

# Ahead of the Curve

October 13, 2017

Market focus this week will be on September's employment report

- **Unemployment rate (September).** On Friday, *INEGI* will publish its unemployment report for the ninth month of 2017, in which we estimate an unemployment rate of 3.43% nsa, below the 3.53% observed in August. In seasonally adjusted terms, we believe that the unemployment rate could stand at 3.20% which implies a 0.09%-pts reduction from last month's figures

We believe that the fall in the unemployment rate (seasonally adjusted) will be due to a decrease in the participation rate. This fall will be the result of the earthquakes that occurred in September, as we consider that people who were looking for jobs and suffered some kind of affectation will stop searching for employment

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## Mexico weekly calendar

DATE	HOUR (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Tue 17-Oct	10:00am	International reserves	Oct-13	US\$ bn	--	--	172.9
Tue 17-Oct	12:30pm	Government weekly auction: 1-, 3-, and 6-month Cetes; 3y MBono (Jun'20); 3y UdiBono (Dec'20)					
Fri 20-Oct	9:00am	Unemployment rate	September	%	<u>3.43</u>	--	3.53
		sa		%	<u>3.20</u>	--	3.29
Fri 20-Oct	4:30pm	Citibanamex bi-weekly survey of economic expectations					

Source: Banorte-IXE; Bloomberg

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 decreased by US\$159 million amounting to US\$172.9 billion. According to Banxico's report, this figure comes mainly as a result of: (1) US\$65 million dollar sales from Banxico to the Federal Government; and (2) a negative revalorization in central bank assets amounting to US\$94 million. In this context, the Central Bank's international reserves have diminished by US\$3.7 billion this year (please refer to the table in the next page).

**Banxico's foreign reserve accumulation detail**

US\$, million

	2016	Oct 6, 2017	Oct 6, 2017	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,542	172,873	-159	-3,669
(B) Gross international reserve	178,025	176,630	1,741	-1,395
Pemex	--	--	1,248	390
Federal government	--	--	-26	-3,720
Market operations	--	--	0	-2,000
Other	--	--	519	3,935
(C) Short-term government's liabilities	1,483	3,758	1,900	2,274

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 20-year fixed rate Mbonos (Nov'36), 30-year inflation-linked Udibonos (Nov'46), and 5 year Bondes D, 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, October 10, 2017)**

	Maturity	Coupon rate, %	To be auctioned <sup>1</sup>	Previous yield <sup>2</sup>
<b>Cetes</b>				
1m	16-Nov-17	--	7,000	7.03
3m	18-Jan-18	--	11,000	7.06
6m	12-Apr-18	--	11,500	7.15
<b>M Bono</b>				
3y	11-Jun-20	8.00	8,000	6.72
<b>Udibono</b>				
3y	10-Dec-20	2.50	750	3.00

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

**Unemployment rate in September will stand at 3.43%.** On Friday, *INEGI* will publish its unemployment report for the ninth month of 2017, in which we estimate an unemployment rate of 3.43% nsa, below the 3.53% observed in August. In seasonally adjusted terms, we believe that the unemployment rate could stand at 3.20% which implies a 0.09%-pts reduction from last month's figures.

We believe that the fall in the unemployment rate (seasonally adjusted) will be due to a decrease in the participation rate. This fall will be the result of the earthquakes that occurred in September, as we consider that people who were looking for jobs and suffered some kind of affectation will stop searching for employment.

Looking ahead, we believe that the unemployment rate will hover around this level as a result of: On the positive side: (1) the higher growth of domestic demand –particularly within the services–, will continue to foster the formal labor market; (2) the recovery of external demand will push forward job creation within the manufacturing industry; and on the downside: (3) the downward trend in public spending has translated in a higher number of unemployed workers, which has already affected private investment projects.

***Citibanamex* Survey: Market participants will focus on inflation and monetary policy forecasts.** Finally, on Friday around 3:30pm (EDT) *Citibanamex* will release its bi-weekly survey of economic expectations, where focus will be on analysts' inflation forecasts for the first half of October, considering that the decline seen in September's report was caused by the interruption of public transportation and mobile phone services charges, which we now expect to bounce back. In addition, *Citibanamex* will also publish consensus' growth and FX forecasts for 2017. In the first case, we do not expect strong revisions to the median GDP forecast. In the second case, we expect moderate downward revisions to the FX estimates for 2017. Furthermore, attention will be on monetary policy assessments, given that we believe that the latest monetary policy minutes showed a more hawkish tone.

#### **Disclaimer**

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