

Ahead of the Curve

January 4, 2016

Market focus this week will on December's monthly inflation report

- December's monthly inflation report.** On Thursday, at 9:00am, *INEGI* will release its monthly inflation report. We are forecasting a 0.39% m/m increase in December. In the core index, we expect a 0.34% m/m increase. Inflation during the period in question will be explained by pressures on agricultural prices along with higher merchandise prices given the Christmas shopping season. With these results, 12-month inflation will end the year at 2.1% yoy from 4.1% in 2014, while core inflation will end at 2.44% from 3.2% yoy in the previous year
- Consumer confidence.** On Friday, at 9:00am (EST), Banxico and *INEGI* will publish its December's monthly survey on consumer confidence, where we expect a 0.7% yoy expansion, with the index reaching 94.2 points. Moreover, 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 benefit from the downward trend in inflation, which will translate in a higher growth for the purchasing power component. Moreover, we believe that the recent recovery in private consumption will be reflected in a higher growth for consumer's expectations regarding the household's present and future economic outlook. Finally, we believe that the successful result of the third tender of Round 1 of Mexico's private-sector investments into full-blown oil-related projects will translate into a higher growth in consumer's expectations regarding the country's future economic outlook

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Document for distribution among the general public

Mexico weekly calendar

DATE	HOUR (EST)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 4-Jan	10:00am	Family remittances	November	US\$ mn	<u>1,894.4</u>	<u>1,850</u>	2,076
Mon 4-Jan	1:00pm	PMI's survey (IMEF)	December				
		Manufacturing		index	<u>52.6</u>	<u>51.5</u>	52.1
		Non-manufacturing		index	<u>51.9</u>	<u>51.8</u>	51.5
Tue 5-Jan	10:00am	International reserves	31-Dec	US\$ mn	--	--	176.4
Tue 5-Jan	12:30pm	Government weekly auction: 1-, 3-, 6-, 12- month CETES; 10y Mbono (Mar'26); 30y Udibonos (Nov'46); 5y Bondes D					
Wed 6-Jan	4:30pm	Banamex bi-weekly survey of economic expectations					
Thu 7-Jan	9:00am	CPI inflation	December	% m/m	<u>0.39</u>	<u>0.37</u>	0.55
				% yoy	<u>2.12</u>	<u>2.10</u>	2.21
		Core		% m/m	<u>0.34</u>	<u>0.33</u>	0.04
				% yoy	<u>2.44</u>	--	2.34
Fri 8-Jan	9:00am	Consumer Confidence	December	index	<u>94.2</u>	<u>93.0</u>	92.5

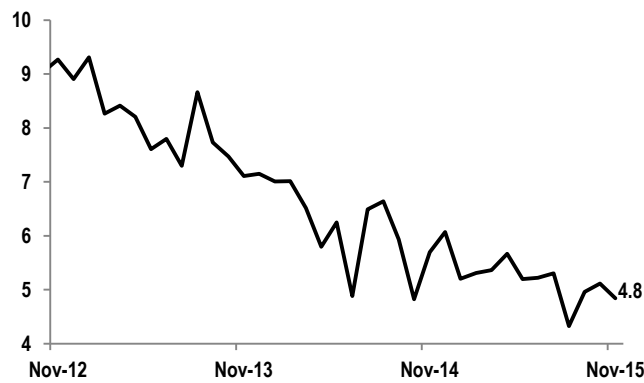
Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

Family remittances will post a 6.7% yoy expansion. Today, at 10:00am (EST), Banxico will make its family remittances monthly data available. We expect Mexican workers living abroad -mainly in the US-, to have sent US\$1,894.4 mn to their families in Mexico during November. This would imply a 6.7% yoy expansion.

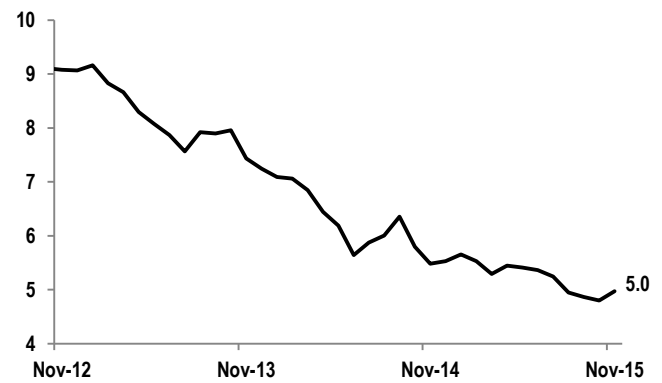
We believe that remittances in November will benefit from the better growth dynamics of the Mexican immigrant labor force in the U.S. Analyzing the recent figures from the Current Population Survey, the unemployment rate for Mexican illegal and legal immigrants has fallen significantly in the last five months (refer to the charts below) which implies that we will probably continue to see an upward trend in these inflows.

Unemployment rate for Mexican illegal migrant workers without citizenship
%, sa



Source: Banorte-IXE, US Census Bureau

Unemployment rate for Mexican legal migrant workers without citizenship
%, sa



Source: Banorte-IXE, US Census Bureau

December's PMI surveys. Also today, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators for December. We expect manufacturing PMI at 52.6, above the 52 observed in November (seasonally adjusted terms). We believe that manufacturing activity was supported by the recovery of consumer spending in Mexico and the significant depreciation of the MXN.

