

## Ahead of the Curve

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Market focus this week will be on inflation for the first half of July and May's economic activity

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- Bi-weekly inflation report (1H-July).** On Tuesday, at 9:00am, *INEGI* will release its bi-weekly inflation report for the first half of July. We are forecasting a 0.23% 2w/2w increase in the headline index, while we expect the core index to climb 0.12% 2w/2w. Inflation during the period in question will be mainly explained by the increase in the price of fresh fruits and vegetables. In addition, we also expect pressures from energy prices, particularly gasoline, along with higher prices of other services. With these results, 12-month inflation will stand at 4.75% in the first half of July, higher than the 4.65% seen in June
- Economic activity indicator (May).** Next Monday, *INEGI* will release its monthly global economic activity indicator for May (GDP monthly proxy), where we expect a 2.4% yoy growth. Using seasonally adjusted figures, we expect a 0.7% m/m increase. As we had mentioned in our last report, the 0.3% yoy expansion in industrial production during May was mostly explained by the 2.8% yoy increase in manufacturing output offset by the 6.6% yoy contraction in mining. In addition, construction posted a 0.3% yoy increase. Moreover, we believe that services will show a 3.3% yoy expansion (nsa figures), considering that recent reports have shown positive figures as a result of the upward trend in the formal job creation coupled with a banking credit expansion

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### Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 23-Jul	9:00am	Global economic indicator	May	% yoy	<u>2.4</u>	2.0	4.5
		(sa)		% m/m	<u>0.7</u>	--	-0.6
		Primary activities		% yoy	<u>6.8</u>	--	3.9
		Industrial production		% yoy	<u>0.3</u>	--	3.8
		Services		% yoy	<u>3.3</u>	--	4.9
Tue 24-Jul	9:00am	CPI inflation	1H July	% 2w/2w	<u>0.23</u>	0.25	0.25
				% yoy	<u>4.75</u>	4.79	4.76
		Core		% 2w/2w	<u>0.12</u>	0.15	0.14
			% yoy	<u>3.57</u>	--	3.64	
Tue 24-Jul	10:00am	International reserves	Jul-20	US\$ bn	--	--	
Tue 24-Jul	12:30pm	Government weekly auction: 1-, 3-, 6-months CETES; 3y Mbono (Dec'21); 3y Udiibonos (Jun'22)					
Wed 25-Jul	9:00am	Retail sales	May	% yoy	<u>1.2</u>	--	3.3
		(sa)		% m/m	<u>-0.1</u>	--	-1.1
Thu 26-Jul	9:00am	Unemployment rate	June	%	<u>3.18</u>	--	3.22
		(sa)		%	<u>3.20</u>	3.30	3.17
Fri 27-Jul	9:00am	Trade balance	June	US\$ mn	<u>437.2</u>	--	-1,586.8
		Total exports		% yoy	<u>10.7</u>	--	10.9
		Oil exports		% yoy	<u>60.9</u>	--	73.6
		Non-oil exports		% yoy	<u>8.0</u>	--	7.8
		Total imports		% yoy	<u>9.5</u>	--	11.5

Source: Banorte; Bloomberg

Proceeding in chronological order...

**We expect a 2.4% yoy expansion in May's IGAE.** Next Monday, *INEGI* will release its monthly global economic activity indicator for May (GDP monthly proxy), where we expect a 2.4% yoy growth. Using seasonally adjusted figures, we expect a 0.7% m/m increase

As we had mentioned in our last report, the 0.3% yoy expansion in industrial production during May was mostly explained by the 2.8% yoy increase in manufacturing output offset by the 6.6% yoy contraction in mining. In addition, construction posted a 0.3% yoy increase.

Moreover, we believe that services will show a 3.3% yoy expansion (nsa figures), considering that recent reports have shown positive figures as a result of the upward trend in the formal job creation coupled with a banking credit expansion.

**Inflation during the first half of July will be explained by an increase in fresh fruit and vegetables prices.** On Tuesday, at 9:00am, *INEGI* will release its bi-weekly inflation report for the first half of July. We are forecasting a 0.23% 2w/2w increase in the headline index, while we expect the core index to climb 0.12% 2w/2w.

Inflation during the period in question will be mainly explained by the increase in the price of fresh fruits and vegetables. In addition, we also expect pressures from energy prices, particularly gasoline, along with higher prices of other services.

We forecast inflation to be practically in line with the figure seen in 2017, however, we expect to see some differences in: (1) energy prices (5 vs. -3bps in 2017); (2) other services (6bps vs. 11bps in 2017); and (3) processed foods (2bps vs. 4bps in 2017), among others (refer to the table below).

