

Ahead of the Curve

September 14, 2017

Market focus this week will be on the inflation report for the first half of September

- Bi-weekly inflation report (1H-Sep).** On Friday, at 9:00am, *INEGI* will release its bi-weekly inflation report for the first half of September. We are forecasting a 0.32% 2w/2w increase in the headline index, while we expect the core index to rise 0.29% 2w/2w. Inflation during the period in question will be explained by increases in education and energy prices. Moreover, we also anticipate some pressures in the prices “other goods”, as well as processed foods. With these results, annual inflation will stand at 6.51% in the first half of September (previous: 6.66 % yoy), while core inflation will be at 4.91% (previous: 5% yoy)
- Retail sales (July).** On Thursday at 9:00am (EDT), *INEGI* will publish its retail sales report for July, where we anticipate a 0.5% yoy contraction, below the 0.4% expansion observed in June. We believe that the reduction in retail sales will be explained by the 4.9% decline in vehicle sales. In addition, *ANTAD* same store sales posted a 2.3% yoy decrease in real terms. By contrast, non-oil consumption goods expanded 7.9% yoy, which will partially compensate the fall in vehicle and *ANTAD* sales

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

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

Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

Document for distribution among the general public

Mexico weekly calendar

DATE	HOOR (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Tue 19-Sep	10:00am	International reserves	15-Sep	US\$ bn	--	--	173.6
Tue 19-Sep	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 3y Mbono (Jun'20); 3y Udibonos (Dic'20)					
Wed 20-Sep	4:30pm	Citibanamex bi-weekly survey of economic expectations					
Thu 21-Sep	9:00am	Retail sales	July	% yoy	<u>-0.5</u>	--	0.4
		sa		% m/m	<u>-1.1</u>	--	-1.1
Fri 22-Sep	9:00am	CPI inflation	1H Sep	% 2w/2w	<u>0.32</u>	--	0.12
				% yoy	<u>6.51</u>	--	6.66
		Core		% 2w/2w	<u>0.29</u>	--	0.05
				% yoy	<u>4.91</u>	--	5.00
Fri 22-Sep	9:00am	Aggregate Demand	2Q16	% yoy	<u>2.7</u>	--	4.0
		Private consumption		% yoy	<u>2.9</u>	--	3.1
		Government consumption		% yoy	<u>-1.0</u>	--	0.9
		Gross-fixed investment		% yoy	<u>-2.3</u>	--	0.0

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 increased by US\$328 million amounting to US\$173.6 billion. According to Banxico's report, this figure comes mainly as a result of a positive revalorization in central bank assets. In this context, the Central Bank's international reserves have diminished by US\$3 billion this year (please refer to the table below).

Banxico's foreign reserve accumulation detail

US\$, million

	2016	Sep 8, 2017	Sep 8, 2017	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,542	173,575	328	-2,966
(B) Gross international reserve	178,025	175,101	218	-2,924
Pemex	--	--	-3	-514
Federal government	--	--	-31	-3,822
Market operations	--	--	0	-2,000
Other	--	--	252	3,412
(C) Short-term government's liabilities	1,483	1,524	-110	42

Source: Banco de México

Weekly government bond auction. On Tuesday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent–, will offer 3-year fixed-rate Mbonos (Jun'20), 3-year inflation-linked Udibonos (Dec'20), in addition to the “more traditional” 1-, 3- and 6-month zero-coupon Cetes. As usual, the results will be released at 12:30pm (EDT).

