

# Ahead of the Curve

July 7, 2017

Market focus this week will be on May's industrial production

- **Industrial production (May).** Next Wednesday at 9:00am (EDT), *INEGI* will release its monthly industrial production report. We anticipate null annual expansion in total output during May, after the 4.4% decline in the previous month. Taking a look at the breakdown, manufacturing production could post a 4.8% yoy expansion, explained by the 17.3% yoy growth in vehicle production, coupled with the 12.9% increase in manufacturing exports derived from the recovery in external demand. In addition, industrial output will be also explained by: (1) The 2.4% yoy contraction in construction output, as a result of the lower growth in private construction investment projects given the uncertainty surrounding Mexico's economic outlook, coupled with the contraction in public investment projects derived from the Federal Government's fiscal stability plan; and (2) the poor performance of mining activity, which we forecast at -8.9% yoy.
- **Round 2.2 and 2.3.** On Wednesday, the CHN will conduct its second and third auction of the second round of oil field sales. The 2.2 Round comprises 10 onshore fields in the Burgos Basin in Tamaulipas and the Southeastern Basin. Finally, Round 2.3 includes 14 onshore fields in Burgos, Tampico-Misantla, Veracruz and the Southeastern Basin.

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Document for distribution among the general public

**Mexico weekly calendar**

DATE	HOOR (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 10-Jul		Wage negotiations	June	%	<u>4.5</u>	--	4.8
Tue 11-Jul	10:00am	International reserves	7-Jul	US\$ bn	--	--	174.2
Tue 11-Jul	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 5y Mbono (Jun'22); 10y Udibonos (Nov'28)					
Wed 12-Jul	9:00am	Industrial production	May	% yoy	<u>0.0</u>	--	-4.4
		(sa)		% m/m	<u>0.3</u>	--	-0.3
		Mining		% yoy	<u>-8.9</u>	--	-9.6
		Utilities		% yoy	<u>-2.6</u>	--	-3.0
		Construction		% yoy	<u>-2.4</u>	--	-6.5
		Manufactures		% yoy	<u>4.8</u>	--	-1.7
Wed 12-Jul	9:30am	Oil field auctions: Round 2.2 and 2.3					

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

**Wage negotiations will climb 4.5% during June.** On Wednesday, the Ministry of Labor (MoL) will publish the contractual wage negotiations for June. We expect workers to have negotiated an average increase of 4.5%, below the 4.8% increase seen in May. We believe that the slight deceleration in the figure will come as a result of a higher number on negotiations in the public sector, which so far have only increased 3.1% YTD (vs. 4.8% in the private sector). Looking ahead, we believe that the significant increase in the minimum wage last December, coupled with higher inflation –mainly driven by the increase in energy prices– will continue to maintain wage negotiations in higher-than-average levels.

**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\$261 million amounting to US\$174.2 billion. According to Banxico’s report, this figure comes mainly as a result of: (1) US\$245 million dollar sales from Banxico to the Federal Government; and (2) a negative revalorization in central bank assets amounting to US\$16 million. In this context, the Central Bank’s international reserves have diminished by US\$2.3 billion this year (please refer to the table on the next page).

**Banxico's foreign reserve accumulation detail**

US\$, million

	2016	Jun 30, 2017	Jun 30, 2017	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,542	174,246	-261	-2,296
(B) Gross international reserve	178,025	175,396	-376	-2,629
Pemex	--	--	-47	-724
Federal government	--	--	-250	-1,733
Market operations	--	--	0	-2,000
Other	--	--	-79	1,827
(C) Short-term government's liabilities	1,483	1,150	-115	-333

Source: Banco de México

**Weekly government bond auction.** On Tuesday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent-, will offer 5-year fixed-rate Mbonos (Jun’22), 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 (EDT).

**Auction specifics (Tuesday, July 11, 2017)**

	Maturity	Coupon rate, %	To be auctioned <sup>1</sup>	Previous yield <sup>2</sup>
<b>Cetes</b>				
1m	10-Aug-17	--	7,000	7.00
3m	12-Oct-17	--	11,000	7.10
6m	04-Jan-18	--	11,500	7.18
<b>M Bono</b>				
5y	09-Jun-22	6.50	8,000	7.05
<b>Udibonos</b>				
10y	28-Nov-28	4.00	600	3.24

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

**We expect a 0% growth in May's industrial output.** Next Wednesday at 9:00am (EDT), *INEGI* will release its monthly industrial production report. We anticipate null annual expansion in total output during May, after the 4.4% decline in the previous month. Taking a look at the breakdown, manufacturing production could post a 4.8% yoy expansion, explained by the 17.3% yoy growth in vehicle production, coupled with the 12.9% increase in manufacturing exports derived from the recovery in external demand.

In addition, industrial output during May will be also explained by: (1) The 2.4% yoy contraction in construction output, as a result of the lower growth in private construction investment projects given the uncertainty surrounding Mexico's economic outlook, coupled with the contraction in public investment projects derived from the Federal Government's fiscal stability plan; and (2) the poor performance of mining activity, which we forecast at -8.9% yoy.

**Industrial production estimate: May 2017**

% yoy, % m/m

	May-17	May-16	Jan-May, '17	Jan-May, '16
Total	0.0	0.4	-0.6	0.4
Mining	-8.9	-4.5	-10.4	-3.5
Utilities	-2.6	6.1	-1.4	2.6
Construction	-2.4	2.6	-0.9	2.0
Manufacturing	4.8	0.7	3.5	1.0

  

% m/m sa	May-17	Apr-17	Difference
Total	0.5	-0.3	0.8
Mining	-0.3	-0.9	0.6
Utilities	0.0	-0.3	0.3
Construction	0.4	-1.7	2.1
Manufacturing	0.8	0.6	0.2

Source: Banorte-ixe

**The CNH will auction 26 in-land oil fields.** On Wednesday, the CHN will conduct its second and third auction of the second round of oil field sales. The 2.2 Round comprises 10 onshore fields in the Burgos Basin in Tamaulipas and the Southeastern Basin. Finally, Round 2.3 includes 14 onshore fields in Burgos, Tampico-Misantla, Veracruz and the Southeastern Basin.

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