the 4.7% growth of the previous month. This would be driven by a 2.7% increase in consumer credit, coupled with a 7.2% and 5.5% expansion in mortgages and corporate credit, in the same order. Large part of the pickup would be explained by better inflation dynamics, remembering that it came down to 3.2% in the month from 3.8% in July.

**MoF's public finance report (August).** As in every report, attention will center on the public balance as well as on PSBRs, which between January and July accumulated an MXN\$114.0bn deficit. It should be noted that the public deficit at the end of July stood at MXN\$153.1bn, better than the MXN\$313.1bn forecasted deficit. Focus will be on revenues and spending, especially when compared to the MoF's updated *2020 Macroeconomic Forecasts*. In this context and on a year-to-date basis, revenues undershot the forecast by MXN\$89.4 bn, while expenditures have done so by MXN\$197.8 bn. Finally, we will also look at public debt, which as of July stood at MXN\$10.5tn, equivalent to 42.4% of GDP (as measured by the HBPSBRs).

**Remittances to continue growing at a strong pace.** We expect remittances at US\$3,232.9 million, up 12.1% yoy, below the +14.4% of the previous month, which came in above both the market and our expectations. We highlight several events that may have impacted remittances during the period. On August 3<sup>rd</sup>, there was a mass shooting in El Paso, Texas, in which 22 people were murdered. Considering that the perpetrator was looking to attack people of Hispanic heritage, this event could have increased fear among Mexican migrants. In turn, this could have boosted the flow of remittances to our country. On the contrary, in the middle of the month, the US Federal Government announced new rules that seek to limit the universe of eligible people for a Green Card. To be eligible, people should not have used social security benefits, such as Medicare and supplementary food assistance. In this sense, this could lead to higher local savings by immigrants, looking to reduce the possibility of needing these types of social assistance. Going to other variables, the Mexican peso depreciated, from an average level of 19.05 in July to 19.69. The overall trajectory was upwards, with only some brief episodes of appreciation. This probably had a favorable effect on the overall flow, remembering that a weaker peso tends to encourage remittances as its purchasing power in local currency decreases.

With this, remittances would add up to US\$23,757.8 million so far in 2019, 8.1% above the same period of the previous year. We maintain our view that full-year growth will be more modest when compared to the 10.5% of 2018, with greater headwinds in the second half as US economic activity keeps slowing gradually, eventually impacting dynamism of Mexican migrants' employment growth in that country.

### Family remittances



Source: Banxico

**Banxico's survey of economic expectations.** As usual, market participants will focus on inflation, growth, reference rate, and exchange rate forecasts. Regarding the first point, analysts expect 2019 year-end inflation at 3.36%, above our 3.30%, which leads us to believe that they could be revised down again, particularly with the latest print (1H-Sep) reaching 2.99% yoy. Medium and long-term expectations could remain relatively unchanged, still above the central bank's target. On growth, forecasts for 2019 stand at 0.5% (Banorte: 0.8%), while the estimate for 2020 came at 1.4%, in line with our own.

The current expectation for the level of the reference rate by YE19 is 7.75%, which after Thursday's 25bps cut implies no further reductions in the year. Nevertheless, given Banxico's dovish tone, and two dissenters in favor of a 50bp cut, it is highly likely that the market discounts at least one additional cut in 2019. Finally, the exchange rate could also be revised, considering that the estimate for the end of the year stands at USD/MXN 19.84 (Banorte: 20.30).

**Weekly international reserves report.** Last week, net international reserves increased US\$272 million, closing at US\$180.0 billion. According to Banxico's report, this comes mainly from a positive valuation effect in central bank assets. In this context, the central bank's international reserves have increased US\$5.2 billion during 2019 (please refer to the following table).

#### Banxico's foreign reserve accumulation detail

US\$, million

	2018	Sep 20, 2019	Sep 20, 2019	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	174,793	180,019	272	5,227
(B) Gross international reserve	176,384	182,776	-4,712	6,392
Pemex	--	--	246	359
Federal government	--	--	-5,195	963
Market operations	--	--	0	0
Other	--	--	237	5,070
(C) Short-term government's liabilities	1,592	2,757	-4,984	1,165

Source: Banco de México

**Weekly government bond auction.** The Ministry of Finance (MoF) –via Banco de Mexico as its financial agent, will offer 5-year fixed-rate Mbonos (Sep’24), and 10-year Udibonos (Nov’28), in addition to the 1-, 3-, and 6-month zero-coupon Cetes (see following table). As usual, results will be released at 12:30pm (ET).

