

Ahead of the Curve

September 7, 2018

Market focus this week will be on July's industrial output

- Industrial production (July).** On Tuesday, at 9:00am (ET), *INEGI* will release its monthly industrial production report. We anticipate a 0.6% yoy increase in total output in July. Using seasonally adjusted figures, we expect a 0.5% m/m expansion. Taking a look at the breakdown, and analyzing the non-seasonally adjusted figures, we forecast a 2% yoy growth in manufacturing output. Moreover, construction activity could also edge-up 2%. However, we forecast a 6.2% contraction in mining activity due to a fall in oil and gas production. In this regard, Pemex reported a 7.3% contraction in oil production and a 6.9% fall in natural gas during the period in question

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Document for distribution among the general public

Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 10-Sep		Wage negotiations	August	%	<u>4.7</u>	--	5.7
Tue 11-Sep	9:00am	Industrial production	July	% yoy	<u>0.6</u>	--	0.2
		(sa)		% m/m	<u>0.5</u>	--	0.3
		Mining		% yoy	<u>-6.2</u>	--	-6.6
		Utilities		% yoy	<u>3.1</u>	--	1.8
		Construction		% yoy	<u>2.0</u>	--	1.0
		Manufactures		% yoy	<u>2.0</u>	--	2.0
Tue 11-Sep	10:00am	International reserves	Sep-7	US\$ bn	--	--	173.6
Tue 11-Sep	12:30pm	Government weekly auction: 1-, 3-, 6-, 12-month CETES; 20y Mbono (Nov'38); 30y Udibono (Nov'46); 5y Bondes D					

Source: Banorte; Bloomberg

Proceeding in chronological order...

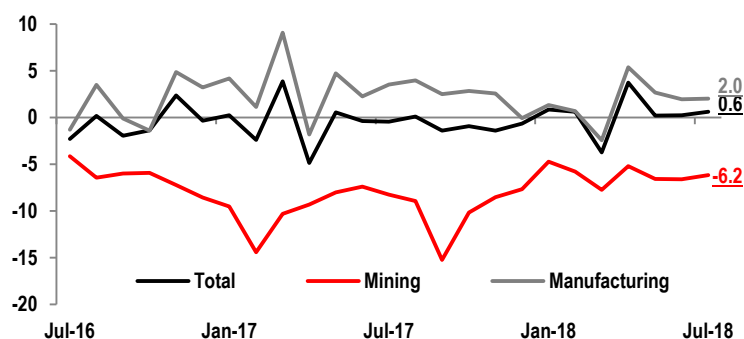
Wage negotiations could have 4.7% during August. On Monday, the Ministry of Labor (MoL) will publish the outcome of contractual wage negotiations in August. We expect workers to have negotiated an average growth of 4.7%, below the 5.7% seen in July. We believe that this figure will continue to be explained by the high levels of inflation seen at the end of 2017 and the beginning of 2018, as well as the sharp increase in the minimum wage in the end of 2017. However, negotiations will be lower than those seen in the previous months given that we expect the number of negotiations in the public sector -which have averaged 3.5% year-to-date-, to increase.

We expect a 0.6% yoy expansion in July's industrial output. On Tuesday, at 9:00am (ET), INEGI will release its monthly industrial production report. We anticipate a 0.6% yoy increase in total output in July. Using seasonally adjusted figures, we expect a 0.5% m/m expansion.

Taking a look at the breakdown, and analyzing the non-seasonally adjusted figures, we forecast a 2% yoy growth in manufacturing output. Moreover, construction activity could also edge-up 2%. However, we forecast a 6.2% contraction in mining activity due to a fall in oil and gas production. In this regard, Pemex reported a 7.3% contraction in oil production and a 6.9% fall in natural gas during the period in question.

Industrial production

% yoy



Source: INEGI, Banorte

Weekly international reserves report. On Tuesday, at 10:00am (ET), Banco de Mexico will release its weekly balance report. Last week, net international reserves increased by US\$37 million amounting to US\$173.6 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\$804 million during 2018 (please refer to the following table).

Banxico's foreign reserve accumulation detail

US\$, million

	2017	Aug 31, 2018	Aug 31, 2018	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	172,802	173,606	37	804
(B) Gross international reserve	175,450	176,502	183	1,052
Pemex	--	--	63	-647
Federal government	--	--	-38	247
Market operations	--	--	0	0
Other	--	--	159	1,451
(C) Short-term government's liabilities	2,648	2,896	147	248

Source: Banco de México

Weekly government bond auction. In addition, on Tuesday, 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 12:30pm (ET).

Auction specifics (Tuesday, September 11, 2018)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	11-Oct-18	--	7,000	7.70
3m	13-Dec-18	--	11,000	7.93
6m	14-Mar-19	--	11,500	8.09
12m	12-Sep-19	--	12,500	8.15
Bondes D				
5y	31-Aug-23	--	5,000	0.16
M Bono				
20y	18-Nov-38	8.50	2,000	7.87
M Bono				
30y	08-Nov-46	4.00	UDIS 400	3.75

Source: Banorte 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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HOLD	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
SELL	<i>When the share expected performance is lower than the MEXBOL estimated performance.</i>

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