Ahead of the Curve

Data could suggest a slowdown of the recovery in late 3Q20

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- **Trade balance (August).** We estimate a US$2,685.0 million surplus, lower than the historical high of +US$5,798.7 million in July, but still positive. Total trade would continue recovering, albeit at a slower pace, consistent with other signals of a moderation in activity for the month. Total exports would come at -10.0%, decelerating slightly, while imports would improve to -15.9%. In oil, we estimate a US$1,340.4 million deficit, widening relative to the previous month. This would be benefitted by higher oil prices induced by hurricane Laura at the end of the month, impacting production in the US Gulf Coast, but with lower volumes. The non-oil balance is estimated with a US$4,025.4 million surplus. As mentioned when July data was released, results in this category suggested an important inventory drawdown, which we expect to partially reverse. We believe consumption and intermediate goods imports would be most benefited from the latter, while capital goods would remain very muted. Exports would slow down, particularly in the auto sector after recent sizable gains

- **IMEF's PMIs (September).** We expect both indicators to improve after retracing in August. Nevertheless, performance would be mixed, with the manufacturing sector leading gains on external demand strength. Non-manufacturing would be more limited, with a more challenging domestic backdrop. Moreover, both would remain in contraction territory –below 50pts–, still consistent with weak economic activity. In particular, we expect the manufacturing indicator to climb 2.9pts relative to August, to 48.0pts. Meanwhile, non-manufacturing would stand at 46.9pts, only 0.9pts higher than in the previous month.

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Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 28-Sep	7:00am	Trade balance	August	US$ mn	2,685.0	4,050.0	5,798.7
		Total exports		% y/y	-10.0	--	-8.9
		Total imports		% y/y	-15.9	--	-26.1
Tue 29-Sep	10:00am	International reserves	Sep-25	US$ bn	--	--	193.8
Wed 30-Sep	10:00am	Comercial banking credit	August	% y/y in real terms	0.2	--	1.1
		Consumption		% y/y in real terms	-10.5	--	-8.9
		Housing		% y/y in real terms	4.9	--	5.2
		Non-banking private firms		% y/y in real terms	3.2	--	4.0
Wed 30-Sep	3:30pm	Budget balance (measured with PSBR)	August	MX$ bn	--	--	-495.8
Thu 1-Oct	10:00am	Family remmittances	August	US$ mn	3,508.2	3,508.2	3,531.9
Thu 1-Oct	10:00am	Banxico's survey of expectations	September				
Thu 1-Oct	1:00pm	PMI's survey (IMEF)	September				
		Manufacturing		indicator	48.0		45.0
		Non-manufacturing		indicator	46.9		46.1

Source: Banorte; Bloomberg

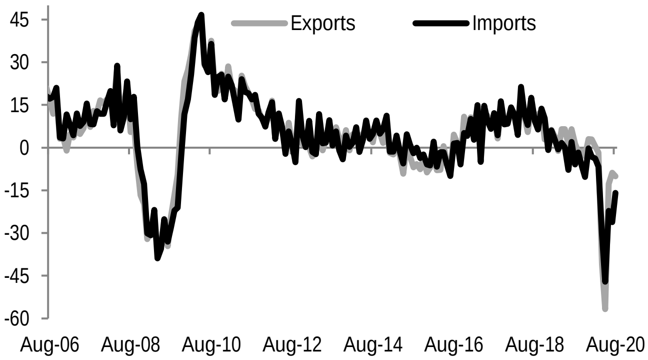
Proceeding in chronological order…

Trade balance to stay in surplus in August, moderating relative to recent months. We estimate a US$2,685.0 million surplus, lower than the historical high of +US$5,798.7 million in July, but still positive. Total trade (exports + imports) would continue recovering, albeit at a slower pace, consistent with other signals of a moderation in activity for the month. The latter would come in at US$69.4 billion, 12.9% lower than in August 2019, but better than the -17.6% of the previous month. Total exports would come at -10.0%, decelerating slightly, while imports would improve to -15.9%.

