

# Ahead of the Curve

April 30, 2015

Market focus this week will on consumer confidence and PMI surveys

- Consumer confidence.** On Friday, at 9:00am (EDT), Banxico and *INEGI* will publish its April's monthly survey on consumer confidence, where we expect a 4.7% yoy expansion, with the index reaching 94.5 points (vs. 90.3 in April 2014). We highlight that this could be the sixth positive annual growth rate since October 2013. In seasonally adjusted terms, we expect confidence levels to increase 0.8% m/m. We believe that consumer confidence (measured in seasonally adjusted terms) could show visible signs of recovery given the better growth dynamics of the Mexican economy and the downward trend in inflation.
- IMEF's PMI surveys.** April's PMI surveys. On Monday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators. We expect manufacturing PMI at 51.6 in April, above the 51.4 observed in March (seasonally adjusted terms). We believe that manufacturing activity in April was supported by the recovery of consumer spending in Mexico and the significant depreciation of the MXN. However, we believe that the strong recovery in retail sales might have affected the "inventories" component. Moreover, we believe that the non-manufacturing PMI will stand at 51.5 from 49.3 points. In this regard, we believe that the recovery in private consumption could have triggered a significant growth in in several sectors within the services, which will lead to a visible recovery in the headline index.

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**Mexico weekly calendar**

DATE	HOURL (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS	
Mon 4-May	9:00am	<b>Gross fixed investment</b>	February	% yoy	<u>1.4</u>	2.8	7.3	
		Machinery and equipment		% yoy	<u>5.9</u>	--	13.7	
		Domestic		% yoy	<u>13.5</u>	--	12.8	
		Imported		% yoy	<u>2.5</u>	--	14.1	
		Construction		% yoy	<u>-1.2</u>	--	3.4	
Mon 4-May	10:00am	<b>Family remittances</b>	March	US\$ mn	<u>2,185</u>	2,185	1,839	
Mon 4-May	1:00pm	<b>PMI's survey (IMEF)</b>	April					
		Manufacturing		index	<u>51.6</u>	--	51.4	
		Non-manufacturing		index	<u>51.5</u>	--	49.3	
Tue 5-May	10:00am	<b>International reserves</b>	1-May	US\$ bn	--	--	195.6	
Tue 5-May	10:00am	<b>Banxico's survey of economic expectations</b>	April					
Tue 5-May	12:30pm	<b>Government weekly auction: 1-, 3-, 6-month CETES; 3y Mbono (Dec'18); 3y Udibonos (Jun'16)</b>						
Tue 5-May	4:30pm	<b>Banamex bi-weekly survey of economic expectations</b>						
Thu 7-May	9:00am	<b>CPI inflation</b>	April	% m/m	<u>-0.17</u>	-0.26	0.41	
				% yoy	<u>3.15</u>	3.06	3.14	
		Core		% m/m	<u>0.17</u>	0.15	0.26	
				% yoy	<u>2.32</u>	--	2.45	
				index	<u>94.5</u>	93.9	93.1	
Fri 8-May	9:00am	<b>Consumer confidence</b>	April	index	<u>94.5</u>	93.9	93.1	
Fri 8-May		<b>Wage negotiations</b>	April	%	<u>4.4</u>	--	4.4	

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

**We expect a 1.4% yoy expansion in February's GFI.** Next Monday at 9:00am (EDT), *INEGI* will publish its February's gross fixed investment (GFI) report. We anticipate GFI up by a scant 1.4% yoy. We believe that within the report we will probably see a 1.4% yoy expansion in imported machinery and equipment given that trade balance figures for February showed a similar growth rate. Moreover, we expect a 13.5% growth in domestic machinery and equipment. Finally, we believe that construction spending could fall 1.2% yoy.

**Family remittances will post a 4.1% yoy expansion.** On Monday, at 10:00am (EDT), Banxico will make its family remittances monthly report available. We expect Mexican workers living abroad -mainly in the US-, to have sent US\$2,185 million to their families in Mexico during March. This would imply a 4.1% yoy expansion. The latest CPS figures show that the employment for Mexican workers fell significantly during March (55,661 jobs lost, seasonally adjusted figures), which would point towards a lower remittance inflow. However, looking ahead we believe that family remittances will show a significant recovery given the improvement in the US labor market, which will eventually translate in better growth dynamics for the Mexican workforce in the U.S.

**April's PMI surveys.** On Monday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators. We expect manufacturing PMI at 51.6 in April, above the 51.4 observed in March (seasonally adjusted terms). We believe that manufacturing activity in April was supported by the recovery of consumer spending in Mexico and the significant depreciation of the MXN. However, we believe that the strong recovery in retail sales might have affected the "inventories" component.

Moreover, we believe that the non-manufacturing PMI will stand at 51.5 from 49.3 points. In this regard, we believe that the recovery in private consumption could have triggered a significant growth in in several sectors within the services, which will lead to a visible recovery in the headline index.

