Ahead of the Curve

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Alejandro Cervantes
Senior Economist, Mexico
alejandro.cervantes@banorte.com

Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

Market focus this week will be on February's inflation and consumer confidence

- **Monthly inflation report (February).** On Thursday, at 9:00am, *INEGI* will release its monthly inflation report for February. We are forecasting a 0.41% m/m increase in the headline index, while we expect the core index to rise 0.53% m/m. Inflation during the period in question will be mainly explained by increases in the price of energy, particularly gasoline. However, these will be mitigated by a fall in the prices of fresh fruits and vegetables. With these results, annual inflation will stand at 5.37% in February, marginally lower than the 5.55% seen in January. Moreover, we forecast core inflation at 4.26% yoy (previous: 4.56% yoy).
- **Consumer confidence (February).** On Tuesday, at 9:00am (ET), Banxico and *INEGI* will publish its monthly survey on consumer confidence, where we expect a 10.2% yoy expansion, with the index reaching 83.4 points. However, the annual variation would be explained simply by a base effect, since consumer confidence posted a significant 14.6% drop in February 2017, following the liberalization of energy prices. In seasonally adjusted terms, we expect confidence levels to increase 0.9% m/m.

Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Tue 6-Mar	**9:00am**	**Consumer confidence**	February	index	83.4	--	84.2
Tue 6-Mar	**9:00am**	**Gross fixed investment**	December	% yoy	0.2	--	-4.5
		Machinary and equipment		% yoy	-1.2	--	-1.4
		Domestic		% yoy	-5.6	--	-5.9
		Imported		% yoy	2.2	--	2.0
		Construction		% yoy	1.4	--	-6.8
Tue 6-Mar	**10:00am**	**International reserves**	Mar-2	US$ bn	--	--	172.9
Tue 6-Mar	**12:30pm**	**Government weekly auction: 1-, 3-, 6-month CETES; 3y Mbono (Jun' 20); 3y Udibonos (Dec'20)**					
Tue 6-Mar	**4:30pm**	**Citibanamex bi-weekly survey of economic expectations**					
Thu 8-Mar	**9:00am**	**CPI inflation**	February	% m/m	0.41	--	0.53
				% yoy	5.37	--	5.55
		Core		% m/m	0.47	--	0.28
				% yoy	4.53	--	4.87
Fri 9-Mar		**Wage negotiations**	February	%	5.1	--	4.7

Source: Banorte; Bloomberg

Proceeding in chronological order...

We expect a moderate recovery in consumer confidence during February. On Tuesday, at 9:00am (ET), Banxico and *INEGI* will publish its monthly survey on consumer confidence, where we expect a 10.2% yoy expansion, with the index reaching 83.4 points. However, the annual variation would be explained simply by a base effect, since consumer confidence posted a significant 14.6% drop in February 2017, following the liberalization of energy prices. In seasonally adjusted terms, we expect confidence levels to increase 0.9% m/m.

We believe that the 0.9% increase in consumer confidence (seasonally adjusted figures) will be explained by: (1) The growth momentum in the Mexican labor market; and (2) inflation's downward trend. In this context, we highlight that inflation has moderated as a result of the sharp fall in agricultural goods prices, despite the increase energy prices. However, we believe that inflation is bound to pick up as the fall in agricultural goods prices stabilize.

We expect a 0.2% yoy expansion in December's GFI. On Tuesday at 9:00am (ET), *INEGI* will publish its December's gross fixed investment (GFI) report. We anticipate GFI up by 0.2% yoy. We believe that within the report we will probably see a 2.2% yoy expansion in imported machinery and equipment, given that trade balance figures showed a similar increase for capital goods imports. However, we expect a 5.6% contraction in domestic machinery and equipment. Finally, we believe that construction spending increased 1.4% yoy given that construction output within the industrial production report showed a similar result.

GFI estimates: December 2017
% yoy; %-pts

%yoy	Dec-17	Dec-16	2017	2016
Total	0.2	0.4	-1.6	1.1
Machinery and equipment	-1.2	6.3	1.7	3.1
Domestic	-5.6	9.6	0.2	7.3
Imported	2.2	3.8	2.8	0.3
Construction	1.4	-3.8	-4.0	-0.3

Annual contribution	Dec-17	Dec-16	Difference
Total	0.2	0.4	-0.1
Machinery and equipment	-0.5	2.6	-3.1
Domestic	-1.1	1.7	-2.8
Imported	0.5	0.9	-0.4
Construction	0.8	-2.2	3.0

Source: Banorte-Ixe

Weekly international reserves report. Additionally on Tuesday, at 10:00am (ET), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US$114 million amounting to US$172.9 billion. According to Banxico's report, this figure comes mainly as a result of a negative valuation effect in central bank assets. In this context, the Central Bank's international reserves have increased by US$108 million during 2018 (please refer to the table below).