Moreover, we believe that the non-manufacturing PMI will stand at 51.9 points from 51.5 points. In this regard, we believe that the recent upward trend in domestic demand, given the recovery in both the labor market and the household's purchasing power, could have triggered a faster growth within the services, which will be reflected in the non-manufacturing PMI.

Weekly international reserves report. On Tuesday, at 10:00am (EST), Banco de Mexico will release its weekly balance report. The week before, net international reserves increased by US\$1,827mn amounting to US \$176.4bn on December 24. According to Banxico's report, this figure comes mainly as a result of: (1) Dollar sales by the Federal Government to the Central Bank for US\$1,929mn; (2) US\$110mn decrease explained by Banxico's USD ordinary auction with minimum price; along with a (3) US\$8mn increase due to changes in the valuation of the Central Bank's assets.

It is worth noting that Pemex is currently the only significant source of reserve accumulation. In this context, the central bank has an accumulated reduction of US\$16,886mn international reserves this year (please refer to the table below).

Banxico's foreign reserve accumulation details

US\$, million

	2014	24/Dec/2015	24/Dec/2015	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	193,239	176,353	1,827	-16,886
(B) Gross international reserve	195,682	178,669	52	-17,013
Pemex	--	--	-19	3,772
Federal govt	--	--	129	4,854
Market operations	--	--	-110	-24,515
Other	--	--	52	-1,124
(C) Short-term government's liabilities	2,443	2,316	-1,775	-127

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 10-year fixed-rate Mbonos (Mar'26), 30-year inflation-linked Udibonos (Nov'46), as well as 5-year BondesD, 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 (EST).

Auction specifics (Tuesday, January 5, 2015)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	04-Feb-16	--	5,500	3.05
3m	07-Apr-16	--	9,500	3.29
6m	07-Jul-16	--	11,000	3.53
12m	08-Dec-16	--	11,000	3.68
Mbono				
10y	05-Mar-26	5.75	8,000	6.18
Udibono				
30y	08-Nov-46	4.00	450	3.90
Bondes D				
5y	26-Nov-20	--	4,500	0.25

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 2016 estimates. On Wednesday at 4:30pm (EST) *Banamex* will release its first bi-weekly survey of economic expectations, where market participants will focus on analysts' monetary policy assessments after Banxico's hike in December. Furthermore, analysts will also focus on December's inflation forecast (to be published on Thursday, January 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 believe that most economists will discount a higher economic growth for 2016. In the second case, we expect moderate upward revisions to the FX estimates for 2016.

Inflation in December will be explained by pressures on agricultural prices along with higher merchandise prices. On Thursday, at 9:00am, *INEGI* will release its monthly inflation report. We are forecasting a 0.39% m/m increase in December. In the core index, we expect an increase of 0.34% m/m.

Inflation during the period in question will be explained by pressures on agricultural prices along with higher merchandise prices given the Christmas shopping season. Nevertheless, we expect this figure to be 10bps lower than the observed in the same period last year, derived from: (1) 13bps stemming from a higher contribution of agriculture (18bps vs. 30 in 2014); (2) 4bps stemming from a higher contribution of goods prices (10bps vs. 6 in 2014); and (3) 4bps stemming from a higher contribution of services (15bps vs. 11 in 2014), as shown in the table below.

Inflation by components in December
% monthly incidence

	Banorte-Ixe	2014	Difference
Headline	0.39	0.49	-0.10
Core	0.25	0.17	0.08
Goods	0.10	0.06	0.04
Processed foods	0.07	0.04	0.03
Other goods	0.03	0.03	0.01
Services	0.15	0.11	0.04
Housing	0.03	0.03	0.00
Education	0.00	0.00	0.00
Other services	0.12	0.08	0.04
Non-core	0.14	0.32	-0.18
Agricultural	0.18	0.30	-0.13
Fresh fruits and vegetables	0.15	0.21	-0.06
Meat and egg	0.03	0.09	-0.06
Energy and government regulated	-0.04	0.01	-0.05
Energy	-0.05	0.00	-0.05
Government regulated	0.01	0.01	0.00

Source: Banorte-Ixe with data from INEGI and Banco de México

Note: Contributions might not add due to the number of decimals allowed in the table. Previous to year 2011, contributions might not add because of the change in CPI-calculation methodology

With these results, 12-month inflation will end the year at 2.1% yoy from 4.1% in 2014. Moreover, core inflation will end at 2.44% from 3.2% yoy in the previous year.

Consumer confidence will continue to show signs of recovery. On Friday, at 9:00am (EST), Banxico and *INEGI* will publish its December's monthly survey on consumer confidence, where we expect a 0.7% yoy expansion, with the index reaching 94.2 points. Moreover, 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 benefit from the downward trend in inflation, which will translate in a higher growth for the purchasing power component. Moreover, we believe that the recent recovery in private consumption will be reflected in a higher growth for consumer's expectations regarding the household's present and future economic outlook. Finally, we believe that the successful result of the third tender of Round 1 of Mexico's private-sector investments into full-blown oil-related projects will translate into a higher growth in consumer's expectations regarding the country's future economic outlook.

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