

Ahead of the Curve

March 23, 2018

Market focus this week will be on February's trade balance and January's retail sales

- Trade balance (February).** On Tuesday at 9:00am (ET), Banxico and *INEGI* will make available its preliminary trade report for February, where we expect to see a US\$252.4 million surplus. On the exports side, we will probably see a 46.8% yoy expansion of oil exports as a result of the higher prices for the Mexican crude oil basket (24.8% yoy). In addition, non-oil exports could have increased 7.6% yoy, on the back of a 7% hike in manufacturing exports. On the imports side, we estimate a 11.9% yoy expansion in total imports, as a result of the increase in oil related imports. However, taking a look at the breakdown, we believe that non-oil consumption goods imports increased 11.9% yoy, while imports of intermediate goods could have increased 11.4% yoy. Finally, we estimate a 9.2% expansion in capital goods imports.
- Retail sales (January).** On Monday at 10:00am (ET), *INEGI* will publish its retail sales report for January, where we anticipate a 0.9% yoy contraction, above the 2% reduction observed in December. We believe that retail sales contraction will be mainly explained by the 11.4% reduction in vehicle sales. In addition, ANTAD same store sales posted a 0.5% yoy decrease in real terms. By contrast, non-oil consumption goods expanded 19.3% yoy, which will partially compensate the fall in vehicle and ANTAD sales.

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Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 26-Mar	10:00am	Retail sales	January	% yoy	-0.9	--	-2.0
		sa		% m/m	-1.2	--	-0.5
Mon 26-Mar	1:30pm	Government weekly auction: 1-, 3-, 6-, 12-month CETES; 20y Mbono (Nov'38); 30y Udibonos (Nov'46); 5y Bondes D					
Tue 27-Mar	10:00am	Trade balance	February	US\$ mn	252.4	252.4	-4,408
		Total exports		% yoy	10.0	--	12.5
		Oil exports		% yoy	46.8	--	24.1
		Non-oil exports		% yoy	7.6	--	11.6
		Total imports		% yoy	11.9	--	14.1
Tue 27-Mar	10:00am	Unemployment rate	February	%	3.22	3.22	3.39
		sa		%	3.30	3.30	3.36
Tue 27-Mar	11:00am	International reserves	24-mar	US\$ bn	--	--	173.0
Round 3.1 (Shallow waters)							
Wed 28-Mar	11:00am	Comercial banking credit	February	% yoy	6.1	--	5.8
		Consumption		% yoy	3.0	--	2.7
		Housing		% yoy	2.7	--	2.5
		Non-banking private firms		% yoy	8.8	--	8.6
Wed 28-Mar	4:30pm	Budget balance	February	MXN bn	--	--	-20.4

Source: Banorte; Bloomberg

Proceeding in chronological order...

Retail sales will post a 0.9% yoy contraction in January. On Monday at 10:00am (ET), *INEGI* will publish its retail sales report for January, where we anticipate a 0.9% yoy contraction, above the 2% reduction observed in December.

We believe that retail sales contraction will be mainly explained by the 11.4% reduction in vehicle sales. In addition, *ANTAD* same store sales posted a 0.5% yoy decrease in real terms. By contrast, non-oil consumption goods expanded 19.3% yoy, which will partially compensate the fall in vehicle and *ANTAD* sales.

Weekly government bond auction. Also on Monday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent–, will offer 20-year fixed rate Mbonos (Nov’38), 30-year inflation-linked Udibonos (Nov’46), 5-year Bondes D, in addition to the “more traditional” 1-, 3-, 6- and 12-month zero-coupon Cetes (please refer to the table below). As usual, the results will be released at 1:30pm (ET).

