Ahead of the Curve

We estimate 4Q19 GDP to contract 0.2% q/q

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- **Gross domestic product (4Q19 P).** We anticipate a 0.6% y/y decline, while seasonally adjusted figures could show a 0.2% q/q contraction. This would be mainly explained by weakness in industry, at -2.0% y/y (-1.1% q/q), considering: (1) A series of shocks to manufacturing, especially in the auto sector; (2) the lack of dynamism in construction; and (3) some degree of deceleration in the US. In addition, we believe services will remain weak, falling 0.1% y/y (+0.1% q/q). After the release of November's IGAE earlier today, we adjusted slightly our forecast for 4Q19 GDP, which previously stood at -0.5% y/y. The latter also incorporates available information for December, which suggests activity was still modest

- **Trade balance (December).** We estimate a US$365.0 million surplus, adding two months in a row in positive territory. Total exports would improve marginally, to -0.9% y/y from -2.9% in November, while imports would recover more forcefully, towards 3.2% from -10.3%. We believe the latter will be positively influenced by base effects in several categories. The oil balance would show a slightly higher deficit relative to the previous month at -1,984.1 million, while the non-oil balance would fall marginally to +2,349.1 million. If our forecast materializes, the 2019 trade balance would stand at +US$3,117.0 million, its first surplus in seven years

Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 27-Jan	**7:00am**	**Retail sales**	November	%	1.9	0.4	0.4
		sa		%	1.6	0.8	-2.3
Tue 28-Jan	**7:00am**	**Trade balance**	December	US$ mn	365.0	2,500.0	790.4
		Total exports		% y/y	-0.9	--	-2.9
		Oil exports		% y/y	-8.7	--	-21.1
		Non-oil exports		% y/y	-0.4	--	-1.7
		Total imports		% y/y	3.2	--	-10.3
Tue 28-Jan	**10:00am**	**International reserves**	Jan-24	US$ mn	--	--	181.2
Tue 28-Jan	**12:30pm**	**Government weekly auction: 1-, 3-, 6-, 12-month CETES; 20y Mbono (Nov'38); 30y Udibono (Nov'50); 5y Bondes D**					
Thu 30-Jan	**7:00am**	**GDP**	4Q19 (P)	% y/y	-0.6	-0.5	-0.3
		sa		% q/q	-0.2	-0.1	0.0
		Primary activities		% y/y	0.7	--	5.4
		Industrial production		% y/y	-2.0	--	-1.4
		Services		% y/y	-0.1	--	0.1
Thu 30-Jan		**Budget balance**	December	MXN$ bn	--	--	-167.2
Fri 31-Jan	**10:00am**	**Comercial banking credit**	December	% y/y	3.1	--	2.8
		Consumption		% y/y	2.9	--	2.6
		Housing		% y/y	7.7	--	7.6
		Non-banking private firms		% y/y	1.6	--	1.3

Source: Banorte; Bloomberg

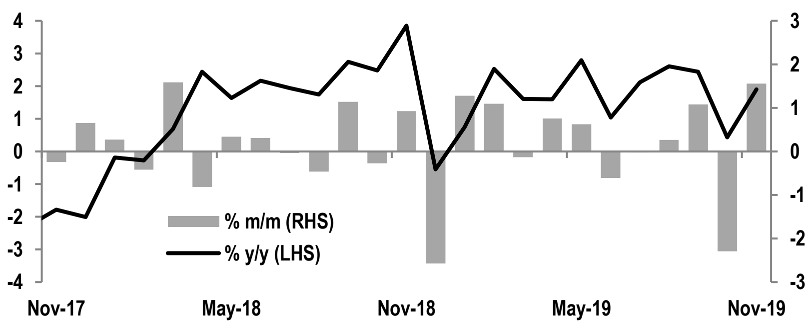
Proceeding in chronological order...

November's retail sales to recover slightly. We anticipate a 1.9% yoy advance, surpassing the 0.4% of the previous month. In this context, we estimate a 1.6% m/m surge in seasonally-adjusted terms, although only after the -2.3% observed in October. We should note that this component within November's IGAE posted a 0.2% y/y expansion (+0.5% m/m), leading us to believe that the month's performance should be relatively better sequentially. However, the spread between these indicators could be attributed at least partially to methodological differences, including that IGAE measures value added while this one measures total sales.

Overall signs look more positive than in October, with some evidence suggesting a favorable outcome from *El Buen Fin* (Mexico's version of Black Friday) as stated by some retailers' organizations and Profeco. This also looks backed by hard data, such as ANTAD and Walmart same-store sales increasing 2.6% and 3.8% y/y in real terms, respectively, both with their best annual growth since June 2018. Vehicle sales improved marginally, to -6.7% from -8.9% y/y. On the contrary, non-oil consumption goods imports fell 1.3% y/y, although only after two months higher. In this context, we believe businesses replenished their inventories in advance of November's increase in demand. In addition, the behavior of most consumption drivers remains positive, including formal job creation, the unemployment rate and real wages. Nevertheless, consumer confidence and remittances suggest the uptick could be modest.

