

# Ahead of the Curve

March 17, 2017

Market focus this week will be on the inflation report for the first half of March

- Bi-weekly inflation report (1H-March).** On Thursday, at 10:00am, *INEGI* will release its bi-weekly inflation report for the first half of March. We are forecasting a 0.34% 2w/2w increase in the headline index (consensus: 0.34% 2w/2w), while we expect the core index to rise 0.28% 2w/2w (consensus 0.29% 2w/2w). Inflation during the period in question will be explained by pressures in fresh fruits and vegetables prices, mainly driven by the increase in the price of tomatoes. With these results, annual inflation will stand at 5.28% in the first half of March (previous: 5.02% yoy), while core inflation will be at 4.29% (previous: 4.31% yoy). Moving forward, we will be attentive to the evolution of energy prices given the beginning of the US driving season.
- Retail sales (January).** On Friday at 10:00am (EDT), *INEGI* will publish its retail sales report for January, where we anticipate a 4.6% yoy expansion, below the 8.7% average observed in 2016. January's lower growth will be explained by the deceleration of durable goods sales. In particular, vehicles sales increased by a scant 3% yoy according to AMIA's auto report. Moreover, ANTAD total store sales posted a 2.1% yoy growth in real terms, while same-store sales decreased 0.6% yoy during the period in question. In addition, non-oil consumption goods imports fell 5.2% yoy.

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Mexico's weekly calendar

DATE	HOUR (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 20-Mar		Banking holiday: Anniversary of the birth of Benito Juarez					
Tue 21-Mar	10:00am	Aggregate Demand	4Q16	% yoy	<u>2.3</u>	2.1	1.6
		Private consumption		% yoy	<u>3.2</u>	--	3.5
		Government consumption		% yoy	<u>2.2</u>	--	1.5
		Gross-fixed investment		% yoy	<u>0.9</u>	--	-1.7
Tue 21-Mar	1:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 5y Mbono (Jun'22); 10y Udibonos (Dec'25)					
Tue 21-Mar	5:30pm	Banamex bi-weekly survey of economic expectations					
Wed 22-Mar	11:00am	International reserves	17-Mar	US\$ bn	--	--	174.5
Thu 23-Mar	10:00am	CPI inflation	1H-Mar	% 2w/2w	<u>0.34</u>	0.34	0.25
				% yoy	<u>5.28</u>	5.29	4.86
		Core		% 2w/2w	<u>0.28</u>	0.29	0.23
				% yoy	<u>4.29</u>	--	4.26
Fri 24-Mar	10:00am	Retail sales	January	% yoy	<u>4.6</u>	5.5	9.0
		sa		% m/m	<u>-1.8</u>	-0.6	-1.4

Source: Banorte-Ixe; Bloomberg

Proceeding in chronological order...

**On the logistics side, financial markets will remain closed in Mexico on Monday.** Before we start with next week’s description, we highlight that Mexico will experience a short week with a banking holiday on Monday, as the country observes the Anniversary Benito Juarez’s birthday, one of Mexico’s most important national heroes.

**We estimate a 2.3% yoy expansion in aggregate demand during 4Q16.** On Tuesday at 10:00am (EDT), *INEGI* will publish its aggregate supply and demand report, where we believe aggregate demand increased 2.3% yoy in the fourth quarter of 2016 vs. the 1.5% yoy expansion observed in the previous quarter.

Taking a look at the breakdown, we expect a 3.2% yoy increase in private consumption, while we estimate a 0.9% yoy expansion for gross fixed investment. Moreover, we believe that government spending will likely show a moderate 2.2% yoy increase, given the fiscal cuts implemented by the federal government.

**Weekly government bond auction.** On Tuesday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent-, will offer 5-year fixed-rate Mbonos (Jun’22), as well as 10-year inflation-linked Udibonos (Dec’25), 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 21, 2016)**

	Maturity	Coupon rate, %	To be auctioned <sup>1</sup>	Previous yield <sup>2</sup>
<b>Cetes</b>				
1m	12-Apr-17	--	7,000	6.30
3m	15-Jun-17	--	11,000	6.64
6m	14-Sep-17	--	11,500	6.80
<b>M Bono</b>				
5y	09-Jun-22	6.50	8,500	7.24
<b>Udibonos</b>				
10y	04-Dec-25	4.50	700	3.28

Source: Banorte-Ixe with data from Banco de México

1. Except for Udibonos, which are expressed in UDI million, everything else is expressed in MXN million. 2. Yield-to-maturity reported for Cetes, Mbonos and Udibonos

**Citibanamex Survey: Market participants will focus on inflation and monetary policy forecasts.** Also on Tuesday around 5:30pm (EDT) *Citibanamex* will release its bi-weekly survey of economic expectations, where market participants will focus on analysts’ monetary policy assessments given the 25bps hike in the Fed’s reference rate, and the dovish tone depicted in Yellen’s conference.

