Ahead of the Curve

Data will likely suggest that the economic recovery continued in May and June

June 25, 2021

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

- **Trade balance (May).** We estimate a US$1,277.5 million surplus, slightly below the +US$1,500.6 million of the previous month. In annual terms all categories would post a sizable expansion, with total exports and imports at 134.6% and 91.0%, respectively. It should be recalled that these remain very distorted from last year's lockdowns, with May 2020 exhibiting the steepest contractions. Nevertheless, we could also see an acceleration in sequential terms. We expect a US$1,380.5 million deficit in the oil balance, widening slightly as prices kept climbing. The non-oil balance would come in at a US$2,568.0 million surplus, with good results in manufacturing despite the sector's challenges, particularly in autos. Broadly speaking, we believe results will signal that the recovery extended further during the period
- **IMEF indicators (June).** We expect both gauges to backtrack some of the sizable gains seen in the previous month. Nevertheless, they should remain firmly in expansion (above the 50pts threshold), consistent with our call of stronger overall growth in the second quarter, helped by strong fiscal stimulus in the US and a wider reopening of the economy as epidemiological conditions kept improving through most of the period. Specifically, we estimate the manufacturing indicator at 51.8pts (previous: 52.3pts) and the non-manufacturing at 53.3pts (previous: 53.6pts)

Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 28-Jun	7:00am	Trade balance	May	US$ mn	1,277.5	1,442.4	1,500.6
		Exports		% y/y	134.6	--	75.6
		Imports		% y/y	91.0	--	48.4
Tue 29-Jun	10:00am	International reserves	Jun-25	US$ bn	--	--	192.8
Wed 30-Jun	10:00am	Comercial banking credit	May	% y/y in real terms	-10.4	--	-14.6
		Consumption		% y/y in real terms	-8.8	--	-12.0
		Mortgages		% y/y in real terms	3.5	--	2.5
		Corporates		% y/y in real terms	-14.0	--	-19.8
Wed 30-Jun		Budget balance (measured with PSBR)	May	MX$ bn	--	--	-219.4
Thu 1-Jul	10:00am	Family remmittances	May	US$ mn	4,522.8	4,120.8	4,047.6
Thu 1-Jul	10:00am	Banxico's survey of economic expectations	June				
Thu 1-Jul	1:00pm	PMI's survey (IMEF)	June				
		Manufacturing		index	51.8	--	52.3
		Non-manufacturing		index	53.3	--	53.6

Source: Banorte; Bloomberg

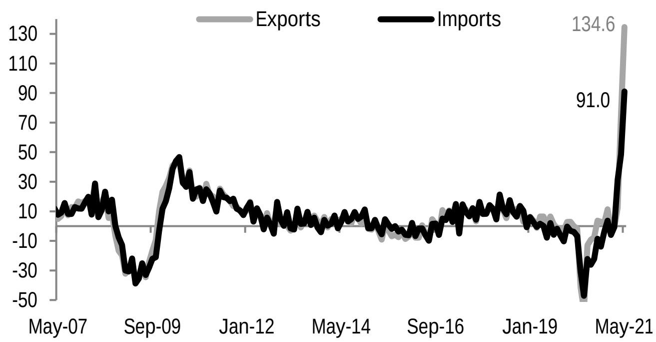
Proceeding in chronological order…

May's trade balance to stay in surplus. We estimate a US$1,277.5 million surplus, slightly below the +US$1,500.6 million of the previous month. Annual figures remain highly distorted from last year's lockdowns, with May 2020 exhibiting the steepest contractions as a result. Hence, all categories would post a sizable expansion, with total exports and imports at 134.6% and 91.0%, respectively. In sequential terms we could see an acceleration, with a possible rebound in some key categories after declines in April.

