

## Ahead of the Curve

**We expect IMEF's PMI indicators to show slightly better economic momentum in November**

- Gross fixed investment (September).** We anticipate a weak report at -7.0% yoy, below the -4.3% in August, which would be its eight consecutive contraction. Using seasonally-adjusted figures we anticipate a 1.1% m/m decline, reversing almost completely the +1.5% of September. This figure would confirm that weakness in investment has extended after last month's brief rebound, with business confidence across all sectors up during the period albeit with available hard data showing a muted performance. We estimate construction at -5.4% yoy and machinery and equipment falling 9.1%, with the imported component still the heaviest drag.
- IMEF's PMI indicators (November).** We expect an improvement in both indicators, although remaining in contraction territory. The strongest advance would be in the manufacturing index, from 46.7pts to 47.9pts, due to the reversal of the temporary shock to the auto sector observed in October. Moreover, PMI manufacturing index in the US also advanced to its highest level since April, suggesting that external demand remains resilient. The non-manufacturing index would climb more modestly, from 48.1pts to 48.6pts, This would be mainly driven by good retail sales performance in recent reports along preliminary data showing higher-than-expected results in *El Buen Fin* (Mexico's version of Black Friday), although somewhat limited by higher prices in some components within non-core inflation.

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### Mexico weekly calendar

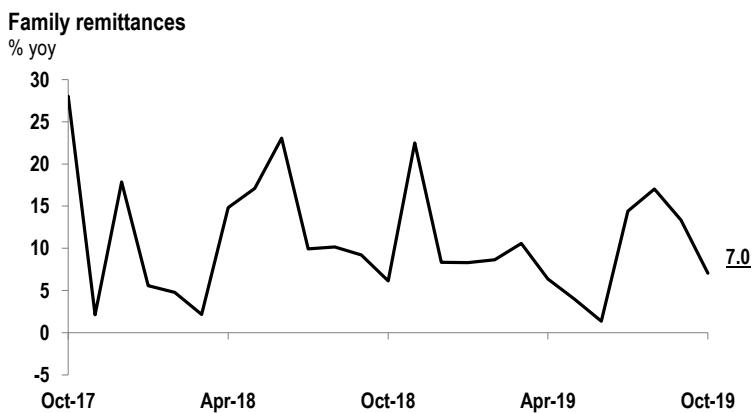
DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 2-Dec	10:00am	Family remittances	October	US\$ mn	3,229.6	3,214.8	3,080.8
Mon 2-Dec	10:00am	Banxico's survey of economic expectations	November				
Mon 2-Dec	1:00pm	PMI's survey (IMEF)	November				
		Manufacturing		index	47.9	47.5	46.7
		Non-manufacturing		index	48.6	48.0	48.1
Tue 3-Dec	10:00am	International reserves	Nov-30	US\$ bn	--	--	180.6
Tue 3-Dec	12:30pm	Government weekly auction: 1-, 3-, 6-, and 12-month Cetes; 10y MBoNo (May'29); 30y Udibono (Nov'50); 5y Bondes D					
Thu 5-Dec	7:00am	Consumer confidence	November	index	42.7	--	43.9
Thu 5-Dec	3:30pm	Citibanamex bi-weekly survey of economic expectations					
Fri 6-Dec	7:00am	Gross fixed investment	September	% yoy	-7.0	-6.8	-4.3
		Machinery and equipment		% yoy	-9.1	--	-9.5
		Domestic		% yoy	-6.3	--	-5.5
		Imported		% yoy	-10.9	--	-12.0
		Construction		% yoy	-5.4	--	0.1

Source: Banorte; Bloomberg

Proceeding in chronological order...

**Remittances to slowdown in October.** We expect remittances at US\$3,229.6 million, up 7.0% yoy, slowing down relative to the +13.3% of the previous month. As in September, we did not identify a specific event which could have had a sizable impact in the flow of the period. However, we still believe that overall uncertainty among Mexican migrants will continue to be a structural driver for remittances. Going to other variables, the Mexican peso appreciated slightly, from an average level of 19.59 in September to 19.32. The trajectory was of a stronger peso, with a steeper fall at the middle of the month, to then show stability towards the end at levels close to 19.10. Overall, we believe that this could have had a negative impact on remittances during the period.

With this, remittances would add up to US\$30,209.8 million so far in 2019, 9.0% above the same period of the previous year. We maintain our view that full-year growth will be slightly more modest when compared to the 11.2% of 2018, impacted by lower dynamism in Mexican migrants' employment growth in the US.



Source: Banxico

**Banxico's survey of economic expectations.** As usual, market participants will focus on inflation, growth, the reference rate, and exchange rate forecasts. Regarding the first, analysts expect 2019 year-end inflation at 3.0%, in line with our estimate. Medium and long-term expectations could remain relatively unchanged, still above the target. On growth, forecasts for 2019 currently stand at 0.2% (Banorte: -0.1%), while for 2020 it stood at 1.2%, below our 1.4%. The current view on the reference rate by YE19 is 7.25%, also in line with our expectations. For 2020, consensus points to 50bps of easing (Banorte: -125bps). Finally, the exchange rate could also be revised, considering that the year-end estimate stands at USD/MXN 19.70 (Banorte: 20.30). For next year, forecasts stand at 20.10, below our 21.30.

