

Fixed Income & Economics Daily

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FX & RATES STRATEGY RESEARCH

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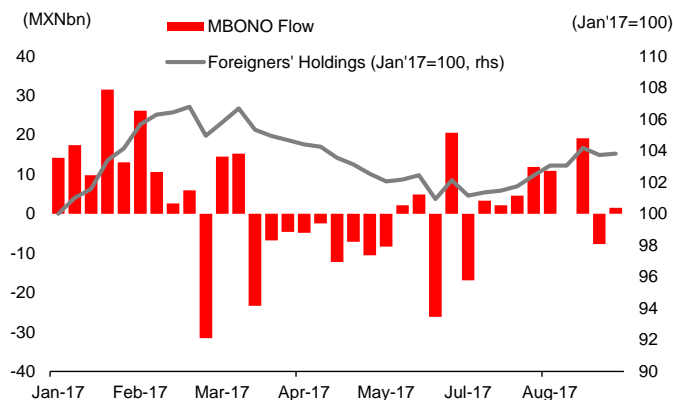
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• MEXICO: Inflows to MBONOs continue in September

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- During the first week of September 1-7, 2017 Non-Resident holdings of MBONOs increased by 1.5bn MXN, partially offsetting the 7.7bn MXN decrease reported the previous week. Most of the inflows were concentrated in the middle and long-end of the curve.
- Foreigners hold 63% of outstanding MBONOs, up decisively from the 59% held prior to the US election but down from the peak holdings of 66% seen at the beginning of February.
- Non-Residents continue to decrease their exposure to CETEs. During the first week of September 2017, foreigners sold 7.4bn MXN worth of CETES, decreasing their market share to 24.4% from 25.6%.
- Finally, holdings of UDIBONOS increased by approximately 2.1bn MXN, with Non-Residents holding 5.8% of the amount outstanding.
- Year-to-date, Non-Resident holdings have increased 1.2bn MXN, on the back of the 80.2n MXN increase in MBONOS and 14.5bn MXN and 64.5bn MXN decline in UDIBONOS and CETES, respectively.

Foreigners' MBONO Flows



Source: Banxico, Santander.

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LATAM ECONOMICS

ARGENTINA

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Primary Deficit Reached ARS24.6 Billion in August

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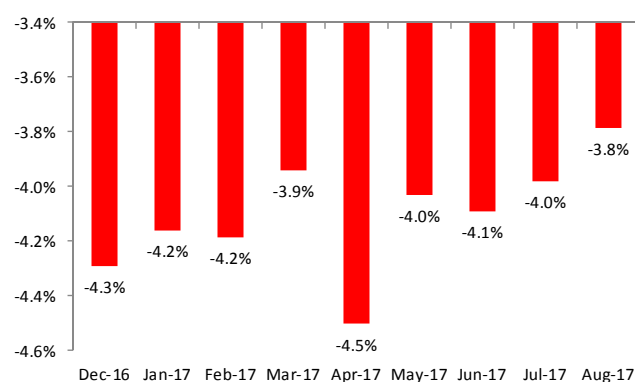
The federal government published the fiscal accounts for August, which showed a primary deficit of ARS24.651 million. The deficit declined 30.4% y/y compared to the same month of 2016, representing a 44% fall in real terms. This drop was explained by the acceleration of the inflation-adjusted public revenue growth, which reached 5.2% annually last month, up from 2.4% y/y to July, coupled with the expenditures deceleration to 17.4% y/y (-5.3% y/y in real terms). The growth gap between income and expenditures was the highest in the last 30 months.

On the revenue side, in a context of economic growth improvement, VAT, income tax, and credit and debit tax collection expanded by 4%, 7% and 8% in real terms annually during August. In the case of expenditures, public wages decelerated in nominal terms (to 18% y/y from 32% year to July) and a slowdown in capital expenditures (+2% y/y from 35.4% y/y to July). On the other hand, economic subsidies (the key target to adjust public expenditures) plummeted 30% annually in August.

With these numbers, in the first eight months of 2017, revenue and expenditures expanded by 31.3% and 28.2% y/y, respectively, reaching a primary deficit of 2% of the GDP.

