Ahead of the Curve

September 30, 2016

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Market focus this week will on *INEGI's* monthly inflation report

- **September's inflation report.** On Friday, at 9:00am (EDT), *INEGI* will release its monthly inflation report, where we expect a 0.6% m/m increase in September's CPI headline index (previous: 0.28%). In the core index, we expect a 0.45% increase. Inflation during the period in question will be explained by: (1) Pressures on the merchandise sub-index, as a result of the significant depreciation of the Mexican currency; (2) the increase in education costs, as a result of the beginning of the new school year; and (3) higher agricultural goods prices. With these results, annual inflation will be at 2.96% yoy in September from 2.76%, while core inflation will stand at 3.04% from 2.96%yoy

- **Consumer confidence (September).** On Thursday at 9:00am (EDT), Banxico and *INEGI* will publish its September's monthly survey on consumer confidence, where we expect a 4.6% yoy contraction, with the index reaching 86.4 points. In seasonally adjusted terms, we expect confidence levels to fall 0.9% m/m. We believe that the reduction in consumer confidence will be explained by the significant depreciation of the Mexican currency, which has induced a deterioration in inflation expectations

Mexico weekly calendar

DATE	HOUR (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 3-Oct	**9:00am**	**PMI's survey (IMEF)**	September				
		Manufacturing		index	50.1	--	49.8
		Non-manufacturing		index	50.4	--	51.5
Mon 3-Oct	**10:00am**	**Family remittances**	August	US$ mn	2,300	--	2,233.7
Mon 3-Oct	**10:00am**	**Banxico's survey of economic expectations**	September				
Tue 4-Oct	**9:00am**	**Gross fixed investment**	July	% yoy	-1.4	--	-0.5
		Machinary and equipment		% yoy	-2.1	--	-3.2
		Domestic		% yoy	7.6	--	7.9
		Imported		% yoy	-6.5	--	-7.9
		Construction		% yoy	-1.0	--	1.5
Tue 4-Oct	**10:00am**	**International reserves**	30-Sep	US$ bn	--	--	175.9
Tue 4-Oct	**12:30pm**	**Government weekly auction: 1-, 3-, 6-month CETES; 5y Mbono (Jun'21); 5y Bondes D**					
Wed 5-Oct	**4:30pm**	**Banamex bi-weekly survey of economic expectations**					
Thu 6-Oct	**9:00am**	**Consumer confidence**	September	index	86.4	--	86.5
Fri 7-Oct	**9:00am**	**CPI inflation**	September	% m/m	0.60	--	0.28
				% yoy	2.96	--	2.73
		Core		% m/m	0.45	--	0.19
				% yoy	3.04	--	2.96

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

September's PMI surveys. On Monday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators for September. We expect manufacturing PMI at 50.1, marginally above the 49.8 observed in August (seasonally adjusted terms). We believe that the marginal growth in the manufacturing PMI during September will be explained by the better production outlook for the Mexican auto industry.

In addition, we believe that the non-manufacturing PMI will stand at 50.4 points from 51.5 points. In this regard, the deceleration in the overall economy will translate into a lower economic growth for the construction and services industries, which encompass most of the firms measured in *IMEF's* non-manufacturing survey.

Banxico's survey of economic expectations. Also on Monday at 10:00am (EDT), Banco de Mexico will publish its monthly survey of economic expectations. In our view, market participants' focus will be on three issues: (1) 2016 inflation expectations that currently are at 3.12% (Banorte-Ixe: 2.8%); (2) mid-term inflation expectations –quite important for the central bank's board– that are currently at 3.36% (Banorte-Ixe: 3%); and (3) the analysts' assessments of GDP growth for 2016 which stands at 2.2% yoy, marginally below our 2.2% yoy forecast.

Family remittances will post a 2.1% yoy expansion in August. Also on Monday, at 10:00am (EDT), Banxico will make its family remittances monthly data available. We expect Mexican workers living abroad –mainly in the US–, to have sent US$2,300 million to their families in Mexico during August. This would imply a 2.1% yoy expansion.

We believe that the strong and artificial expansion in the flow of remittances during the second quarter –which was favored by the significant depreciation of the Mexican currency– affected the amount sent in July and August, since there wasn't any significant changes in the real income of the Mexican migrant workers.

Looking ahead, given the recent dynamics of the US labor market for Mexican migrants, we believe that the remittances flows will continue to grow above 7% throughout the year. In particular, remittances inflows could increase dramatically as the US elections approaches, if the differential between the Republican and the Democratic Party narrows.

We expect a 1.4% yoy contraction in July's GFI. On Tuesday at 9:00am (EDT), *INEGI* will publish its July's gross fixed investment (GFI) report. We anticipate GFI down by 1.4% yoy. We believe that within the report we will probably see a 6.5% yoy contraction in imported machinery and equipment, given that trade balance figures showed a similar decline for capital goods imports. Moreover, we expect a 7.6% growth in domestic machinery and equipment. Finally, we believe that construction spending fell 1% yoy derived from the lower public construction spending observed in the latest industrial production figures.

