

Ahead of the Curve

March 27, 2015

Market focus this week will on PMI surveys

- March's PMI surveys.** On Wednesday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators. We expect manufacturing PMI at 51.5 in March, above the 50.7 observed in February (seasonally adjusted terms). We believe that manufacturing activity in March was supported by the recovery of consumer spending and the better growth dynamics in the U.S. manufacturing industry. However, we believe that the strong recovery in retail sales might have affected the “inventories” component
- Gross fixed investment.** Next Wednesday at 10:00am (EDT), *INEGI* will publish its January's gross fixed investment (GFI) report. We anticipate GFI up by 6.1% yoy. We believe that within the report we will probably see a 11.3% yoy expansion in imported machinery and equipment given that trade balance figures for January showed a similar growth rate

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Mexico weekly calendar

DATE	HOOR (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 30-Mar	1:30pm	Government weekly auction: 1-, 3-, 6-, 12-month CETES; 20y Mbono (Nov'34); 30y Udibonos (Nov'46); 5y Bondes D					
Mon 30-Mar	4:30pm	Budget balance	February	MXN bn	--	--	-91.5
Tue 31-Mar	11:00am	Comercial banking credit	February	%yoy	<u>5.8</u>	--	6.2
		Consumption		%yoy	<u>2.4</u>	--	2.8
		Housing		%yoy	<u>6.0</u>	--	6.4
		Non-banking private firms		%yoy	<u>6.6</u>	--	7.0
Tue 31-Mar	11:00am	International reserves	27-Mar	US\$ bn	--	--	195.5
Wed 1-Apr	9:00am	Gross fixed investment	January	%yoy	<u>6.1</u>	6.0	5.5
		Machinery and equipment		%yoy	<u>11.7</u>	--	8.9
		Domestic		%yoy	<u>12.5</u>	--	12.4
		Imported		%yoy	<u>11.3</u>	--	7.2
		Construction		%yoy	<u>2.7</u>	--	3.6
Wed 1-Apr	11:00am	Family remittances	February	US\$ mn	<u>1,886.4</u>	1,826.9	1,630.7
Wed 1-Apr	11:00am	Banxico's survey of economic expectations	March				
Wed 1-Apr	2:00pm	PMI's survey (IMEF)	March				
		Manufacturing		index	<u>51.5</u>	50.9	50.7
		Non-manufacturing		index	<u>50.1</u>	49.9	49.6
Thu 2-Apr		Banking holiday: Good Thursday					
Fri 3-Apr		Banking holiday: Good Friday					

Source: Banorte-IXE; Bloomberg

Document for distribution among the general public

Proceeding in chronological order...

Financial markets will remain closed in Mexico on Thursday and Friday.

On the logistics side, and before we start with next week's description, it is worth noting that next week Mexico will experience a short week with a banking holiday on Thursday and Friday (April 2 – 3), as the country observes the Holy Week.

Weekly government bond auction. On Monday (March 30), the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent-, will offer 20-year fixed-rate Mbonos (Nov'34), 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, March 30, 2015)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	30-Apr-15	--	5,500	3.05
3m	02-Jul-15	--	9,500	3.10
6m	01-Oct-15	--	11,000	3.28
12m	03-Mar-16	--	11,000	3.53
Mbono				
20y	23-Nov-34	7.75	3,000	6.24
Udibono				
30y	08-Nov-46	4.00	500	3.35
Bondes D				
5y	30-Jan-20	--	3,000	0.21

Source: Banco de México

The MoF's monthly report. On Monday (March 30), the Ministry of Finance (MoF) will make its monthly finance report available. On the revenue side, we will be looking at non-oil tax collection as it provides additional information about domestic demand dynamics. Moreover, we will focus on spending dynamics, which will now incorporate part of the fiscal cut announced by the MoF in January. Finally, it will be important to evaluate the evolution of public sector debt, which currently represents about 39.8% of GDP.

Banking credit will show a 5.8% yoy increase in February. Banco de Mexico will make available its banking credit report on Tuesday (March 31) at 11:00am (EDT). It is our take that banking credit continued flowing in February. In particular, we estimate a 5.8% yoy expansion in banking credit (in real terms) as a result of increases in the area of 2.4%, 6%, and 6.6% yoy in consumer, housing and business credit, respectively.

Weekly international reserves report. On Tuesday, at 11:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves increased by US\$115mn amounting to US\$195.5bn on March 20. According to Banxico's report, this figure comes mainly as a result of: (1) Dollar sales by Central Bank to the Federal Government for US\$133mn; (2) US\$208 decrease explained by the introduction of Banxico's USD daily auction given recent volatility in external markets that have pushed the MXN to its weakest level since 2009; along with a (3) US\$456 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, given that on November 2011, the FEC (Federal Exchange Commission) decided to shut down the options scheme that Banxico also used to accumulate reserves. In this context, the central bank has accumulated US\$2,301mn of international reserves this year (please refer to the table below).

Banxico's foreign reserve accumulation details

US\$, million

	Foreign Reserve		Breakdown			
	Level	Chg	Pemex	Federal govt ¹	Market operations ²	Other
2006	67,680					
2007	77,991	10,311	12,899	-4,218	-4,240	5,870
2008	85,441	7,450	22,754	-5,413	-18,674	8,783
2009	90,838	5,397	11,529	6,573	-16,246	3,541
2010	113,597	22,759	16,037	2,338	4,466	-83
2011	142,475	28,878	18,692	2,439	4,614	3,134
2012	163,516	21,116	17,867	2,805	-646	1,089
2013	176,522	13,063	18,100	-1,251	0	-3,788
2014	193,239	16,717	14,500	2,570	-200	-154
20-Mar-15	195,540	2,301	3,000	625	-564	-760

Source: Banorte-Ixe, Banco de México; *Year-to-date

1. Includes short-term government's liabilities

2. Includes Banxico's US dollar sales to Mexican financial institutions as well as the Foreign Exchange Commission's USD Put/MXN Call options

*Year-to-date

We expect a 6.1% yoy expansion in January's GFI. Next Wednesday at 10:00am (EDT), INEGI will publish its January's gross fixed investment (GFI) report. We anticipate GFI up by 6.1% yoy. We believe that within the report we will probably see a 11.3% yoy expansion in imported machinery and equipment given that trade balance figures for January showed a similar growth rate. Moreover, we expect a 12.5% growth in domestic machinery and equipment. Finally, we believe that construction spending could expand 2.7% yoy.

Family remittances will post a 9.7% yoy expansion. On Wednesday, at 11:00am (EDT), Banxico will make its family remittances monthly data available. We expect Mexican workers living abroad -mainly in the US-, to have sent US\$1,886.4 million to their families in Mexico during February. This would imply a 9.7% yoy expansion.

Banxico's survey of economic expectations. On Wednesday, at 11:00am (EDT), Banco de Mexico will publish its monthly survey of economic expectations. In our view, market participants' focus will be on three issues: (1) 2015 inflation expectations that currently are at 3.11% (Banorte-Ixe: 3%); (2) mid-term inflation expectations—quite important for the central bank's board—that are currently at 3.5% (Banorte-Ixe: 3%); and (3) the analysts' assessments of GDP growth for 2015 given the spending cut announced recently by the MoF (currently at 3.08%; Banorte-Ixe: 3.6%).

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Moreover, we believe that the non-manufacturing PMI will stand at 50.1 from 49.6 points. In this regard, we believe that the recovery in private consumption could have triggered a significant growth in in several sectors within the services, which will lead to a visible recovery in the headline index.

Disclaimer

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