

Ahead of the Curve

August 21, 2015

Market focus this week will on INEGI's bi-weekly inflation report

- Bi-weekly inflation report.** On Monday, at 9:00am, *INEGI* will release its bi-weekly inflation report. We are forecasting a 0.16% 2w/2w increase in the first half of August in line with consensus according to *Banamex*. In the core index, we expect an increase of 0.15% 2w/2w slightly above market consensus (0.13%). Inflation during the period in question will be explained by pressures on core items, while our price monitoring suggests mixed performance of agricultural prices
- Trade balance (July).** On Thursday (August 27), at 9:00am (EDT), *INEGI* will make its July's trade report available, where we expect to see a US\$1,630.8 million deficit. On the exports side, we will probably see a 45% yoy contraction of oil exports given the significant fall in oil prices. Moreover, non-oil exports could have expanded 3.2% yoy, given the 1% yoy estimated growth on vehicle exports, and a 4.2% yoy expansion in non-vehicle manufacturing exports. On the imports side, we estimate a scant 0.1% yoy expansion in total imports. Taking a look at the breakdown, we estimate that imports of consumption goods (excluding oil) decreased 3.4% yoy, while imports of intermediate goods (excluding oil) could have grown 0.5% yoy

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Document for distribution among the general public

Mexico weekly calendar

DATE	HOUR (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 24-Aug	9:00am	CPI inflation	1Q Aug	% 2w/2w	0.16	0.16	0.08
				% yoy	2.69	2.69	2.74
		Core		% 2w/2w	0.15	0.14	0.06
				% yoy	2.32	--	2.31
Tue 25-Aug	10:00am	Current account	2Q15	US\$ bn	-7.6	-8.5	-9.4
Tue 25-Aug	10:00am	International reserves	21-Aug	US\$ bn	--	--	188.3
Tue 25-Aug	12:30pm	Government weekly auction: 1-, 3-, and 6-month Cetes; 3y MBono (Dec'18); 3y Udibono (Jun'19)					
Thu 27-Aug	9:00am	Trade balance	July	US\$ mn	-1,630.8	-1,327	-749
		Total exports		% yoy	1.7	--	1.2
		Oil exports		% yoy	-45.0	--	-41.0
		Non-oil exports		% yoy	3.2	--	6.8
		Total imports		% yoy	0.1	--	4.7
Fri 28-Aug	9:00am	Unemployment rate	July	%	4.66	4.70	4.41
		sa		%	4.35	--	4.39
Fri 28-Aug	3:30pm	Budget balance (year to date)	July	MXN bn	--	--	-345

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

Inflation in the first half of August will be explained by pressures on the services and merchandise prices. On Monday, at 9:00am, *INEGI* will release its bi-weekly inflation report. We are forecasting a 0.16% 2w/2w increase in the first half of August in line with consensus according to *Banamex*. In the core index, we expect an increase of 0.15% 2w/2w slightly above market consensus (0.13%). Inflation during the period in question will be explained by pressures on core items, while our price monitoring suggests mixed performance of agricultural prices.

Nevertheless, we expect this figure to be 2.6bps lower than the observed in same period last year, derived from: (1) 8.6bps stemming from a higher contribution of services prices (5.9bps vs. -2.7 in 2014); (2) a lower contribution of merchandise prices (5.5bps vs. 14 in 2014); and (3) another -2.4bps stemming from a lower contribution of agricultural prices (3.3bps vs. 5.7 in 2014), as shown in the table below

With these results, annual inflation will edged further down to 2.69% yoy in the first half of August from 2.74%, while core inflation would remain at 2.3% yoy.

1H-August inflation by components

% bi-weekly incidence

	Banorte-Ixe	2014	Difference
Total	0.163	0.189	-0.03
Core	0.114	0.111	0.00
Goods	0.055	0.140	-0.09
Processed foods	0.020	0.043	-0.02
Other goods	0.035	0.097	-0.06
Services	0.059	-0.027	0.09
Housing	0.017	0.015	0.00
Education	0.045	0.042	0.00
Other services	-0.002	-0.085	0.08
Non-core	0.049	0.079	-0.03
Agricultural	0.033	0.057	-0.02
Fresh fruits and vegetables	0.003	-0.004	0.01
Meat and egg	0.030	0.060	-0.03
Energy and government regulated	0.016	0.021	-0.01
Energy	0.012	0.017	0.00
Government regulated	0.004	0.004	0.00

Source: Banorte-Ixe with data from INEGI and Banco de México.

