

Ahead of the Curve

June 17, 2016

Market focus this week will on June's bi-weekly inflation report and April's IGAE

- Bi-weekly inflation report.** On Thursday, at 9:00am, *INEGI* will release its bi-weekly inflation report. We are forecasting a 0.02% 2w/2w increase in the first half of June, slightly below consensus 0.10% according to *Bloomberg*. In the core index, we expect an increase of 0.09% 2w/2w also below market consensus (0.14%). Inflation during the period in question will be explained by pressures on merchandise and energy prices, on the back of higher prices of natural gas and gasoline. Meanwhile, our price monitoring continues to show sharp declines in fruits and vegetables, such as lemons, tomatoes as well as other prices of meat and egg products.
- April's IGAE.** On Thursday, at 9:00am (EDT), *INEGI* will release its monthly global economic indicator for April (GDP monthly proxy), where we expect a 3.5% yoy expansion. We believe that IGAE's growth during the fourth month of 2016 was partially explained by a calendar effect, given that the Holy Week holiday that started in March added additional working days to April's annual growth rate. With calendar adjusted figures, we believe that April's IGAE grew 1.7% yoy

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

Delia Paredes

Executive Director of Economic Analysis
delia.paredes@banorte.com

Alejandro Cervantes

Senior Economist, Mexico
alejandro.cervantes@banorte.com

Document for distribution among the general public

Mexico weekly calendar

DATE	HOUR (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 20-Jun	9:00am	Aggregate Demand	1Q16	% yoy	<u>2.1</u>	2.5	2.4
		Private consumption		% yoy	<u>3.9</u>	--	3.5
		Government consumption		% yoy	<u>-1.6</u>	--	1.8
		Gross-fixed investment		% yoy	<u>0.6</u>	--	0.6
		Exports		% yoy	<u>6.3</u>	--	5.1
Tue 21-Jun	10:00am	International reserves	17-Jun	US\$ bn	--	--	177.4
Tue 21-Jun	12:30pm	Government weekly auction: 1-, 3-, 6-, and 12-month Cetes; 10y Mbono (Mar'26); 30y Udibono (Nov'46); 5y Bondes D					
Tue 21-Jun	4:30pm	Banamex bi-weekly survey of economic expectations					
Thu 23-Jun	9:00am	Global economic indicator	April	% yoy	<u>3.5</u>	3.4	1.2
		(sa)		% m/m	<u>-0.6</u>	--	0.1
		Primary activities		% yoy	<u>-3.0</u>	--	-1.2
		Industrial production		% yoy	<u>1.9</u>	--	-2.0
		Services		% yoy	<u>5.1</u>	--	3.1
Thu 23-Jun	9:00am	CPI inflation	1H Jun	% 2w/2w	<u>0.02</u>	0.10	0.17
				% yoy	<u>2.55</u>	--	2.60
		Core		% 2w/2w	<u>0.09</u>	0.14	0.11
				% yoy	<u>2.91</u>	--	2.93
Fri 24-Jun	9:00am	Retail sales	April	% yoy	<u>9.0</u>	8.5	6.4

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

We estimate a 2.1% yoy expansion in aggregate demand (AD) during 1Q16.

On Monday, *INEGI* will publish its aggregate supply and demand report for the first quarter of the year, where we believe aggregate demand increased 2.1% yoy, vs. the 2.4% yoy expansion observed in 4Q15.

Taking a look at the breakdown, we expect a 3.9% yoy increase in private consumption, while we estimate a scant 0.6% yoy expansion for gross fixed investment. However, we believe that government spending will likely show a 1.6% yoy contraction, given the fiscal cut implemented by the federal government.

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\$71mn amounting to US \$177.4 billion on June 10. According to Banxico's report, this figure comes mainly as a result of: (1) Dollar sales by Banxico to the Federal Government for US\$177mn; and (2) US\$248mn 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\$636mn international reserves this year (please refer to the table below).

Banxico's foreign reserve accumulation details

US\$, million

	2015	10/Jun/2016	10/Jun/2016	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,735	177,371	71	636
(B) Gross international reserve	177,597	179,138	65	1,542
Pemex	--	--	-203	2,388
Federal govt	--	--	-191	1,861
Market operations	--	--	0	-5,562
Other	--	--	460	2,854
(C) Short-term government's liabilities	861	1,767	-6	906

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 10-year fixed-rate Mbonos (Mar'26), 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, June 21, 2016)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	21-Jul-16	--	5,500	3.83
3m	22-Sep-16	--	9,500	4.21
6m	22-Dic-16	--	11,000	4.37
12m	25-May-17	--	11,000	4.47
Mbono				
10y	05-Mar-26	5.75	7,000	5.91
Udibono				
30y	08-Nov-46	4.00	400	3.85
Bondes D				
5y	20-May-21	--	3,000	0.20

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 monetary policy forecasts. On Tuesday at 4:30pm (EDT) *Banamex* will release its bi-weekly survey of economic expectations, where market participants will focus on analysts' monetary policy assessments given the latest FOMC's monetary policy announcement. In this regard, we highlight that Banxico has emphasized several times that Mexico's monetary policy is tied to the Fed's policy.