In oil, we estimate a US$1,340.4 million deficit, widening relative to the previous month and closer to levels seen before the pandemic. On exports, the price of the Mexican oil mix averaged 40.31 US$/bbl, extending the recovery both in sequential and annual terms, going from -36.4% y/y in July to -19.7%. This adjustment was mainly due to price increases induced by hurricane Laura at the end of the month, impacting production in the US Gulf Coast. However, available data suggests an additional moderation in shipped volumes. Considering this, we see total oil exports at -21.5% y/y with crude-oil at -22.3%, up significantly relative to July. Imports would fall 25.8%, aided by the recovery in prices –driven by the factors outlined above– but also with signals of a rebound in volumes. Consumption goods would come in at -24.7%, significantly above the -49.9% of the previous month, consistent also with a slight increase in mobility indicators. Intermediate imports would also be slightly stronger relative to July, at -26.5%.

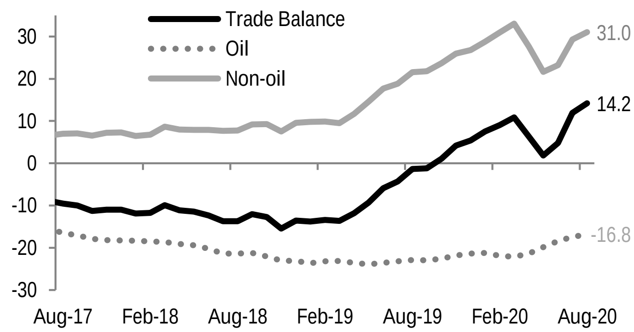
The non-oil balance is estimated at US$4,025.4 million surplus. As we mentioned when July data was released, results in this category suggested there was an important inventory drawdown, which we expect to partially reverse. In this sense, this figure stood at US$6,668.4 million in said month, a new historical high. We estimate exports at -9.7% y/y and imports at -14.8%. In manufacturing, we see a 9.7% drop, particularly on a slowdown in autos (-12.8%) after recent and sizable gains, with a relevant signal also coming from AMIA figures which were lower relative to July. This was also confirmed by the auto sector within US industrial production, which moderated to 0.3% from 2.7% previously. On other manufacturing, we note the US ISM kept climbing, including additional gains in the 'imports' component, which suggest some resiliency. Nevertheless, and given that some stimulus measures expired in the US, we fade somewhat this signal, expecting a 7.9% decline. We believe agricultural goods will remain negative (-6.6%) likely affected also by hurricanes (apart from Laura in August, Hanna at the end of July that pressured local prices of these goods). Going to imports, we see both consumption (-23.7%) and intermediate goods (-13.6%) as most benefitted from the drawdown mentioned above, particularly the latter as they are closely related to manufacturing supply chains. Nevertheless, they are still very low as we continue seeing muted dynamism in domestic demand. Lastly, capital goods should remain subdued on high uncertainty and low investment appetite despite a slightly stronger MXN, expected to continue falling at a double-digit pace (-15.1%) and similar to its recent performance, albeit with a much easier base effect since June.

Exports and Imports
% y/y nsa



Source: INEGI, Banorte

Trade balance
US$ billion, 12-month rolling sum



Source: INEGI, Banorte

Weekly international reserves report. Last week, net international reserves increased by US$480 million, closing at US$193.8 billion. According to Banxico's report, this was explained by: (1) US$400 million sales from Pemex to the central bank; and (2) a positive valuation effect in institutional assets of US$80 million. The central bank's international reserves have increased US$12.9 billion so far in 2020 (please refer to the following table).