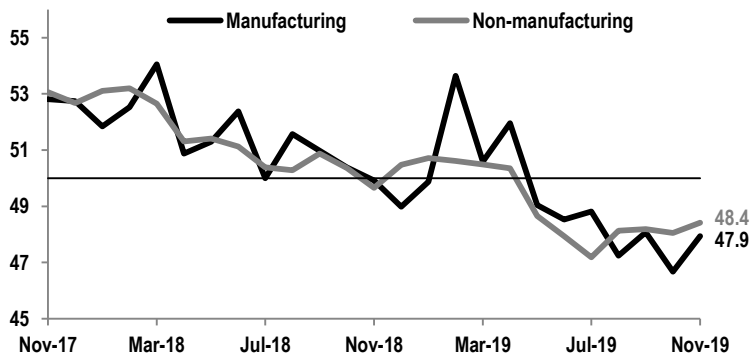
**IMEF's PMIs likely to improve in November, especially manufacturing.** We expect the manufacturing index at 47.9pts, above the 46.7pts in September which marked a two and a half year low. The latter was a result of the temporary shock to the auto sector due to some events (e.g. GM's strike in the US and halted operations in two Ford and one VW plants). According to press reports, these have returned to normal.

In this respect, we expect the highest rebound in the inventories subcomponent, which was the most affected last month, although we also see an important recovery in production and employment. Moreover, the manufacturing PMI in the US also advanced, from 51.3pts to 52.2pts, reaching its strongest level since April driven by the pickup in production and new orders. We have also seen some positive developments regarding trade tensions between the US and China and an increase in the probability of approval of USMCA, despite both issues have not yet been resolved.

Going to the non-manufacturing index, we believe it will show a slight improvement, albeit remaining in contraction territory. This would be aided by good retail sales performance in recent reports along preliminary data showing that higher-than-expected sales in *El Buen Fin* (Mexico’s version of Black Friday). On the other hand, this could be somewhat limited by higher prices in some components within non-core inflation during the first half of the month. Moreover, the latest public finance reports show that the government has accelerated public spending and just a few days ago, they announced an agreement for private sector investments which may have also helped sentiment. For details, see: “*The government announced the first phase of its Infrastructure Program*”, <[pdf](#)>, November 26, 2019. Nevertheless, business confidence has stayed low, with the latest available data as of October showing a retracement of some recent gains across all sectors.

**IMEF indices**

Indices, seasonally-adjusted



Source: IMEF

**Weekly international reserves report.** Last week, net international reserves decreased US\$10 million, closing at US\$180.6 billion. According to Banxico’s report, this comes from: (1) a positive valuation effect in central bank assets amounting to US\$149 mn; and (2) the annual payment to the IMF corresponding to the Flexible Credit Line, totaling US\$159 mn. In this context, the central bank’s international reserves have increased US\$5.8 billion during 2019 (please refer to the following table).

**Banxico's foreign reserve accumulation detail**

US\$, million

	2018	Nov 15, 2019	Nov 15, 2019	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	174,793	180,557	-10	5,765
(B) Gross international reserve	176,384	184,764	491	8,380
Pemex	--	--	56	65
Federal government	--	--	495	2,791
Market operations	--	--	0	0
Other	--	--	-60	5,524
(C) Short-term government's liabilities	1,592	4,207	500	2,616

Source: Banco de México

**Weekly government bond auction.** The Ministry of Finance (MoF) –via Banco de Mexico as its financial agent, will offer 10-year fixed-rate Mbonos (May'29), 30-year inflation-linked Udibonos (Nov'50), and 5-year Bondes D, in addition to the 1-, 3-, 6-, and 12-month zero-coupon Cetes (see following table). As usual, results will be released at 12:30pm (ET).

**Auction specifics (Tuesday, December 3<sup>th</sup>, 2019)**

	Maturity	Coupon rate, %	To be auctioned <sup>1</sup>	Previous yield <sup>2</sup>
<b>Cetes</b>				
1m	02-Jan-20	--	5,000	7.46
3m	05-Mar-20	--	15,000	7.47
6m	04-Jun-20	--	15,000	7.39
12m	03-Dec-20	--	15,000	7.12
<b>Bondes D</b>				
5y	24-Oct-24	--	6,500	0.16
<b>M Bono</b>				
10y	31-May-29	8.50	10,000	6.87
<b>Udibonos</b>				
30y	03-Nov-50	4.00	UDIS 550	3.36

