Ahead of the Curve

December 1, 2017

www.banorte.com
www.ixe.com.mx
@analisis_fundam

Alejandro Cervantes
Senior Economist, Mexico
alejandro.cervantes@banorte.com

Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

Market focus this week will be on November's inflation and consumer confidence

- **Monthly inflation report (November).** On Thursday, at 9:00am, *INEGI* will also release its monthly inflation report for November. We are forecasting a 1.01% m/m increase in the headline index, while we expect the core index to rise 0.3% m/m. Inflation during the period in question will be explained mainly by the end of the summer discounts on electricity tariffs, as well as pressures on the prices of domestic gas. However, these pressures will be partially offset by the discounts in the prices of "other goods" and "other services", as a result of the promotions of *El Buen Fin* (*The Good Weekend*)
- **Consumer confidence (November).** On Wednesday at 9:00am (ET), Banxico and *INEGI* will publish its November's monthly survey on consumer confidence, where we expect a 4.6% yoy expansion, with the index reaching 88.3 points. In seasonally adjusted terms, we expect confidence levels to increase 0.7% m/m. It is likely that November's report will show that Mexican consumers are discounting a better economic outlook given the recovery of external demand, and the growth momentum in domestic demand, which will be reflected in consumers' expectations regarding the households and the country's future economic conditions

Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Tue 5-Dec	**9:00am**	**Gross fixed investment**	September	% yoy	-0.2	--	0.3
		Machinary and equipment		% yoy	0.0	--	4.8
		Domestic		% yoy	0.9	--	3.6
		Imported		% yoy	-0.6	--	5.7
		Construction		% yoy	-0.3	--	-3.3
Tue 5-Dec	**10:00am**	**International reserves**	Dec-1	US$ bn	--	--	172.7
Tue 5-Dec	**12:30pm**	**Government weekly auction: 1-, 3-, 6-, and 12-month Cetes; 30y MBono (Nov'47); 30y Udibono (Nov'46); 5y Bondes D**					
Tue 5-Dec	**4:30pm**	**Citibanamex bi-weekly survey of economic expectations**					
Wed 6-Dec	**9:00am**	**Consumer confidence**	November	index	88.3	--	88.2
Thu 7-Dec	**9:00am**	**CPI inflation**	November	% m/m	1.01	--	0.63
				% yoy	6.61	--	6.37
		Core		% m/m	0.30	--	0.25
				% yoy	4.85	--	4.77
Fri 8-Dec		**Wage negotiations**	November	%	4.6	--	3.8

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

We expect a 0.2% yoy contraction in September's GFI. On Tuesday at 9:00am (ET), *INEGI* will publish its September's gross fixed investment (GFI) report. We anticipate GFI down by 0.2% yoy. We believe that within the report we will probably see a 0.6% yoy contraction in imported machinery and equipment, given that trade balance figures showed a similar reduction for capital goods imports.

Moreover, we expect a marginal 0.9% growth in domestic machinery and equipment. Finally, we believe that construction spending fell 0.3% yoy given that a significant percentage of construction projects were suspended after the 9/19 earthquake.

GFI estimates: September 2017
% yoy; %-pts

%yoy	Sep-17	Sep-16	Jan-Sep, '17	Jan-Sep, '16
Total	-0.2	-1.1	-1.1	1.2
Machinery and equipment	0.0	3.7	3.2	3.6
Domestic	0.9	1.3	3.0	8.9
Imported	-0.6	5.4	3.3	0.1
Construction	-0.3	-4.5	-4.0	-0.4
Annual contribution	**Sep-17**	**Sep-16**	**Difference**	
Total	-0.2	-1.1	0.9	
Machinery and equipment	0.0	1.6	-1.5	
Domestic	0.2	0.2	-0.1	
Imported	-0.2	1.3	-1.5	
Construction	-0.2	-2.6	2.4	

Source: Banorte-Ixe

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 increased by US$77 million amounting to US$172.7 billion. According to Banxico's report, this figure comes mainly as a result of: (1) US dollar sales from the Central Bank to the Federal Government totaling US$29 million; and (2) a positive valuation effect in central bank assets of around US$106 million. In this context, the Central Bank's international reserves have diminished by US$3.8 billion this year (please refer to the table below).