Banxico's foreign reserve accumulation details
US$, million

	2019	Sep 18, 2020	Sep 18, 2020	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	180,877	193,796	480	12,919
(B) Gross international reserve	183,028	199,766	796	16,739
Pemex	--	--	-50	4,379
Federal government	--	--	828	6,832
Market operations	--	--	0	0
Other	--	--	19	5,527
(C) Short-term government's liabilities	2,151	5,970	316	3,820

Source: Banco de México

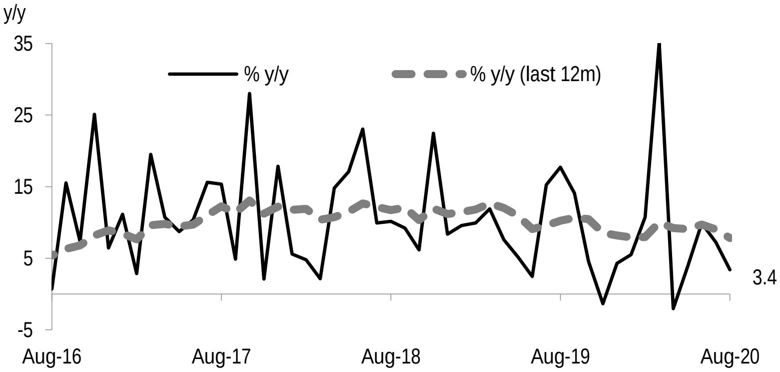
Banking credit to barely grow 0.2% y/y in August, with weakness in consumer loans. This would be below the +1.1% in July and explained by a 10.5% decline in consumer loans, sector highly impacted by shifting purchasing patterns and employment losses because of the pandemic. Meanwhile, mortgages would grow 4.9%, decelerating again but relatively resilient. Finally, corporate credit would come in at 3.2%, continuing its downward trend after the strong pick-up in the midst of the lockdown. It should be noted there is a negative effect from inflation, which came in at 4.05% y/y in August, 43bps above July's print.

MoF's public finance report (August). Attention will center on the Public Balance and Public Sector Borrowing Requirements (PSBR) –with the latter at -$495.8 billion in July– and comparing them to forecasts updated in the *2021 Budget Proposal*. We will also look to revenues and spending, particularly in the annual comparison. The former could offer additional insights on economic activity, while the latter will give further light on spending in key sectors, considering austerity efforts coupled with higher spending to combat COVID-19 and its effects on the economy. Finally, we will also analyze public debt, which as of July stood at MXN$12.0tn (as measured by the Historical Balance of the PSBR).

Remittances will keep climbing in August, albeit at a slower pace. We expect remittances to increase 3.4% y/y to US$3,508.2 million, slowing down relative to the 7.2% previously. The figure would still be favorable, particularly in a complex environment in the US labor market. It is our take that a considerable part of the deceleration would come on the end of the additional US$600 weekly payment as part of expanded unemployment benefits under the CARES act. Although President Trump signed a temporary extension of US$300 a week on August 8th, its implementation was rocky, with some of the first states receiving resources only by the mid and even latter part of the month. According to press reports, the first states to hand-out resources were Arizona, Louisiana, Missouri, Tennessee and Texas, with the latter being key considering the number of migrants in the state. Considering the shortcomings of the program, we believe this will be the main driver behind the slowdown, taking into account that for many migrants this income was even higher than the one received while they were employed. On the contrary, employment indicators have improved. The unemployment rate among Hispanics and Latinos in the US decreased to 10.5% from 12.9% in July. In addition, working-age Mexican immigrants –including 'natives', 'non-native citizens', and 'non-citizens' (legal or illegal)–, either in the labor force or not, increased by 489,547 people, nearing pre-pandemic levels. Employment improved for these three groups, advancing 668,307 in the month, with gains focused on 'natives' and 'non-citizens'. This is favorable as we believe this latter group tends to send more resources back. With these results, employment for the combined three groups remains 1.7 million positions lower than in February, still suggesting a complicated situation. On immigration, reports stated that two thirds of U.S. Citizenship and Immigration Services personnel were furloughed, impacting the processing speed of requests. This could directly impact the emission of visas and work permits, with unfavorable consequences for the entrance of new migrants to the labor market. On a separate note, the Mexican peso kept appreciating, from an average of USD/MXN 22.40 in July to 22.21. Given the modest change, we believe the effect will be limited this time around.

