

Ahead of the Curve

April 22, 2016

Market focus this week will on GDP's preliminary report

- Mexico's preliminary GDP (1Q16).** On Friday, *INEGI* will publish its "Preliminary Estimation of GDP" report. For the estimation of this preliminary figure, *INEGI* uses the economic reports published for the first two months of each quarter, and adds the available information for the third month. The missing figures for the last month of the quarter are estimated using econometric models. In this regard, the preliminary estimation of GDP will cover 80% with the direct information available, and will estimate the remaining 20%. Given the economic figures published for January and February, we believe that the preliminary estimation will show a 3% yoy growth for the Mexican economy during 1Q16, above the 2.5% observed in 4Q15. However, GDP's preliminary figure will benefit from the leap-year. Controlling by this calendar effect, Mexico's GDP probably grew 2.6% yoy during the first quarter

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Mexico weekly calendar

DATE	HOUR (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 25-Apr	9:00am	Retail sales	February	% yoy	<u>6.9</u>	<u>5.0</u>	5.2
		sa		% m/m	<u>-0.5</u>	<u>0.2</u>	2.7
Tue 26-Apr	9:00am	Trade balance	March	US\$ mn	<u>-1,179</u>	<u>-34.5</u>	-724.7
		Total exports		% yoy	<u>-8.9</u>	--	-2.3
		Oil exports		% yoy	<u>-50.9</u>	--	-45.8
		Non-oil exports		% yoy	<u>-6.2</u>	--	0.9
		Total imports		% yoy	<u>-4.1</u>	--	2.1
Tue 26-Apr	9:00am	Global economic indicator	February	% yoy	<u>3.8</u>	<u>3.0</u>	2.3
		Primary activities		% yoy	<u>5.7</u>	--	5.4
		Industrial production		% yoy	<u>2.6</u>	--	1.1
		Services		% yoy	<u>4.2</u>	--	2.9
Tue 26-Apr	10:00am	International reserves	22-Apr	US\$ bn	--	--	177.7
Tue 26-Apr	12:30pm	Government weekly auction: 1-, 3-, 6-, and 12-month Cetes; 30y MBono (Nov'42); 30y Udibono (Nov'46); 5y Bondes D					
Wed 27-Apr	9:00am	Unemployment rate	March	%	<u>3.88</u>	<u>3.90</u>	4.2
		sa		%	<u>4.34</u>	<u>4.30</u>	4.3
Fri 29-Apr	9:00am	GDP	1Q16	% yoy	<u>3.0</u>	<u>2.3</u>	2.5
		(sa)		% q/q	<u>0.7</u>	<u>0.5</u>	0.5
		Primary activities		% yoy	<u>7.0</u>	--	2.7
		Industrial production		% yoy	<u>1.5</u>	--	0.2
		Services		% yoy	<u>3.4</u>	--	3.7
Fri 29-Apr	10:00am	Comercial banking credit	March	% yoy	<u>12.4</u>	--	12.8
		Consumption		% yoy	<u>8.4</u>	--	8.8
		Housing		% yoy	<u>9.4</u>	--	9.8
		Non-banking private firms		% yoy	<u>16.0</u>	--	16.4
Fri 29-Apr		Budget balance	March	MXN bn	--	--	-70.1

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

Retail sales will post a 6.9% yoy expansion in February. On Monday at 9:00am (EDT), *INEGI* will publish its retail sales report for February 2016. We anticipate a 6.9% yoy expansion explained in part by a calendar effect, given that the leap-year added an additional day to February. Controlling by this calendar effect, we believe that retail sales increased 3.9% yoy.

February's growth was also explained by the favorable performance of durable goods sales. In particular, vehicles sales increased by 13.5% yoy growth according to *AMIA*'s report. Moreover, *ANTAD* total store sales increased 9.4% yoy in real terms during the period in question. In addition, consumption goods imports -which have a strong correlation with retail sales-, posted a 5% yoy expansion.

Looking ahead, we believe that retail sales will continue to show a favorable performance derived from: (1) An improvement in private banking credit; (2) the contained levels of inflation; and (3) the stronger growth dynamics in the Mexican labor market.

Oil exports will continue to fall in March. On Tuesday, at 10:00am (EDT), *INEGI* will make available its trade report for March, where we expect to see a US\$1,179 million deficit. On the exports side, we will probably see a 50.9% yoy contraction of oil exports given the significant fall in oil exports and prices during the period in question. Moreover, non-oil exports could have decreased 6.2% yoy, on the back of a 6.9% drop in manufacturing exports.

On the imports side, we estimate a 4.1% yoy contraction in total imports. Taking a look at the breakdown, we believe that imports consumption goods decreased 5.5% yoy, while imports of intermediate goods could have fallen 3.9% yoy. Finally, we estimate a 4.4% reduction in capital goods imports.

We expect a 3.8% yoy expansion in February's IGAE. On Tuesday, at 9:00am (EDT), *INEGI* will release its monthly global economic indicator for February (GDP monthly proxy), where we expect a 3.8% yoy expansion. As with our retail sales forecast, we believe that IGAE's growth during the second month of 2016 was partially explained by a calendar effect, given that the leap-year added an additional working day to February's annual growth rate. With calendar adjusted figures, we believe that February's global economic indicator grew 2.5% yoy.

