Ahead of the Curve

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Market focus this week will on the Preliminary Estimation of GDP

- **Preliminary Estimation of GDP (4Q15).** On Friday, *INEGI* will publish its "*Preliminary Estimation of GDP*" report. For the estimation of this preliminary figure, *INEGI* uses the economic reports published for the first two months of each quarter, and adds the available information for the third month. The missing figures for the last month of the quarter are estimated using econometric models. In this regard, the preliminary estimation of GDP will cover 80% with the direct information available, and will estimate the remaining 20%. Given the economic figures published for October and November, we believe that the preliminary estimation will show a 2.1% yoy growth for the Mexican economy during 4Q15 below the 2.6% observed in 3Q15. With this report, it is likely that the Mexican economy grew 2.4% in 2015, above the 2.1% growth in 2014

- **IGAE (November).** On Monday, at 9:00am (EST), *INEGI* will release its monthly global economic indicator for November (GDP monthly proxy), where we expect a 1.7% yoy expansion. We believe that IGAE's growth during the eleventh month of 2015 was driven by the performance of the service sector, which we forecast at 3% yoy. Similarly, we highlight that industrial production increased a scant 0.1% yoy. We also believe that the 3% yoy estimated expansion in services will be explained by the recovery in private consumption

Mexico weekly calendar

DATE	HOUR (EST)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 25-Jan	**9:00am**	**Global economic indicator**	November	% yoy	1.7	1.9	2.3
		(sa)		% m/m	-0.5	--	0.2
		Primary activities		% yoy	4.8	--	3.2
		Industrial production		% yoy	0.1	--	0.5
		Services		% yoy	3.0	--	3.3
Mon 25-Jan	**9:00am**	**Unemployment rate**	December	%	3.63	3.66	3.96
		sa		%	4.17	--	4.09
Tue 26-Jan	**9:00am**	**Retail sales**	November	% yoy	5.4	5.1	4.8
Tue 26-Jan	**10:00am**	**International reserves**	22-Jan	US$ mn	--	--	175.2
Tue 26-Jan	**12:30pm**	**Government weekly auction: 1-, 3-, 6-month CETES; 5y Mbono (Jun'21); 10y Udibonos (Dec'25)**					
Wed 27-Jan	**9:00am**	**Trade balance**	December	US$ mn	566	-395	-1,569
		Total exports		% yoy	-0.8	--	-4.1
		Oil exports		% yoy	-46.3	--	-50.2
		Non-oil exports		% yoy	2.7	--	0.9
		Total imports		% yoy	-1.7	--	-2.4
Fri 29-Jan	**9:00am**	**GDP**	4Q15 (P)	% yoy	2.1	2.3	2.6
		(sa)		% q/q	0.5	0.5	0.8
Fri 29-Jan	**10:00am**	**Comercial banking credit**	December	% yoy	10.4	--	10.6
		Consumption		% yoy	7.3	--	7.7
		Housing		% yoy	10.0	--	10.6
		Non-banking private firms		% yoy	13.5	--	13.4
Fri 29-Jan	**11:00pm**	**Budget balance (year to date)**	December	MXN bn	--	--	-515.8

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

We expect a 1.7% yoy expansion in November's IGAE. On Monday, at 9:00am (EST), *INEGI* will release its monthly global economic indicator for November (GDP monthly proxy), where we expect a 1.7% yoy expansion. We believe that IGAE's growth during the eleventh month of 2015 was driven by the performance of the service sector, which we forecast at 3% yoy. Similarly, we highlight that industrial production increased a scant 0.1% yoy.

As we had mentioned in our last IP report, the 0.1% yoy expansion in industrial production during November was explained in part by the 1.8% yoy growth in manufacturing output. In this regard, despite the unfavorable performance within the manufacturing industry during November, we believe that the recovery of this sector is on the way, and will strengthen in the first quarter of 2016 given that the significant depreciation of the Mexican currency could trigger a higher growth in Mexico's manufacturing exports. In this regard, we believe that the recovery of both manufacturing and construction industries will continue in 1Q16. However, IP's headline figure was also affected by the current recession in the mining industry –derived from the significant contraction in Mexico's oil production–, and from the 1.2% fall in construction output given the 4.6% yoy reduction in public civil engineering construction projects as a result of the fiscal cut announced by the federal government.

We also believe that the 3% yoy estimated expansion in services will be explained by the recovery in private consumption. In this regard, *ANTAD's* retail sales report showed that consumers' spending is gaining momentum, whereas formal job creation has observed a significant recovery in the last 5 months.

Unemployment rate in December will stand at 3.63%. Next Monday, *INEGI* will publish its employment report for the last month of 2015, in which we estimate an unemployment rate of 3.63% nsa, below the 3.96% observed in November. In seasonally-adjusted terms, we believe that the unemployment rate could stand at 4.17%, which implies a 0.08%-pts expansion.

It is likely that the job creation in December was affected by the fall in confidence among firms given the recent volatility in financial markets. However, we believe that the Mexican labor market will continue to recover derived from recent upward trend in the Mexican economy, which will eventually reduce the level of unemployed workers.

Looking ahead, we are still positive on the outlook regarding the recovery of the economic activity, which will have a significant positive impact on firms' expectations about domestic demand, resulting in a more dynamic labor market.

Retail sales will post a 5.4% yoy expansion in November. On Tuesday (January 26) at 9:00am (EST), *INEGI* will publish its retail sales report for November 2015. We anticipate a 5.4% yoy expansion explained by the 13% yoy growth in vehicle sales (*AMIA*), which will have a positive impact on the overall growth rate. Moreover, *ANTAD* total store sales increased 6.7% yoy in real terms during the period in question, while consumption goods imports -which have a strong correlation with retail sales- posted a 5.3% yoy growth.

