Ahead of the Curve

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Market focus this week will on 2016's fourth quarter GDP

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@analisis_fundam

Alejandro Cervantes
Senior Economist, Mexico
alejandro.cervantes@banorte.com

Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

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- **Gross Domestic Product (4Q 2016).** On Tuesday, *INEGI* will publish its preliminary estimation of GDP. Given the economic figures published for October and November, we believe that the preliminary estimation will show a 2.3% yoy growth for the Mexican economy during 4Q16, above the 2% observed in 3Q16. Therefore, we believe that the Mexican economy grew 2.2% in 2016. Taking a look at the breakdown, we believe that services will continue to show a favorable performance. By contrast, we expect a null growth in the industrial sector derived from the sharp deceleration in the manufacturing industry.

Mexico's weekly calendar

DATE	HOUR (EST)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 30-Jan	**11:00pm**	**Budget balance (year to date)**	December	MXN bn	--	--	-278.8
Tue 31-Jan	**9:00am**	**GDP**	4Q15 (P)	% yoy	2.3	--	2.0
		(sa)		% q/q	0.9	--	1.0
		Primary activities		% yoy	6.1	--	5.3
		Industrial production		% yoy	0.0	--	0.8
		Services		% yoy	3.4	--	3.4
Tue 31-Jan	**10:00am**	**Comercial banking credit**	December	% yoy	12.1	--	13.3
		Consumption		% yoy	8.8	--	9.3
		Housing		% yoy	7.1	--	7.2
		Non-banking private firms		% yoy	15.8	--	18.1
Tue 31-Jan	**10:00am**	**International reserves**	27-Jan	US$ mn	--	--	174.7
Tue 31-Jan	**12:30pm**	**Government weekly auction: 1-, 3-, 6-, 12-month CETES; 20y Mbono (Nov'36); 30y Udibonos (Nov'46); 5y Bondes D**					
Wed 1-Feb	**9:00am**	**PMI's survey (IMEF)**	January				
		Manufacturing		index	46.9	--	47.7
		Non-manufacturing		index	47.8	--	48.7
Wed 1-Feb	**10:00am**	**Family remittances**	December	US$ mn	2,592.1	--	2,362.9
Wed 1-Feb	**10:00am**	**Banxico's survey of economic expectations**	January				
Fri 3-Feb	**9:00am**	**Gross fixed investment**	November	% yoy	2.4	--	-0.9
		Machinary and equipment		% yoy	4.4	--	-3.5
		Domestic		% yoy	9.0	--	7.6
		Imported		% yoy	2.2	--	-8.6
		Construction		% yoy	1.1	--	0.9
Fri 3-Feb	**9:00am**	**Consumer confidence**	January	index	80.6	--	85.7

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

The MoF's monthly report. On Monday, the Ministry of Finance (MoF) will make its monthly finance report available for 2016. On the revenue side, we will be looking at non-oil tax collection as it will provide additional information about domestic demand dynamics.

In addition, markets will focus on the spending side of the report, in order to assess the execution of the fiscal cuts announced by the *MoF*. Finally, it will be important to evaluate the evolution of public sector debt, which currently represents around 48% of Mexico's GDP.

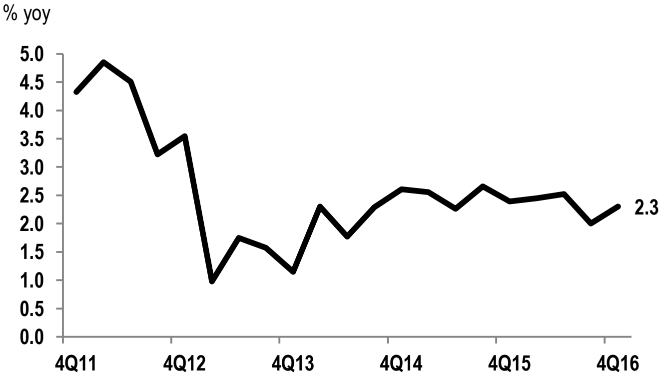
Mexico's preliminary GDP will stand at 2.3% yoy in 4Q16. On Tuesday, *INEGI* will publish its preliminary estimation of GDP. For this preliminary figure, *INEGI* uses the economic reports published for the first two months of each quarter, and adds the available information for the third month. The missing figures for the last month of the quarter are estimated using econometric models. In this regard, the preliminary estimation of GDP will cover 80% with the direct information available, and will estimate the remaining 20%.

