Ahead of the Curve

We anticipate additional signals of weak economic activity in 4Q20

- **IMEF indicators (November).** We expect a mixed performance, with the manufacturing sector erasing some gains, while non-manufacturing would climb back. Nevertheless, both would be in contraction territory. We estimate manufacturing at 48.6pts, below October's 50.1pts. This would be mainly explained by a negative impact from domestic factors, despite greater dynamism in the US. In contrast, the non-manufacturing could stand at 48.4pts, stronger than last month's 47.7pts, but still consistent with some prevailing weakness in the sector. We expect performance to be supported by *El Buen Fin*, which this year was extended from November 9th to 20th, with some businesses even pushing it to the 22nd

- **Family remittances (October).** We expect remittances to increase 20.4% y/y to US$3,797.6 million, above the +15.1% seen in September and its largest expansion since March, when the pandemic hit. The main driver would be an additional improvement in employment conditions in the US. Specifically, the unemployment rate among Hispanics and Latinos stood at 8.8%, 1.5%-pts below September. Another factor that may have driven performance in the month is the uncertainty related to the Presidential Election in the US. If our forecast materializes, remittances would stand at US$33.8 billion year-to-date, up 11.1% y/y. We think this would represent a slight upward risk for our whole-year estimate of US$39 billion

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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
Mon 30-Nov	8:00am	Unveiling of a new public-private infrastructure plan					
Mon 30-Nov	10:00am	Banking credit	October	% y/y in real terms	-1.7	--	-1.6
		Consumption		% y/y in real terms	-10.2	--	-10.0
		Mortgages		% y/y in real terms	4.7	--	4.6
		Corporates		% y/y in real terms	-0.1	--	0.0
Mon 30-Nov	3:30pm	Budget balance (measured with the PSBRs)	October	MX$ bn	--	--	-542.1
Tue 1-Dec	10:00am	Family remittances	October	US$ mn	3,797.6	--	3,568.5
Tue 1-Dec	10:00am	Banxico's survey of economic expectations	November				
Tue 1-Dec	10:00am	International reserves	Nov-27	US$ bn	--	--	194.4
Tue 1-Dec	1:00pm	PMI's survey (IMEF)	November				
		Manufacturing		index	48.6	--	50.1
		Non-manufacturing		index	48.4	--	47.7
Fri 4-Dec	7:00am	Consumer confidence (sa)	November	index	39.5	--	37.6

Source: Banorte; Bloomberg

Proceeding in chronological order…

Banking credit to keep declining in October, albeit more modestly. We expect a 1.7% y/y contraction in real terms, just below the -1.6% in September. Overall, we have started to see some signals of bottoming-out; nevertheless, we expect some additional weakness. Performance would be mostly explained by a 10.2% decline in consumer credit, but also by the 0.1% decrease in corporate loans. The first has been highly impacted by the deterioration in fundamentals, mainly employment, but also from relevant changes in consumption patterns. In the latter, the trend has been downwards after strong increases during the lockdown months, suggesting that businesses' strategies have shifted as the pandemic has extended. Finally, we expect mortgages slightly stronger at +4.7%, benefited by the specific characteristics of this type of loans. The effect from inflation would be marginal, given that it stood at 4.09% y/y in October, 7bps above the previous month's print.

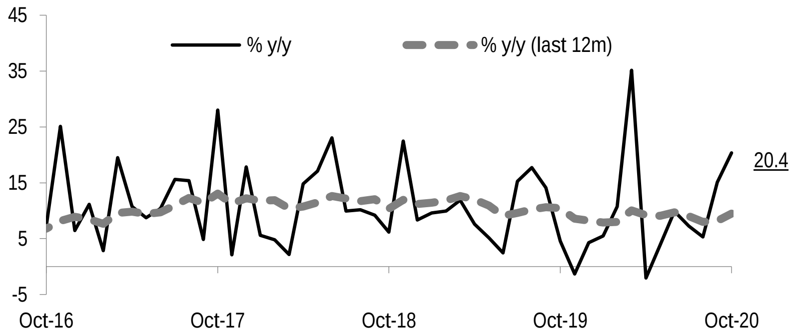
MoF's public finance report (October). Attention will center on the Public Balance and Public Sector Borrowing Requirements (PSBR) –the latter at -$542.1 billion in September– to compare them with updated forecasts in the last quarterly report. We will also look at revenues and spending, particularly the annual comparison. The former could offer additional insights on activity, while the latter will give further light on spending in key sectors, considering austerity efforts coupled with higher spending to combat COVID-19. We will also analyze public debt, which as of September stood at MXN$12.2tn (as measured by the Historical Balance of the PSBR).

