

Ahead of the Curve

May 5, 2017

Market focus this week will be on April's inflation report and March's industrial production

- Inflation report (April).** On Tuesday, at 9:00am, INEGI will release its monthly inflation report for April. We are forecasting a 0.10% m/m decrease in the headline index (consensus: 0.07% m/m), while we expect the core index to rise 0.46% m/m (consensus 0.45% m/m). Inflation during the period in question will be explained by the start of summer discounts on electricity tariffs in some regions of the country. However, the fall in energy prices will be partially offset by the upward trend in agricultural goods prices. In addition, we continue to expect increases in the processed foods, other goods and other services components.
- Industrial production (March).** Next Friday at 9:00am (EDT), INEGI will release its monthly industrial production report. We anticipate a 2.2% yoy expansion in total output during March, after the 1.7% decline in the previous month. Part of the expansion will be explained by a calendar effect, as the industrial output in March will be positively affected by the Holy Week holiday that started in April (vs. March in 2015), adding working days to the annual comparison.

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Document for distribution among the general public

Mexico weekly calendar

DATE	HOURL (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 8-May	9:00am	Consumer confidence	April	index	<u>81.7</u>	--	81.0
Tue 9-May	9:00am	CPI inflation	April	% m/m	<u>0.1</u>	0.07	0.61
		Core		% yoy	<u>5.79</u>	5.76	5.35
				% m/m	<u>0.46</u>	0.45	0.57
				% yoy	<u>4.73</u>	--	4.48
Tue 9-May	10:00am	International reserves	6-May	US\$ bn	--	--	175.0
Tue 9-May	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 10y Mbono (Mar'26); 5y Bondes D					
Wed 10-May		Wage negotiations	April	%	<u>4.4</u>	--	4.7
Fri 12-May	9:00am	Industrial production	March	% yoy	<u>2.2</u>	--	-1.7
		(sa)		% m/m	<u>0.1</u>	--	0.1
		Mining		% yoy	<u>-8.5</u>	--	-13.7
		Utilities		% yoy	<u>0.6</u>	--	-2.4
		Construction		% yoy	<u>4.4</u>	--	3.0
		Manufactures		% yoy	<u>5.9</u>	--	1.1

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

Consumer confidence will marginally recover in April. On Thursday, at 9:00am (EDT), Banxico and *INEGI* will publish its April's monthly survey on consumer confidence, where we expect a 8% yoy contraction, with the index reaching 81.7 points. However, in seasonally adjusted terms, we expect confidence levels to increase 0.4% m/m.

We believe that consumer confidence (measured in seasonally adjusted terms) will show a moderate growth given the stable behavior of the Mexican currency, which will be reflected in a higher growth of consumer's expectations regarding the country's present and future economic outlook. Moreover, April's 0.4% increase will be also explained by the static behavior of gasoline prices, which will translate in an expansion of the purchasing power component.

Inflation during April will be explained by decreases in electricity tariffs. On Tuesday, at 9:00am, *INEGI* will release its monthly inflation report for April. We are forecasting a 0.10% m/m decrease in the headline index (consensus: 0.07% m/m), while we expect the core index to rise 0.46% m/m (consensus 0.45% m/m).

Inflation during the period in question will be explained by the start of summer discounts on electricity tariffs in some regions of the country. However, the fall in energy prices will be partially offset by the upward trend in agricultural goods prices. In addition, we continue to expect increases in the processed foods, other goods and other services components.

We expect inflation to be 41bp higher than the observed in same period last year, derived from: (1) 26bp from a higher contribution of fruits and vegetables (9.1bp vs. -16.7bp in 2016); (2) 12bp derived from a higher contribution of prices of other services (10.7bp vs. -1.5bp in 2016); and (3) -15.7bp stemming from a lower contribution of energy prices (-43.7bp vs. 28bp in 2016), as shown in the table below, as shown in the table below.

With these results, annual inflation will stand at 5.79% in April, (previous: 5.35% yoy), while core inflation will be at 4.73% (previous: 4.48% yoy). Moving forward, we will be attentive to the evolution of energy prices and the behavior of the exchange rate, as well as the impact they might have on the price formation dynamic.

