

Gasoline prices – Transition from a state-managed framework to a market-driven system

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@analisis_fundam

Gabriel Casillas

Chief Economist and Head of Research
gabriel.casillas@banorte.com

Delia Paredes

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

Alejandro Cervantes

Senior Economist, Mexico
Alejandro.cervantes@banorte.com

Francisco Flores

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

Fixed income and FX Strategy

Alejandro Padilla

Head Strategist - Fixed-Income and FX
alejandro.padilla@banorte.com

Juan Carlos Alderete, CFA

FX Strategist
juan.alderete.macal@banorte.com

Santiago Leal

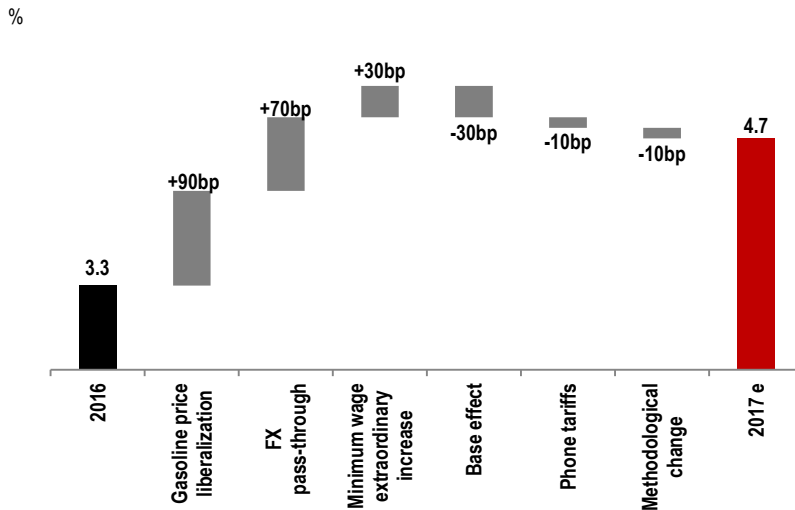
Analyst Fixed Income and FX
santiago.leal@banorte.com

- The Ministry of Finance published today the methodology for determining the maximum prices of fuel in January
- The average price for low-grade gasoline will be MXN\$15.99, while the price for high-grade gasoline will be MXN\$17.79, and for diesel will be MXN\$17.05. These prices will be valid until February 3
- These prices imply increases of 14.4%, 20.1%, and 16.6%, respectively
- In February, prices will be revised twice on until the 18th of February, when prices will be set on a daily basis
- In addition, the MoF announced the formula to calculate the maximum gasoline prices by region, which are determined by three factors:
 - (1) International reference prices, particularly the ones in the US Gulf Coast;
 - (2) Pemex's transportation and distribution costs; and
 - (3) Other concepts such as taxes and commercial margins for service stations
- It is worth noting that January's increase is explained by higher international gasoline prices and does not include any modification to the current gasoline excise tax or the creation of any other tax
- This pricing scheme will be in force until the liberalization of gasoline prices, which will start March 30th on Northwestern states. For details, see: "*The CRE outlines price liberalization calendar*" <[pdf](#)>
- We highlight the maximum prices for the following cities:
 - (1) Mexico City: Low-grade MXN\$16.33, High-grade MXN\$18.20 and diesel MXN\$17.07
 - (2) Guadalajara: Low-grade MXN\$16.52, High-grade MXN\$18.40 and diesel \$17.24
 - (3) Monterrey: Low-grade MXN\$16.31, High-grade MXN\$18.19 and diesel MXN\$17.03
- As a result, we revised our inflation forecast for 2017 to 4.7% from 4.3% year-end
- All in all, these distortions are part of the country's efforts to continue to foster free markets, however it would have been desirable that these increases had been made in a gradual manner, given the negative impact the increase will have on private consumption
- In addition, we now expect a 50bps rate hike in Banxico's first monetary policy meeting on February 9, which would imply at least a 150bps accumulated hike throughout the year

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- **Good performance in short-term Udibonos after the announcement, with average gains of 15bps in securities maturing from Jun'19 to Jun'22. Concerns over inflation next year have picked up strongly, with breakeven inflation levels trading around 3.1% a month ago in almost all tenors to slightly above 4.0% currently except for the 30-year maturity, with the 3-year tenor closing yesterday at 4.2%**
- **We reiterate our recommendation of long positions in Udibonos Jun'19, Dec'20 and Jun'22 after the release. In our view, inflation next year could be severely impacted by three factors, mainly: (1) An additional pass-through effect from peso weakness to prices, (2) gasoline price liberalization, and (3) the increase in minimum wages. Considering today's information, we now forecast year-end 2017 inflation at 4.7%yoy from a previous of 4.3%, with 2016 ending at 3.3%**

Inflation forecast 2017



Source: Banorte-IXE

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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
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 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
José Itzamna Espitia Hernández	Equity Research Analyst – Airlines / Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto Parts/ Consumer Discretionary / Real Estate / Retail	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