**Auction specifics (Tuesday, October 1<sup>st</sup>, 2019)**

	Maturity	Coupon rate, %	To be auctioned <sup>1</sup>	Previous yield <sup>2</sup>
<b>Cetes</b>				
1m	31-Oct-19	--	6,000	7.61
3m	02-Jan-20	--	10,500	7.59
6m	26-Mar-20	--	14,500	7.45
<b>M Bono</b>				
5y	05-Sep-24	8.00	11,000	6.84
<b>Udibono</b>				
10y	30-Nov-28	4.00	UDIS 950	3.21

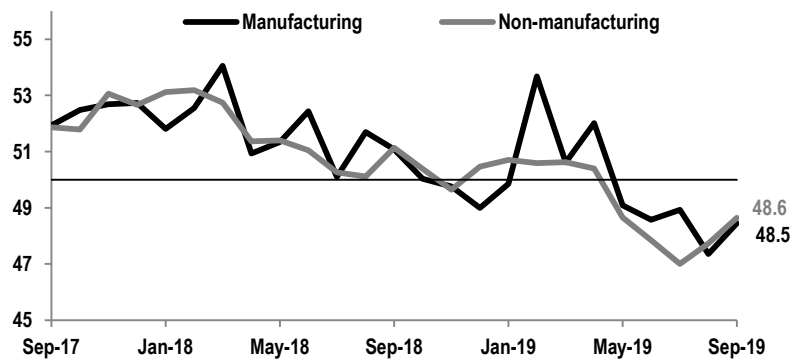
Source: Banorte with data from Banco de México 1. Except for Udibonos, which are expressed in UDI million, everything else is expressed in MXN million. 2. Yield-to-maturity reported for Cetes, Mbonos and Udibonos

**PMI’s to bounce back in September.** We expect the manufacturing index at 48.5pts, improving from 47.4pts sa in August, which would mark its fifth consecutive print in contraction territory. The main driver behind our expectation is an improvement in conditions within the sector in the US. In this context, the preliminary US manufacturing PMI edged-up to 51.0pts from 50.3pts in the previous month, although noting that August’s preliminary print originally stood in contraction territory (49.9pts). According to *IHS Markit*, the categories most benefited were production and new orders. We believe that the relatively good performance of these could translate into an uptick within the same components in the Mexican PMI. Nevertheless, we think that this could be limited by the appreciation of the peso during the period, remembering that this type of adjustment results in a loss of competitiveness for Mexican exports. Regarding the rest of the components, we consider that the employment and inventories sub-indices could decrease, albeit with the second one doing so because of favorable reasons, reflecting a decrease in inventory buildups.

Going to the non-manufacturing index, we expect it to increase from 47.7pts to 48.6pts. We believe that this behavior will be driven by the additional decrease in inflation levels, which reached the central bank’s target in the first half of September. This could translate into a better performance for both new orders and production, particularly for commercial businesses. On the other hand, several reports point to an acceleration in the release of building permits by the Mexico City Government, thus liberating some of the stagnation we had seen in previous months. It should be remembered that this sector is accounted for within the non-manufacturing index. Nevertheless, we expect employment and deliveries to remain contained, particularly the first one as a highly uncertain environment prevails.

### IMEF indices

Indices, seasonally-adjusted



Source: IMEF

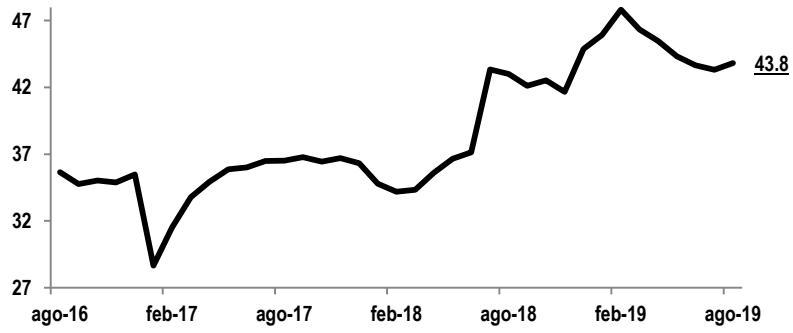
**Consumer confidence to rise again in September.** We expect confidence to increase for a second consecutive month, estimated at 43.6pts sa from 43.4pts in August. Nevertheless, it would stay below its year-to-date high (maximum: 48.6pts in February). A wide array of indicators suggests an expansion. One of the main developments was the return of inflation to Banxico's target, reaching 2.99% in the annual comparison in the first half of September. This is mainly explained by a strong decline in non-core prices, which include some of the prices which have a greater impact on household's perception of inflation. In our view, this fact could have a favorable impact in both durable goods and current household's conditions. In addition, the significant appreciation of the Mexican peso, going from around USD/MXN 19.80 at the end of the last survey period (on the 20<sup>th</sup> of each month) to close to 19.40 in September, could have boosted the country's current conditions index.

Meanwhile, presidential approval recovered after falling in the previous month. According to *Oraculus*'s poll of polls, net approval stood at 47pts from 46pts in August. Even though confidence seems to have given some signals of decoupling from political sentiment, recent results suggest this hasn't fully happened, which leads us to anticipate that this could have a favorable impact on the country's expectation sub-index. Finally, we believe household's expectations could deteriorate, explained by the downward trend in formal job creation.

All in all, we continue to believe that confidence will decline gradually, particularly when considering that it is significantly above its long-term average. Among the factors driving the decline, we highlight the dilution of political optimism and the stagnation of economic activity.

### Consumer confidence

Index, nsa



Source: INEGI

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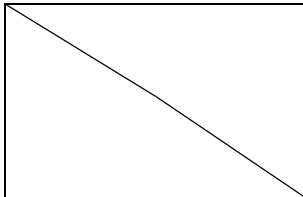
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