Ahead of the Curve

August's IMEF indicators to show a mixed performance between both sectors

August 28, 2020

www.banorte.com
@analisis_fundam

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

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

- **IMEF PMI indicators (August).** We expect a mixed performance, with the manufacturing sector continuing its upward trend (to 48.6pts from 48.1pts in July) but seeing somewhat of a retracement in services (declining 1.5pts relative to the previous month, to 45.5pts), which would be consistent with our view of external demand being the main driver behind the domestic recovery. Overall, we see more modest moves at the margin in both indicators, remaining also in contraction territory –below 50pts–, highlighting that the former has been there for a little over a year

- **Family remittances (July).** We expect remittances to increase 4.8% y/y to US$3,415.4 million, slowing down relative to the 11.1% observed in June. Despite of the latter, this would remain positive, reaffirming that inflows have stayed resilient despite more difficult US labor market conditions. In this sense, we believe diverse fiscal support measures in that country, particularly higher unemployment benefits, have helped explain recent remittances dynamics. With these, remittances inflows would accumulate almost US$22.5 billion year-to-date, up 9.6% y/y

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

STARMINE AWARDS FOR REUTERS POLLS FROM REFINITIV

Document for distribution among the general public

Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 31-Aug	10:00am	Comercial banking credit	July	% y/y in real terms	2.7	--	3.0
		Consumption		% y/y in real terms	-6.6	--	-6.3
		Housing		% y/y in real terms	5.0	--	5.5
		Non-banking private firms		% y/y in real terms	5.8	--	6.0
Tue 1-Sep	10:00am	Family remmittances	Jul	US$ mn	3,415.4	3,344.0	3,537.0
Tue 1-Sep	10:00am	Banxico's survey of economic expectations	Aug				
Tue 1-Sep	10:00am	International reserves	Aug-28	US$ bn	--	--	193.1
Tue 1-Sep	1:00pm	IMEF's PMIs	Aug				
		Manufacturing		index	48.6	--	48.1
		Non-manufacturing		index	45.5	--	47.0
Tue 1-Sep		Presidential address and sessions in Congress restart					

Source: Banorte; Bloomberg

Proceeding in chronological order...

Banking credit to grow 2.7% y/y in July, once again driven by corporates. This would be below the +3.0% observed in June. As already mentioned, this would be explained by the 5.8%, which although decelerating relative to the four previous months, would still remain relatively high due to increased financing needs related to the pandemic. Meanwhile, mortgages would grow 5.0%, extending recent weakness. Finally, consumer credit would remain in negative territory at -6.6%, lowest since July 2010. It should be noted there is a negative effect from inflation, which came in at 3.62% y/y in July, 29bps above June's print.

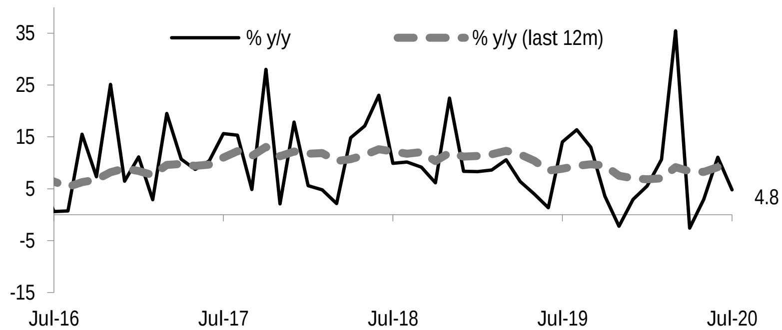
Remittances to keep going in July. We expect remittances to increase 4.8% y/y to US$3,415.4 million, slowing down relative to the 11.1% observed in June. Despite of the latter, this would remain positive, reaffirming that inflows have stayed resilient despite more difficult conditions in the US labor market. In this sense, we believe diverse fiscal support measures in that country, particularly higher unemployment benefits, have helped explain recent remittances dynamics. Thus, we should mention that the $600-a-week payment that households received as part of the CARES Act expired at the end of July. In our view, more difficulties going forward are likely if a new program is not announced soon, exacerbated by new restrictions in some states as COVID-19 cases escalated. This, despite migrants' extraordinary efforts to keep sending money to their families, which have been a very pleasant surprise.

Specifically, the unemployment rate among Hispanics and Latinos in the US improved to 12.9% from 14.5% in June. Nevertheless, other labor market indicators paint a less positive picture. Among them, the participation rate backtracked gains accumulated in the previous two months, standing at 64.6%. Working-age Mexican immigrants –including 'natives', 'non-native citizens', and 'non-citizens' (legal or illegal)–, either in the labor force or not, declined by 193,636 after recent gains. Among those in the labor force, only 'non-citizens' saw continued job gains in the month. This is favorable as we believe this group tends to send more resources back. Nonetheless, total employees declined around 153,000. Since the end of February, employees in these three categories have fallen about 2.3 million. Apart from this, it is our take that savings have likely been exhausted given the duration of the pandemic.

On immigration, the administration maintains a very hard stance, with mixed news recently. Among them and on the positive side, in mid-June the Supreme Court blocked a bid by Trump to end DACA, which protects so-called "Dreamers" from deportation, mostly comprised of young Hispanic adults with close to 700,000 enrolled. Nevertheless, a new set of more stringent rules has started to be implemented, despite the risk of being in violation of court orders. On the contrary, by the end of said month the Court ruled that deportations of people seeking asylum can be made (under certain conditions) without allowing them to make their case in front of a judge beforehand. Although the situation remains very fluid and legal challenges can be presented, the overall tone of the current administration has very likely maintained elevated fears among immigrants about potential deportations.

