

Ahead of the Curve

March 13, 2015

Market focus this week will on January's retail sales report

- January's retail sales will show a significant recovery.** On Friday (March 20) at 10:00am (EDT), *INEGI* will publish its retail sales report for January 2015. We anticipate a 4.5% yoy expansion explained by the 21.3% yoy growth in vehicle sales (*AMIA*), which will have a positive impact on the overall growth rate. Moreover, consumption goods imports -which have a strong correlation with retail sales- posted a 3.2% yoy expansion, while *ANTAD* total store sales increased 6.2% yoy in real terms during the period in question
- Banamex Survey: Market participants will focus on analysts' monetary policy assessments.** On Friday at 4:30pm (EDT) *Banamex* will release its bi-weekly survey of economic expectations. In the last survey published by *Banamex* all of the analysts surveyed expected a rate hike in 2015. Furthermore, analysts will also focus on 1H-March's inflation forecast (to be published on Tuesday, March 24), as well as on CPI estimations for 2015. Finally, we expect moderate downward revisions to the economic growth estimates for 2015

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Mexico weekly calendar

DATE	TIME (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 16-Mar		Banking holiday: 209h Anniversary of the birth of Benito Juarez					
Tue 17-Mar	1:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 10y Mbono (Dec'24); 5y Bondes D					
Wed 18-Mar	11:00am	International reserves	13-Mar	US\$ bn	--	--	194.9
Fri 20-Mar	10:00am	Retail sales	January	% yoy	<u>4.5</u>	3.1	2.4
		sa		% m/m	<u>2.3</u>	--	-0.8
Fri 20-Mar	4:30pm	Banamex bi-weekly survey of economic expectations					

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

Logistics – Financial markets will remain closed in Mexico on Monday. On the logistics side, and before we start with next week’s description, next week Mexico will experience a short week with a banking holiday on Monday (March 16), as the country observes the 209th Anniversary of the birth of Benito Juarez, one of Mexico’s most important national heroes.

Weekly government bond auction. Also on Tuesday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent-, will offer 10-year fixed-rate Mbonos (Dec’24) as well as 5-year Bondes D, in addition to the “more traditional” 1-, 3-, and 6- month zero-coupon Cetes (please refer to the table below). As usual, the results will be released at 1:30pm (EDT).

Auction specifics (Tuesday, March 17, 2015)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	16-Apr-15	--	5,500	3.05
3m	18-Jun-15	--	9,500	3.18
6m	17-Sep-15	--	11,000	3.40
Mbono				
10y	05-Dec-24	10.00	8,000	5.31
Bondes D				
5y	30-Jan-20	--	3,000	0.22

Source: Banco de México

Weekly international reserves report. On Wednesday, at 11:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US\$801mn amounting to US\$194.9bn on March 6. According to Banxico’s report, this figure comes mainly as a result of: (1) A US\$601 decrease due to changes in the valuation of the Central Bank’s assets; along with a (2) US\$200 decrease explained by the introduction of Banxico’s USD daily auction given recent volatility in external markets that have pushed the MXN to its weakest level since 2009. It is worth noting that Pemex is currently the only significant source of reserve accumulation, given that on November 2011, the FEC (Federal Exchange Commission) decided to shut down the options scheme that Banxico also used to accumulate reserves. In this context, the central bank has accumulated US\$1,700mn of international reserves this year (please refer to the table below).

Banxico's foreign reserve accumulation details

US\$, million

	Foreign Reserve		Breakdown			
	Level	Chg	Pemex	Federal govt ¹	Market operations ²	Other
2006	67,680					
2007	77,991	10,311	12,899	-4,218	-4,240	5,870
2008	85,441	7,450	22,754	-5,413	-18,674	8,783
2009	90,838	5,397	11,529	6,573	-16,246	3,541
2010	113,597	22,759	16,037	2,338	4,466	-83
2011	142,475	28,878	18,692	2,439	4,614	3,134
2012	163,516	21,116	17,867	2,805	-646	1,089
2013	176,522	13,063	18,100	-1,251	0	-3,788
2014	193,239	16,717	14,500	2,570	-200	-154
06-Mar-15	194,938	1,700	3,000	-27	-200	-1,074

Source: Banorte-Ixe, Banco de México; *Year-to-date

1. Includes short-term government's liabilities

2. Includes Banxico's US dollar sales to Mexican financial institutions as well as the Foreign Exchange Commission's USD Put/MXN Call options

*Year-to-date

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Looking ahead, we believe that retail sales performance will show a visible recovery in the first half of the year. In particular, private consumption in Mexico will show better growth prospects derived from: (1) A significant improvement in consumer's expectations regarding economic growth; (2) the recent downward trend in inflation; and (3) the stronger growth dynamics in the Mexican labor market.

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