Ahead of the Curve

Expecting signs of a modest activity rebound in June

- **IMEF's PMIs (June).** We estimate a rebound in both indicators, benefitting from the gradual reopening of the economy. Nevertheless, they would stay below the 50pts threshold as the recovery has been modest, explained by the relatively slow pace in reinitiating activities given that epidemiological conditions have remained adverse. We expect the manufacturing PMI at 43.8pts, driven by higher dynamism in the US as well as the reopening of some auto plants in our country. The increase would be more moderate in the non-manufacturing indicator at 40.5pts, that while being supported by higher mobility and the restart of construction, would still be affected by social distancing measures
- **Family remittances (May).** We anticipate an inflow of US$2,902.9 million, implying an 11.6% y/y decline, which would be their steepest contraction since September 2012. Although the absolute amount would be similar to April, it should be reminded that May is typically the strongest month in the year, influenced by Mother's Day in Mexico and temporary job programs in the US. Nevertheless, we believe the yearly decline would be driven by the deterioration in employment conditions of Mexican migrants, particularly in among 'non-citizens', which we believe are most likely to send remittances

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Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*

STARMINE AWARDS FOR REUTERS POLLS FROM REFINITIV

Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Tue 30-Jun	**10:00am**	**Comercial banking credit**	May	% y/y	9.0	--	8.8
		Consumption		% y/y	-2.7	--	-1.9
		Housing		% y/y	7.2	--	7.3
		Non-banking private firms		% y/y	14.2	--	13.5
Tue 30-Jun	**10:00am**	**International reserves**	Jun-28	US$ bn	--	--	188.3
Tue 30-Jun	**3:30pm**	**Budget balance**	May	MXN bn	--	--	-104.6
Wed 1-Jul	**10:00am**	**Family remmittances**	May	US$ mn	2,903	--	2,861.4
Wed 1-Jul	**10:00am**	**Banxico's survey of economic expectations**	June				
Wed 1-Jul	**1:00pm**	**PMI's survey (IMEF)**	June				
		Manufacturing		index	43.8	--	39.2
		Non-manufacturing		index	40.5	--	38.0

Source: Banorte; Bloomberg

Proceeding in chronological order...

Banking credit to grow 9.0% y/y in May, still driven by corporates. This would be above the +8.8% observed in April. As already mentioned, this would be explained by the 14.2% expansion in credit to corporates, remembering that businesses have tapped their credit lines in the previous two months given increased liquidity needs. Meanwhile, mortgages would marginally decelerate, growing 7.2%. Finally, consumer credit would remain in negative territory at -2.7%, lowest since September 2010. It should be noted there is a negative effect from inflation, which came in at 2.84% y/y in May, 69bps above April's print.

Weekly international reserves report. Last week, net international reserves increased by US$171 million, closing at US$188.3 billion. According to Banxico's report, this was explained by: (1) Sales of US$200 million from the Federal Government to the central bank; and (2) a negative valuation effect in institutional assets of US$29 million. In this context, the central bank's international reserves have increased by US$7.4 billion during 2020 (please refer to the following table).

Banxico's foreign reserve accumulation details
US$, million

	2019	Jun 19, 2020	Jun 19, 2020	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	180,877	188,277	171	7,399
(B) Gross international reserve	183,028	196,939	-180	13,911
Pemex	--	--	0	2,624
Federal government	--	--	-117	7,005
Market operations	--	--	0	0
Other	--	--	-63	4,282
(C) Short-term government's liabilities	2,151	8,662	-351	6,512

Source: Banco de México

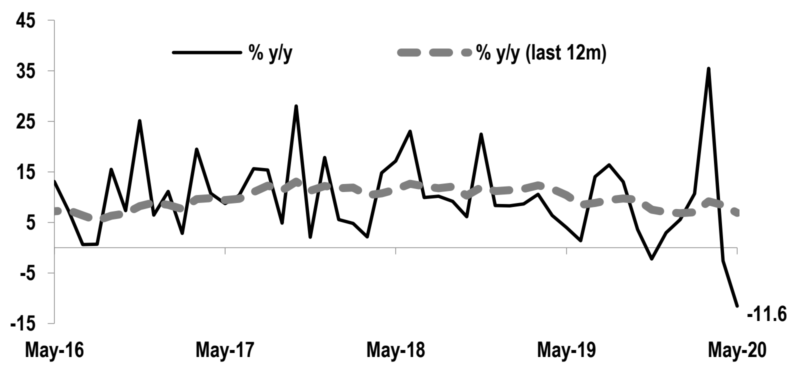
MoF's public finance report (May). Attention will center on Public Balance and Public Sector Borrowing Requirements (PSBR) –with the latter at -$104.6 billion in April– and comparing them to forecasts in the *2021 Preliminary Economic Policy Assumptions.* We will also be looking at the primary balance, as it will relay more data about the additional pace of spending on efforts to combat COVID-19, increasing sharply in the last few months. Regarding revenues and spending, we will also be watching performance in the annual comparison, particularly the former, as these could offer additional insights on economic activity. Finally, we will also analyze public debt, which as of April stood at MXN$12.1tn (as measured by the HBPSBRs).