Note: Contributions might not add due to the number of decimals allowed in the table. Previous to year 2011, contributions might not add because of the change in CPI-calculation methodology

Current account (2Q15): Banorte-Ixe: -US\$7,558million; consensus: -US\$8,480mn (range: US\$7,132mn to -US\$8,500mn); previous: -US\$9,446mn. On Tuesday (August 25), at 10:00am, Banxico will publish its balance of payments report for the second quarter of the year. We are forecasting a current account deficit of around US\$7,558 million. According to already reported trade balance figures, trade deficit amounted to US\$796million, while net transfers increased on the back of a more dynamic flow of remittances up 3.2% yoy.

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\$1,371mn amounting to US \$188.3bn on August 14. According to Banxico's report, this figure comes mainly as a result of: (1) Dollar sales by the Central Bank to the Federal Government for US\$243mn; (2) US\$1,000mn decrease explained by the introduction of Banxico's USD daily auction without minimum price and US\$173mn with minimum price; along with a (3) US\$45mn increase due to changes in the valuation of the Central Bank's assets and other operations. 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\$4,892mn international reserves this year (please refer to the table below).

Banxico's foreign reserve accumulation details
US\$, million

	2014	14/Aug/2015	14/Aug/2015	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	193,239	188,347	-1,371	-4,892
(B) Gross international reserve	195,682	189,868	-1,390	-5,814
Pemex	--	--	-174	2,989
Federal govt	--	--	-113	-633
Market operations	--	--	-1173	-7,669
Other	--	--	71	-501
(C) Short-term government's liabilities	2,443	1,521	-19	-922

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 3-year fixed-rate Mbonos (Dec'18) as well as 3-year inflation-linked Udibonos (Jun'19), 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, August 25, 2015)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	24-Sep-15	--	5,500	3.02
3m	26-Nov-15	--	9,500	3.37
6m	18-Feb-16	--	11,000	3.51
Mbono				
3y	13-Dec-18	8.50	9,000	4.94
Udibono				
3y	13-Jun-19	4.00	850	1.85

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

Non-oil exports continue to expand vigorously. On Thursday (August 27), at 9:00am (EDT), *INEGI* will make its July's trade report available, where we expect to see a US\$1,630.8 million deficit. On the exports side, we will probably see a 45% yoy contraction of oil exports given the significant fall in oil prices. Moreover, non-oil exports could have expanded 3.2% yoy, given the 1% yoy estimated growth on vehicle exports, and a 4.2% yoy expansion in non-vehicle manufacturing exports.

On the imports side, we estimate a scant 0.1% yoy expansion in total imports. Taking a look at the breakdown, we estimate that imports of consumption goods (excluding oil) decreased 3.4% yoy, while imports of intermediate goods (excluding oil) could have grown 0.5% yoy. Finally, we estimate a 2.7% expansion in capital goods imports.

Unemployment rate in July will stand at 4.66%. Next Friday, *INEGI* will publish its employment report for the seventh month of 2015, in which we estimate an unemployment rate of 4.66% nsa, above the 4.41% observed in June. In seasonally-adjusted terms, we believe that the unemployment rate could stand at 4.35%, which implies a monthly fall of 0.04%-pts.

It is likely that the job creation in July was positively affected by better growth dynamics of the economy. In this regard, we believe that the Mexican labor market will continue to recover given the recent upward trend in the Mexican economy, which will eventually reduce the level of unemployed workers.

Looking ahead, we are still positive on the outlook regarding the recovery Mexico's economic activity, which will have a positive impact on firms' expectations about domestic demand, resulting in a more dynamic labor market.

The MoF's monthly report. Finally on Friday, the Ministry of Finance (MoF) will make its finance report available for the first seven months of 2015. On the revenue side, we will be looking at non-oil tax collection as it provides additional information about domestic demand dynamics. Moreover, we will focus on spending dynamics, which will continue to incorporate part of the fiscal cut announced by the MoF in January. Finally, it will be important to evaluate the evolution of public sector debt, which currently represents about 42% of Mexico's GDP.

Disclaimer

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