

Ahead of the Curve

June's retail sales to improve on the reopening of the economy

- Retail sales (June).** We anticipate a 16.6% y/y contraction, above the -23.7% of the previous month, accelerating on the back of the economic reopening which also induced higher mobility levels. We should also mention that the month had two additional working days relative to the same period a year ago, which in our view could be slightly positive. In seasonally adjusted terms, this would result in a 7.8% m/m rebound, a new historical high benefitted strongly by a very low base, hovering about 3% below its previous minimum. On a year-to-date basis, this figure would imply a 10.3% y/y contraction. Mostly all signals from related indicators suggest a better performance, including auto, gasoline and ANTAD sales, among others. Going forward, we reiterate our view of protracted weakness in retail sales even though it is likely that the valley in terms of dynamism has already passed away

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www.banorte.com
@analisis_fundam

Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.mactal@banorte.com

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

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



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Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Tue 18-Aug	10:00am	International reserves	Aug-14	US\$ bn	--	--	192.7
Thu 20-Aug	3:30pm	<i>Citibanamex</i> bi-weekly survey of expectations					
Fri 21-Aug	7:00am	Retail sales	June	% y/y	<u>-16.6</u>	-19.5	-23.7
		sa		% m/m	<u>7.8</u>	7.8	0.8

Source: Banorte; Bloomberg

Proceeding in chronological order...

Weekly international reserves report. Last week, net international reserves increased by US\$48 million, closing at US\$192.7 billion. According to Banxico’s report, this was mainly explained by a positive valuation effect in institutional assets. In this context, the central bank’s international reserves have increased by US\$11.8 billion so far in 2020 (please refer to the following table).

Banxico's foreign reserve accumulation details
US\$, million

	2019	Aug 7, 2020	Aug 7, 2020	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	180,877	192,654	48	11,777
(B) Gross international reserve	183,028	197,832	-61	14,805
Pemex	--	--	0	3,259
Federal government	--	--	-62	6,190
Market operations	--	--	0	0
Other	--	--	0	5,355
(C) Short-term government's liabilities	2,151	5,179	-109	3,028

Source: Banco de México

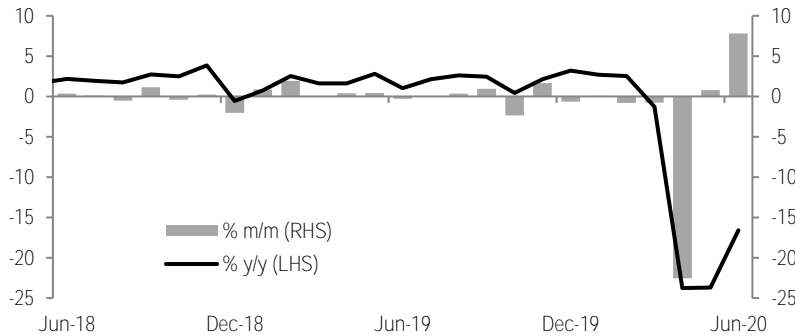
Retail sales to gather pace in June. We anticipate a 16.6% y/y contraction, stronger than the -23.7% of the previous month, accelerating on the back of the economic reopening which also induced higher mobility levels. We should also mention that the month had two additional working days relative to the same period a year ago, which in our view could be slightly positive. In seasonally adjusted terms, this would result in a 7.8% m/m rebound, a new historical high benefitted strongly by a very low base, hovering about 3% below its previous minimum. On a year-to-date basis, this figure would imply a 10.3% y/y contraction.

Almost all available data points to an improvement in economic dynamics in the period, despite still quite low figures in the annual comparison. Among them, AMIA’s auto sales picked up to -41.1% y/y from -59.0% in May, while ANTAD’s same-store sales declined 20.5% y/y in real terms vs -21.2%, respectively. We should mention that shopping malls remained closed in Mexico City until at least July 8th, which should still be a challenge for departmental and specialized stores at least until the next month. The differentiation in performance between essential and non-essential goods has stayed in place, a situation we expect to extend as consumers remain cautious. Gasoline sales and [non-oil consumption goods imports](#) were similar when compared to the previous month, improving to -26.1% and -31.2%, in the same order. Broadly speaking, fundamentals remain quite deteriorated, albeit less so than in the previous two months. Among them, we observed: (1) [A net positive job creation](#) despite a higher unemployment rate, led by the informal sector; and (2) [remittances staying strong](#) despite challenging labor dynamics in the US among Mexican migrants. On the contrary, [banking credit decelerated](#), especially with consumer credit declining 6.3% y/y in real terms. We believe the latter is driven by lower employment levels, but we do not rule out that it is also influenced by lower demand of durables goods.

Moreover, [inflation picked up](#), highlighting pressures in some components, as core goods –particularly processed foods, running at 6.6% y/y at the close of the month and extending towards 6.9% in July– and fresh fruits and vegetables (+11.0%) hit consumers’ purchasing power.

Going forward, we reiterate our view of protracted weakness in retail sales even though it is likely that the valley in terms of performance has already passed away. Our base case is that, despite still challenging contagion curve dynamics domestically, the government will not impose again measures as strict as those in April and May, which took a heavy toll on the economy. Despite of this, sales will probably keep contracting in annual terms, as fundamentals for consumption will take some time to heal and social restrictions remain, limiting businesses to operate at full capacity.

Retail sales
% y/y nsa, % m/m sa



Source: INEGI, Banorte

Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldivar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V. for the provision of our services.

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

Research and Strategy			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research and Financial Market Strategy			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Economic Research			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katía Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldivar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Juan Barbier Arizmendi	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746
Corporate Debt			
Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Economic Studies			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebaldos@banorte.com	(55) 5268 - 9996
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
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
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Oswaldo Brondo Menchaca	Head of Specialized Banking Services	oswaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	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 Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454