Ahead of the Curve

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www.banorte.com
www.ixe.com.mx
@analisis_fundam

Gabriel Casillas
Chief Economist and Head of Research
gabriel.casillas@banorte.com

Delia Paredes
Executive Director of Economic Analysis
delia.paredes@banorte.com

Alejandro Cervantes
Senior Economist, Mexico
alejandro.cervantes@banorte.com

Market focus this week will on balance of payments report

- **Trade balance (April).** Next Monday (May 25), at 9:00am (EDT), *INEGI* will make its April's trade report available, where we expect to see a US$ 557.6 million deficit. On the exports side, we will probably see a 39.7% yoy contraction of oil exports given the significant fall in oil prices. Moreover, non-oil exports could have expanded 16.8%yoy. On the imports side, we estimate a 13.9% yoy increase in total imports

- **Current account (1Q15).** Also on Monday, at 10:00am, Banxico will publish its balance of payments report for the first quarter of the year. We are forecasting a current account deficit of around US$5,546.3 million. According to already reported trade balance figures, trade deficit amounted to US$2,183million, while net transfers increased on the back of a more dynamic flow of remittances up 4.9% yoy

Mexico weekly calendar

DATE	HOUR (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 25-May	**9:00am**	**Trade balance**	April	US$ mn	-557.6	-102	479.8
		Total exports		% yoy	10.6	--	2.8
		Oil exports		% yoy	-39.7	--	-43.6
		Non-oil exports		% yoy	16.8	--	8.7
		Total imports		% yoy	13.9	--	4.3
Mon 25-May	**10:00am**	**Current account**	1Q15	US$ bn	-5.5	-7.0	-5.3
Tue 26-May	**9:00am**	**Retail sales**	March	% yoy	5.1	4.5	5.6
Tue 26-May	**10:00am**	**International reserves**	22-May	US$ bn	--	--	194.9
Tue 26-May	**12:30pm**	**Government weekly auction: 1-, 3-, 6-, and 12-month Cetes; 30y Mbono (Nov'42); 30y Udibono (Nov'46); 5y Bondes D**					
Wed 27-May	**1:30pm**	**Government extraordinary auction: 84-, 182-, 280-, 364- days CETES**					
Thu 28-May	**9:00am**	**Unemployment rate**	April	%	4.12	4.10	3.86
		sa		%	4.17	--	4.20
Fri 29-May	**10:00am**	**Comercial banking credit**	April	% yoy	7.1	--	6.8
		Consumption		% yoy	2.9	--	2.9
		Housing		% yoy	6.5	--	6.2
		Non-banking private firms		% yoy	9.3	--	9.0
Fri 29-May	**15:30pm**	**Budget balance**	April	MXN bn	--	--	-100.4

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

Non-oil exports continue to expand vigorously. Next Monday (May 25), at 9:00am (EDT), *INEGI* will make its April's trade report available, where we expect to see a US$ 557.6 million deficit. On the exports side, we will probably see a 39.7% yoy contraction of oil exports given the significant fall in oil prices. Moreover, non-oil exports could have expanded 16.8%yoy.

On the imports side, we estimate a 13.9% yoy increase in total imports. Taking a look at the breakdown, we estimate that imports of consumption goods (excluding oil) increased 0.5% yoy, while imports of intermediate goods (excluding oil) could have increased 17.7% yoy. Finally, we estimate a 5% expansion in capital goods imports.

Current account (1Q15): Banorte-Ixe: -US$5,546.3million; consensus: -US$7,090mn (range: -US$8,500mn to US$6,196mn); previous: US$5,310mn. Also on Monday (May 25), at 10:00am, Banxico will publish its balance of payments report for the first quarter of the year. We are forecasting a current account deficit of around US$5,546.3 million. According to already reported trade balance figures, trade deficit amounted to US$2,183million, while net transfers increased on the back of a more dynamic flow of remittances up 4.9% yoy. In our opinion, external accounts remain solid with current account deficit fully financed by long term investment flows. In addition, we expect positive portfolio investment as local markets remain appealing to foreign investors.

Retail sales will post a 5.1% yoy expansion in March. On Tuesday (May 26) at 9:00am (EDT), *INEGI* will publish its retail sales report for March 2015. We anticipate a 5.1% yoy expansion explained by the 23.3% yoy growth in vehicle sales (*AMIA*), which will have a positive impact on the overall growth rate. Moreover, consumption goods imports -which have a strong correlation with retail sales- posted a 2.9% yoy expansion, while *ANTAD* total store sales increased 5.3% yoy in real terms during the period in question.