By sectors, we expect a US$1,380.5 million deficit in the oil balance, widening slightly as prices kept climbing. In particular, the Mexican oil mix averaged 62.55 US$/bbl from 59.44 in the previous month. However, the annual rate would moderate to +159.7% from +378.2%, remembering that in April 2020 we even saw negative oil prices briefly, recovering in May. Meanwhile, data also suggests an uptick in volumes. With the price effect dominating, exports would come in at 128.7% y/y. Turning to imports, reference prices exhibited a similar trend, sequentially higher albeit moderating in annual terms. Moreover, we could see higher volumes, especially in gasoline, as activity keeps recovering. In this context, Pemex CEO, Octavio Romero, stated recently that around 61% of all of Mexico's gasoline consumption is imported, expecting the *Deer Park* refinery purchase in Texas to help reduce this. However, and echoing INEGI's President, Julio Santaella's comments, inflows from this refinery will still be accounted for as imports. All in all, oil imports would rise 154.7%.

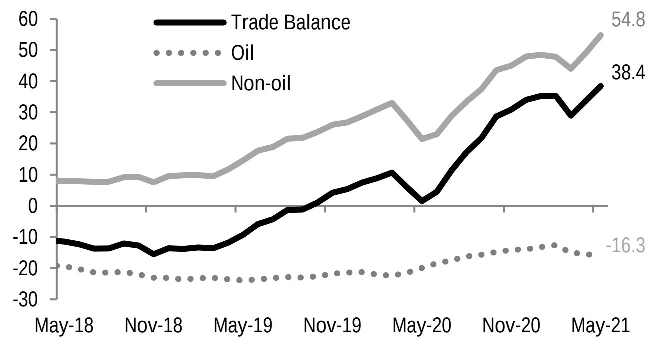
The non-oil balance would come in at a US$2,568.0 million surplus. Exports would expand 134.9%, with imports at 86.6%, remembering that the former were hit the hardest last year. Agricultural exports would rise 8.9%, with declining volumes –due to the drought, both in Mexico and the US– offset by higher prices. Non-oil mining would spike to 69.8% on a positive base effect. More importantly, manufacturing would climb a whopping 149.1%. Within, autos would soar (893%) as activity grinded to a halt in 2020, despite mounting problems on the lack of semiconductors and other key inputs. In this sense, additional automakers implemented technical stoppages, including Ford and Nissan. However, AMIA figures and from the US suggest a sequential pickup. On 'others', we expect positive pass-through from US strength, especially after a modest decline in April. On inflows, the recovery in capital goods could continue (+41.2%) as the MXN appreciated and overall business confidence recovered further. Consumption goods (+73.3%) could benefit on higher economic dynamism, with a possible boost from *Hot Sale* discounts. Lastly, intermediate goods would be stronger at 94.6%, improving further as manufacturing gains steam. However, considering rising input prices, we could also be seeing an acceleration due to this.

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 decreased by US$640 million, closing at US$192.8 billion (please refer to the following table). According to Banxico's report, this was explained by: (1) US$175 million in sales to the Federal Government; and (2) a negative valuation effect in institutional assets of US$465 million. So far this year, the central bank's international reserves have declined by US$2.8 billion.

Banxico's foreign reserve accumulation details
US$, million

	2020	Jun 18, 2021	Jun 18, 2021	Year-to-date
	Balance		Lows	
International reserves (B)-(C)	195,667	192,827	-640	-2,840
(B) Gross international reserve	199,056	198,999	-594	-58
Pemex	--	--	0	449
Federal government	--	--	-862	-417
Market operations	--	--	0	0
Other	--	--	268	-90
(C) Short-term government's liabilities	3,389	6,172	47	2,783

Source: Banco de México

Banking credit to start rebounding in May on base effects. While overall performance would continue to be dictated by the pandemic and its effects on activity and sentiment, arithmetic effects will start to drive figures higher. In particular, corporate loans reached a cycle high in April 2020 on businesses accessing available credit lines given mounting uncertainty. However, once they realized lockdowns were going to be more extended and they managed their most pressing liquidity needs, said resources were returned. Hence, this led to a decline starting in May. As such, the base becomes less challenging. In addition, the effect from annual inflation is also positive, decreasing 19bps to 5.89%. In addition, we expect a slight uptick in dynamism as activity gathers momentum, as shown in April's consumer loans. Therefore, we expect total banking credit to have declined 10.4% y/y in real terms, above the -14.6% of the previous month. In the breakdown, all three sectors would be higher at the margin, with mortgages being the only in positive territory (3.5%) and improvements in both consumer (-8.8%) and corporate loans (-14.0%).