We remain vigilant to validate whether dynamism in sales translates into higher private consumption, which according to latest data available could be improving. For 2020, we believe there could be an additional boost government spending aimed towards social spending, which, could lead to higher household consumption. Last but not least, it is our take the 20% minimum wage hike should also support families' incomes.

Retail sales
% yoy (nsa), % m/m (sa)



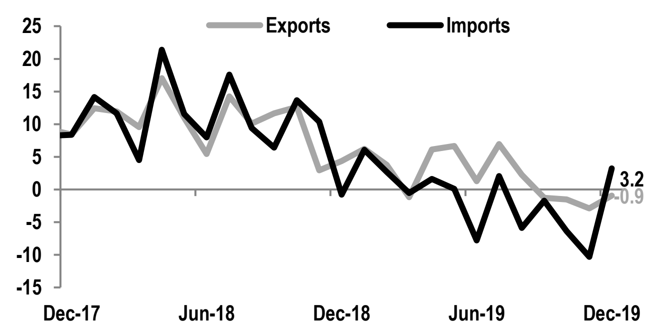
Source: INEGI, Banorte

Trade balance to end 2019 on a surplus. We estimate a US$365.0 million surplus, adding two positive months in sequence. Total exports would improve marginally, to -0.9% y/y from -2.9% in November, while imports would recover more forcefully, towards 3.2% from -10.3%. We believe the latter will be positively influenced by base effects in several categories.

The oil balance would show a slightly higher deficit relative to the previous month at -1,984.1 million, while the non-oil balance would fall marginally to +2,349.1 million. If our forecast materializes, the 2019 trade balance would stand at +US$3,117.0 million, the first yearly surplus in seven years. In oil, we estimate a significant recovery in exports albeit staying negative, at -8.7% from -21.1%. The Mexican oil mix picked up to 54.99 US$/bbl, with the annual comparison up to +8.2% from -15.3% in the previous month. Nevertheless, volumes were lower in the period. We also expect imports to rebound, with gasoline prices climbing but volumes also retracing slightly, resulting in total oil purchases at -1.4%.

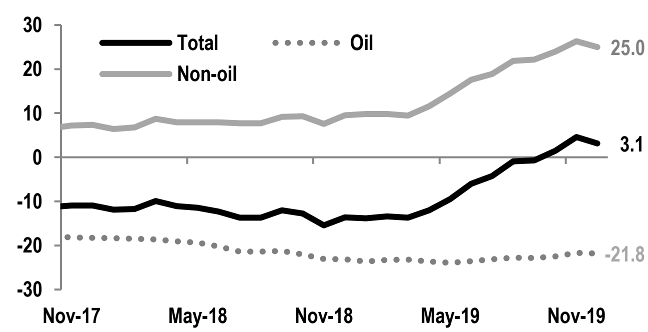
Going to non-oil, we forecast exports at -0.4%, above the -1.7% of the previous month. Overall weakness would remain tied to a great extent to autos, with AMIA exports down 16.7% y/y, its second worst print in the year and only behind October, which happened in the midst of the GM strike. This is further impacted by the -4.1% in the same sector within US IP. Regarding other manufacturing we expect a 1.1% expansion, coming after a 2.2% fall in the previous month. Nonetheless, the main driver would be one additional working day as manufacturing indicators in the US, such as the PMI and ISM indices, edged-down. In imports, intermediate goods would vastly improve at 4.1% from -8.8%, following the recovery in manufacturing exports. Capital goods would stop declining at a double-digit pace and consumption goods would show a better performance, with both categories somewhat helped by base effects.

Exports and Imports
% yoy



Source: INEGI, Banorte

Trade balance
US$ billion, 12-month rolling sum



Source: INEGI, Banorte

Weekly international reserves report. Last week, net international reserves increased US$77 million, closing at US$181.2 billion. According to Banxico's report, this comes from a positive valuation effect in central bank assets. In this context, the central bank's international reserves have increased US$333 million during 2020 (please refer to the following table).