Auction specifics (Monday, March 26, 2018)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	26-Apr-18	--	7,000	7.44
3m	28-Jun-18	--	11,000	7.64
6m	27-Sep-18	--	11,500	7.75
12m	28-Mar-19	--	12,500	7.85
Bondes D				
5y	09-Mar-23	--	4,500	0.16
M Bono				
20y	18-Nov-38	8.50	2,500	7.90
Udibonos				
30y	08-Nov-46	4.00	UDIS 400	3.94

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

Exports will continue to recover. On Tuesday at 10:00am (ET), Banxico and *INEGI* will make available its preliminary trade report for February, where we expect to see a US\$252.4 million surplus.

On the exports side, we will probably see a 46.8% yoy expansion of oil exports as a result of the higher prices for the Mexican crude oil basket (24.8% yoy). In addition, non-oil exports could have increased 7.6% yoy, on the back of a 7% hike in manufacturing exports.

On the imports side, we estimate a 11.9% yoy expansion in total imports, as a result of the increase in oil related imports. However, taking a look at the breakdown, we believe that non-oil consumption goods imports increased 11.9% yoy, while imports of intermediate goods could have increased 11.4% yoy. Finally, we estimate a 9.2% expansion in capital goods imports.

The unemployment rate in February will stand at 3.22%. Also on Tuesday, *INEGI* will publish its unemployment report for the second month of 2018, in which we estimate an unemployment rate of 3.22% nsa, below the 3.39% observed in January. However, in seasonally adjusted terms, we believe that the unemployment rate could stand at 3.3% which implies a 0.06%-pts reduction from last month's figures.

We believe that the fall in the unemployment rate (seasonally adjusted) will continue to be explained by the recent pickup in construction activity, which will continue to be fostered by greater infrastructure investment by states and counties given the electoral process that will take place in July. Looking ahead we believe that the unemployment rate will hover around 3.4%.

The National Hydrocarbon Commission will tender 35 shallow water fields.

On Tuesday, the National Hydrocarbon Commission will carry out the first auction of round 3 (also known as round 3.1). The 35 fields up for tender are in shallow waters in the Gulf of Mexico. In particular, 14 fields are located in the coasts of Tamaulipas, 16 in Veracruz, 3 in Tabasco, and 2 in Campeche. There are currently 36 participants registered to bid in the auction, 22 will be a part of a consortium while 14 will bid as a single entity.

Weekly international reserves report. Additionally on Tuesday, at 11:00am (ET), Banco de Mexico will release its weekly balance report. Last week, net international reserves increased by US\$41 million amounting to US\$173 billion. According to Banxico's report, this figure comes mainly as a result of a positive valuation effect in central bank assets. In this context, the Central Bank's international reserves have increased by US\$232 million during 2018 (please refer to the table below).

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

	2016	Mar 16, 2018	Mar 16, 2018	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	172,802	173,034	41	232
(B) Gross international reserve	175,450	177,011	162	1,561
Pemex	--	--	188	-158
Federal government	--	--	-277	1,621
Market operations	--	--	0	0
Other	--	--	251	98
(C) Short-term government's liabilities	2,648	3,977	122	1,329

Source: Banco de México

Banking credit will show a 6.1% yoy increase in February. Banco de Mexico will make available its banking credit report on Wednesday at 10:00am (ET). It is our take that banking credit continued flowing in February. In particular, we estimate a 6.1% yoy expansion in banking credit (in real terms), as a result of increases in the area of 3.1%, 2.7%, and 8.8% yoy in consumer, housing and business credit, respectively.

The MoF's monthly report. Finally on Wednesday, the Ministry of Finance (MoF) will release its monthly finance report available for the second month of the year. On the revenue side, we will be looking at non-oil tax collection, as it will provide additional information about domestic demand behavior. Moreover, considering the increase in oil prices compared to last year, the behavior of oil revenues generated by the Federal Government will be particularly relevant.

In addition, markets will focus on the spending side of the report, in order to assess the execution of the fiscal budget for 2018. Finally, it will be important to evaluate the evolution of public sector debt, which currently represents around 46.5% of Mexico's GDP.

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