Given the economic figures published for October and November, we believe that the preliminary estimation will show a 2.3% yoy growth for the Mexican economy during 4Q16, above the 2% observed in 3Q16. Therefore, we believe that the Mexican economy grew 2.2% in 2016.

Taking a look at the breakdown, we believe that services will continue to show a favorable performance (3.4% yoy) driven by the strong growth of banking credit (12.8% yoy in real terms over the same period), and the higher growth of the Mexican labor market (4% yoy).

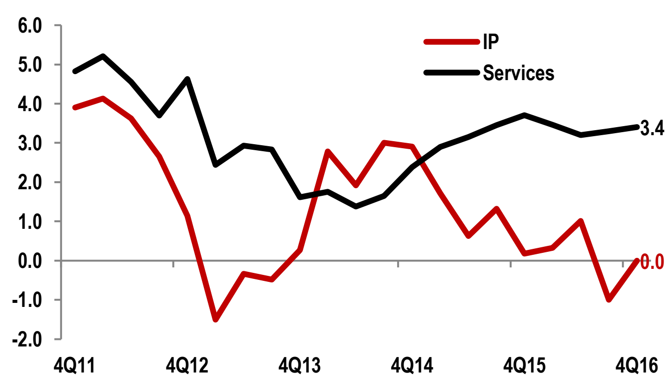
By contrast, we expect a null growth in the industrial sector derived from the sharp deceleration in the manufacturing industry, coupled with the recession in the mining sector, and the marginal increase in construction output given the contraction in public investment projects.

Gross domestic product
% yoy



Source: Banorte-Ixe with data from INEGI

GDP: Industrial production and services
% yoy



Source: Banorte-Ixe with data from INEGI

Banking credit will show a 12.1% yoy increase in December. Banco de Mexico will make available its banking credit report on Tuesday at 10:00am (EST). It is our take that banking credit continued flowing in December. In particular, we estimate an 12.1% yoy expansion in banking credit (in real terms), as a result of increases in the area of 8.8%, 7.1%, and 15.8% yoy in consumer, housing and business credit, respectively.

Weekly international reserves report. Additionally on Tuesday, at 9:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US$206 million amounting to US$174.7 billion on the third week of January. According to Banxico's report, this figure comes mainly as a result of a US$132 million sale of currency to the Federal Government. In this context, the Central Bank's international reserve have diminished by US$1.846 billion this year (please refer to the table below).

Banxico's foreign reserve accumulation details
US$, million

	2015	Jan-20, 2017	Jan-20, 2017	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,542	174,695	-206	-1,846
(B) Gross international reserve	178,025	176,584	-165	-1,441
Pemex	--	--	-26	-73
Federal government	--	--	-255	131
Market operations	--	--	0	-2,000
Other	--	--	116	501
(C) Short-term government's liabilities	1,483	1,889	41	406

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 20-year fixed-rate Mbonos (Nov'36), as well as 30-year inflation-linked Udibonos (Nov,46), and 5-year Bondes D, in addition to the "more traditional" 1-, 3-, 6-, and 12-month zero-coupon Cetes (please refer to the table below). As usual, the results will be released at 12:30pm (EDT).

Auction specifics (Tuesday, January 31, 2016)

	Maturity	Coupon rate, %	To be auctioned[1]	Previous yield[2]
Cetes				
1m	2-Mar-17	- -	6,000	5.77
3m	4-May-17	- -	10,000	6.36
6m	3-Aug-17	- -	11,500	6.69
12m	4-Jan-18	- -	11,500	6.68
M Bono				
20y	20-Nov-36	10.00	2,000	7.60
Udibonos				
30y	8-Nov-46	4.00	300	3.89
Bondes D				
30y	13-Jan-22	- -	4,500	0.22

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

January's PMI surveys. On Wednesday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators for January. We expect manufacturing PMI at 46.9, below the 47.7 observed in December (seasonally adjusted terms). We believe that the contraction in the manufacturing PMI during January will be explained by the uncertainty regarding the future prospects of the Mexican manufacturing industry under Trump's economic policies..