Banxico's foreign reserve accumulation detail
US$, million

	2016	Nov 24, 2017	Nov 24, 2017	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,542	172,749	77	-3,792
(B) Gross international reserve	178,025	174,721	281	-3,304
Pemex	--	--	190	-665
Federal government	--	--	2	-4,259
Market operations	--	--	0	-2,000
Other	--	--	89	3,620
(C) Short-term government's liabilities	1,483	1,972	203	488

Source: Banco de México

Weekly government bond auction. Moreover, on Tuesday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent–, will offer 5-year fixed rate Mbonos (Jun'22) and 10-year inflation-linked Udibonos (Nov'28), 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, December 5, 2017)

	Maturity	Coupon rate, %	To be auctioned[1]	Previous yield[2]
Cetes				
1m	04-Jan-18	- -	7,000	7.01
3m	08-Mar-18	- -	11,000	7.15
6m	07-Jun-18	- -	11,500	7.21
12m	06-Dec-18	- -	12,500	7.27
Bondes D				
5y	10-Nov-22	- -	3,750	0.18
M Bono				
30y	07-Nov-47	8.00	3,500	7.60
Udibonos				
30y	08-Nov-46	4.00	UDIS 400	3.74

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

***Citibanamex* Survey: Market participants will focus on inflation and monetary policy forecasts.** Additionally, on Tuesday around 3:30pm (ET) *Citibanamex* will release its bi-weekly survey of economic expectations, where focus will be on analysts' inflation forecasts for November. Furthermore, attention will be on monetary policy assessments, considering the tone of Banxico's last monetary policy minutes, which were released on November 23. In addition, the survey will also contain forecasts for growth and FX estimations for YE17 and YE18. In the first case, we do not expect strong revisions to the median GDP forecast. In the second case, we expect moderate upward revisions to the FX estimates for 2017.

Consumer confidence will post a 0.7% m/m expansion. On Wednesday at 9:00am (ET), Banxico and *INEGI* will publish its November's monthly survey on consumer confidence, where we expect a 4.6% yoy expansion, with the index reaching 88.3 points. In seasonally adjusted terms, we expect confidence levels to increase 0.7% m/m.

It is likely that November's report will show that Mexican consumers are discounting a better economic outlook given the recovery of external demand, and the growth momentum in domestic demand, which will be reflected in consumers' expectations regarding the households and the country's future economic conditions. However, we believe that consumer confidence growth will be bounded by the upward trend in inflation.

Inflation during November will be explained by the end of the summer discounts in electricity tariffs as well as pressures on domestic gas. On Thursday, at 9:00am, *INEGI* will also release its monthly inflation report for November. We are forecasting a 1.01% m/m increase in the headline index, while we expect the core index to rise 0.3% m/m. Inflation during the period in question will be explained mainly by the end of the summer discounts on electricity tariffs, as well as pressures on the prices of domestic gas. However, these pressures will be partially offset by the discounts in the prices of other goods and other services as a result of the promotions of *El Buen Fin* (*The Good Weekend*).

We forecast inflation to be 22bp higher when compared to the same period of last year, derived from: (1) 11bp from a larger contribution of energy (64bp vs. 53bp in 2016); (2) 5bp from a greater impact of agricultural goods (10bp vs. 5bp in 2016); and (3) 5bp stemming from a bigger contribution of other goods (5bp vs. 0bp in 2016), as shown in the table below. With these results, annual inflation will stand at 6.61% in November, (previous: 6.37% yoy), while core inflation will be at 4.85% (previous: 4.77% yoy). Moving forward, we will focus on the evolution of energy prices and the behavior of agricultural prices, and the impact they might have in Mexico’s CPI.

November inflation by components
% monthly incidence

	2017 P	2016	Difference
Headline	1.01	0.78	0.22
Core	0.23	0.17	0.06
Goods	0.10	0.04	0.06
Processed foods	0.06	0.05	0.01
Other goods	0.05	0.00	0.05
Services	0.12	0.13	0.00
Housing	0.04	0.03	0.01
Education	0.00	0.00	0.00
Other services	0.09	0.09	-0.01
Non-core	0.78	0.61	0.17
Agricultural	0.12	0.07	0.05
Fresh fruits and vegetables	0.10	0.05	0.05
Meat and egg	0.02	0.02	0.00
Energy and government regulated	0.66	0.54	0.12
Energy	0.64	0.53	0.11
Government regulated	0.01	0.01	0.00

Source: Banorte-Ixe, INEGI

Wage negotiations will climb 4.6% during November. Finally, on Friday, the Ministry of Labor (MoL) will publish the contractual wage negotiations for November. We expect workers to have negotiated an average increase of 4.6%, above the 3.8% increase seen in October. This figure will be mainly explained by the 3.4% rise to the syndicated workers of the National Autonomous University of Mexico (UNAM), which benefitted around 16 thousand employees. However, we believe that negotiations in the private sector will remain relatively high due to two factors: (1) The minimum wage increase; and (2) the elevated inflation observed throughout 2017.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Economic Analysis			
Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Fixed income and FX Strategy			
Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Juan Carlos Alderete Macal, CFA	FX Senior Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Strategist Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Equity Strategy			
Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Corporate Debt			
Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Corporate Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454