

Ahead of the Curve

August 17, 2018

Market focus this week will be on inflation in the first half of August and 2Q18's GDP

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- Bi-weekly inflation report (1H-August).** On Thursday, at 9:00am, *INEGI* will release its monthly inflation report for the first half of August. We are forecasting a 0.39% 2w/2w increase in the headline index, while we expect the core component to climb 0.15% 2w/2w. Inflation during the period in question will be mainly explained by the increase in the price of fresh fruits and vegetables. In addition, we also expect pressures from energy prices. With these results, 12-month inflation will stand at 4.86% in the first half of August, higher than the 4.81% seen in July. It is worth noting that *INEGI* will publish these figures using a new methodology and a new base year
- Gross domestic product (2Q18 F).** On Friday, *INEGI* will publish GDP figures of second quarter of 2018. We expect an economic expansion of 2.8%, marginally above the 2.7% seen in the preliminary estimation which was published on July 31st. As we previously mentioned, 2Q18 numbers will be explained by a calendar effect, given that the Easter holiday period increased the working days in the annual comparison. Controlling for this effect, the Mexican economy will grow around 1.7% yoy

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Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Tue 22-Aug	10:00am	International reserves	Aug-17	US\$ bn	--	--	173.4
Tue 22-Aug	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 3y Mbono (Dec'21); 3y Udibonos (Jun'22)					
Tue 22-Aug	4:30pm	Citibanamex bi-weekly survey of economic expectations					
Wed 23-Aug	9:00am	Retail sales	June	% yoy	<u>4.3</u>	3.3	2.5
		sa		% m/m	<u>0.5</u>	0.4	1.0
Thu 24-Aug	9:00am	CPI inflation	1H-Aug	% 2w/2w	<u>0.39</u>	0.30	0.18
		Core		% yoy	<u>4.86</u>	4.76	4.77
				% 2w/2w	<u>0.15</u>	0.15	0.05
				% yoy	<u>3.58</u>	--	3.63
Tue 22-Aug	9:00am	GDP	2Q18	% yoy	<u>2.8</u>	2.8	2.7
		(sa)		% q/q	<u>0.1</u>	-0.1	-0.1
		Primary activities		% yoy	<u>1.8</u>	--	1.8
		Industrial production		% yoy	<u>1.4</u>	--	1.4
		Services		% yoy	<u>3.6</u>	--	3.4
Tue 22-Aug	9:00am	Economic activity indicator	June	% yoy	<u>1.7</u>	1.6	2.2
		(sa)		% m/m	<u>0.1</u>	--	0.2
		Primary activities		% yoy	<u>-5.6</u>	--	8.0
		Industrial production		% yoy	<u>0.2</u>	--	0.3
		Services		% yoy	<u>2.8</u>	--	2.9
Fri 25-Aug	10:00am	Current account	2Q16	US\$ bn	<u>-4.6</u>	-3.6	-6.9

Source: Banorte; Bloomberg

Proceeding in chronological order...

Weekly international reserves report. On Tuesday, at 10:00am (ET), Banco de Mexico will release its weekly balance report. Last week, net international reserves increased by US\$64 million amounting to US\$173.4 billion. According to Banxico's report, this figure comes mainly as a result of a positive valuation effect in central bank assets. In this context, the central bank's international reserves have increased by US\$550 million during 2018 (please refer to the following table).

Banxico's foreign reserve accumulation detail

US\$, million

	2017	Aug 10, 2018	Aug 10, 2018	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	172,802	173,351	64	550
(B) Gross international reserve	175,450	176,687	-10	1,238
Pemex	--	--	91	-476
Federal government	--	--	-200	594
Market operations	--	--	0	0
Other	--	--	99	1,119
(C) Short-term government's liabilities	2,648	3,336	-74	688

Source: Banco de México

Weekly government bond auction. In addition, on Tuesday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent–, will offer 3-year fixed-rate Mbonos (Dec'21), 3-year inflation-linked Udibonos (Jun'22), 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, August 21th, 2018)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	20-Sep-18	--	7,000	7.74
3m	22-Nov-18	--	11,000	7.89
6m	14-Feb-19	--	11,500	8.02
M Bono				
3y	09-Dec-21	7.25	8,500	7.83
Udibono				
3y	09-Jun-22	2.00	UDIS 950	3.50

Source: Banorte 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. Also on Tuesday, around 4:30pm (ET) *Citibanamex* will release its bi-weekly survey of economic expectations, where market focus will be on analysts' inflation forecasts for the first half of August (to be published on Thursday, August 23rd). Furthermore, attention will be on monetary policy assessments, particularly given the slightly less hawkish tone we perceived in the last monetary policy minutes. In addition, the survey will contain forecasts for growth and FX.