GFI estimates: July 2016

%yoy	July-16	July-15	Jan-Jul, '16	Jan-Jul, '15
Total	-1.4	4.2	0.3	5.3
Machinery and equipment	-2.1	8.5	-0.3	9.4
Domestic	7.6	6.8	7.6	9.9
Imported	-6.5	9.2	-3.7	9.2
Construction	-1.0	1.5	0.7	2.8
Annual contribution	**July-16**	**July-15**	**Difference**	
Total	-1.4	4.2	-5.6	
Machinery and equipment	-0.8	3.3	-4.1	
Domestic	1.0	0.8	0.1	
Imported	-1.8	2.4	-4.2	
Construction	-0.6	0.9	-1.5	

Source: Banorte-Ixe

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$66 million amounting to US $175.9 billion on September 23. According to Banxico's report, this figure comes mainly as a result of: (1) Dollar sales by Banxico to the Federal Government for US$153 million; along with a (2) US$218 million reduction due to changes in the valuation of the Central Bank's assets. In this context, the Central Bank's international reserves have diminished by US$801 million this year (please refer to the table below).

Banxico's foreign reserve accumulation details
US$, million

	2015	23/Sep/2016	23/Sep/2016	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,735	175,935	66	-801
(B) Gross international reserve	177,597	181,627	4,465	4,031
Pemex	--	--	3,868	6,246
Federal government	--	--	-76	66
Market operations	--	--	0	-5,562
Other	--	--	674	3,280
(C) Short-term government's liabilities	861	5,693	4,400	4,832

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 5-year fixed-rate Mbonos (Jun'21) as well as 10-year 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, October 4)

	Maturity	Coupon rate, %	To be auctioned[1]	Previous yield[2]
Cetes				
1m	3-Nov-16	- -	5,500	4.41
3m	5-Jan-17	- -	9,500	4.79
6m	30-Mar-17	- -	11,000	4.98
Mbono				
5y	10-Jun-21	6.50	7,500	5.52
Udibonos				
10y	04-Dic-25	4.50	UDIS 650	2.70

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 inflation and monetary policy forecasts.** 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 given the 50bps hike in Banxico's reference rate during September's monetary policy meeting.

In addition, analysts will also focus on the inflation forecasts for September (to be published on Friday, October 7), 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.

Consumer confidence will continue to fall in September. On Thursday at 9:00am (EDT), Banxico and *INEGI* will publish its September's monthly survey on consumer confidence, where we expect a 4.6% yoy contraction, with the index reaching 86.4 points. In seasonally adjusted terms, we expect confidence levels to fall 0.9% m/m.

We believe that the reduction in consumer confidence will be explained by the significant depreciation of the Mexican currency. In particular, we've seen a higher passthrough effect to prices, within the core index. Moreover, the recent FX volatility has also deteriorated inflation expectations, which will probably translate in a contraction of the sub-indices that measure consumer's expectation regarding the household present and future economic outlook.

Inflation in September will be explained by a higher pass-through effect, along with higher agricultural goods prices. On Friday, at 9:00am (EDT), *INEGI* will release its monthly inflation report. We are forecasting a 0.6% m/m increase in September (previous: 0.28%). In the core index, we expect a 0.45% increase.

Inflation during the period in question will be explained by pressures on the merchandise sub-index. In this context, we believe that the significant depreciation of the Mexican currency has induced a higher pass-through effect to prices. In addition, we believe that the 0.45% increase in core CPI will be explained by the increase in education costs, as a result of the beginning of the new school year.

Within the non-core index, we expect a 1.07% m/m increase as a result of higher agricultural goods prices. With these results, annual inflation will be at 2.96% yoy in September from 2.73%, while core inflation will stand at 3.04% from 2.96%yoy.

Inflation by components in September
% monthly incidence

	2016	2015	Difference
Headline	0.60	0.37	0.22
Core	0.34	0.28	0.06
Goods	0.21	0.17	0.04
Processed foods	0.09	0.06	0.03
Other goods	0.12	0.12	0.00
Services	0.13	0.11	0.02
Housing	0.02	0.03	0.00
Education	0.12	0.11	0.01
Other services	-0.01	-0.03	0.02
Non-core	0.26	0.10	0.17
Agricultural	0.30	0.08	0.217
Fresh fruits and vegetables	0.22	0.06	0.15
Meat and egg	0.08	0.02	0.07
Energy and government regulated	-0.05	0.01	-0.06
Energy	-0.05	-0.01	-0.04
Government regulated	0.00	0.02	-0.02

Source: Banorte-Ixe; INEGI

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