Remittances to remain on high gear in October. We expect remittances to increase 20.4% y/y to US$3,797.6 million, above the +15.1% seen in September and its largest expansion since March, when the pandemic hit. The main driver would be an additional improvement in employment conditions in the US. Specifically, the unemployment rate among Hispanics and Latinos stood at 8.8%, 1.5%-pts below September. Among working-age Mexican migrants, population rose by 174.3 thousand, with a net job creation of 546.2 thousand –including 'natives', 'non-native citizens', and 'non-citizens' (legal or illegal)–. Gains were centered in the first (+427.8 thousand) and third groups (+201.6 thousand), with a slight decrease in the second (-83.1 thousand). In our opinion this remains favorable, considering that that 'non-citizens' are likely to be the cohort that sends more remittances, given their likelihood of stronger ties back to their families in our country.

Another factor that may have driven performance was the Presidential Election in the US. Despite polls suggesting a more comfortable win from Joe Biden, maybe migrants could have felt a greater possibility of a Trump win, thus deciding to send more resources back to their families. On the contrary, they may have been somewhat dissuaded by the slight appreciation of the Mexican peso against the US dollar, from USD/MXN 21.68 to 21.27. Nevertheless, and as mentioned in previous occasions, we believe that, in the current backdrop, this factor is not as relevant in their decision-making process.

In relevant news during the month, the Supreme Court announced that they will deliberate on two migration cases. The first, about the program that has forced migrants to wait in Mexico for attention from authorities, the second, regarding resources to build the wall. Considering that they will not be considered until later, they probably will not influence sentiment much. If our forecast materializes, remittances would stand at US$33.8 billion year-to-date, up 11.1% y/y. This would represent a slight upward risk for our whole-year estimate, at US$39 billion.

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 3.95%, considerably above our 3.7%. Nevertheless, after the result in the last fortnight, we do not rule out adjustments to the downside. Meanwhile, medium and long-term expectations will likely remain unchanged, still above target. On GDP, this year's estimate stands at -9.3% (Banorte: -9.0%). Considering recent analyst revisions, as well as from the central bank, we do not rule an additional upward adjustment. The current view on the reference rate by YE20 is 4.25%, in line with its current level, although discounting a 25bps cut to 4.00% in 2021. Finally, the year-end exchange rate estimate stands at USD/MXN 21.69, with a slight depreciation in 2021 towards USD/MXN 22.00.

Weekly international reserves report. Last week, net international reserves increased by US$19 million, closing at US$194.4 billion. According to Banxico's report, this was explained by: (1) A positive valuation effect in institutional assets of US$188 million; and (2) the payment of US$169 million corresponding to the annual commission from the Flexible Credit Line to the IMF. The central bank's international reserves have expanded by US$13.5 billion so far in 2020 (please refer to the following table).

Banxico's foreign reserve accumulation details
US$, million

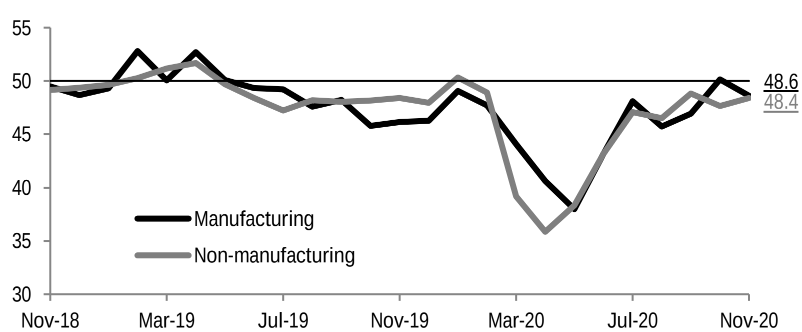
	2019	Nov 20, 2020	Nov 20, 2020	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	180,877	194,380	19	13,503
(B) Gross international reserve	183,028	199,307	884	16,279
Pemex	--	--	548	5,697
Federal government	--	--	-76	5,093
Market operations	--	--	0	0
Other	--	--	411	5,489
(C) Short-term government's liabilities	2,151	4,927	865	2,777

Source: Banco de México

IMEF indicators mixed in November. We expect the indicators to show a contrary performance relative to the previous month, with manufacturing erasing some gains, and non-manufacturing climbing back. Nevertheless, both would be in contraction territory. We estimate manufacturing at 48.6pts, below October's 50.1pts. Domestic factors were mostly negative, considering a deterioration in epidemiological conditions across the country. In this sense, we identified two states in 'red' according to the 'traffic-light' indicator: Chihuahua and Durango. We should note that the former is a key manufacturing hub, supporting part of our expectations. Another relevant factor to the downside was the extension of railway blockades in Michoacán, impacting both imports and exports out of the *Lázaro Cárdenas* port. In contrast, signals from the US continue to be positive, with *Markit's* PMI for November climbing to 56.7pts. In the report, producers signaled a large expansion in output, driven by better demand conditions. This is especially relevant as we identify some notable challenges, including: (1) The lack of new fiscal stimulus, which will probably have to wait until the new administration takes office; and (2) an uptick in COVID-19 cases, resulting in the implementation of stricter measures. Despite of this continued optimism, we believe domestic factors will outweigh external ones, driving the decline. Nevertheless, and as we go forward, we expect strength from external demand to keep boosting the manufacturing sector.