MoF's public finance report (Jan-May). Attention will center on the Public Balance and Public Sector Borrowing Requirements (PSBR) in the first five months of the year. Specifically, we will be looking to its performance relative to the latest estimates outlined in the Preliminary Budget Criteria.

We note that until April, the PSBR deficit amounted to $219.4 billion. We will also pay attention to revenue and spending dynamics in the annual comparison, looking for clues about activity levels and possible adjustments to expenditures. Lastly, we will analyze public debt, at MXN$12.3tn (as measured by the Historical Balance of the PSBR) as of April.

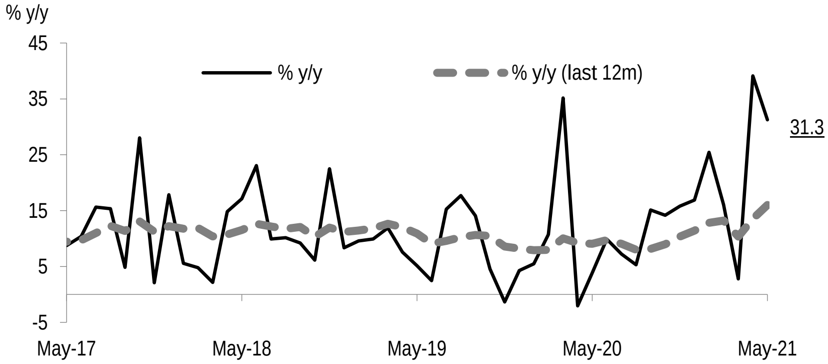
Remittances to reach a new historical high again in May. We expect remittances at US$4,522.8 million, a new historical high and adding three months in a row above US$4,000 million. The annual comparison would remain high at 31.3%, close to the 39.1% of the previous month despite a more challenging base. We should recall that this is the highest month historically as a result of a strong seasonal effect, with migrants boosting the amount sent abroad because of the *Mother's Day* holiday. Moreover, we continue to believe that economic and labor market dynamism in the US, along accumulated stimulus measures, remain as the main drivers behind the strength in remittances.

Employment conditions in the US kept on giving positive news. The unemployment rate among Hispanics and Latinos decreased to 7.3%, 60bps lower than in April. Working-age Mexican migrants fell a second month in row (-36.5 thousand), also likely due to seasonal patterns. In this backdrop, we saw a net job creation of 105.9 thousand positions –including 'natives', 'non-native citizens', and 'non-citizens' (legal or illegal). These were centered in the first (45.2 thousand) and second groups (71.7 thousand), with the third loosing 10.9 thousand positions. Also positive, the total unemployed persons declined by 158.0 thousand. Considering this, we believe that labor market gains remain on a positive path and a key favorable driver for remittances ahead.

On migration, US Vice President, Kamala Harris, held a call with Mexican President Andres Manuel López Obrador, in which they pledged cooperation on this front as detentions at the border have skyrocketed. This call was prepared ahead of Harris' visit to our country in early June. Overall, we believe information from these events reaffirm the more cooperative tone adopted by the Biden administration on this issue, helping reduce uncertainty among illegal immigrants already in the US. The Mexican peso appreciated, averaging USD/MXN 19.96 from 20.02 in April, which may have had a marginally negative effect on flows.

We reiterate our call that remittances will maintain brisk growth in 2021, with risks skewed to the upside as the US economy rebounds faster than expected. We will heed closely dynamics in coming months, as distortions from base effects and seasonal skews fade, to assess more clearly the most likely path for inflows during the rest of 2021.

