

# Ahead of the Curve

March 10, 2017

Market focus this week will be on January's industrial production report

- **Industrial production (January).** On Tuesday at 10:00am (EDT), *INEGI* will release its monthly industrial production report. We anticipate a 0.4% yoy contraction in total output during January, after the 0.6% reduction in December. Taking a look at the breakdown, we believe that manufacturing production could post a 3.4% yoy growth, while construction might fall by 0.5% yoy. Finally, we expect an 11.1% yoy reduction in mining activity

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Mexico weekly calendar

DATE	HOOR (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Tue 14-Mar	10:00am	Industrial production	January	% yoy	<u>-0.4</u>	-0.4	-0.6
		(sa)		% m/m	<u>-0.4</u>	--	-0.1
		Mining		% yoy	<u>11.2</u>	--	-1.4
		Utilities		% yoy	<u>4.3</u>	--	0.5
		Construction		% yoy	<u>-0.2</u>	--	-0.3
		Manufactures		% yoy	<u>3.4</u>	1.5	0.6
Tue 14-Mar	11:00am	International reserves	10-Mar	US\$ bn	--	--	174.7
Tue 14-Mar	1:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 20y MBono (Nov'36); 5y Bondes D					

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

**Logistics – U.S. is back to daylight saving time.** On Sunday, the U.S. will begin its *Daylight Savings Time* (DST). However, Mexico’s Daylight Saving Time period will not begin until April 2 which implies that Mexico City will have a two-hour difference with *Eastern Daylight Time* (EDT).

**We expect a 0.4% yoy contraction in January’s industrial output.** On Tuesday at 10:00am (EDT), *INEGI* will release its monthly industrial production report. We anticipate a 0.4% yoy contraction in total output during January, after the 0.6% reduction in December.

Taking a look at the breakdown, we believe that manufacturing production could post a 3.4% yoy growth, explained by: (1) the 0.7% yoy expansion in the US manufacturing sector (NAICS, original figures); (2) the 4.1% yoy increase in Mexico’s vehicle production; and (3) the 7.7% yoy increase in manufacturing exports.

In addition, the 0.4% yoy contraction in industrial output during January will be also explained by the 0.5% yoy reduction in construction output as a result of the lower growth in private construction investment projects as a result of the uncertainty surrounding Mexico’s economic outlook, coupled with the contraction in public investment projects derived from the Federal Government’s fiscal stability plan. In addition, we expect an 11.1% yoy reduction in mining activity explained by the lower oil production and the reduction in the extraction of other minerals.

**Industrial production estimates: January 2017**

<b>% yoy</b>	<b>Jan-17</b>	<b>Jan-16</b>	<b>2016</b>	<b>2015</b>
Total	-0.4	0.0	0.0	1.0
Mining	-11.2	-3.0	-6.4	-4.6
Utilities	4.3	0.3	3.3	2.3
Construction	-0.2	2.4	1.8	2.5
Manufacturing	3.4	0.3	1.3	2.5

  

<b>%m/m sa</b>	<b>Jan-17</b>	<b>Dec-16</b>	<b>Difference</b>
Total	-0.4	-0.1	-0.3
Mining	-0.5	-1.4	0.9
Utilities	0.3	0.5	-0.2
Construction	-0.5	-0.3	-0.2
Manufacturing	-0.4	0.6	-1.0

Source: Banorte-ixe

**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\$484 million amounting to US\$174.7 billion. According to Banxico’s report, this figure comes mainly as a result of: (1) USD sales to the Federal Government amounting to US\$68 million; and (2) a US\$416 million decrease due to the change in valuation of the Central Bank’s assets. In this context, the Central Bank’s international reserves have diminished by US\$1.9 billion this year (please refer to the table below).

**Banxico's foreign reserve accumulation detail**

US\$, million

	2016	Mar 3, 2017	Mar 3, 2017	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,542	174,661	-484	-1,880
(B) Gross international reserve	178,025	176,558	-5,256	-1,468
Pemex	--	--	-4,808	-582
Federal government	--	--	-83	582
Market operations	--	--	0	-2,000
Other	--	--	-365	532
(C) Short-term government's liabilities	1,483	1,894	-4,772	413

Source: Banco de México

**Weekly government bond auction.** Also on Tuesday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent-, will offer 20-year fixed-rate Mbonos (Nov’36), 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 14, 2016)**

	Maturity	Coupon rate, %	To be auctioned <sup>1</sup>	Previous yield <sup>2</sup>
<b>Cetes</b>				
1m	12-Abr-17	--	7,000	6.29
3m	15-Jun-17	--	11,000	6.52
6m	14-Sep-17	--	11,500	6.68
<b>M Bono</b>				
20y	20-Nov-36	10.00	2,000	7.96
<b>Bondes D</b>				
5y	13-Ene-22	--	4,500	0.19

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

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