Citibanamex Survey: Market participants will focus on inflation and monetary policy forecasts. On Wednesday around 3:30pm (EDT) *Citibanamex* will release its bi-weekly survey of economic expectations, where market participants will focus on analysts' monetary policy assessments, given the central bank's expectations that inflation will converge to its 4% target in 2018. In this regard, we believe that the monetary authority will maintain the reference rate at 7% throughout the year. Looking ahead, we believe that Banxico could start an easing cycle in the second half of 2018 (August), as inflation will start to converge towards the 3% target and most of the uncertainty will be significantly reduced by then. We believe that Banxico has room to reduce the reference rate between 150-200bps over the next two years, from which 100bps could take place in the second half of 2018

Furthermore, analysts will also focus on inflation forecasts for the first half of September (to be published on Friday, September 22), as well as on CPI estimations for 2017. In addition, *Citibanamex* will also publish consensus' growth and FX forecasts for 2017. 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 2017.

Retail sales will post a 0.5% yoy contraction in July. On Thursday at 9:00am (EDT), *INEGI* will publish its retail sales report for July, where we anticipate a 0.5% yoy contraction, below the 0.4% expansion observed in June.

We believe that the reduction in retail sales will be explained by the 4.9% decline in vehicle sales. In addition, *ANTAD* same store sales posted a 2.3% yoy decrease in real terms. By contrast, non-oil consumption goods expanded 7.9% yoy, which will partially compensate the fall in vehicle and *ANTAD* sales.

Inflation during the first half of September will be explained by increases in education and energy prices. On Friday, at 9:00am, *INEGI* will release its bi-weekly inflation report for the first half of September. We are forecasting a 0.32% 2w/2w increase in the headline index, while we expect the core index to rise 0.29% 2w/2w.

Inflation during the period in question will be explained by increases in education and energy prices. Moreover, we also anticipate some pressures in the prices “other goods”, as well as processed foods.

We forecast inflation to be 21.8bp lower than the observed in same period last year, derived from: (1) 14.1bp from a lower contribution of fresh fruits and vegetables prices (1.1bp vs. 15.2bp in 2016); (2) 4bp derived from a smaller contribution of processed foods (3bp vs. 7bp in 2016); (3) 3.7bp as a result of a lower impact of “other goods” prices (4bp vs. 7.7bp in 2016); (4) 3.3bp stemming from a smaller contribution of meat and egg (3bp vs. 6.3bp in 2016); and (5) 2.3bp derived from a higher contribution of energy (5.8bp vs. 3.9bp in 2016), as shown in the table below.

With these results, annual inflation will stand at 6.51% in the first half of September, (previous: 6.66% yoy), while core inflation will be at 4.91% (previous: 5% yoy). Moving forward, we will be attentive to the evolution of energy prices and the behavior agricultural prices and the impact they might have in Mexico’s CPI.

1H-Sep inflation by components

% bi-weekly incidence

	2017 Forecast	2016	Difference
Headline	0.32	0.54	-0.22
Core	0.22	0.28	-0.06
Goods	0.07	0.15	-0.08
Processed foods	0.03	0.07	-0.04
Other goods	0.04	0.08	-0.04
Services	0.15	0.13	0.02
Housing	0.02	0.01	0.01
Education	0.12	0.12	0.00
Other services	0.01	0.00	0.01
Non-core	0.10	0.26	-0.16
Agricultural	0.04	0.22	-0.18
Fresh fruits and vegetables	0.01	0.15	-0.14
Meat and egg	0.03	0.06	-0.03
Energy and government regulated	0.06	0.04	0.02
Energy	0.06	0.04	0.02
Government regulated	0.01	0.00	0.01

Source: Banorte-Ixe, INEGI

We estimate a 2.7% yoy expansion in aggregate demand during 2Q17. On Friday at 10:00am (EDT), *INEGI* will publish its aggregate supply and demand report, where we believe aggregate demand increased 2.7% yoy in the second quarter of the year vs. the 4% yoy expansion observed in the previous quarter.

Taking a look at the breakdown, we expect a 2.9% yoy increase in private consumption, while we estimate a 2.3% yoy contraction for gross fixed investment. Moreover, we believe that government spending will likely show a 1% yoy reduction, given the fiscal cuts implemented by the federal government.

Disclaimer

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

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 Godínez	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 Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@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 Senior Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Strategist 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) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454