Family remittances



Source: Banxico

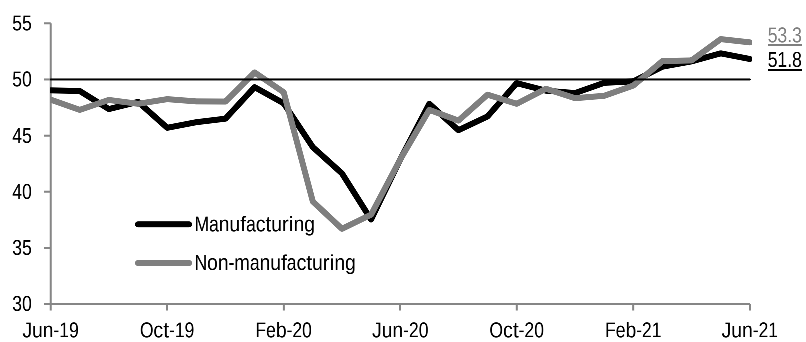
Banxico's survey of economic expectations. As usual, market participants will focus on inflation, growth, reference rate, and exchange rate forecasts. In the first, analysts expect 2021 year-end inflation at 5.0% y/y, closing in on our 5.5% forecast. Based on the latest data, we do not rule out further upward adjustments. Medium and long-term expectations will likely remain unchanged, still above target. On GDP, this year's estimate stands at 5.2%, lower than our 5.9%, and also with good chances of being adjusted higher after the latest activity prints. The current view on the reference rate by YE21 is that it will reach 4.00%, which we believe will have to change after the 25bps surprise hike in the June 24th decision. Finally, the year-end exchange rate stands at USD/MXN 20.50 (Banorte: 20.20), not ruling out changes given the recent increase.

IMEF indicators to retrace some sizably recent gains in June, albeit staying in expansion. We expect both gauges to backtrack some of the sizable gains seen in the previous month. Nevertheless, they would remain firmly in expansion (above the 50pts threshold), consistent with our call of stronger overall growth of activity in the second quarter, helped by strong fiscal stimulus in the US and a wider reopening of the economy as epidemiological conditions kept improving most of the period.

We estimate the manufacturing indicator at 51.8pts from 52.3pts previously. In this respect, we note that *Markit's* PMI manufacturing in the US inched higher in the period, to 62.6pts –a new series high– from 62.1pts in May. Nevertheless, the details showed that 'production' and 'new orders' fell at the margin, with reports that supply issues and challenges to fill new vacancies had not been resolved yet. Furthermore, these were judged as worse rather than better. In this sense, higher input costs and delivery times were likely behind most of the increase. Recent reports for Mexico suggest local companies have been more skittish about adjusting prices. Hence, we believe those two components will also correct the most, with some payback also considering what happened in the US and that they stand at new highs in little more than three years. Locally, railway blockades in the state of Michoacán were reported again by the middle of the month, affecting the shipment of goods from the Lazaro Cardenas port, albeit reportedly lifted by the 17th. More importantly, VW announced new stoppages for the period in their three production segments.

Non-manufacturing would also show a modest downtick, to 53.3pts from 53.6pts. We mostly see this moderation in the pace of growth as natural, resulting from a more difficult base effect. Nevertheless, we also point some signals consistent with the latter. First, net employment gains in May decelerated at the margin despite a strong fall of the unemployment rate. We also saw a decline in the labor force, suggesting that some sectors are still struggling with resuming operations because of the pandemic. On the other hand, sentiment may have been affected by the collapse of Mexico's subway overpass despite happening in early May. New COVID-19 cases have observed a slight increase in recent days, while Mexico City was downgraded to 'yellow' in the traffic light indicator on June 21st. In our view, this may have had a negative effect at the margin. Lastly, we expect some impact from inflation, with prices surprising higher in the first half of the month, particularly at the core. Despite of this, we believe the domestic recovery likely extended further.

IMEF indicators
Diffusion indicators, sa



Source: IMEF, Banorte

Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, 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.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

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
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, CFA	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746
Corporate Debt			
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