Remittances to extend their decline in May. We expect remittances to fall 11.6% y/y to US$2,902.9 million, which would be their steepest contraction since September 2012. Although the absolute amount would be similar to April, it should be reminded that May is typically the strongest month in the year, influenced by Mother's Day in Mexico and temporary job programs in the US.

Regarding the latter, employment conditions have deteriorated strongly since March on the economic impact of the pandemic. We highlight that the unemployment rate for the Hispanic or Latino population in the US –according to the household survey conducted by the *Bureau of Labor Statistics*– stood at 17.6%, second highest in the historical series (dating back to 1973) and only below the previous month, when it reached 18.9%. Specifically, the total number of both direct and indirect Mexican migrants (included or not in the labor force) fell by 372,828 people in the period, extending the loss of 466,491 observed in April. As a result, this group's total population reached a total of 25.8 million, minimum since June 2018. This is consistent with some reports stating that some workers returned to Mexico due to the lack of job opportunities because of COVID-19. Although total employees –including 'natives', 'non-native citizens' and 'non-citizens' picked up sequentially, we note that the last group extended net losses. This is important as we think this subgroup is the most likely to send remittances. On the other hand, restrictions on border crossings by foot that started on March 21st remained in place.

We estimate that the contraction observed in the previous month will deepen, not only because of a more challenging base effect but as distancing measures were still effective. In our view, this reduced the possibility of migrants to send resources back to their families further, as they were already in a more difficult financial situation since April. In this context, June data will be key to gauge more precisely the potential effect of these dynamics in coming months, taking also into account that the gradual reopening of the US economy accelerated from this point forward.

Family remittances
% y/y



Source: Banxico

Banxico's survey of economic expectations. As usual, market participants will focus on inflation, growth, reference rate, and exchange rate forecasts. In the first, analysts expect 2020 year-end inflation at 3.07%, still below, but getting closer to our 3.20% estimate. Considering the latest inflation dynamics, we do not rule out some marginal revisions to the upside. Meanwhile, medium and long-term expectations could remain unchanged, still above target. On GDP, this year's estimate stands at -8.0% (Banorte: -9.8%). We expect some revisions, although with the possibility of an additional reduction in the range of estimates as more information regarding activity is known.

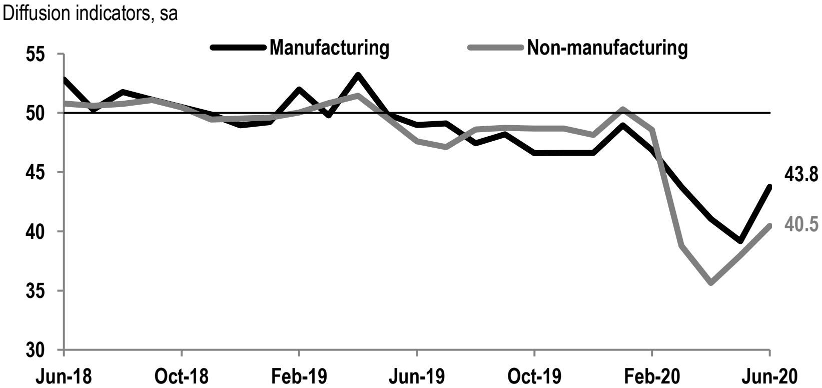
The current view on the reference rate by YE20 is 4.50%, which could remain unchanged considering the slightly less dovish tone from the central bank (Banorte: 4.00%). Finally, the year-end exchange rate stands at USD/MXN 23.02, which could also show marginal adjustments (Banorte: 22.00).

IMEF indicators to show a partial recovery in June. We estimate a rebound in both indicators, benefitting from the gradual reopening of the economy. Nevertheless, they would stay below the 50pts threshold as the recovery has been modest, explained by the relatively slow pace in reinitiating activities given that epidemiological conditions have remained adverse.

Specifically, the manufacturing indicator would increase to 43.3pts from 39.2pts. We should mention that last month's performance was consistent with hard data released so far (mainly the trade balance report). Nevertheless, we are more optimistic for this period on a more favorable performance in the US. *Markit*'s PMI manufacturing picked up from 39.8pts to 49.6pts, led by new orders and production, which we expect to be positive for Mexico. We highlight that the report mentions that new orders from clients in export markets rebounded strongly, in our view signaling the partial reestablishment of supply chains. Moreover, other regional indicators in that country support this trend. Another factor is that several auto plants restarted activities by the middle of the month, which is positive at the margin despite not doing so at full capacity. Lastly, we think the relative stability of the currency albeit at a weaker level when compared to pre-pandemic levels, could be modestly positive for the sector's competitiveness.

In non-manufacturing we expect a more modest increase, to 40.5pts from 38.0. In particular, mobility data from *Apple* and *Google* show that the recovery extended to this month. This seems also supported by comments from business chamber ONEXPO, which mentioned that fuel demand has improved at the margin despite staying depressed. Moreover, the designation of construction as essential –which is accounted for in this indicator– could also help. Nevertheless, the recovery would be limited as the 'traffic-light' system for states stayed in 'red' at least in half of them, with the latest showing 17 in 'orange' and 15 in 'red'. To the latter we add accumulated formal job losses since March and the normalization higher in prices of some goods during the 1H-Jun after recent discounts, which could have been a modest headwind for the speed of the recovery.

IMEF indicators
Diffusion indicators, sa



Source: IMEF

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