As we had mentioned in our last IP report, and taking into account the calendar-adjusted figures, the 0.8% yoy expansion in industrial production during February was explained in part by the 1.8% yoy growth in manufacturing output. However, despite the unfavorable performance within the manufacturing industry, we believe that the recovery of this sector is on the way, and will strengthen in the first half of 2016 given that the significant depreciation of the Mexican currency could trigger a higher growth in Mexico's manufacturing exports of final goods. In this regard, we believe that the recovery of both manufacturing and construction industries will strengthen in 1H16.

However, IP's headline figure was also affected by the current recession in the mining industry derived from the significant contraction in Mexico's oil production.

We also believe that the 4.2% yoy estimated expansion in services will be explained by the recovery in private consumption (+3.2% yoy with calendar-adjusted figures). In particular, *ANTAD's* retail sales report showed that consumers' spending is gaining momentum, whereas formal job creation has observed a significant recovery in the first quarter of the year.

Weekly international reserves report. On Tuesday, at 10:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US\$11mn amounting to US \$177.7bn on April 15. According to Banxico's report, this figure comes mainly as a result of: (1) Dollar sales by Banxico to the Federal Government for US\$15mn; along with a (2) US\$4mn increase 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 accumulated US\$929mn international reserves this year (please refer to the table below).

Banxico's foreign reserve accumulation details

US\$, million

	2015	15/Apr/2016	15/Apr/2016	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,735	177,665	-11	929
(B) Gross international reserve	177,597	179,149	-231	1,553
Pemex	--	--	-54	2,585
Federal govt	--	--	-221	2,408
Market operations	--	--	0	-5,562
Other	--	--	44	2,121
(C) Short-term government's liabilities	861	1,485	-220	623

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), 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 (EDT).

Auction specifics (Tuesday, April 26, 2016)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	26-May-16	--	5,500	3.74
3m	28-Jul-16	--	9,500	3.79
6m	27-Oct-16	--	11,000	3.92
12m	30-Mar-17	--	11,000	4.11
Mbono				
30y	13-Nov-42	7.75	2,500	6.99
Udibono				
30y	08-Nov-46	4.00	450	3.78
Bondes D				
5y	25-Mar-21	--	4,500	0.21

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

Unemployment rate in March will stand at 3.88%. On Wednesday, *INEGI* will publish its employment report for the third month of 2016, in which we estimate an unemployment rate of 3.88% nsa, below the 4.15% observed in February. In seasonally-adjusted terms, we believe that the unemployment rate could stand at 4.34%, which implies a 0.06%-pts expansion.

It is likely that the job creation in March was affected by the fall in confidence among consumers and firms given the recent volatility in financial markets. However, looking ahead, we are still positive on the outlook regarding the recovery of the economic activity, which will have a significant positive impact on firms' expectations about domestic demand, resulting in a more dynamic labor market.

Mexico's preliminary GDP will stand at 3% yoy in 1Q16. On Friday, *INEGI* will publish its “*Preliminary Estimation of GDP*” report. For the estimation of this preliminary figure, *INEGI* uses the economic reports published for the first two months of each quarter, and adds the available information for the third month. The missing figures for the last month of the quarter are estimated using econometric models. In this regard, the preliminary estimation of GDP will cover 80% with the direct information available, and will estimate the remaining 20%.

Given the economic figures published for January and February, we believe that the preliminary estimation will show a 3% yoy growth for the Mexican economy during 1Q16, above the 2.5% observed in 4Q15. However, GDP's preliminary figure will benefit from the leap-year. Controlling by this calendar effect, Mexico's GDP probably grew 2.6% yoy during the first quarter.

In this regard, the marginally higher growth of the Mexican economy will be mainly explained by the moderate growth in the industrial sector (1.5% yoy) derived from the sharp deceleration in the manufacturing industry coupled with the recession in the mining sector, and the recovery in construction output given the upward trend in private investment projects. Moreover, we believe that services will continue to show a favorable performance (+3.4% yoy) driven by the strong growth of remittances (16% yoy during January and February), the recovery of private bank credit (12.6% yoy in real terms over the same period), and the higher growth of the Mexican labor market (3.7% yoy).



Source: Banorte-Ixe; INEGI

Banking credit will show a 12.4% yoy increase in March. Banco de Mexico will make available its banking credit report on Friday at 10:00am (EDT). It is our take that banking credit continued flowing in March. In particular, we estimate a 12.4% yoy expansion in banking credit (in real terms), as a result of increases in the area of 8.4%, 9.4%, and 16% yoy in consumer, housing and business credit, respectively.

The MoF's quarterly report. On Friday, 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. Moreover, markets will focus on the spending side of the report, in order to assess the execution of the MXN\$132.3 bn fiscal cut (US\$ 7.6 billion) announced by the MoF on February 17. Finally, it will be important to evaluate the evolution of public sector debt, which currently represents about 46% of GDP.

Disclaimer

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