April inflation by components
% monthly incidence

	Banorte-ixe	2016	Difference
Headline	0.10	-0.32	0.41
Core	0.34	0.17	0.18
Goods	0.20	0.14	0.06
Processed foods	0.11	0.06	0.05
Other goods	0.10	0.08	0.02
Services	0.14	0.02	0.12
Housing	0.03	0.04	0.00
Education	0.00	0.00	0.00
Other services	0.107	-0.015	0.12
Non-core	-0.25	-0.48	0.23
Agricultural	0.17	-0.13	0.30
Fresh fruits and vegetables	0.091	-0.167	0.26
Meat and egg	0.08	0.04	0.04
Energy and government regulated	-0.42	-0.35	-0.07
Energy	-0.437	-0.280	-0.157
Government regulated	0.03	-0.07	0.09

Source: INEGI

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\$12 million amounting to US\$175.0 billion. According to Banxico's report, this figure comes mainly as a result of US\$12 million dollar sales from Banxico to the Federal Government. In this context, the Central Bank's international reserves have diminished by US\$1.5 billion this year (please refer to the table below).

Banxico's foreign reserve accumulation detail
US\$, million

	2016	Apr 28, 2017	Apr 28, 2017	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,542	175,010	-12	-1,531
(B) Gross international reserve	178,025	176,749	-2,250	-1,276
Pemex	--	--	-8	-608
Federal government	--	--	-1,550	-377
Market operations	--	--	0	-2,000
Other	--	--	-692	1,708
(C) Short-term government's liabilities	1,483	1,738	-2,238	255

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 30-year fixed-rate Mbonos (Nov'47), 5-year Bondes D, 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, May 9, 2017)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	8-Jun-17	--	7,000	6.50
3m	10-Ago-17	--	11,000	6.71
6m	9-Nov-17	--	11,500	6.89
M Bono				
30y	7-Nov-47	8.00	3,000	7.52
Udibonos				
5y	17-Mar-22	--	4,500	0.22

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

Wage negotiations will climb 4.4% during April. On Wednesday, the Ministry of Labor (MoL) will publish the contractual wage negotiations for April. We expect workers to have negotiated an average increase of 4.4%, below the 4.8% increase seen in March. We believe that the slight deceleration in the figure will come as a result of a higher number on negotiations in the public sector, which so far have only increased 3.1% YTD (vs. 4.7% in the private sector). Looking ahead, we believe that the significant increase in the minimum wage last December, coupled with higher inflation –mainly driven by the increase in energy prices- will continue to maintain wage negotiations in higher-than-average levels.

We expect a 2.2% yoy expansion in March’s industrial output. Next Friday at 9:00am (EDT), *INEGI* will release its monthly industrial production report. We anticipate a 2.2% yoy expansion in total output during March, after the 1.7% decline in the previous month. Part of the expansion will be explained by a calendar effect, as the industrial output in March will be positively affected by the *Holy Week* holiday that started in April (vs. March in 2015), adding working days to the annual comparison.

Taking a look at the breakdown, manufacturing production could post a 5.9% yoy expansion, partially explained by the positive calendar effect already mentioned. Correcting for this calendar effect, we expect a 2.1% yoy increase derived from the visible recovery in external demand.

In addition, industrial output during March will be also explained by: (1) The 1.8% yoy increase in construction output (calendar adjusted figures), as a result of the lower growth in private construction investment projects as a result of the uncertainty surrounding Mexico’s economic outlook, coupled with the contraction in public investment projects as a result of the Federal Government’s fiscal stability plan; and (2) the poor performance of mining activity.

Industrial production estimate: March 2017

% yoy, nsa

	Mar-17	Mar-16	Jan-Mar, '17	Jan-Mar, '16
Total	2.2	-2.2	0.2	0.0
Mining	-8.5	-4.6	-10.6	-3.2
Utilities	0.6	-0.3	-0.3	1.0
Construction	4.4	-1.7	2.1	1.3
Manufacturing	5.9	-1.6	3.8	0.7

Source: Banorte-ixe

Disclaimer

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