If our forecast materializes, remittances would stand at US$26.3 billion year-to-date, up 9.1% y/y. Although we maintain our forecast for full-year 2020 at around US$36 billion, August will be key to consider a revision, gauging dynamics but also the impact of lower fiscal stimulus. We will remain vigilant to a possible new agreement in the US Congress, although the probability of occurring before the election is looking slim.

Family remittances
% y/y



Source: Banxico

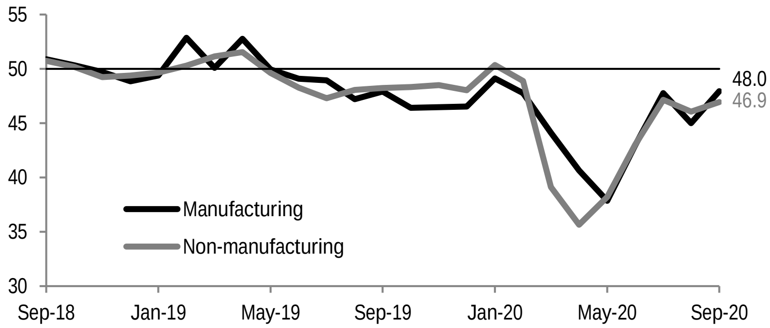
Banxico's survey of economic expectations. As usual, market participants will focus on inflation, growth, reference rate, and exchange rate forecasts. In the first, analysts expect 2020 year-end inflation at 3.82%, above our 3.7%. Although forecasts could extend further up, we believe it would be more moderate relative to past 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%). Given signs of an extension in the recovery, we could see some stability in the forecast. The current view on the reference rate by YE20 is 4.25%, in line with the current level. After Thursday's decision, we believe that the median forecast will remain unchanged. Finally, the year-end exchange rate stands at USD/MXN 22.60, which could be revised slightly down (Banorte: 22.00).

IMEF indicators to rebound in September. We expect both indicators to improve after retracing in August. Nevertheless, performance would be mixed, with the manufacturing sector leading gains on external demand strength. Non-manufacturing would be more limited, with a more challenging backdrop on a domestic level. Moreover, both would remain in contraction territory –below 50pts–, still consistent with weak economic activity.

We estimate manufacturing to increase 2.9pts relative to August, to 48.0pts, albeit only 0.2pts stronger than in July. As has been in previous months, we believe the main support comes from higher dynamism in the US, with *Markit*'s PMI for the same month reaching 53.5pts, highest since early 2019. This report showed a relevant increase in 'production', with 'new orders' also improving. This should bode relatively well not only for our country this month, but also in October. However, we will also look to the possible effects of reduced fiscal stimulus in the US, which might have been one of the drivers behind the bump in the road observed in August. Recent exchange rate depreciation (since September 18th) might also benefit the index, especially considering that the survey is answered in the last days of the month. Overall, we believe signals for this sector continue to be positive, reaffirming our belief that the recovery will continue to be driven by external demand, having an especially favorable impact on manufacturing.

On the other hand, we see the non-manufacturing indicator up only 0.9pts to 46.9pts. On the positive side we highlight epidemiological conditions, with both new cases and the share of positive tests declining in the last few weeks. Signals from the labor market suggest that the recovery is underway, with the August report from IMSS finally showing gains since the pandemic started. Unfortunately, this has not fully translated into significant mobility gains. This is consistent with a slowdown in the reopening of additional activities, with a high number of locations already enabled in these 'new normal' conditions. Finally, and contrary to manufacturing, the depreciation of the FX might have a negative impact on an increased perception of challenges for the economy. These results would support our view that domestic demand will remain limited, with uncertainty over the virus weighing heavily and for a prolonged period on both consumption and investment.

IMEF indicators
Diffusion indicators, sa



Source: IMEF

Analyst Certification

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