**Weekly international reserves report.** On Tuesday, at 10:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US \$333mn amounting to US \$195.6bn on April 24. According to Banxico's report, this figure comes mainly as a result of: (1) Dollar sales by the Central Bank to the Federal Government for US \$46mn; (2) US \$260mn decrease explained by the introduction of Banxico's USD daily auction; along with a (3) US \$27mn decrease due to changes in the valuation of the Central Bank's assets. 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 \$2,338mn 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 <sup>1</sup>	Market operations <sup>2</sup>	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
25-Apr-15	195,577	2,338	3,000	1,440	-1,760	-343

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

**Banxico's survey of economic expectations.** On Tuesday, at 10:00am (EDT), Banco de Mexico will publish its monthly survey of economic expectations. In our view, market participants' focus will be on three issues: (1) 2015 inflation expectations that currently are at 3.11% (Banorte-Ixe: 3%); (2) mid-term inflation expectations—quite important for the central bank's board—that are currently at 3.5% (Banorte-Ixe: 3%); and (3) the analysts' assessments of GDP growth for 2015 MoF, currently at 2.95% (Banorte-Ixe: 3.6%).

**Weekly government bond auction.** Also on Tuesday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent-, will offer 3-year fixed-rate Mbonos (Dec'18) as well as 3-year inflation-linked Udibonos (Jun'19), 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 12:30pm (EDT).

**Auction specifics (Tuesday, May 5, 2015)**

	Maturity	Coupon rate, %	To be auctioned <sup>1</sup>	Previous yield <sup>2</sup>
<b>Cetes</b>				
1m	04-Jun-15	--	5,500	2.85
3m	06-Aug-15	--	9,500	3.04
6m	29-Oct-15	--	11,000	3.15
<b>Mbono</b>				
3y	13-Dec-18	8.50	9,500	4.88
<b>Udibono</b>				
3y	13-Jun-19	4.00	850	2.15

Source: Banco de México

**Banamex Survey: Market participants will focus on analysts' monetary policy assessments.** On Tuesday at 4:30pm (EDT) *Banamex* will release its bi-weekly survey of economic expectations. In the last survey published by *Banamex* 24 out of 25 analysts surveyed expected a rate hike in 2015. Furthermore, analysts will also focus on April's inflation forecast (to be published on Thursday, May 7), as well as on CPI estimations for 2015. Moreover, we expect moderate revisions to the economic growth estimates for.

**April's inflation report.** On Thursday, at 9:00am, *INEGI* will release its monthly inflation report. We are forecasting a 0.17% m/m decrease in April above market consensus that expects a -0.26% according to *Bloomberg*. In the core index, we expect an increase of 0.17% m/m above market consensus (0.15%). Inflation during the period in question will be explained basically by the three factors that defined price variations in the first half of the month: (1) The start of summer discounts on electricity tariffs; (2) a decline in agricultural prices; and (3) lower prices of other services, given the end of the Easter holiday season.

Nevertheless, we expect this figure to be 1.2bps higher than the observed in same period last year, derived from: (1) 18.9bps stemming from a higher contribution of agricultural prices (9bps vs. -10 in 2014); (2) 2.9bps stemming from a higher contribution of merchandise prices (10.9bps vs. 8.1 in 2014). In contrast, we expect (3) a lower contribution of services prices (1.8bps vs. 13.7 in 2014); and (4) -9.5bps stemming from a lower contribution of energy prices (-43.3bps vs. -33.8 in 2014), as shown in the table below. With these results, annual inflation will be at 3.15% yoy in April from previous 3.14%, while core inflation will be at 2.32% from 2.45% yoy.

#### **Inflation by components in April**

%monthly incidence

	<b>Banorte-Ixe</b>	<b>2014</b>	<b>Difference</b>
Headline	-0.17	-0.19	0.01
Core	0.13	0.22	-0.09
Goods	0.11	0.08	0.03
Processed foods	0.03	0.05	-0.01
Other goods	0.08	0.03	0.04
Services	0.02	0.14	-0.12
Housing	0.04	0.03	0.01
Education	0.00	0.00	0.00
Other services	-0.02	0.11	-0.13
Non-core	-0.31	-0.42	0.11
Agricultural	0.09	-0.10	0.19
Fresh fruits and vegetables	0.03	-0.18	0.22
Meat and egg	0.06	0.08	-0.02
Energy and government regulated	-0.41	-0.32	-0.09
Energy	-0.43	-0.34	-0.10
Government regulated	0.01	0.01	0.00

Source: Banorte-Ixe with data from INEGI and Banco de México

Note: Contributions might not add due to the number of decimals allowed in the table. Previous to year 2011, contributions might not add because of the change in CPI-calculation methodology

**Consumer confidence will show signs of recovery in April.** On Friday, at 9:00am (EDT), Banxico and *INEGI* will publish its April's monthly survey on consumer confidence, where we expect a 4.7% yoy expansion, with the index reaching 94.5 points (vs. 90.3 in April 2014). We highlight that this could be the sixth positive annual growth rate since October 2013. In seasonally adjusted terms, we expect confidence levels to increase 0.8% m/m. We believe that consumer confidence (measured in seasonally adjusted terms) could show visible signs of recovery given the better growth dynamics of the Mexican economy and the downward trend in inflation.

**April's wage negotiations.** Finally, on Friday, the Ministry of Labor (STPS) will make its contractual wage negotiations monthly data available. We anticipate workers to have negotiated an annual average wage increase of 4.4% in April. This would be in line with the average observed year-to-date. In this regard, we believe that April's figure was mainly driven by the increase in wage negotiations in the education sector, specifically wage increases in different labor unions of public universities, coupled with increases in the government sector, and wages increases in the communications sector, and does not imply a rise in inflation expectations.

**Disclaimer**

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