Furthermore, analysts will also focus on the inflation report for the first half of June (to be published on Thursday, June 23), as well as on CPI estimations for 2016 and 2017. Moreover, *Banamex* will also publish consensus' growth and FX forecasts for 2016-17. 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 2016.

We expect a 3.5% yoy expansion in April's IGAE. On Thursday, at 9:00am (EDT), *INEGI* will release its monthly global economic indicator for April (GDP monthly proxy), where we expect a 3.5% yoy expansion. We believe that IGAE's growth during the fourth month of 2016 was partially explained by a calendar effect, given that the *Holy Week* holiday that started in March added additional working days to April's annual growth rate. With calendar adjusted figures, we believe that April's IGAE grew 1.7% yoy.

As we had mentioned in our last IP report, and taking into account the calendar-adjusted figures, the 0.9% yoy contraction in industrial production during April was explained in part by the 1.6% yoy reduction in manufacturing output. Moreover, construction output posted a null growth as a result of the 4.6% growth in building projects, whereas public civil engineering construction projects edged-down to -5.3% yoy. Similarly, mining activity declined 3.6% as a result of the significant contraction in Mexico's oil production.

We also believe that the 5.1% yoy estimated expansion in services will be explained by the recovery in private consumption (+3.5% yoy with calendar-adjusted figures). In particular consumers' spending is gaining momentum, whereas formal job creation has observed a significant recovery in the first five months of the year.

Low inflation again in the first half of June. On Thursday, at 9:00am, *INEGI* will release its bi-weekly inflation report. We are forecasting a 0.02% 2w/2w increase in the first half of June, slightly below consensus 0.10% according to *Bloomberg*. In the core index, we expect an increase of 0.09% 2w/2w also below market consensus (0.14%).

Inflation during the period in question will be explained by pressures on merchandise and energy prices, on the back of higher prices of natural gas and gasoline. Meanwhile, our price monitoring continues to show sharp declines in fruits and vegetables, such as lemons, tomatoes as well as other prices of meat and egg products.

Nevertheless, we expect this figure to be 10.8bps lower than the observed in same period last year, derived from: (1) 2.3bps stemming from a higher contribution of energy prices (3.5bps vs. 1.2 in 2015); along with (2) -10.8bps from a lower contribution agricultural prices (-8.5bps vs. 2.3 in 2015) and (3) -2.2bps stemming from a lower contribution of merchandise prices (4bps vs. 6.2 in 2015), as shown in the table below.

With these results, annual inflation is at 2.55% yoy in the first half of June from previous 2.6% while core inflation is at 2.91% from 2.93% yoy.

1H-June inflation by components

% bi-weekly incidence

	Banorte-Ixe	2015	Difference
Total	0.02	0.13	-0.11
Core	0.07	0.09	-0.02
Goods	0.04	0.06	-0.02
Processed foods	0.02	0.04	-0.02
Other goods	0.02	0.02	0.00
Services	0.03	0.03	0.00
Housing	0.02	0.01	0.00
Education	0.00	0.00	0.00
Other services	0.01	0.02	0.00
Non-core	-0.05	0.04	-0.09
Agriculture	-0.09	0.02	-0.11
Fruits & vegetables	-0.07	0.02	-0.09
Meat & eggs	-0.02	0.00	-0.02
Energy & government tariffs	0.04	0.01	0.02
Energy	0.03	0.01	0.02
Government tariffs	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.

Retail sales will post a 9% yoy expansion in April. Finally, on Friday at 9:00am (EDT), *INEGI* will publish its retail sales report for April 2016. We anticipate a 9% yoy expansion explained in part by the *Holy Week* calendar effect already explained in our IGAE's forecast. Controlling for this calendar effect, we believe that retail sales increased 6.7% yoy.

April's growth was also explained by the favorable performance of durable goods sales. In particular, vehicles sales increased by 19.2% yoy according to *AMIA*'s report. Moreover, *ANTAD* total store sales edged-up 13.1% yoy in real terms during the period in question. However, retail sales growth will be bounded by the null growth in consumption goods imports -which have a strong correlation with retail sales.

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; (3) the stronger growth dynamics in the Mexican labor market; and (4) the higher growth in remittances inflows.

Disclaimer

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

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 Godínez	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
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 Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst 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	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates/Financials/ Mining/ Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
Marisol Huerta Mondragón	Equity Research Analyst – Food/Beverages	marisol.huerta.mondragon@banorte.com	(55) 1670 - 1746
José Itzamna Espitia Hernández	Equity Research Analyst – Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto parts	valentin.mendoza@banorte.com	(55) 1670 - 2250

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@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.cebillos@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
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454