In contrast, the non-manufacturing indicator could stand at 48.4pts, better than the 47.7pts from last month, but still consistent with some prevailing weakness. Performance will likely be supported by *El Buen Fin*, which this year was extended from November 9th to 20th, with some businesses even pushing it to the 22nd. According to Mexico City's chapter of the *National Chamber of Commerce, Services and Tourism* (CANACO, in Spanish), sales from the program rose 4.3% y/y (in nominal terms). Nevertheless, given the extended period, this figure could be biased to the upside. Another positive factor could be large job gains in October, with 1.9 million new positions. Looking ahead, we remain somewhat weary over dynamism, considering the imposition of stricter social distancing in Mexico City and other states in the last week of October. While this will probably not have a significant effect this time around, it could set-up a weak start in December.

IMEF indicators
Diffusion indicators, sa



Source: IMEF

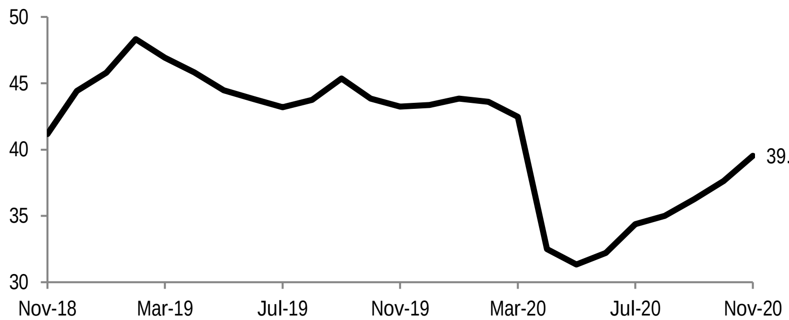
Consumer confidence to keep pushing higher in November. We expect confidence at 39.5pts (seasonally adjusted), stronger than 37.6pts previously and adding six consecutive months to the upside. Although developments during the period were mixed, we believe the positives outweighed the negatives. If we are right, the indicator would have recovered more than 25% from its May low and stand around 4.0pts below its level in February, before the pandemic.

On the positive side, we highlight several developments. In our view, the most important is the potential impact that news of successful trials of several vaccines –which occurred throughout the month– could have on expectations components, particularly as they could reduce uncertainty. Although their widespread deployment will not be immediate or even soon, optimism about the end of the pandemic could help sentiment. Second, results of the US election, in which Joe Biden was declared the winner against president Trump on November 7th (despite not being official yet) is potentially a positive driver. Even if this did not have a great direct impact, the MXN appreciated in the aftermath (also due to other factors, apart from this), averaging 20.54 per dollar up to November 20th –even breaking the 20.00 psychological level– from 21.37 in October. We should recall the currency is commonly associated with the state of the economy. The purchasing power component will probably show additional gains. Specifically, two factors may have been particularly helpful: (1) The extension of the discounts period of "*El Buen Fin*" (Mexico's Black Friday), which started on November 9th all through the end of the survey period; and (2) Additional price declines as seen in inflation for the 1H-November, highlight fresh fruits and vegetables and gasolines. Lastly, the president's net approval rating, which had been highly correlated with this metric before COVID-19, increased again in the month to 29% according to the site *Oraculus.*

On the contrary, there were also some negative news, although we believe these may have a more important effect by December. Among them, the most important was the uptick in new COVID-19 cases across the country, with ICU beds available declining and higher positivity rates, among others. Mobility indicators have declined modestly, a couple of states have been in red according to the traffic light indicator, and new restrictions have been announced in Mexico City and the State of Mexico. Nevertheless, the latter started since the 23rd, after the survey period for the month. Lastly, we believe the economy may have shown mixed signals as far as performance in the month, with the first set of data being IMEF indicators next week.

Given this backdrop, we continue thinking that the full recovery of confidence will take time. Also, we do not rule out setbacks in the short term, due to: (1) Worse epidemiological conditions; (2) Our view that the economy is losing steam after its recent advance; and (3) a more difficult base effect on accumulated gains since the reopening started in June. Despite of the latter, dynamics have been more favorable than expected, which bodes well for the outlook even with still elevated uncertainty going into next year.

Consumer confidence
Pts, seasonally adjusted



Source: Banorte with data from INEGI

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.

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