Banxico's foreign reserve accumulation detail
US$, million

	2019	Jan 10, 2020	Jan 10, 2020	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	180,877	181,210	77	333
(B) Gross international reserve	183,028	188,651	4,590	5,623
Pemex	--	--	394	702
Federal government	--	--	4,093	4,684
Market operations	--	--	0	0
Other	--	--	103	237
(C) Short-term government's liabilities	2,151	7,440	4,512	5,290

Source: Banco de México

Weekly government bond auction. The Ministry of Finance (MoF) –via Banco de Mexico as its financial agent, will offer 20-year fixed-rate Mbonos (Nov'38), 30-year Udibonos (Nov'50), 5-year Bondes D, in addition to 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, January 28th, 2020)

	Maturity	Coupon rate, %	To be auctioned[1]	Previous yield[2]
Cetes				
1m	27-Feb-20	- -	5,000	7.05
3m	30-Apr-20	- -	6,000	7.11
6m	30-Jul-20	- -	10,500	7.08
12m	28-Jan-21	- -	13,500	7.18
Bondes D				
5y	19-Dec-24	- -	6,500	0.13
M Bono				
20y	18-Nov-38	8.50	3,000	7.11
Udibono				
30y	03-Nov-50	4.00	UDIS 600	3.44

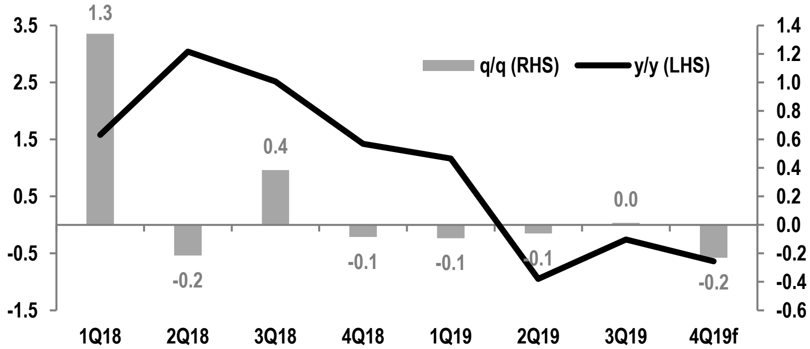
Source: Banorte with data from Banco de México 1. Except for Udibonos, which are expressed in UDI million, everything else is expressed in MXN million. 2. Yield-to-maturity reported for Cetes, Mbonos and Udibonos

Mexico's 4Q19 preliminary GDP still muted. We estimate a 0.6% decline in the annual comparison. Using seasonally adjusted figures, we expect a 0.2% q/q contraction. This result would be mainly explained by the weakness in industry at -2.0% y/y (-1.1% q/q), considering: (1) A series of shocks to manufacturing; (2) the lack of dynamism in construction; and (3) some degree of deceleration in the US. In addition, we believe services will remain weak, falling 0.1% y/y (+0.1% q/q). After the release of November's IGAE earlier today, we adjusted slightly our forecast for 4Q19 GDP, which previously stood at -0.5% y/y. The latter also incorporates that information regarding activity in December suggests that it was still modest.

On industry, mining became a positive driver for the sector since November, situation we expect will extend to December. In this context, the national oil output stood at 1,712kbpd, which represents a 0.2% y/y expansion and in positive territory for a second month in a row. In this sense, efforts to stabilize and increase production seem to be starting to pay off, probably accelerating its pace of growth at the start of 2020. On the negative side, manufacturing continues to be impacted by weakness in the auto sector, with figures from AMIA pointing to a 12.5% decline in production. The latter coupled with signals from weakness in US IP (at -1.1% y/y) and a lackluster improvement in IMEF's manufacturing PMI, suggest that activity in this sector will be limited in the month.

On services, data from retailers points to a sharp slowdown relative to November. Both ANTAD and Walmart same-store sales came at 0.8% and -0.2%, respectively, below the previous month's print. The latter, compounded with the 8.1% decline in auto sales, points to a bleaker outlook for the sector. In addition, there doesn't seem to be enough evidence for a significant pick-up in other important sectors such as transport (with manufacturing weak) and government services (with austerity measures still in play).

GDP
% yoy (nsa), % q/q (sa)



Source: INEGI, Banorte

MoF's public finance report (December). Attention will center on the public balance and PSBRs, with the latter accumulating an MXN$167.2bn deficit in the first eleven months of the year. It should be noted that the primary balance at the end of November stood at +MXN$303.2bn, better than the +MXN$148.4bn forecast. Focus will also be on revenues and spending, especially compared to the MoF's updated *2019 Macroeconomic Forecasts*. In this context and on a year-to-date basis, revenues have come in MXN$28bn above forecast (but only when accounting for revenues associated with the use of the Stabilization Fund), while expenditures have undershot the budget by MXN$149.8bn. Finally, we will also look at public debt, which as of November stood at MXN$10.8tn, equivalent to 43.3% of GDP (as measured by the HBPSBRs).

We expect banking credit to grow 3.1% yoy in December. It is our take that credit to the non-financial sector kept expanding during the month. We estimate a 3.1% yoy expansion in real terms, slightly higher than the 2.8% growth of the previous month. This would be driven by a 2.9% increase in consumer credit, coupled with a 7.7% and 1.6% expansion in mortgages and corporates, in the same order. Part of the acceleration would be explained by an additional boost from inflation, given that it stood at 2.83% in December, 14bps below November's print.

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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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