Furthermore, analysts will also focus on the inflation forecasts for the first half of March (to be published on Thursday, March 23), as well as on CPI estimations for 2017. In addition, *Citibanamex* will also publish consensus' growth and FX forecasts for 2017. In the first case, we do not expect strong revisions to the median GDP forecast. In the second case, we expect moderate downward revisions to the FX estimates for 2017.

**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\$137 million amounting to US\$174.5 billion. According to Banxico's report, this figure comes mainly as a result of: changes in valuation of the Central Bank's assets. In this context, the Central Bank's international reserves have diminished by US\$2 billion this year (please refer to the table below).

**Banxico's foreign reserve accumulation detail**  
US\$, million

	2016	Mar 10, 2017	Mar 10, 2017	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,542	174,524	-137	-2,017
(B) Gross international reserve	178,025	177,491	934	-534
Pemex	--	--	572	-9
Federal government	--	--	-55	527
Market operations	--	--	0	-2,000
Other	--	--	416	948
(C) Short-term government's liabilities	1,483	2,967	1,071	1,483

Source: Banco de México

**Inflation during the period in question will be explained by pressures in fresh fruits and vegetables and goods prices.** On Thursday, at 10:00am, *INEGI* will release its bi-weekly inflation report for the first half of March. We are forecasting a 0.34% 2w/2w increase in the headline index (consensus: 0.34% 2w/2w), while we expect the core index to rise 0.28% 2w/2w (consensus 0.29% 2w/2w).

Inflation during the period in question will be explained by pressures in fresh fruits and vegetables prices, mainly driven by the increase in the price of tomatoes. Moreover, we believe the goods component to also contribute to inflation given the accumulated depreciation of the exchange rate in recent months.

We expect inflation to be 24.8bps higher than the observed in same period last year, derived from: (1) 22.5bps from a higher contribution of fruits and vegetables (12pbs vs. -10.5bps in 2016); and (2) -6pbs derived from a lower contribution of prices of other services (6.5bps vs. 12.5bps in 2016), as shown in the table below, as shown in the table below.

With these results, annual inflation will stand at 5.28% in the first half of March (previous: 5.02% yoy), while core inflation will be at 4.29% (previous: 4.31% yoy). Moving forward, we will be attentive to the evolution of energy prices given the beginning of the US driving season.

#### Mar-1H CPI inflation forecast by major subcomponent

%, bi-weekly incidence

	2017 Forecast	2016	Difference
Headline	0.34	0.10	0.25
Core	0.21	0.22	-0.02
Goods	0.12	0.08	0.04
Processed foods	0.06	0.03	0.03
Other goods	0.06	0.05	0.01
Services	0.09	0.15	-0.06
Housing	0.02	0.02	0.00
Education	0.00	0.00	0.00
Other services	0.07	0.13	-0.06
Non-core	0.14	-0.13	0.27
Agricultural	0.11	-0.10	0.20
Fresh fruits and vegetables	0.12	-0.10	0.22
Meat and egg	-0.02	0.00	-0.02
Energy and government regulated	0.03	-0.03	0.06
Energy	0.03	-0.03	0.06
Government regulated	0.01	0.00	0.00

Source: Banorte-Ixe, INEGI

**Retail sales will post a 4.6% yoy expansion in January.** On Friday at 10:00am (EDT), *INEGI* will publish its retail sales report for January, where we anticipate a 4.6% yoy expansion, below the 8.7% average observed in 2016. In this regard, we highlight that in this report, *INEGI* measures the total value of sales within the month, which differs substantially from gross value added measurement of commerce incorporated within the IGAE and GDP reports.

January's lower growth will be explained by the deceleration of durable goods sales. In particular, vehicles sales increased by a scant 3% yoy according to *AMIA's* auto report. Moreover, *ANTAD* total store sales posted a 2.1% yoy growth in real terms, while same-store sales decreased 0.6% yoy during the period in question. In addition, non-oil consumption goods imports fell 5.2% yoy. In this regard, we believe that January's figure will support our view of lower economic growth during the first half of the year.

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