

# Ahead of the Curve

July 15, 2016

Market focus this week will on *INEGI's* bi-weekly inflation report

- Bi-weekly inflation report.** On Friday, at 9:00am (EDT), *INEGI* will release its bi-weekly inflation report. We are forecasting a 0.21% 2w/2w increase in the first half of July, marginally below consensus forecast of 0.2% according to *Bloomberg*. Within the core index, we expect a 0.12% 2w/2w increase, below market consensus (0.13%). With these results, annual inflation will stand at 2.65% yoy in the first half of July from 2.54% in June. Similarly, core inflation will stand at 2.99% from 2.97% yoy
- Banamex survey.** On Wednesday at 4:30pm (EDT) *Banamex* will release its bi-weekly survey of economic expectations, where market participants will focus on analysts' monetary policy assessments. In this regard, we believe that a higher number of economists may consider an additional rate hike in September given the hawkish tone depicted in Banxico's minutes, where the central bank denoted a higher concern about the recent upward trend in the core price sub-index

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**Mexico weekly calendar**

DATE	HOUR (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Tue 19-Jul	10:00am	International reserves	15-Jul	US\$ bn	--	--	177.5
Tue 19-Jul	12:30pm	Government weekly auction: 1-, 3-, 6-, and 12-month Cetes; 30y MBono (Nov'42); 30y Udibono (Nov'46); 5y Bondes D					
Wed 20-Jul	4:30pm	Banamex bi-weekly survey of economic expectations					
Fri 22-Jul	9:00am	CPI inflation	1H Jul	% 2w/2w	<u>0.21</u>	<u>0.20</u>	0.01
				% yoy	<u>2.65</u>	<u>2.54</u>	2.54
		Core		% 2w/2w	<u>0.12</u>	<u>0.13</u>	0.08
				% yoy	<u>2.99</u>	--	2.97

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

**Weekly international reserves report.** On Tuesday, at 10:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves fell by US\$66mn amounting to US \$177.5 billion on July 8. According to Banxico's report, this figure comes mainly as a result of: (1) Dollar sales by Banxico to the Federal Government for US\$28mn; and (2) US\$38mn reduction due to changes in the valuation of the Central Bank's assets. In this context, the Central Bank has accumulated US\$778mn international reserves this year (please refer to the table below).

**Banxico's foreign reserve accumulation details**

US\$, million

	2015	8/Jul/2016	8/Jul/2016	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,735	177,513	-66	778
(B) Gross international reserve	177,597	179,510	353	1,913
Pemex	--	--	280	2,997
Federal government	--	--	195	1,915
Market operations	--	--	0	-5,562
Other	--	--	-122	2,563
(C) Short-term government's liabilities	861	1,997	419	1,136

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 30-year fixed-rate Mbonos (Nov'42), 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 (EDT).

**Auction specifics (Tuesday, July 19, 2016)**

	Maturity	Coupon rate, %	To be auctioned <sup>1</sup>	Previous yield <sup>2</sup>
<b>Cetes</b>				
1m	18-Ago-16	--	5,500	4.19
3m	20-Oct-16	--	9,500	4.38
6m	19-Ene-17	--	11,000	4.58
12m	20-Jul-17	--	11,000	4.46
<b>Mbono</b>				
30y	13-Nov-42	7.75	2,000	6.85
<b>Udibono</b>				
30y	08-Nov-46	4.00	400	3.70
<b>Bondes D</b>				
5y	20-May-21	--	3,000	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

**Banamex Survey: Market participants will focus on monetary policy forecasts.** On Wednesday at 4:30pm (EDT) *Banamex* will release its bi-weekly survey of economic expectations, where market participants will focus on analysts' monetary policy assessments. In this regard, we believe that a higher number of analysts may consider an additional rate hike in September given the hawkish tone depicted in Banxico's minutes, where the central bank denoted a higher concern about the recent upward trend in the core price sub-index.

In addition, analysts will also focus on the inflation report for the first half of July (to be published on Friday, July 22), 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 do not expect strong revisions to the median GDP forecast. In the second case, we expect moderate downward revisions to the FX estimates for 2016.

**Inflation in the first half of July will be explained by pressures on energy prices, along with higher services prices.** On Friday, at 9:00am (EDT), INEGI will release its bi-weekly inflation report. We are forecasting a 0.21% 2w/2w increase in the first half of July, marginally below consensus forecast of 0.2% according to *Bloomberg*. Within the core index, we expect a 0.12% 2w/2w increase, below market consensus (0.13%).

**Inflation by components in the first half of July**  
% bi-weekly incidence

	Banorte-Ixe	2015	Difference
Total	0.21	0.09	0.12
Core	0.09	0.07	0.01
Goods	0.02	-0.02	0.03
Processed foods	0.01	0.02	-0.01
Other goods	0.01	-0.04	0.05
Services	0.07	0.09	-0.02
Housing	0.01	0.01	0.00
Education	0.00	0.00	0.00
Other services	0.06	0.08	-0.02
Non-core	0.12	0.02	0.10
Agriculture	0.00	0.02	-0.02
Fruits & vegetables	-0.02	0.07	-0.09
Meat & eggs	0.02	-0.04	0.06
Energy & government tariffs	0.12	0.00	0.13
Energy	0.12	0.00	0.12
Government tariffs	0.00	0.00	0.01

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

Inflation during the period in question will be explained by pressures on energy prices along with higher services prices. In this regard, we expect this figure to be 11.8bps higher than the observed in same period last year, derived from: (1) 12.1bps stemming from a higher contribution of energy prices given the increase in the government regulated price of gasoline and electricity (12.1bps vs. 0 in 2015); (2) 3.3bps stemming from a higher contribution of goods prices given a higher pass-through from the depreciation of the Mexican currency to prices (1.5bps vs. -1.8 in 2015); (3) by contrast, we expect -2.2bps from a lower contribution of agriculture goods prices (0bps vs. 2.2 in 2015); and (4), -1.8bps stemming from a lower contribution of services (7.4bps vs. 9.1 in 2015), as shown in the table below.

With these results, annual inflation will stand at 2.65% yoy in the first half of July from 2.54% in June. Similarly, core inflation will stand at 2.99% from 2.97% yoy.

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