Looking ahead, we believe that retail sales performance will show a visible recovery in the first half of the year. In particular, private consumption in Mexico will show better growth prospects derived from: (1) A significant improvement in consumer's expectations regarding economic growth; (2) the recent downward trend in inflation; and (3) the stronger growth dynamics in the Mexican labor market.

Weekly international reserves report. On Tuesday, at 10:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US $50mn amounting to US $194.9bn on May 15. According to Banxico's report, this figure comes mainly as a result of: (1) Dollar sales by the Central Bank to the Federal Government for US $35mn; (2) US $260mn decrease explained by the introduction of Banxico's USD daily auction; along with a (3) US $245mn 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 $1,720mn of international reserves this year (please refer to the table below).

Banxico's foreign reserve accumulation details
US$, million

	Foreign Reserve Level	Chg	Breakdown 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
15-May-15	194,959	1,720	3,000	1,332	-2,488	-125

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

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). We highlight that on Wednesday, May 27; there will be a Cetes extraordinary auction in four different securities: 84-, 182-, 280- and 364-days, for an amount of 31,000mn pesos.

Auction specifics (Tuesday, May 26, 2015)

	Maturity	Coupon rate, %	To be auctioned[1]	Previous yield[2]
Cetes				
1m	25-Jun-15	- -	5,500	2.99
3m	27-Aug-15	- -	9,500	3.09
6m	26-Nov-15	- -	11,000	3.19
12m	28-Apr-16	- -	11,000	3.37
Mbono				
30y	13-Nov-42	7.75	2,500	6.38
Udibono				
30y	08-Nov-46	4.00	500	3.47
Bondes D				
5y	02-Apr-20	- -	3,000	0.25

Source: Banco de México

Unemployment rate in April will stand at 4.12%. Next Thursday, *INEGI* will publish its employment report for the fourth month of 2015, in which we estimate an unemployment rate of 4.12% nsa, above the 3.86% observed in March. In seasonally-adjusted terms, we believe that the unemployment rate could stand at 4.17%, which implies a monthly fall of 0.6%-pts.

It is likely that the job creation in April was positively affected by better growth dynamics of the economy. In this regard, we believe that the Mexican labor market will continue to recover given the recent upward trend in the Mexican economy, which will eventually reduce the level of unemployed workers.

Looking ahead, we are still positive on the outlook regarding the recovery of the economic activity, which will have a significant positive impact on firms' expectations about domestic demand, resulting in a more dynamic labor market.

Banking credit will show a 7.1% yoy increase in April. Banco de Mexico will make available its banking credit report on Friday (May 29) at 10:00am (EDT). It is our take that banking credit continued flowing in April. In particular, we estimate a 7.1% yoy expansion in banking credit (in real terms) as a result of increases in the area of 2.9%, 6.5%, and 9.3% yoy in consumer, housing and business credit, respectively.

The MoF's monthly report. Finally on Friday (May 29), 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 40.9% of GDP.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Dominguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Rey Saúl Torres Olivares	Analyst, Mexico	saul.torres@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Juan Carlos Alderete Macal, CFA	FX Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5004 - 1275
Victor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 5004 - 1231
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates/Financials/ Mining/ Chemistry	marissa.garza@banorte.com	(55) 5004 - 1179
Marisol Huerta Mondragón	Equity Research Analyst – Food/Beverages	marisol.huerta.mondragon@banorte.com	(55) 5004 - 1227
José Itzamna Espitia Hernández	Equity Research Analyst – Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 5004 - 1266
Valentín III Mendoza Balderas	Equity Research Analyst	valentin.mendoza@banorte.com	(55) 5268 - 9000 x 1267
María de la Paz Orozco García	Analyst	maripaz.orozco@banorte.com	(55) 5004 - 5262

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5004 - 1405
Hugo Armando Gómez Solís	Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 5004 - 1340
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@banorte.com	(55) 5004 - 1437

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Managing Director – Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Jorge de la Vega Grajales	Managing Director – Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Managing Director – Private Banking	lpietrini@ixe.com.mx	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Managing Director – Asset Management	pimentelr@ixe.com.mx	(55) 5268 - 9004
Ricardo Velazquez Rodríguez	Managing Director – International Banking	rvelazquez@ixe.com.mx	(55) 5268 - 9879
Victor Antonio Roldan Ferrer	Managing Director – Transactional Banking	vroldan@ixe.com.mx	(55) 5004 - 1454