

# Ahead of the Curve

November 20, 2015

Market focus this week will on INEGI's bi-weekly inflation report

- Bi-weekly inflation report.** On Tuesday, at 9:00am, *INEGI* will release its bi-weekly inflation report. We are forecasting a 0.7% 2w/2w increase in the first half of November, below market consensus of 0.74% according to *Bloomberg*. In the core index, we expect an 0.01% 2w/2w reduction, below market consensus (0.17%). Inflation during the period in question will be explained by pressures on energy prices, as summer discounts to electricity tariffs come to an end. In addition, we expect to see some pressure on agricultural goods prices. However, we believe that discounts from “*El Buen Fin*” (Mexico’s Black Friday) will translate into a reduction in the price indices of “processed foods”, “other goods” and “air fares”
- Retail sales (September).** On Monday (November 23) at 9:00am (EST), *INEGI* will publish its retail sales report for September 2015. We anticipate a 6.9% yoy expansion explained by the 24.9% yoy growth in vehicle sales (*AMIA*), which will have a positive impact on the overall growth rate. Moreover, *ANTAD* total store sales increased 9.1% yoy in real terms during the period in question. However, consumption goods imports -which have a strong correlation with retail sales- posted a scant 1.8% yoy expansion, which could limit September’s growth rate

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## Mexico weekly calendar

DATE	HOUR (EST)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 23-Nov	9:00am	Retail sales	September	% yoy	<u>6.9</u>	<u>7.2</u>	6.4
Tue 24-Nov	9:00am	CPI inflation	1Q Nov	% 2w/2w	<u>0.70</u>	<u>0.75</u>	0.11
		Core		% yoy	<u>2.45</u>	<u>2.50</u>	2.48
				% 2w/2w	<u>-0.01</u>	<u>0.17</u>	0.09
				% yoy	<u>2.34</u>	--	2.47
Tue 24-Nov	10:00am	International reserves	20-Nov	US\$ bn	--	--	173.1
Tue 24-Nov	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 10y Mbono (Mar'26); 5y Bondes D					
Wed 25-Nov	10:00am	Current Account Balance	3Q15	US\$ mn	<u>-8,111.4</u>	<u>-8,120</u>	-7,980
Fri 27-Nov	9:00am	Trade balance	October	US\$ mn	<u>-2,629.4</u>	<u>-1,800</u>	-1,420
		Total exports		% yoy	<u>-0.6</u>	--	-5.6
		Oil exports		% yoy	<u>-44.0</u>	--	-54.3
		Non-oil exports		% yoy	<u>3.9</u>	--	-0.4
		Total imports		% yoy	<u>6.3</u>	--	0.0
Fri 27-Nov	9:00am	Unemployment rate	October	%	<u>4.28</u>	<u>4.3</u>	4.5
		sa		%	<u>4.18</u>	<u>4.17</u>	4.2

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

**Retail sales will post a 6.9% yoy expansion in September.** On Monday (November 23) at 9:00am (EST), *INEGI* will publish its retail sales report for September 2015. We anticipate a 6.9% yoy expansion explained by the 24.9% yoy growth in vehicle sales (*AMIA*), which will have a positive impact on the overall growth rate. Moreover, *ANTAD* total store sales increased 9.1% yoy in real terms during the period in question. However, consumption goods imports -which have a strong correlation with retail sales- posted a scant 1.8% yoy expansion, which could limit September's growth rate.

Looking ahead, we believe that retail sales performance will show a visible recovery in the second half of the year. In particular, private consumption in Mexico will show better growth prospects derived from: (1) An 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.

**Inflation in the first half of November will be explained by pressures on the price of energy, as summer discounts on electricity tariffs come to an end.**

On Tuesday, at 9:00am, *INEGI* will release its bi-weekly inflation report. We are forecasting a 0.7% 2w/2w increase in the first half of November, below market consensus of 0.74% according to *Bloomberg*. In the core index, we expect an 0.01% 2w/2w reduction, below market consensus (0.17%).

Inflation during the period in question will be explained by pressures on energy prices, as summer discounts to electricity tariffs come to an end. In addition, we expect to see some pressure on agricultural goods prices. However, we believe that discounts from "*El Buen Fin*" (Mexico's Black Friday) will translate into a reduction in the price indices of "processed foods", "other goods" and "air fares".