With these, remittances inflows would accumulate almost US$22.5 billion year-to-date, up 9.6% y/y. For now, we maintain our forecast for full-year 2020 at around US$36 billion. However, risks remain to the upside, as mentioned recently. In this respect, we believe it will be key to observe July's print, but also August at least, with the latter very important as it could potentially show the full effect of weaker labor conditions given lower fiscal support due to the *impasse* in the US Congress to approve more resources.

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 3.61%, still below our 3.7% estimate. Considering latest inflation dynamics, we do not rule out some marginal revisions to the upside, albeit being more moderate to previous revisions. Meanwhile, medium and long-term expectations could remain unchanged, still above target. On GDP, this year's estimate stands at -9.9% (Banorte: -9.8%). In this sense, and given signs of a slightly better than expected recovery, we could see some stability in the forecast. The current view on the reference rate by YE20 is 4.50%, which considering recent dynamics in more timely surveys, could actually be revised down, incorporating additional cuts (Banorte: 4.25%). Finally, the year-end exchange rate stands at USD/MXN 22.56, which could also show marginal adjustments (Banorte: 22.00).

Weekly international reserves report. Last week, net international reserves increased by US$599 million, closing at US$193.1 billion. According to Banxico's report, this was mainly explained by: (1) US$600 million sales from Pemex to the central bank; and (2) a negative valuation effect of US$1 million in institutional assets. In this context, the central bank's international reserves have increased by US$12.3 billion so far in 2020 (please refer to the following table).

Banxico's foreign reserve accumulation details
US$, million

	2019	Aug 21, 2020	Aug 21, 2020	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	180,877	193,130	599	12,253
(B) Gross international reserve	183,028	198,376	972	15,348
Pemex	--	--	650	4,029
Federal government	--	--	-154	6,015
Market operations	--	--	0	0
Other	--	--	477	5,305
(C) Short-term government's liabilities	2,151	5,246	373	3,095

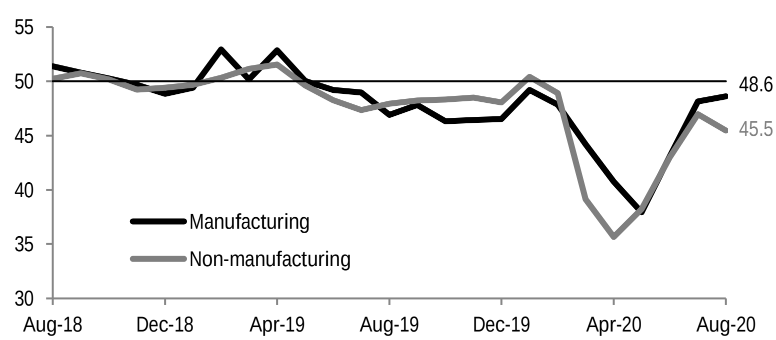
Source: Banco de México

IMEF indicators likely mixed in August. We estimate the manufacturing sector to keep increasing, albeit with somewhat of a retracement in the non-manufacturing indicator, which would be consistent with our view of external demand being the main driver behind the domestic recovery. Overall, we see more modest moves at the margin in both indicators, remaining also in contraction territory –below 50pts–, highlighting that the former has been there for little over a year.

We estimate manufacturing to increase by 0.5pts relative to July, to 48.6pts. If this were the case, the sector would have improved for a fourth consecutive month. The main support for this uptick is likely the strong performance of the sector in the US, with Markit's PMI for the same month reaching 54.7pts, highest since February 2019. Specifically, the report showed steep gains in both production and new orders, including exports, with manufacturers saying that the reopening of economies worldwide helped boost them although with some concerns remaining about the outlook ahead due to the pandemic. Despite this increase, we see a more moderate effect in Mexico's production subcomponent, mainly as July's trade balance showed a stronger performance in exports relative to non-oil intermediate imports –mostly comprised of inputs for the sector–, which suggests an important inventory drawdown. We continue seeing the external sector driving the domestic recovery, albeit with risks increasing given the current *impasse* in the US Congress to approve new fiscal stimulus measures (Mexico's main trading partner).

On the other hand, we see the non-manufacturing indicator reversing some of the strong gain observed in July, down 1.5pts in the month to 45.5pts. We see the highest impact in both new orders and production, which showed outsized gains in the previous month, in our view mainly supported by a further relaxation of social distancing measures (*e.g.* reopening of shopping malls in Mexico City and the State of Mexico at the start of the period). Other relatively positive developments in this respect included the reopening of cinemas, bars and nightclubs –with some restrictions in the latter two, as they can do it only if are reclassified as restaurants– in mid-August. Despite of the latter, it is our take that the sector remains fundamentally limited by domestic demand conditions, which have deteriorated in recent months considering that the contagion curve has not improved meaningfully yet.

IMEF indicators
Diffusion indicators, sa



Source: IMEF

Presidential Address and restart of sessions in Congress. Next Tuesday, September 1st, President López Obrador will present its second annual Presidential Address –similar to the *State of the Union* in the US–. It should be noted that the summer break from Congress also ends this day, with both chambers resuming their sessions. In addition, the following days we will be looking into the release of the 2021 Budget –which comprises the General Economic Policy Criteria, the Revenue Law and the Spending Budget–, remembering that the deadline for its submission is September 8th.

Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, 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.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., *through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.*

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

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 Godinez	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
Katia 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 Zaldívar	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.ceballos@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
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.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.roldan.ferrer@banorte.com	(55) 5004 - 1454