Ahead of the Curve

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Market focus this week will on Banxico's QIR

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- **Banxico's QIR.** On Thursday, Banco de Mexico will publish its Quarterly Inflation Report (QIR) for 4Q15 around 1:30pm (EST). The release will be accompanied by a press conference led by Governor Carstens. In our view, market participants will focus on two issues: (1) Any clues regarding Banxico's monetary policy after the board of governors decided unanimously to increase to 3.75% (50bps hike) the reference rate in an extraordinary meeting ; and (2) Banxico's GDP and output gap projection after the fiscal cut announced by the MoF.

- **February's PMI surveys.** Also on Tuesday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators for February. We expect manufacturing PMI at 52.1, above the 51.5 observed in January (seasonally adjusted terms). We believe that manufacturing activity was supported by the recovery of consumer spending in Mexico and the significant depreciation of the MXN.

Mexico weekly calendar

DATE	HOUR (EST)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 29-Feb	**10:00am**	**Comercial banking credit**	January	% yoy	8.7	--	11.7
		Consumption		% yoy	6.6	--	8.8
		Housing		% yoy	8.6	--	10.9
		Firms			11.5	--	14.5
Tue 1-Mar	**10:00am**	**Family remittances**	January	US$ mn	1,763.2	1,785.5	2,188
Tue 1-Mar	**10:00am**	**International reserves**	26-Feb	US$ bn	--	--	174.7
Tue 1-Mar	**12:30pm**	**Government weekly auction: 1-, 3-, 6-, 12-month CETES; 20y Mbono (Nov'34); 30y Udibonos (Nov'46); 5y Bondes D**					
Tue 1-Mar	**1:00pm**	**PMI's survey (IMEF)**	February				
		Manufacturing		index	52.1	51.1	51.5
		Non-manufacturing		index	51.2	50.5	50.2
Tue 1-Mar	**3:30pm**	**Budget balance**	January	MXN bn	--	--	-637.6
Wed 2-Mar	**10:00am**	**Banxico's survey of economic expectations**	February				
Thu 3-Mar	**1:30pm**	**Banxico's quarterly inflation report**	4Q15				
Fri 4-Mar	**10:00am**	**Gross fixed investment**	December	% yoy	-2.1	-1.2	-0.4
		Machinary and equipment		% yoy	1.4	--	5.5
		Domestic		% yoy	5.6	--	1.6
		Imported		% yoy	-0.7	--	7.5
		Construction		% yoy	-4.2	--	-3.9

Source: Banorte-IXE; Bloomberg

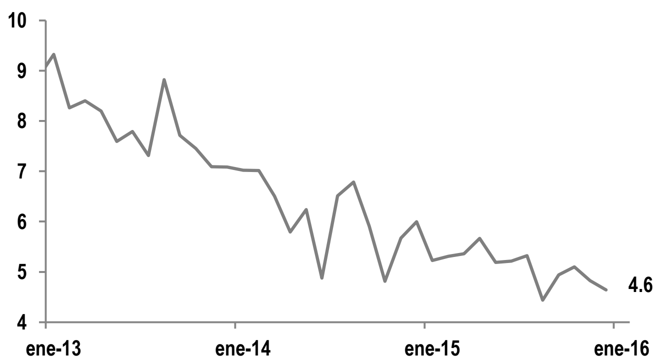
Proceeding in chronological order...

Banking credit will show an 8.7% yoy increase in January. Banco de Mexico will make available its banking credit report on Monday (February 29) at 10:00am (EST). It is our take that banking credit continued flowing in January. In particular, we estimate an 8.7% yoy expansion in banking credit (in real terms), as a result of increases in the area of 6.6%, 8.6%, and 11.5% yoy in consumer, housing and business credit, respectively.

Family remittances will post a 8.4% yoy expansion. On Tuesday, 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$1,763.2 mn to their families in Mexico during January. This would imply a 8.4% yoy expansion.

We believe that remittances in January will benefit from the better growth dynamics of the Mexican immigrant labor force in the U.S. Analyzing the recent figures from the Current Population Survey, the unemployment rate for Mexican illegal and legal immigrants has fallen significantly in the last five months (refer to the charts below) which implies that we will probably continue to see an upward trend in these inflows.

Unemployment rate for Mexican legal migrant workers without citizenship
%, sa



Source: Banorte-Ixe

Unemployment rate for Mexican legal migrant workers with citizenship
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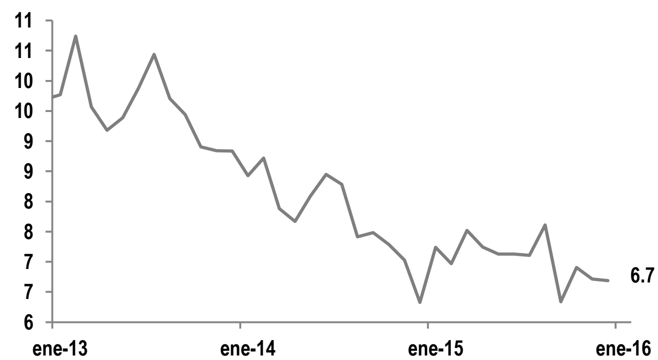

Source: Banorte-Ixe

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$309mn amounting to US $174.7bn on February 19. According to Banxico's report, this figure comes mainly as a result of: (1) Dollar sales by Pemex to the Central Bank for US$1,000mn; (2) Dollar sales by the Federal Government to Banxico for US$1,322mn; (3) US$2,000mn decrease explained by direct sales of dollars into the market, according to the determination of the Federal Exchange Commission; along with a (4) US$13mn decrease 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$2,025mn international reserves this year (please refer to the table below).

