

Ahead of the Curve

December 4, 2015

Market focus this week will on November's monthly inflation report

- November's monthly inflation report.** On Wednesday, at 9:00am, *INEGI* will release its monthly inflation report. We are forecasting a 0.6% m/m increase in November, in line market consensus according to *Bloomberg*. In the core index, we expect an increase of 0.08% m/m, also in line market consensus. Inflation in November will be explained by pressures on energy prices, as summer discounts on electricity tariffs came to an end, particularly in the first half of the month. In addition, our price monitoring suggests mild pressures on merchandise prices, which were offset by falling services prices, given the discounts as a result of "El Buen Fin" in the first half of the month
- Industrial production.** Finally on Friday, at 9:00am (EST), *INEGI* will release its monthly industrial production report. We anticipate a 1% yoy expansion in total output during the tenth month of the year. Taking a look at the breakdown, we believe that construction output could have expanded 3.2% yoy. In this regard, construction has consolidated its recovery. However, the latest IP reports show that construction output has decelerated, probably as a result of the lower public construction projects. Moreover, we believe that manufacturing production could post a scant 1.5% yoy expansion, explained by a 3.9% yoy contraction in manufacturing exports, a 1% yoy reduction in October's vehicle production, and a scant 2.1% yoy expansion in U.S. manufacturing output, which has a strong correlation with Mexico's manufacturing sector

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Mexico weekly calendar

DATE	HOOR (EST)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 7-Dec	4:30pm	Banamex bi-weekly survey of economic expectations					
Tue 8-Dec	10:00am	International reserves	4-Dec	US\$ bn	--	--	171.9
Tue 8-Dec	12:30pm	Government weekly auction: 1-, 3-, 6-, 12-month CETES; 20y Mbono (Nov'34); 30y Udibonos (Nov'46); 5y Bondes D					
Wed 9-Dec	9:00am	CPI inflation	November	% m/m	<u>0.60</u>	<u>0.60</u>	0.51
				% yoy	<u>2.27</u>	<u>2.28</u>	2.48
		Core		% m/m	<u>0.08</u>	<u>0.07</u>	0.25
				% yoy	<u>2.38</u>	--	2.47
Thu 10-Dec		Wage negotiations	November	%	<u>4.1</u>	--	3.6
Fri 11-Dec	9:00am	Industrial production	October	% yoy	<u>1.0</u>	<u>1.0</u>	1.7
		(sa)		% m/m	<u>-0.2</u>	--	0.4
		Mining		% yoy	<u>-3.6</u>	--	-5.7
		Utilities		% yoy	<u>4.3</u>	--	4.1
		Construction		% yoy	<u>3.2</u>	--	4.0
		Manufactures		% yoy	<u>1.5</u>	<u>1.9</u>	3.3

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

Banamex Survey: Market participants will focus on analysts' monetary policy assessments. On Monday at 4:30pm (EST) *Banamex* will release its bi-weekly survey of economic expectations, where market participants will focus on analysts' monetary policy assessments after the market has already discounted a rate hike. In this regard, in the last survey published by *Banamex* 21 out of 26 analysts surveyed expected a rate hike in December.

Furthermore, analysts will also focus on November's inflation forecast (to be published on Wednesday December 9), as well as on CPI estimations for 2015 and 2016. Moreover, we expect moderate upward revisions to the economic growth estimates for 2015 and 2016.

Weekly international reserves report. On Tuesday, at 10:00am (EST), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US\$355mn amounting to US \$171.9bn on November 27. 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\$52mn; along with a (2) US\$303mn decrease 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. In this context, the central bank has an accumulated reduction of US\$21,357mn international reserves this year (please refer to the table below).

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

	2014	27/Nov/2015	27/Nov/2015	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	193,239	171,882	-355	-21,357
(B) Gross international reserve	195,682	172,484	-648	-23,198
Pemex	--	--	132	2,688
Federal govt	--	--	-75	-1,478
Market operations	--	--	-400	-23,405
Other	--	--	-305	-1,003
(C) Short-term government's liabilities	2,443	602	-294	-1,841

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 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 (EST).

Auction specifics (Tuesday, December 8, 2015)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	07-Jan-16	--	5,500	3.11
3m	10-Mar-16	--	9,500	3.26
6m	09-Jun-16	--	11,000	3.47
12m	08-Dec-16	--	11,000	3.69
Mbono				
20y	23-Nov-34	7.75	3,000	6.56
Udibono				
30y	08-Nov-46	4.00	500	3.68
Bondes D				
5y	26-Nov-20	--	5,000	0.23

Source: Banorte-Ixe 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

Inflation in November will be explained by pressures on energy prices, as summer discounts on electricity tariffs came to an end. On Wednesday, at 9:00am, *INEGI* will release its monthly inflation report. We are forecasting a 0.6% m/m increase in November, in line market consensus according to *Bloomberg*. In the core index, we expect an increase of 0.08% m/m, also in line market consensus.

Inflation in November will be explained by pressures on energy prices, as summer discounts on electricity tariffs came to an end, particularly in the first half of the month. In addition, our price monitoring suggests mild pressures on merchandise prices, which were offset by falling services prices, given the discounts as a result of “*El Buen Fin*” in the first half of the month.