Banxico's foreign reserve accumulation detail
US$, million

	2016	Feb 23, 2018	Feb 23, 2018	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	172,802	172,910	-114	108
(B) Gross international reserve	175,450	177,275	-157	1,825
Pemex	--	--	217	-12
Federal government	--	--	-125	2,119
Market operations	--	--	0	0
Other	--	--	-249	-282
(C) Short-term government's liabilities	2,648	4,365	-43	1,717

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 (Jun'20), 3-year inflation-linked Udibonos (Dec'20), 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 (ET).

Auction specifics (Tuesday, March 6, 2018)

	Maturity	Coupon rate, %	To be auctioned[1]	Previous yield[2]
Cetes				
1m	5-Apr-18	- -	7,000	7.47
3m	7-Jun-18	- -	11,000	7.64
6m	30-Aug-18	- -	11,500	7.81
M Bono				
3y	11-Jun-20	8.00	8,500	7.47
Udibonos				
3y	10-Dec-20	2.50	UDIS 950	3.58

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

***Citibanamex* Survey: Market participants will focus on inflation and monetary policy forecasts.** On Tuesday around 3:30pm (ET) *Citibanamex* will release its bi-weekly survey of economic expectations, where focus will be on analysts' inflation forecasts for February (to be published on March 8). Furthermore, attention will be on monetary policy assessments, given both the publication of the minutes of the last meeting as well as the *Quarterly Inflation Report*. In addition, the survey will also contain forecasts for growth and FX estimations. In the first case, we do not expect strong revisions to the median GDP forecast for 2018. In the second case, we expect marginally upward revisions given the latest performance of the Mexican peso.

Inflation during February will be explained by increases in the prices of energy, particularly gasoline. On Thursday, at 9:00am, *INEGI* will release its monthly inflation report for February. We are forecasting a 0.41% m/m increase in the headline index, while we expect the core index to rise 0.53% m/m.

Inflation during the period in question will be mainly explained by increases in the price of energy, particularly gasoline. However, these will be mitigated by a fall in the prices of fresh fruits and vegetables.

We forecast inflation to be 17bps lower when compared to the same period of last year, derived from: (1) 14bps from a smaller contribution of fresh fruits and vegetables (-23bps vs. -10bps in 2017); (2) 14bps from a greater impact of energy (19bps vs. 5bps in 2017); (3) 13bps derived from a smaller impact of other goods (10bps vs. 22bps in 2017); (4) 8bps stemming from a lesser contribution of processed foods (8bps vs. 16bps in 2017); and (5) 6bps due to a larger contribution of meat and egg (7bps vs. 1bp in 2017), as shown in the table below.

With these results, annual inflation will stand at 5.37% in February, marginally lower than the 5.55% seen in January. Moreover, we forecast core inflation at 4.26% yoy (previous: 4.56% yoy). Moving forward, we will focus on the evolution of energy prices and the behavior of agricultural prices, and the impact they might have in Mexico's CPI.

February inflation by components
% Monthly incidence

	2018 P	2017	Difference
Headline	0.41	0.58	-0.17
Core	0.35	0.57	-0.22
Goods	0.17	0.38	-0.21
Processed foods	0.08	0.16	-0.08
Other goods	0.10	0.22	-0.13
Services	0.18	0.19	-0.01
Housing	0.05	0.06	-0.01
Education	0.02	0.02	0.01
Other services	0.11	0.11	-0.01
Non-core	0.06	0.01	0.05
Agricultural	-0.17	-0.09	-0.08
Fresh fruits and vegetables	-0.23	-0.10	-0.14
Meat and egg	0.07	0.01	0.06
Energy and government regulated	0.23	0.10	0.13
Energy	0.19	0.05	0.14
Government regulated	0.04	0.04	-0.01

Source: Banorte, INEGI

Wage negotiations will climb 5.1% during January. On Friday, the Ministry of Labor (MoL) will publish the contractual wage negotiations for February. We expect workers to have negotiated an average increase of 5.1%, above the 4.7% seen in January. This figure will be mainly explained by a greater dynamism in the negotiations of the private sector, which averaged 5.1% in 2017. On the other hand, some of the syndicates of several higher education institutions negotiated increases below 4%. Looking ahead, we believe that negotiations will remain relatively high due to the minimum wage increase in late 2017 and the persistence of high inflation levels.

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 Godinez	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
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
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 Senior Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Strategist 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	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Corporate Debt			
Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@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.ceballos@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
Víctor Antonio Roldan Ferrer	Head of Corporate Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454