

Ahead of the Curve

June 8, 2018

Market focus this week will be on April's industrial production report

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- **Industrial production (April).** Next Monday, at 9:00am (ET), *INEGI* will release its monthly industrial production report. We anticipate a 4.4% yoy increase in total output in April, after the 3.7% contraction in the previous month. Part of the increase will be explained by a calendar effect, as the industrial output in April 2018 will be positively affected by the fact that the Easter holiday started in March (vs. April in 2017), adding working days to the annual comparison.

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Taking a look at the breakdown, manufacturing production could post a 6.4% yoy growth, along with an 8.9% yoy expansion in construction output. By contrast, we expect mining activity to decline a further 6.3% yoy on the back of a similar contraction in Pemex's oil crude output, as well as an 8.7% yoy fall in natural gas extraction.

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Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 11-Jun	10:00am	Industrial production	April	% yoy	4.4	3.6	-3.7
		(sa)		% m/m	-0.3	--	0.0
		Mining		% yoy	-6.3	--	-7.5
		Utilities		% yoy	0.9	--	-4.4
		Construction		% yoy	8.9	--	-3.9
		Manufactures		% yoy	6.4	4.5	-2.4
Tue 12-Jun	10:00am	International reserves	Jun-8	US\$ bn	--	--	173.2
Tue 12-Jun	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 5y Mbono (Dec'23); 5y Udibonos (Nov'28)					

Source: Banorte; Bloomberg

Proceeding in chronological order...

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Taking a look at the breakdown, manufacturing production could post a 6.4% yoy growth, along with an 8.9% yoy expansion in construction output. By contrast, we expect mining activity to decline a further 6.3% yoy on the back of a similar contraction in Pemex's oil crude output, as well as an 8.7% yoy fall in natural gas extraction.

Industrial production estimate: April 2018

% yoy, nsa

	Apr-18	Apr-17	Jan-Apr, '18	Jan-Apr, '17
Total	4.4	-4.9	0.4	-0.8
Mining	-6.3	-9.3	-6.1	-10.9
Utilities	0.9	-1.4	0.2	0.2
Construction	8.9	-8.6	3.2	-0.9
Manufacturing	6.4	-1.8	1.4	3.1

Source: Banorte

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\$132 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\$448 million during 2018 (please refer to the following table).

Banxico's foreign reserve accumulation detail

US\$, million

	2017	Jun 1, 2018	Jun 1, 2018	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	172,802	173,250	132	448
(B) Gross international reserve	175,450	177,850	64	2,400
Pemex	--	--	-54	-515
Federal government	--	--	-135	1,698
Market operations	--	--	0	0
Other	--	--	252	1,217
(C) Short-term government's liabilities	2,648	4,600	-68	1,952

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 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, June 12, 2018)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	12-Jul-18	--	11,000	7.51
3m	13-Sep-18	--	14,000	7.80
6m	06-Dec-18	--	11,500	7.93
M Bono				
5y	07-Dec-23	8.00	8,500	7.73
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

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