Banxico's foreign reserve accumulation details
US$, million

	2015	19/Feb/2016	19/Feb/2016	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,735	174,711	309	-2,025
(B) Gross international reserve	177,597	177,196	-2,601	-401
Pemex	--	--	-1,367	2,571
Federal govt	--	--	1,186	1,421
Market operations	--	--	-2,400	-5,562
Other	--	--	-20	1,169
(C) Short-term government's liabilities	861	2,485	-2,911	1,624

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 20-year fixed-rate Mbonos (Nov'34), 30-year inflation-linked Udibonos (Nov'46), as well as 5-year BondesD, 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 (EST).

Auction specifics (Tuesday, March 1, 2016)

	Maturity	Coupon rate, %	To be auctioned[1]	Previous yield[2]
Cetes				
1m	31-Mar-16	- -	5,500	3.85
3m	02-Jun-16	- -	9,500	3.99
6m	1-Sep-16	- -	11,000	4.12
12m	2-Feb-17	- -	11,000	3.53
Mbono				
20y	23-Nov-34	10.00	3,000	6.88
Udibono				
30y	08-Nov-46	4.00	450	3.90
Bondes D				
5y	21-Jan-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

February's PMI surveys. Also on Tuesday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators for February. We expect manufacturing PMI at 52.1, above the 51.5 observed in January (seasonally adjusted terms). We believe that manufacturing activity was supported by the recovery of consumer spending in Mexico and the significant depreciation of the MXN.

Moreover, we believe that the non-manufacturing PMI will stand at 51.2 points from 50.2 points. In this regard, we believe that the recent upward trend in domestic demand, given the recovery in both the labor market and the household's purchasing power, could have triggered a faster growth within the services, which will be reflected in the non-manufacturing PMI.

The MoF's monthly report. On Tuesday (March 1st), the Ministry of Finance (MoF) will make its monthly 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 46% of GDP.

Banxico's survey of economic expectations. On Wednesday, at 10:00am (EST), Banco de Mexico will publish its monthly survey of economic expectations. In our view, market participants' focus will be on three issues: (1) 2016 inflation expectations that currently are at 3.1% (Banorte-Ixe: 2.8%); (2) mid-term inflation expectations—quite important for the central bank's board—that are currently at 3.38% (Banorte-Ixe: 3%); and (3) the analysts' assessments of GDP growth for 2016 given the revisions made by several economists and the fiscal cut announced by the Federal Government (currently at 2.69%; Banorte-Ixe: 2.3%).

Banxico's QIR. Banco de Mexico will publish its Quarterly Inflation Report (QIR) for 4Q15 on Thursday around 1:30pm (EST). The release will be accompanied by a press conference led by Governor Carstens. In our view, market participants will focus on two issues: (1) Any clues regarding Banxico's monetary policy after Banxico's board of governors decided unanimously to increase to 3.75% (50bps hike) the reference rate in an extraordinary meeting ; and (2) Banxico's GDP and output gap projection after the fiscal cut announced by the MoF.

In the first case, we believe that market participants will focus on Banxico's monetary policy assessments. In the communiqué released after the 50bps hike, the central bank argued that the increased volatility in financial markets, along with a very adverse external environment, in which oil prices continue to decline, could have a negative effect on inflation expectations. Nevertheless, the monetary authority stressed that this measure *"...does not start a monetary tightening cycle..."*.

Market participants will also focus on the central bank's assessment regarding growth and output gap projections after the fiscal cut announced by the Federal Government. The Ministry of Finance announced a preemptive spending cut for MXN132.3bn (~US$7.2bn), which is equivalent to 0.7% of GDP, and it also aims to deal with the deterioration of global conditions. From this amount, the federal government will reduce current expenses by MXN32.3bn (~US$1.8bn), without affecting security or social programs. The rest of the adjustment will come from *Petróleos Mexicanos*, with the details to be announced later on.

We expect a 2.1% yoy contraction in December's GFI. On Friday at 9:00am (EST), *INEGI* will publish its December's gross fixed investment (GFI) report. We anticipate GFI down by 2.1% yoy. We believe that within the report we will probably see a .07% yoy reduction in imported machinery and equipment given that trade balance figures for December showed a similar fall. Moreover, we expect a 5.6% growth in domestic machinery and equipment. However, we believe that construction spending could fall 4.2% yoy derived from the lower construction spending observed in the latest industrial production figures.

GFI estimates: December 2015
(unit)

%yoy	Dec-15	Dec-14	Jan-Dec, '15	Jan-Dec, '14
Total	-2.1	6.1	3.5	2.9
Machinery and equipment	1.4	9.9	8.2	5.6
Domestic	5.6	15.2	8.1	5.2
Imported	-0.7	7.4	8.2	5.7
Construction	-4.2	4.0	0.6	1.4
Annual contribution	**Dec-15**	**Dec-14**	**Difference**	
Total	-2.1	6.1	-8.2	
Machinery and equipment	0.5	3.6	-3.1	
Domestic	0.7	1.8	-1.1	
Imported	-0.2	1.8	-2.0	
Construction	-2.6	2.5	-5.1	
%m/m sa	**Dec-15**	**Nov-15**	**Difference**	
Total	-1.3	-0.6	-0.6	
Machinery and equipment	-4.7	-2.8	-2.0	
Domestic	0.8	-3.9	4.7	
Imported	-7.6	-2.6	-4.9	
Construction	-1.0	-0.8	-0.2	

Source: Banorte-Ixe

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