Taking into account that 40% of the primary deficit is typically accounted for during the 4Q (with expenditures increasing seasonally in October-December), we expect that the government will accomplish its primary deficit target of 4.2% of GDP this year. In fact, we think that it has a comfortable position to meet this target, given that we are currently estimating that the deficit could be up to ARS31 bn lower than previously thought. That is, the government could have leeway to increase expenditures by that amount, and nevertheless be able to comply with the 4.2% of GDP threshold.

Government would reach its 2017 primary target



Federal government primary deficit, as % of the GDP.

Sources: Economy Ministry and Santander



CEE ECONOMICS

POLAND

ECONOMICS

August Acceleration of Economic Activity

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Industrial output growth accelerated to 8.8% y/y from 6.2% y/y, and, this time, this figure was not distorted by the number of working days. After seasonal adjustment, output rose 8.1% y/y vs 6.7% in July, which is the highest since December 2011. Output in manufacturing rose at a solid pace of 8.6% y/y despite the high base effect, which reinforces the impression that this was not just a one-off.

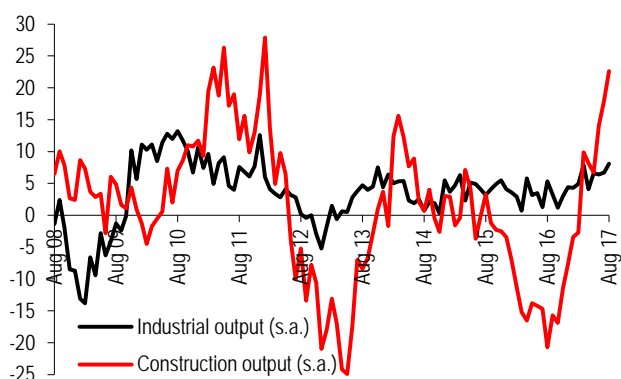
Construction output was slightly weaker than expected but no doubt a reading of 23.5% y/y could still be called quite strong and it does not put into question the assumed rebound of investments in 3Q.

Before this data release, we wrote that although this year it was more convenient to go on vacation utilizing the August 15 public holiday than in 2016, but taking the effective working time, this August was only marginally shorter. We were expecting a robust economic performance and the stat office data confirmed our hypothesis. Following the surprisingly strong release, our estimates of the value-added side of national accounts point to 4.2% y/y GDP growth in 3Q.

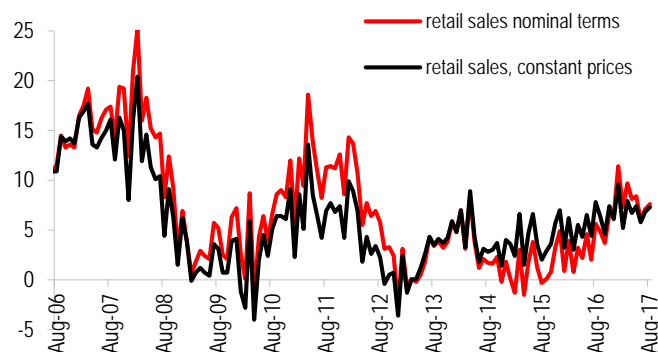
Retail sales grew 6.9% y/y in real terms, which is a similar result to what we have seen in 1H17, yet better than in June and July. We can see solid 4-17% y/y growth of sales across the categories. Despite strong demand, the price pressure on goods remained limited as the prices of the vast majority of categories changed between -6.2% y/y and 0.0% y/y, except for fuel and food prices (+4.3% y/y and +3.8% y/y, respectively). **This suggests that private consumption growth could stay around 5% in 3Q**, being supported by strengthening wage pressure and the high pace of employment.

PPI inflation rose 3% y/y in August vs 2.2% y/y in July on higher commodity prices. Both pressure from the rising price of food and fuel in retail sales together with price pressure reflected in PPI should work toward higher inflation in Poland in the months to come. However, the pace of this process will not be high enough to trigger an MPC reaction. In general, we think that this bullish set of real data should not prevent Council members from suggesting that rates could remain unchanged at least until the end of 2018.

Surprisingly strong level of real activity in August (% y/y)



Retail sales keep the pace (%y/y)



Source: Stat office, BZ WBK.



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