With these results, 12-month inflation will stand at 4.75% in the first half of July, higher than the 4.65% seen in June. Moreover, we forecast core inflation at 3.57% yoy (previous: 3.64% yoy). Currently, we think that inflation is being pressured by higher energy prices, an effect that we consider temporary, and once it dissipates, inflation will continue to converge towards our forecast of 4.3% at the end of the year.

### 1H-July inflation by components

% bi-weekly incidence

	2018 F	2017	Difference
Headline	0.23	0.24	0.00
Core	0.09	0.14	-0.05
Goods	0.01	0.01	0.00
Processed foods	0.02	0.04	-0.02
Other goods	-0.01	-0.02	0.01
Services	0.08	0.13	-0.05
Housing	0.02	0.02	0.00
Education	0.00	0.00	0.00
Other services	0.06	0.11	-0.05
Non-core	0.14	0.10	0.05
Agricultural	0.09	0.12	-0.03
Fresh fruits and vegetables	0.07	0.10	-0.03
Meat and egg	0.02	0.02	0.00
Energy and government regulated	0.06	-0.02	0.08
Energy	0.05	-0.03	0.08
Government regulated	0.00	0.01	0.00

Source: Banorte, INEGI

**Weekly international reserves report.** Also on Tuesday, at 10:00am (ET), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US\$67 million amounting to US\$173.3 billion. According to Banxico's report, this figure comes mainly as a result of a negative valuation effect in central bank assets. In this context, the central bank's international reserves have increased by US\$494 million during 2018 (please refer to the following table).

#### Banxico's foreign reserve accumulation detail

US\$, million

	2017	Jul 13, 2018	Jul 13, 2018	Year-to-date
International reserves (B)-(C)	172,802	173,296	-67	494
(B) Gross international reserve	175,450	178,052	402	2,602
Pemex	--	--	692	157
Federal government	--	--	-193	1,360
Market operations	--	--	0	0
Other	--	--	-97	1,085
(C) Short-term government's liabilities	2,648	4,756	469	2,108

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 3-year fixed rate Mbonos (Dec'21), 3-year inflation-linked Udibonos (Jun'22), 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 (ET).

#### Auction specifics (Tuesday, July 24, 2018)

	Maturity	Coupon rate, %	To be auctioned <sup>1</sup>	Previous yield <sup>2</sup>
<b>Cetes</b>				
1m	23-Aug-18	--	7,000	7.74
3m	25-Oct-18	--	11,000	7.88
6m	17-Jan-19	--	11,500	8.06
<b>M Bono</b>				
3y	09-Dec-21	7.25	8,500	7.79
<b>Udibono</b>				
3y	09-Jun-22	2.00	UDIS 950	3.77

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

**Retail sales will post a 1.2% yoy expansion in May.** On Wednesday at 9:00am (ET), *INEGI* will release its report on retail sales in the fifth month of 2018, where we anticipate a 1.2% yoy expansion. However, using seasonally adjusted figures, we forecast a slight drop of 0.1% m/m.

We believe that retail sales expansion will be mainly explained by the dynamism in non-durable goods sales. In this regard, *ANTAD* same-store sales show a 1% growth in real terms, while imports of non-oil consumption goods increased 2.5% yoy. Nevertheless, vehicle sales posted a 6.9% yoy contraction, which could partially offset positive effects in other sectors.

**The unemployment rate in June will stand at 3.18%.** On Thursday, *INEGI* will publish its unemployment report for the sixth month of 2018, in which we estimate an unemployment rate of 3.18% nsa, marginally below the 3.22% observed in May. In addition, in seasonally adjusted terms, we believe that the unemployment rate could stand at 3.22% which implies a 0.03%-pts increase from last month's figures.

We believe that the marginal increase in the unemployment rate (seasonally adjusted) will be explained by the statistical variation given the design of the survey. However, it is worth noting that the unemployment rate continues to stand at low levels.

**Surge in oil exports continues to support trade figures.** Finally, on Friday at 9:00am (ET), *Banxico* and *INEGI* will make available their preliminary trade report for June, where we expect to see a US\$437.2 million surplus. On the exports side, we will probably see a 60.9% yoy expansion of oil exports as a result of the higher prices for the Mexican crude oil basket (56.9% yoy). In addition, non-oil exports could have increased 8% yoy, on the back of a 7.5% growth in manufacturing exports.

On the imports side, we estimate a 9.5% yoy expansion in total imports, as a result of the increase in oil related imports. Moreover, taking a look at the breakdown, we believe that non-oil consumption goods imports edged-down 1.9% yoy, while imports of intermediate goods could have advanced 8.8% yoy. Finally, we estimate a 0.9% yoy contraction in capital goods imports.

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