

Ahead of the Curve

April 15, 2016

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

- Bi-weekly inflation report.** On Friday, at 9:00am, *INEGI* will release its bi-weekly inflation report. We are forecasting a 0.37% 2w/2w decrease in the first half of April, below consensus -0.20%, according to *Bloomberg*. In the core index, we expect an increase of 0.13% 2w/2w, slightly above with market consensus (0.12%). The small deflation in the first half of the month will be explained by the start of summer discounts on electricity tariffs in some regions of the country. On top of this, our price monitoring suggests declines in the price of agricultural prices such as tomato and onions. Nevertheless, these would be offset by pressures on merchandise and services prices, probably as a result of pass-through from FX depreciation. Additionally we observed some pressures on agricultural prices such as lemons and avocados. With these results, 12-month inflation will be at 2.58% yoy in the first half of April, from 2.6%; while core inflation will remain at 2.77% yoy
- Banamex bi-weekly survey of economic expectations.** On Wednesday at 4:30pm (EDT) *Banamex* will release its bi-weekly survey of economic expectations, where market participants will focus on analysts' monetary policy assessments. Furthermore, analysts will also focus on April's first half inflation forecast (to be published on Friday, April 22), as well as on CPI estimations for 2016 and 2017. Moreover, we expect moderate downward revisions to the economic growth estimates for 2016

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Mexico weekly calendar

DATE	HOUR (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Tue 19-Apr	10:00am	International reserves	15-Apr	US\$ bn	--	--	177.7
Tue 19-Apr	12:30pm	Government weekly auction: 1-, 3-, and 6-month Cetes; 5y MBono (Jun'21); 10y Udibono (Dec'25)					
Wed 20-Apr	4:30pm	<i>Banamex</i> bi-weekly survey of economic expectations					
Fri 22-Apr	9:00am	CPI inflation	1H Apr	% 2w/2w	<u>-0.37</u>	<u>-0.20</u>	0.15
				% yoy	<u>2.58</u>	<u>2.76</u>	2.60
		Core		% 2w/2w	<u>0.13</u>	<u>0.12</u>	-0.01
				% yoy	<u>2.77</u>	--	2.76

Source: Banorte-IXE

Proceeding in chronological order...

Weekly international reserves report. On Tuesday, at 10:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves increased by US\$199mn amounting to US \$177.7bn on April 8. According to Banxico's report, this figure comes mainly as a result of: (1) Dollar sales by Banxico to the Federal Government for US\$26mn; along with a (2) US\$225mn 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\$940mn international reserves this year (please refer to the table below).

Banxico's foreign reserve accumulation details

US\$, million

	2015	08/Apr/2016	08/Apr/2016	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,735	177,676	199	940
(B) Gross international reserve	177,597	179,381	350	1,784
Pemex	--	--	224	2,640
Federal govt	--	--	-25	2,629
Market operations	--	--	0	-5,562
Other	--	--	150	2,077
(C) Short-term government's liabilities	861	1,705	151	844

Source: Banxico

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'21) as well as 10-year inflation-linked Udibonos (Dec'25), 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, April 19, 2016)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	19-May-16	--	5,500	3.74
3m	21-Jul-16	--	9,500	3.84
6m	13-Oct-16	--	11,000	3.96
Mbono				
5y	10-Jun-21	6.50	8,500	5.42
Udibono				
10y	04-Dec-25	4.50	700	6.03

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

Banamex Survey: Market participants will focus on analysts' monetary policy assessments. On Wednesday at 4:30pm (EDT) Banamex will release its bi-weekly survey of economic expectations, where market participants will focus on analysts' monetary policy assessments. Furthermore, analysts will also focus on April's first half inflation forecast (to be published on Friday, April 22), as well as on CPI estimations for 2016 and 2017. Moreover, we expect moderate downward revisions to the economic growth estimates for 2016.

Negative variation of prices in the first half of April will be explained by the start of summer discounts on electricity tariffs in some regions of the country. On Friday, at 9:00am, *INEGI* will release its bi-weekly inflation report. We are forecasting a 0.37% 2w/2w decrease in the first half of April, below consensus -0.20%, according to *Bloomberg*. In the core index, we expect an increase of 0.13% 2w/2w, slightly above with market consensus (0.12%).

The small deflation in the first half of the month will be explained by the start of summer discounts on electricity tariffs in some regions of the country. On top of this, our price monitoring suggests declines in the price of agricultural prices such as tomato and onions. Nevertheless, these would be offset by pressures on merchandise and services prices, probably as a result of pass-through from FX depreciation. Additionally we observed some pressures on agricultural prices such as lemons and avocados.

Nevertheless, we expect this figure to be 8.4bps higher than the observed in same period last year, derived from: (1) 8bps stemming from a higher contribution of services prices (2bps vs. -6 in 2015); (2) 4.4bps stemming from a smaller contraction in agricultural prices (-0.6bps vs. -5 in 2015). By contrast, we expect (3) -0.6bps stemming from a lower contribution of goods (7.5bps vs. 8.1 in 2015), as shown in the table below.

With these results, 12-month inflation will be at 2.58% yoy in the first half of April, from 2.6%; while core inflation will remain at 2.77% yoy.

1H-April inflation by components
% bi-weekly incidence

	Banorte-Ixe	2015	Difference
Total	-0.37	-0.45	0.08
Core	0.09	0.02	0.08
Goods	0.08	0.08	-0.01
Processed foods	0.03	0.03	0.00
Other goods	0.05	0.06	-0.01
Services	0.02	-0.06	0.08
Housing	0.02	0.02	0.00
Education	0.00	0.00	0.00
Other services	0.00	-0.08	0.08
Non-core	-0.46	-0.48	0.02
Agricultural	-0.01	-0.05	0.04
Fresh fruits and vegetables	-0.02	-0.07	0.05
Meat and egg	0.01	0.02	-0.01
Energy and government regulated	-0.46	-0.44	-0.01
Energy	-0.46	-0.45	-0.01
Government regulated	0.00	0.00	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

Disclaimer

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