Nevertheless, we expect this figure to be 20.8bps lower than the observed in same period last year, derived from: (1) 3.1bps stemming from a higher contribution of merchandise prices (7.3bps vs. 4.2 in 2014); (2) -9.1bps from a lower contribution of agricultural prices (5.6bps vs. 14.7 in 2014); along with (3) a lower contribution of services inflation (-1.2bps vs. 7.9 in 2014), as shown in the table below.

With these results, annual inflation is at 2.27% yoy in November from previous 2.48% while core inflation is at 2.38% from 2.47% yoy.

Inflation by components in November

% monthly incidence

	Banorte-Ixe	2014	Difference
Headline	0.60	0.81	-0.21
Core	0.06	0.12	-0.06
Goods	0.07	0.04	0.03
Processed foods	0.04	0.01	0.03
Other goods	0.03	0.03	0.00
Services	-0.01	0.08	-0.09
Housing	0.03	0.03	0.00
Education	0.00	0.00	0.00
Other services	-0.05	0.05	-0.10
Non-core	0.55	0.70	-0.15
Agricultural	0.06	0.15	-0.09
Fresh fruits and vegetables	0.08	0.09	-0.01
Meat and egg	-0.03	0.06	-0.08
Energy and government regulated	0.51	0.56	-0.06
Energy	0.51	0.57	-0.06
Government regulated	0.01	0.01	0.00

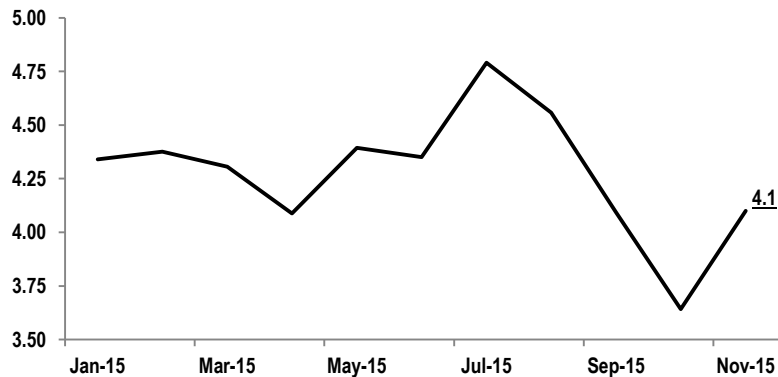
Source: Banorte-Ixe with data from INEGI and Banco de México

Note: Contributions might not add due to the number of decimals allowed in the table. Previous to year 2011, contributions might not add because of the change in CPI-calculation methodology

November's wage negotiations. On Thursday, the Ministry of Labor (*STPS*) will make its contractual wage negotiations monthly data available. We anticipate workers to have negotiated an annual average wage increase of 4.1% in November. This would be in line with the average observed year-to-date. In this regard, we believe that November's figure was mainly driven by the increase in wage negotiations in the government sector, specifically wage increases in government unions within the federal entities.

Wage negotiations in 2015

%



Source: Banorte-Ixe; MoL

We expect 1% yoy growth in October's industrial output. Finally on Friday, at 9:00am (EST), *INEGI* will release its monthly industrial production report. We anticipate a 1% yoy expansion in total output during the tenth month of the year. Taking a look at the breakdown, we believe that construction output could have expanded 3.2% yoy. In this regard, construction has consolidated its recovery. However, the latest IP reports show that construction output has decelerated, probably as a result of the lower public construction projects.

Moreover, we believe that manufacturing production could post a scant 1.5% yoy expansion, explained by a 3.9% yoy contraction in manufacturing exports, a 1% yoy reduction in October's vehicle production, and a scant 2.1% yoy expansion in U.S. manufacturing output, which has a strong correlation with Mexico's manufacturing sector. Looking ahead, we believe that the Mexican manufacturing sector will show better growth prospects, derived from: (1) A stronger external demand, particularly coming from the U.S.; (2) the strong depreciation of the Mexican currency which will eventually translate into a fast recovery of Mexican exports; and (3) the recovery of private consumption in Mexico, which will eventually translate into a higher domestic demand for manufacturing products.

Finally, we believe that the scant 1.5% yoy growth in industrial output during October will be mainly explained by the poor performance of mining activity. In this regard, we expect a 3.1% yoy contraction derived from lower oil production and the reduction in the extraction of other minerals.

Industrial production estimates: October 2015

% yoy	Oct-15	Oct-14	Jan-Oct, '15	Jan-Oct, '14
Total	1.0	2.9	0.5	2.5
Mining	-3.6	-4.5	-6.0	-0.7
Utilities	4.3	9.1	3.9	8.4
Construction	3.2	5.5	3.6	1.2
Manufacturing	1.5	4.3	2.9	3.8

%m/m sa	Oct-15	Sep-15	Difference
Total	-0.2	0.4	-0.6
Mining	0.0	0.2	-0.1
Utilities	0.9	1.0	-0.1
Construction	0.6	0.5	0.1
Manufacturing	-0.3	-0.2	-0.1

Source: Banorte-ixe with data from *INEGI*

Disclaimer

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