Looking ahead, we believe that retail sales performance will continue to show a favorable performance in 1Q16. In particular, private consumption in Mexico will show better growth prospects derived from: (1) An 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.

Weekly international reserves report. On Tuesday, at 10:00am (EST), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US$523mn amounting to US $175.2bn on January 15. 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$138mn; (2) US$200mn decrease explained by the Banxico's USD ordinary auction with minimum price and US$200mn by the supplementary auction with minimum price; along with a (3) US$15mn increase 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. In this context, the central bank has an accumulated reduction of US$1,491mn international reserves this year (please refer to the table below).

Banxico's foreign reserve accumulation details
US$, million

	2015	15/Jan/2016	15/Jan/2016	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,723	175,232	-523	-1,491
(B) Gross international reserve	177,584	176,356	-965	-1,228
Pemex	--	--	12	18
Federal govt	--	--	-195	-198
Market operations	--	--	-800	-1,006
Other	--	--	18	-42
(C) Short-term government's liabilities	861	1,124	-442	263

Source: Banco de México

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'21) 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 12:30pm (EST).

Auction specifics (Tuesday, January 26, 2016)

	Maturity	Coupon rate, %	To be auctioned[1]	Previous yield[2]
Cetes				
1m	25-Feb-16	- -	5,500	3.09
3m	28-Apr-16	- -	9,500	3.29
6m	21-Jul-16	- -	11,000	3.44
Mbono				
5y	10-Jun-21	6.50	8,500	5.76
Udibono				
10y	04-Dec-25	4.50	700	3.33

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

Oil exports will continue to fall in December. On Wednesday (January 27), at 10:00am (EST), *INEGI* will make available its trade report for December, where we expect to see a US$566 million surplus. On the exports side, we will probably see a 46.3% yoy contraction of oil exports given the significant fall in oil prices during the period in question. Moreover, non-oil exports could have expanded 2.7% yoy, on the back of a 2.8% expansion in manufacturing exports.

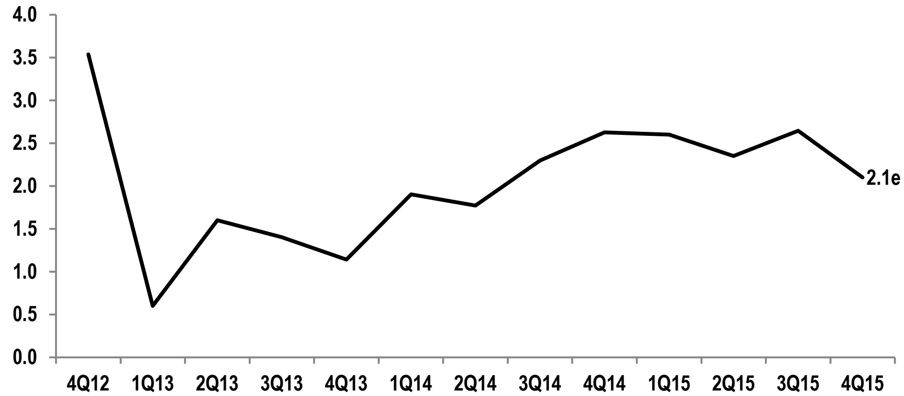
On the imports side, we estimate a 1.7% yoy contraction in total imports. Taking a look at the breakdown, we estimate that imports of consumption goods decreased 2.5% yoy, while imports of intermediate goods could have fallen 2.3% yoy. Finally, we estimate a 4.1% expansion in capital goods imports.

Mexico's preliminary GDP will stand at 2.1% yoy in 4Q15. On Friday, *INEGI* will publish its "*Preliminary Estimation of GDP*" report. For the estimation of this preliminary figure, *INEGI* uses the economic reports published for the first two months of each quarter, and adds the available information for the third month. The missing figures for the last month of the quarter are estimated using econometric models. In this regard, the preliminary estimation of GDP will cover 80% with the direct information available, and will estimate the remaining 20%.

Given the economic figures published for October and November, we believe that the preliminary estimation will show a 2.1% yoy growth for the Mexican economy during 4Q15 below the 2.6% observed in 3Q15. In this regard, the moderate growth in the Mexican economy will be mainly explained by the slowdown in the industrial sector (0.3% yoy) derived from the sharp deceleration in the manufacturing industry coupled with the recession in the mining sector. However, we believe that services will continue to show an upward trend and will likely show a 3.2% yoy growth.

With this report, it is likely that the Mexican economy grew 2.4% in 2015, above the 2.1% growth in 2014.

GDP
% yoy



Source: INEGI, Banorte-Ixe

Banking credit will show a 10.4% yoy increase in December. Banco de Mexico will make available its banking credit report on Friday (January 29) at 10:00am (EST). It is our take that banking credit continued flowing in December. In particular, we estimate a 10.4% yoy expansion in banking credit (in real terms) as a result of increases in the area of 7.3%, 10%, and 13.5% yoy in consumer, housing and business credit, respectively. With December's figure, we believe that private banking credit increased 8.2% during 2015.

The MoF's quarterly report. Finally, on Friday (January 29), the Ministry of Finance (MoF) will make its quarterly finance report available. On the revenue side, we will be looking at non-oil tax collection as it provides additional information about domestic demand dynamics. Finally, it will be important to evaluate the evolution of public sector debt, which currently represents about 43.5% of GDP.

BANORTE IXE

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