

Ahead of the Curve

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Market focus this week will be on June's inflation and May's industrial production

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- Monthly inflation report (June).** On Monday, at 9:00am, *INEGI* will release its monthly inflation report for June. We are forecasting a 0.48% m/m increase in the headline index, while we expect the core index up 0.23% m/m. Inflation during the period in question will be mainly explained by the increase in energy prices, particularly LP gas and gasoline. In addition, we also expect pressures from other services as well as fruits and vegetables. With these results, annual inflation will stand at 4.75% in June, higher than the 4.51% seen in May. Moreover, we forecast core inflation at 3.62% yoy (previous: 3.69% yoy).
- Industrial production (May).** Finally on Thursday, at 9:00am (ET), *INEGI* will release its monthly industrial production report. We anticipate a 0.8% yoy increase in total output in May. In the monthly comparison, and using the seasonally adjusted figures, we expect a 0.6% expansion. In addition, we forecast a 2.3% yoy growth in manufacturing output, partly explained by a greater dynamism in the production of vehicles

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Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS	
Mon 9-Jul	9:00am	CPI inflation	June	% m/m	<u>0.48</u>	0.33	-0.16	
				% yoy	<u>4.75</u>	4.59	4.51	
				Core	% m/m	<u>0.23</u>	0.21	0.26
				% yoy	<u>3.62</u>	--	3.69	
Tue 10-Jul		Wage negotiations	June	%	<u>5.0</u>	--	5.7	
Tue 10-Jul	10:00am	International reserves	Jul-7	US\$ bn	--	--	173.2	
Tue 10-Jul	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 5y Mbono (Dec'23); 10y Udibonos (Nov'28)						
Thu 12-Jul	9:00am	Industrial production	May	% yoy	<u>0.8</u>	0.9	3.8	
				(sa)	% m/m	<u>0.6</u>	0.4	-0.4
				Mining	% yoy	<u>-6.8</u>	--	-5.2
				Utilities	% yoy	<u>2.8</u>	--	4.5
				Construction	% yoy	<u>2.6</u>	--	6.7
Manufactures	% yoy	<u>2.3</u>	2.9	5.6				

Source: Banorte; Bloomberg

Proceeding in chronological order...

Inflation during June will be explained by an increase in energy prices. On Monday, at 9:00am, *INEGI* will release its monthly inflation report for June. We are forecasting a 0.48% m/m increase in the headline index, while we expect the core index to climb 0.23% m/m.

Inflation during the period in question will be mainly explained by the increase in energy prices, particularly LP gas and gasoline. In addition we also expect pressures from other services as well as fruits and vegetables.

We forecast inflation to be 23bps above the figure seen in 2017 as a result of: (1) a greater impact of energy prices (25bps vs. -2bps in 2017); (2) a smaller participation from other goods (1bps vs. 4bps in 2017); and (3) a lesser contribution of processed foods (5bps vs. 7bps in 2017), as shown in the table below.

With these results, annual inflation will stand at 4.75% in June, higher than the 4.51% seen in May. Moreover, we forecast core inflation at 3.62% yoy (previous: 3.69% yoy). Looking ahead, we will focus on the evolution of energy prices and the behavior of agricultural prices, and the impact they might have in Mexico's CPI.

June inflation by components
% monthly incidence

	2018 F	2017	Difference
Headline	0.48	0.25	0.23
Core	0.17	0.23	-0.06
Goods	0.06	0.11	-0.05
Processed foods	0.05	0.07	-0.02
Other goods	0.01	0.04	-0.03
Services	0.11	0.12	-0.01
Housing	0.04	0.04	0.00
Education	0.00	0.00	0.00
Other services	0.07	0.08	-0.01
Non-core	0.31	0.02	0.29
Agricultural	0.05	0.04	0.01
Fresh fruits and vegetables	0.06	0.02	0.04
Meat and egg	-0.01	0.02	-0.02
Energy and government regulated	0.26	-0.02	0.28
Energy	0.25	-0.02	0.27
Government regulated	0.00	0.00	0.00

Source: Banorte, INEGI

Wage negotiations will climb 5% during June. On Tuesday, the Ministry of Labor (MoL) will publish the contractual wage negotiations for June. We expect workers to have negotiated an average growth of 5%, below the 5.7% seen in May. This figure will be mainly explained the dynamism in the private sector, given that in 2018, the average wage negotiation in the sector has been around 5.5%. However, we expect an increase in number of negotiations in the public sector, which year-to-date have averaged 3.5%. Looking ahead, we anticipate that wage negotiations will continue to be relatively high, mainly explained by the sharp increase in the minimum wage at the end of 2017 and the high levels of inflation observed at the end of 2017 and at the beginning of 2018.

Weekly international reserves report. Also on Tuesday, at 10:00am (ET), Banco de Mexico will release its weekly balance report. Last week, net international reserves increased by US\$34 million amounting to US\$173.2 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\$410 million during 2018 (please refer to the following table).

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

	2017	Jun 29, 2018	Jun 29, 2018	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	172,802	173,211	34	410
(B) Gross international reserve	175,450	178,009	456	2,559
Pemex	--	--	26	-709
Federal government	--	--	-172	1,640
Market operations	--	--	0	0
Other	--	--	601	1,628
(C) Short-term government's liabilities	2,648	4,797	422	2,149

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 5-year fixed rate Mbonos (Dec'23), 10-year inflation-linked Udibonos (Nov'28), 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, July 10, 2018)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	09-Aug-18	--	10,000	7.72
3m	11-Oct-18	--	13,000	7.92
6m	03-Jan-19	--	11,500	8.08
M Bono				
5y	07-Dec-23	8.00	8,500	7.92
Udibono				
10y	30-Nov-28	4.00	UDIS 700	3.75

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

We expect a 0.8% yoy expansion in May's industrial output. Finally on Thursday, at 9:00am (ET), *INEGI* will release its monthly industrial production report. We anticipate a 0.8% yoy increase in total output in May. In the monthly comparison, and using the seasonally adjusted figures, we expect a 0.6% expansion.

Taking a look at the breakdown, and analyzing the non-seasonally adjusted figures, we forecast a 2.3% yoy growth in manufacturing output, partly explained by a greater dynamism in the production of vehicles. Moreover, construction activity could edge-up 2.6% yoy.

In addition, we forecast a 6.8% yoy contraction in mining activity due to a fall in oil and gas production. In this regard, the figures reported by Pemex show a contraction of 7.5% and 8.9% in the extraction of oil and gas, respectively.

Industrial production estimate: May 2018

% yoy (nsa); % m/m (sa)

% yoy (nsa)	May-18	May-17	Jan-May, '18	Jan-May, '17
Total	0.8	0.6	0.4	-0.5
Mining	-6.8	-8.0	-6.1	-10.3
Utilities	2.8	-0.4	1.5	0.1
Construction	2.6	-1.2	2.7	-0.9
Manufacturing	2.3	4.7	1.4	3.4

%m/m (sa)	May-18	Apr-18
Total	0.6	-0.4
Mining	-1.0	1.4
Utilities	0.6	4.9
Construction	0.4	-0.6
Manufacturing	1.4	-2.3

Source: INEGI, Banorte

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