Retail sales will post a 4.3% yoy expansion in June. On Wednesday, at 9:00am (ET), *INEGI* will release its report on retail sales in the sixth month of 2018, where we anticipate a 4.3% yoy expansion. In addition, using seasonally adjusted figures, we forecast a slight increase of 0.5% m/m. We believe that retail sales expansion will be mainly explained by the dynamism in non-durable goods sales as well as a base effect. During the period in question, *ANTAD* same-store sales show a 3.1% yoy growth in real terms. However, imports of non-oil consumption goods decreased 3.8% yoy, while *AMIA*'s figures show a 6% yoy contraction in vehicle sales, which could partially offset the dynamism seen in *ANTAD* sales.

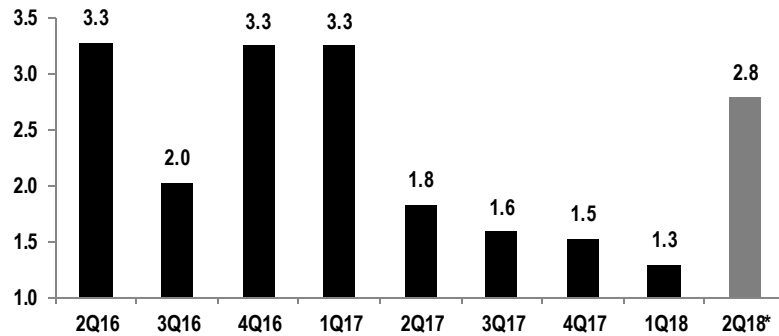
Inflation during the first half of August will be explained by an increase in fresh fruit and vegetables prices. On Thursday, at 9:00am, *INEGI* will release its monthly inflation report for the first half of August. We are forecasting a 0.39% 2w/2w increase in the headline index, while we expect the core component to climb 0.15% 2w/2w. Inflation during the period in question will be mainly explained by the increase in the price of fresh fruits and vegetables. In addition, we also expect pressures from energy prices, particularly gasoline, along with higher prices of other goods.

With these results, 12-month inflation will stand at 4.86% in the first half of August, higher than the 4.81% seen in July. Moreover, we forecast core inflation at 3.58% yoy (previous: 3.63% yoy). It is worth noting that *INEGI* will publish these figures using a new methodology and a new base year. Among the most relevant changes we highlight a greater geographical coverage, more goods and services as part of the index and new weights for the categories within the CPI. These changes are extensively outlined in the research note titled "*CPI changes methodology as of the 1st half of August*" <pdf>, published on August 15th.

GDP will expand 2.8% yoy in 2Q18. On Friday, *INEGI* will publish GDP figures of second quarter of 2018. We expect an economic expansion of 2.8%, marginally above the 2.7% seen in the preliminary estimation which was published on July 31st. As we previously mentioned, 2Q18 numbers will be explained by a calendar effect, given that the Easter holiday period increased the working days in the annual comparison. Controlling for this effect, the Mexican economy will grow around 1.7% yoy (2Q18: 0.1% q/q vs 1Q18: 1.1% q/q).

We believe GDP growth in the second quarter of the year was supported by a favorable performance in the services sector, with a rate of expansion in the area of 3.6% yoy nsa. In addition, we believe that weakness in industrial output –explained by the recession in the mining sector-, continued to be a drag for economic activity in 2Q18. Nevertheless, we expect manufacturing output to have expanded 3.3% yoy nsa in the period in question, after a marginal reduction of 0.1% in the previous quarter. This implies a 1.4% yoy nsa expansion of the industrial sector overall. Finally, we anticipate a 1.8% yoy nsa increase in agricultural activities.

Gross domestic product
% yoy, nsa



Source: INEGI, Banorte. *Note: Banorte's forecast for 2Q18

We expect a 1.7% yoy expansion in June's IGAE. Also on Friday, *INEGI* will release its monthly global economic activity indicator for June (GDP monthly proxy), where we expect a 1.7% yoy growth. Using seasonally adjusted figures, we expect a 0.1% m/m increase

As we had mentioned in our last report, the 0.2% yoy expansion in industrial production during May was mostly explained by the 2% yoy increase in manufacturing output offset by the 6.6% yoy contraction in mining. In addition, construction posted a 1% yoy increase.

Moreover, we believe that services will show a 2.8% yoy expansion (nsa figures), considering that recent reports have shown positive figures as a result of low unemployment figures coupled with a banking credit expansion.

The current account deficit in 2Q18 will amount to US\$4,641 million. Finally, on Friday at 10:00am, Banxico will release its balance of payments report for the second quarter of the year. We are forecasting a US\$4.6bn deficit in the current account. According to data already released, trade balance during the period in question amounted to -US\$2,772.8 million, while net transfers increased as a result of 24% yoy increase in remittances.

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