

Ahead of the Curve

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Market focus this week will be on February's monthly inflation and the consumer confidence report

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- **Monthly inflation report (February).** On Thursday, at 9:00am, INEGI will release its monthly inflation report. We are forecasting a 0.58% m/m increase in February. In the core index, we expect an increase of 0.76% m/m. Inflation during the period in question will be explained by pressures on goods prices along with higher services prices. With these results, annual inflation will stand at 4.86% yoy in February (previous: 4.72%) while core inflation will reach 4.25% (previous:3.84% yoy).
- **Consumer confidence (February).** On Monday at 9:00am (EST), Banxico and INEGI will publish its February's monthly survey on consumer confidence, where we expect a 20.6% yoy contraction, with the index reaching 70.4 points, marginally above January's 68.5 points. In seasonally adjusted terms, we expect confidence levels to rise 4.9% m/m.

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Mexico weekly calendar

DATE	HOOR (EST)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 6-Mar	9:00am	Consumer confidence	February	index	<u>70.4</u>	--	68.5
Tue 7-Mar	10:00am	International reserves	3-Mar	US\$ bn	--	--	175.1
Tue 7-Mar	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 3y MBono (Jun'20); 3y Udibonos (Dec'20)					
Tue 7-Mar	4:30pm	Citibanamex bi-weekly survey of economic expectations					
Thu 9-Mar	9:00am	CPI inflation	February	% m/m	<u>0.58</u>	0.55	1.70
				% yoy	<u>4.86</u>	4.81	4.72
		Core		% m/m	<u>0.76</u>	0.72	0.58
				% yoy	<u>4.25</u>	--	3.84
Fri 10-Mar		Wage negotiations	February	%	<u>4.1</u>	--	4.1

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

February’s consumer confidence will show a marginal increase after its historical fall. On Monday at 9:00am (EST), Banxico and *INEGI* will publish its February’s monthly survey on consumer confidence, where we expect a 20.6% yoy contraction, with the index reaching 70.4 points, marginally above January’s 68.5 points. In seasonally adjusted terms, we expect confidence levels to rise 4.9% m/m.

We believe that the 4.9% m/m increase in consumer confidence will be explained by the appreciation of the Mexican currency coupled with the Federal Government’s decision to maintain gasoline prices. However, despite February’s increase, consumer confidence will remain around its historical low levels as a result of: (1) Lower private consumption and private investment, as a result of the deceleration of the Mexican economy; (2) lower investment given the uncertainty surrounding the impact Trump’s economic policies on the Mexican economy, particularly through our trade relationship with the US; and (3) higher inflation stemming from the significant depreciation of the Mexican currency and the liberalization of gasoline prices.

Weekly international reserves report. On Tuesday, at 9:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves increased by US\$167 million amounting to US\$175.1 billion. According to Banxico’s report, this figure comes mainly as a result of: (1) USD sales to the Federal Government amounting to US\$7 million; and (2) a US\$174million increase 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\$1.4billion this year (please refer to the table below).

Banxico's foreign reserve accumulation detail

US\$, million

	2016	Feb 24, 2017	Feb 24, 2017	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,542	175,145	167	-1,395
(B) Gross international reserve	178,025	181,814	5,747	3,789
Pemex	--	--	4,927	4,227
Federal government	--	--	857	664
Market operations	--	--	0	-2,000
Other	--	--	-37	896
(C) Short-term government's liabilities	1,483	6,667	5,580	5,185

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 3-year fixed-rate Mbonos (Jun’20), as well as 3-year inflation-linked Udibonos (Dec’20), 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, March 7, 2016)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²	
Cetes					
	1m	6-Apr-17	--	7,000	6.25
	3m	8-Jun-17	--	11,000	6.40
	6m	31-Aug-17	--	11,500	6.64
M Bono					
	3y	11-Jun-20	8.00	8,500	6.94
Udibonos					
	3y	10-Dec-20	2.50	950	2.80

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, growth, and monetary policy forecasts. On Tuesday at 4:30pm (EST) *Citibanamex* will release its bi-weekly survey of economic expectations, where market participants will focus on analysts' monetary policy assessments after the publication of Banxico's QIR.

In addition, analysts will also focus on the inflation forecasts for February (to be published on Thursday), as well as on CPI estimations for 2017. Moreover, *Citibanamex* will also publish consensus' growth and FX forecasts for 2016-17, where we expect marginal downward revisions to the median growth forecast. Moreover, we believe that the majority of economists will discount a higher appreciation of the Mexican currency given the announcement of the FEC's (*Foreign Exchange Commission*) hedge program.

Inflation in February will be explained by pressures on the price of goods along with higher prices of services. On Thursday, at 9:00am, INEGI will release its monthly inflation report. We are forecasting a 0.58% m/m increase in February. In the core index, we expect an increase of 0.76% m/m. Inflation during the period in question will be explained by pressures on goods prices along with higher services prices.

We expect this figure to be 14bps higher than the observed in same period last year, derived from: (1) 19.8bps stemming from a higher contribution of goods (36.6bps vs. 16.8 in 2016); (2) 9.8bps stemming from a higher contribution of services prices (19.9bps vs. 10.1 in 2016); and (3) -24.4bps from a lower contribution agriculture prices (-7.5bps vs. 16.9 in 2016) , as shown in the next table.

Inflation by components in February

% monthly incidence

	Banorte-Ixe	2016	Difference
Total	0.58	0.44	0.14
Core	0.56	0.27	0.30
Goods	0.37	0.17	0.20
Processed foods	0.15	0.04	0.11
Other goods	0.22	0.12	0.09
Services	0.20	0.10	0.10
Housing	0.05	0.04	0.01
Education	0.02	0.01	0.01
Other services	0.13	0.05	0.08
Non-core	0.01	0.17	-0.16
Agriculture	-0.08	0.17	-0.24
Fruits & vegetables	-0.09	0.10	-0.20
Meat & eggs	0.02	0.07	-0.05
Energy & government tariffs	0.09	0.00	0.09
Energy	0.05	-0.03	0.07
Government tariffs	0.04	0.02	0.02

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

With these results, annual inflation will stand at 4.86% yoy in February (previous: 4.72%) while core inflation will reach 4.25% (previous:3.84% yoy).

Wage negotiations will climb 4.1% during February. Finally, on Friday, the Ministry of Labor (MoL) will publish the contractual wage negotiations for February. We expect workers to have negotiated an average increase of 4.1%, in line with the figure seen in January. Despite the significant increase in the minimum wage last December, we have not yet seen major pressures in salary negotiations. However, by adding this to the increase in energy prices, we could see larger increases in the coming months.

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