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

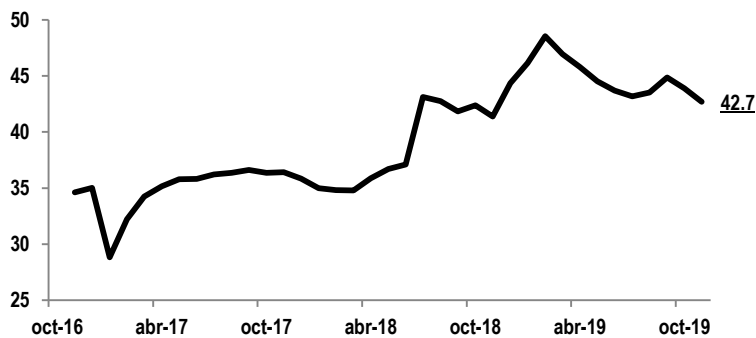
**Consumer confidence in November expected to reach a low since the start of the administration.** We expect confidence to extend last month's decline to 42.7pts (seasonally adjusted). If this materializes, it would be a new low since the formal start of the current Federal Administration back in December 2018. Despite of the latter, it would remain higher than in the same period of the previous year and its 5-year average of 38.5pts.

In our view, several indicators point to a decline. This month's print will be helpful to test our hypothesis that political sentiment, measured through the President's net approval as instrumental variable, has been having a sizable effect on consumer confidence. In particular and according to *Oraculus*, this indicator fell by a large margin in the month, from 50% to 41%. In our view, several events had an impact, highlighting insecurity concerns in northern states (*e.g.* Sinaloa and Chihuahua) along the controversy for the political asylum of former Bolivian president, Evo Morales, among the most relevant. This backdrop would have an adverse effect mostly in the components that try to measure the country's situation, particularly current conditions.

Other indicators are not helpful, either. Among them, the exchange rate trended higher during the sample period, from around 19.10 close to 19.50 per dollar, while inflation in the 1<sup>st</sup> half of the month inched higher on the start of a rebound of agricultural goods, which we believe people may be more sensitive too as it is reflected immediately in real incomes. We believe both of these could pressure households' current conditions and purchasing power components the most. In terms of economic activity, the situation has stayed relatively weak, although some data suggests that retail sales have been having a more positive performance lately, including preliminary data which show higher than expected sales during *El Buen Fin* (Mexico's version of Black Friday). All in all, we continue to believe that confidence will decline gradually, situation that seems to be materializing albeit at a modest pace.

**Consumer confidence**

Index, sa



Source: INEGI

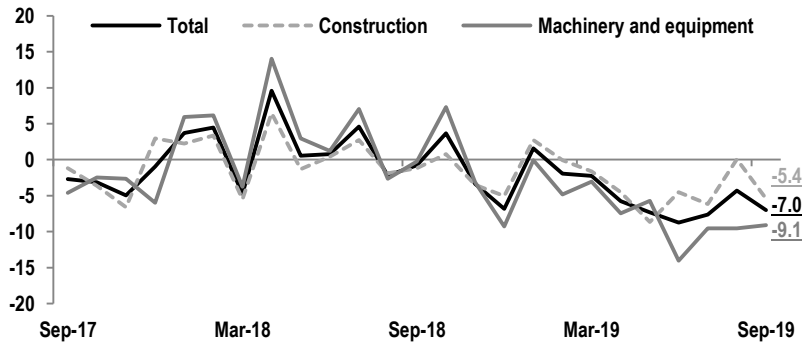
**Citibanamex survey.** Markets will center on analysts' inflation forecasts for November (to be published on Monday, December 9<sup>th</sup>) along with the 2019 year-end estimate. It will be important to see monetary policy assessments, particularly ahead of the December 19<sup>th</sup> meeting, in which we expect a 25bps rate cut. We will also pay attention to GDP growth and the exchange rate.

**Gross fixed investment in September to reverse most the previous month's gains.** We anticipate GFI at -7.0% yoy, below the -4.3% in August, which would be its eight consecutive contraction in annual terms and would imply a year-to-date decline of -4.8%. Using seasonally-adjusted figures we anticipate a 1.1% m/m contraction, reversing almost completely the +1.5% of September. As a result, data would confirm that weakness in investment has extended after last month's brief rebound, with business confidence across all sectors up during the period, albeit with available hard data showing a muted performance.

In particular, we anticipate construction at -5.4% yoy, after a brief recovery up to 0.1% previously. In this respect, the sector within the IP report fell 8.3%, with edification plunging back to -8.2% while civil engineering remained negative at -4.3%. For details, see: "*Industrial production – Weakness still present in September*", <pdf>, November 11<sup>th</sup>, 2019. In our view, the sector may start recovering gradually in 2020, with the recently announced private-sector infrastructure plan gathering some pace. In this respect, it is our take that it is still too early to call a bottom.

On the other hand, machinery and equipment would remain a drag, estimated at -9.1% yoy from -9.5%. The imported component keeps posting negative results according to the trade balance, with capital goods imports at -13.5% and adding four consecutive months declining at a double digit pace. Regarding the domestic component, we estimate a 6.3% decline, with a more difficult base effect and no relevant signals of more appetite to invest by businesses so far.

**GFI**  
% yoy



Source: INEGI, Banorte

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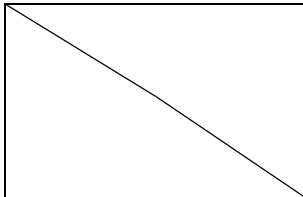
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