

## Ahead of the Curve

Market focus this week will on December's consumer confidence report

- Consumer confidence (December).** On Friday at 9:00am (EST), Banxico and *INEGI* will publish its December's monthly survey on consumer confidence, where we expect a 7.6% yoy contraction, with the index reaching 82.5 points, its lowest level since March 2010. However, in seasonally adjusted terms, we expect confidence levels to increase 0.4% m/m. We consider that the higher-than-expected increase in wages could foster a slightly more favorable outlook for the future economic outlook of Mexican households

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Mexico weekly calendar

DATE	TIME (EST)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 2-Jan	9:00am	PMI's survey (IMEF)	December				
		Manufacturing		index	<u>48.9</u>	--	49.4
		Non-manufacturing		index	<u>48.6</u>	--	49.1
Mon 2-Jan	10:00 am	Family remittances	November	US\$ mn	<u>2,390.1</u>	--	2,216.4
Tue 3-Jan	10:00am	International reserves	30-Dec	US\$ bn	--	--	176.3
Tue 3-Jan	12:30pm	Government weekly auction: 1-, 3-, 6-, 12-month CETES; 30y MBono (Nov'42); 30y Udibonos (Nov'46); 5y Bondes D					
Fri 6-Jan	9:00am	Consumer confidence	December	index	<u>82.5</u>	--	84.4

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

**December's PMI surveys.** On Monday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators for December. We expect manufacturing PMI at 48.9, marginally below the 49.4 observed in November (seasonally adjusted terms). We believe that the marginal reduction in the manufacturing PMI will be explained by the expectation of lower growth prospects for Mexico's manufacturing sector as a result of the electoral process in the US.

In addition, we believe that the non-manufacturing PMI will stand at 48.6 points from 49.1 points. In this regard, we believe that the deceleration in the overall economy will translate into a lower economic growth for the construction and services industries, which encompass most of the firms measured in *IMEF's* non-manufacturing survey.

**Family remittances will post a 26.1% yoy expansion in November.** Also on Monday, at 10:00am (EST), Banxico will make its family remittances monthly data available. We expect Mexican workers living abroad -mainly in the US-, to have sent US\$2,390.1 million to their families in Mexico during November. This would imply a 26.1% yoy expansion, above October's 7.1% gain.

We believe that the significant expansion in the flow of remittances during November will be determined by the electoral outcome in the US, since Mexican migrants without citizenship are probably discounting a higher probability of being deported. In this context, we consider that the flow of remittances during December and January will be also determined by this factor.

**Weekly international reserves report.** On Tuesday, at 10:00am (EST), Banco de Mexico will release its weekly balance report. Last week, net international reserves increased by US\$38 million amounting to US \$176.3 billion on the 2<sup>nd</sup> of December. According to Banxico's report, this figure comes mainly as a decrease in short term liabilities countered by US dollar sales from the Central Bank to Pemex. In this context, the Central Bank's international reserves have diminished by US\$452 million this year (please refer to the table below).

**Banxico's foreign reserve accumulation details**

US\$, million

	2015	23/Dec/2016	23/Dec/2016	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,735	176,283	38	-452
(B) Gross international reserve	177,597	180,818	-2,619	3,218
Pemex	--	--	-3,182	4,857
Federal government	--	--	32	2,002
Market operations	--	--	0	-5,562
Other	--	--	531	1,987
(C) Short-term government's liabilities	861	4,532	-2,657	3,670

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 30-year fixed-rate Mbonos (Nov’42), as well as 30-year inflation-linked Udibonos (Nov’46), and 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 12:30pm (EDT).

**Auction specifics (Tuesday, January 3, 2016)**

	Maturity	Coupon rate, %	To be auctioned <sup>1</sup>	Previous yield <sup>2</sup>
<b>Cetes</b>				
1m	2-Feb-17	--	9,000	5.69
3m	6-Abr-17	--	12,000	5.96
6m	6-Jul-17	--	11,500	6.23
12m	4-Ene-18	--	11,500	6.20
<b>MBono</b>				
30y	13-Nov-42	7.75	3,000	7.67
<b>Udibono</b>				
30y	8-Nov-46	4.00	300	3.79
<b>Bondes D</b>				
5y	18-Nov-21	--	4,500	0.24

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

**December’s consumer confidence will stand at its lowest level in six years.**

On Friday at 9:00am (EST), Banxico and *INEGI* will publish its December’s monthly survey on consumer confidence, where we expect a 7.6% yoy contraction, with the index reaching 82.5 points, its lowest level since March 2010. However, in seasonally adjusted terms, we expect confidence levels to increase 0.4% m/m.

We believe that the 0.4% m/m expansion in consumer confidence will be explained by the 9.85% increase in minimum wages, despite the significant depreciation of the Mexican currency as a result of the US election. In the first case, we consider that the higher-than-expected increase in wages could foster a more favorable outlook for the future economic outlook for Mexican households. Nevertheless, we believe that the strong depreciation of the Mexican currency after the election result in the US will probably cause deterioration in inflation expectations, which will be reflected in a reduction in the purchasing power of Mexican households.

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