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FX & RATES STRATEGY RESEARCH

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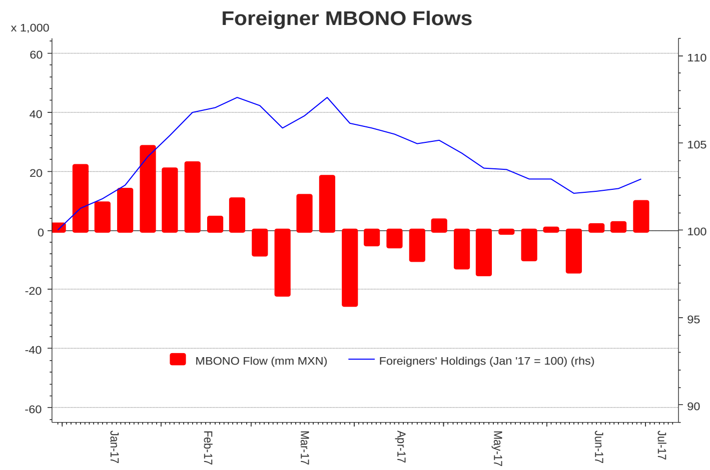
- **MEXICO: Slightly better IP data; Foreigners buy MBONOs post Banxico**

MEXICO: Slightly better IP data; Foreigners buy MBONOs post Banxico

- INEGI reported that industrial production in May 2017 increased 0.1% m/m SA compared to April. In May, manufacturers registered a 0.3% m/m fall after the 0.6% m/m increase in April.
- Mining production grew by 0.2% monthly, construction increased by 2.1% monthly and electricity, gas and water increased by 0.5% monthly.
- On a y/y basis, in May industrial production registered an increase of 0.1%. Mining (including oil) fell 8.3% annually, construction increased 0.2% annually and electricity, gas and water decreased 1.9% annually. On the contrary, manufacturing production shows a significant recovery with growth of 3.4% per year.
- The non-seasonally adjusted annual results were better than expected, with the consensus of analysts participating in the Bloomberg survey anticipating annual increases in industrial and manufacturing production of 0.3% and 4.5%, respectively, while data reported by INEGI reported growth of 1.0% and 5.0% y/y. We estimated 0.6% y/y for total production and 4.5% y/y for the manufacturing industry.
- In other news, foreigners bought 9.5bln MXN of MBONOs in the week ended June 30th, in the biggest inflow since March, as foreign investors entered the market after Banxico's June 22nd policy meeting in which they signaled a possible end to their hiking cycle. The inflow came after a broad selling bias had been present in the market, with foreigners selling around 38bln in MBONOs throughout the month of May and flat inflows in the month of June, after taking into account the last week's flow.

Foreigner inflows into MBONOs



Source: Banxico.

LATAM ECONOMICS

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Retail Sales: Maintaining the (Slow) Recovery Route

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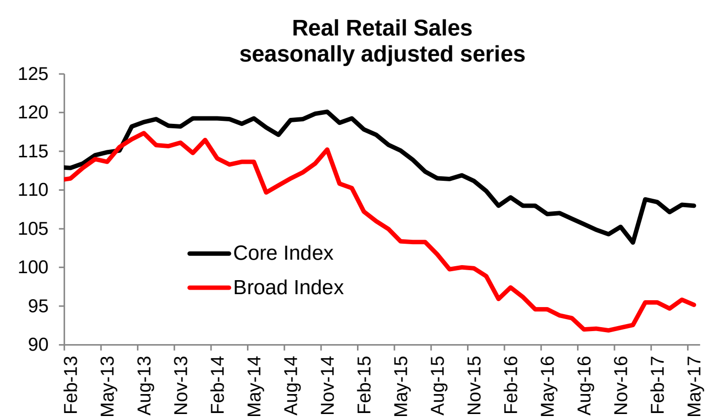
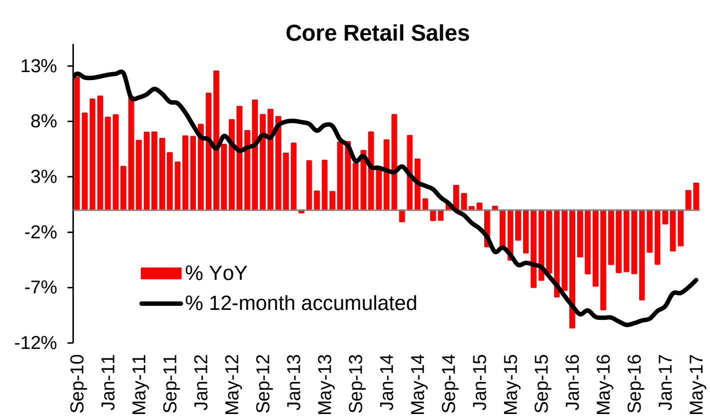
According to the Monthly Survey of Retail published yesterday, core retail sales inched down 0.1% m/m in May, below our forecast and market consensus (both +0.4% m/m). Despite this, May retail sales did not change our expectation of a gradual recovery in Brazilian domestic demand. It is worth noting that the retail sector had registered a significant increase in April, so we should take the (slightly) negative variation published today with a grain of salt. Looking at year-over-year terms (please see the table below), retail sales unveiled the best result since May 2014.

As we have emphasized, the widespread fall in inflation and the easing monetary policy have been favorably influencing household financial conditions (higher real wages and lower income burden with debt service), leading the prospects for private consumption back into positive territory. Moreover, we highlight the impact related to the withdrawals from the FGTS (Workers' Severance Fund) inactive accounts. (For more information, please see our reports "Understated Consumption Drivers", June 12, 2017; and "Can FGTS Funds Boost the Economy in 2017?", January 31, 2017). Therefore, while acknowledging the uncertainties surrounding the political environment and the high levels of unemployment, we believe that household consumption will continue to gradually trend upward in the coming months.

The latest round of retail numbers does not change our forecast that GDP growth will be around zero in 2Q17 (our current projection is -0.1% QoQ), following the sharp increase of 1.0% QoQ recorded in 1Q17.



Source: Monthly Survey of Retail (IBGE)



Source: Monthly Survey of Retail (IBGE)

Real Retail Sales - May 2017			
Segment	**% Change**		
	MoM*	**YoY**	**12-month accum.**
Fuels and lubricants	0.6	-0.8	-12.8
Supermarkets, food, beverage and tobacco	1.4	0.0	-2.0
Textiles, clothing and footwear	-7.8	5.1	-4.3
Furniture and appliances	1.2	13.7	-4.7
Pharmaceutical, medical, orthopedic and perfumery articles	0.9	3.8	-3.0
Books, newspapers, magazines and stationery	-4.5	-1.0	-10.5
Equipment and supplies for office, computers and communication	-2.8	8.8	-7.6
Other items for personal and domestic use	-0.1	2.6	-5.2
Retail Sales - Core Index	**-0.1**	**2.4**	**-3.6**
Vehicles, motorcycles, auto parts and accessories	1.2	4.6	-11.2
Building material	1.9	9.3	-3.6
Retail Sales - Broad Index	**-0.7**	**4.5**	**-5.1**

Source: IBGE

* seasonally adjusted series

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