In addition, we believe that the non-manufacturing PMI will stand at 47.8 points from 48.7 points. In this regard, we believe that the lower growth prospects for the overall economy will also translate into a lower growth outlook for the construction and services industries, which encompass most of the firms measured in *IMEF's* non-manufacturing survey.

Family remittances will post a 17.8% yoy expansion in December. Also on Tuesday, 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$2592.1 million to their families in Mexico during December. This would imply a 17.8% yoy expansion.

We believe that the significant expansion in the flow of remittances during December will be determined by the electoral outcome in the US, since Mexican migrants without citizenship are probably discounting a higher probability of being deported. In this context, we consider that the flow of remittances during the next couple of months will be also determined by this factor.

Banxico's survey of economic expectations. Also on Wednesday at 10:00am (EST), Banco de Mexico will publish its monthly survey of economic expectations. In our view, market participants' focus will be on three issues: (1) 2017 inflation expectations that currently are at 4.13% (Banorte-Ixe: 5.7%); (2) mid-term inflation expectations—quite important for the central bank's board—that are currently at 3.65% (Banorte-Ixe: 4%); (3) the analysts' assessments of GDP growth for 2017which stands at 1.7% yoy, above our 1.1% yoy forecast; and (4) FX forecast, which we believe will be revised towards our MXN/USD $23.5 estimate.

December's consumer confidence will stand at its lowest level in six years. On Friday at 9:00am (EST), Banxico and *INEGI* will publish its January's monthly survey on consumer confidence, where we expect a 12.9% yoy contraction, with the index reaching 80.6 points, its lowest level since February 2010. In seasonally adjusted terms, we expect confidence levels to fall 5.7% m/m.

We believe that the 5.7% m/m contraction in consumer confidence will be explained by the following factors: (1) Lower consumption and private investment, as a result of the uncertainty surrounding the impact Trump's economic policies on the Mexican economy; (2) the increase in gasoline prices, which resulted in several citizens protest around the country; and (3) higher inflation stemming from the significant depreciation of the Mexican currency.

We expect a 2.4% yoy expansion in November's GFI. Finally, on Friday at 9:00am (EST), *INEGI* will publish its November's gross fixed investment (GFI) report. We anticipate GFI up by 2.4% yoy. We believe that within the report we will probably see a 2.2% yoy increase in imported machinery and equipment, given that trade balance figures showed a similar growth for capital goods imports. Moreover, we expect a 9% growth in domestic machinery and equipment. Finally, we believe that construction spending increased a scant 1.1% yoy derived from the lower public construction spending observed in the latest industrial production figures.

GFI estimates: November 2016
% yoy; %-pts

%yoy	Nov-16	Nov-15	Jan-Nov, '16	Jan-Nov, '15
Total	2.4	-0.4	0.3	4.6
Machinery and equipment	4.4	5.4	1.1	8.8
Domestic	9.0	2.7	8.6	9.2
Imported	2.2	6.8	-2.3	8.6
Construction	1.1	-3.8	-0.2	2.0

Annual contribution	Nov-16	Nov-15	Difference
Total	2.4	-0.4	2.8
Machinery and equipment	1.7	2.0	-0.3
Domestic	1.1	0.3	0.8
Imported	0.6	1.7	-1.1
Construction	0.7	-2.4	3.0

Source: Banorte-Ixe

BANORTE IXE

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Economic Analysis			
Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Francisco José Flores Serrano	Economist, National	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Fixed income and FX Strategy			
Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Juan Carlos Alderete Macal, CFA	FX Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Equity Strategy			
Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates / Financials/ Mining / Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research Analyst – Airlines / Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Corporate Debt			
Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@banorte.com	(55) 1670 - 2248
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Corporate Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454