In this regard, we expect this figure to be 3.4bps lower than the observed in same period last year, derived from 5.6bps stemming from a higher contribution of energy (64.9bps vs. 59.3 in 2014); 0.2bps stemming from a higher contribution of government tariffs prices (0.5bps vs. 0.3 in 2014). By contrast, we expect -5.4bps from a lower contribution goods prices (-1bps vs. 4.4 in 2014). Additionally, -4.6bps stemming from a lower contribution of services (0.4bps vs. 5 in 2014), as shown in the table below.

With these results, annual inflation is at 2.45% yoy in the first half of November from 2.48%, while core inflation is at 2.34% from 2.47% yoy.

**1H-November inflation by components**

% bi-weekly incidence

	Banorte-Ixe	2014	Difference
Total	0.70	0.74	-0.03
Core	-0.01	0.09	-0.10
Goods	-0.01	0.04	-0.05
Processed foods	0.01	0.02	-0.01
Other goods	-0.02	0.03	-0.04
Services	0.00	0.05	-0.05
Housing	0.02	0.02	0.00
Education	0.00	0.00	0.00
Other services	-0.01	0.03	-0.05
Non-core	0.71	0.66	0.05
Agricultural	0.06	0.08	-0.03
Fresh fruits and vegetables	0.07	0.04	0.03
Meat and egg	-0.02	0.04	-0.06
Energy and government regulated	0.65	0.58	0.07
Energy	0.65	0.59	0.06
Government regulated	0.01	0.00	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

**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\$939mn amounting to US \$173.2bn on November 13. 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\$6mn; (2) US\$1,000mn decrease explained by the introduction of Banxico's USD daily auction without minimum price; along with a (3) US\$67mn 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. In this context, the central bank has an accumulated reduction of US\$20,088mn international reserves this year (please refer to the table below).

**Banxico's foreign reserve accumulation details**

US\$, million

	2014	13/Nov/2015	13/Nov/2015	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	193,239	173,151	-939	-20,088
(B) Gross international reserve	195,682	174,402	-1,239	-21,279
Pemex	--	--	15	2,898
Federal govt	--	--	-123	-1,238
Market operations	--	--	-1,200	-22,205
Other	--	--	69	-734
(C) Short-term government's liabilities	2,443	1,251	-300	-1,192

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 10-year fixed-rate Mbonos (Mar’26) as well as 5-year Bondes D, 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 1:30pm (EST).

**Auction specifics (Tuesday, November 24, 2015)**

	Maturity	Coupon rate, %	To be auctioned <sup>1</sup>	Previous yield <sup>2</sup>
<b>Cetes</b>				
1m	24-Dec-15	--	5,500	3.00
3m	25-Feb-16	--	9,500	3.24
6m	26-May-16	--	11,000	3.43
<b>Mbono</b>				
10y	05-Mar-26	5.75	8,000	6.09
<b>Bondes D</b>				
5y	24-Sep-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

**Current account (3Q15): Banorte-Ixe: -US\$8,111.4 million; consensus: -US\$8,120mn (range: -US\$8,756mn to -US\$5,031mn); previous: -US\$9,446mn.** On Wednesday (November 25), at 10:00am, Banxico will publish its balance of payments report for the third quarter of the year. We are forecasting a current account deficit of US\$8,111.4 million. According to already reported trade balance figures, trade deficit amounted to US\$6,468.9 million, while net transfers increased on the back of a more dynamic flow of remittances up 9.7% yoy.

**Unemployment rate in October will stand at 4.28%.** Next Friday, *INEGI* will publish its employment report for the tenth month of 2015, in which we estimate an unemployment rate of 4.28% nsa, below the 4.5% observed in September. In seasonally-adjusted terms, we believe that the unemployment rate could stand at 4.18%, which implies a monthly fall of 0.05%-pts.

It is likely that the job creation in October 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 Mexico’s economic activity, which will have a positive impact on firms’ expectations about domestic demand, resulting in a more dynamic labor market.

**October's trade balance report.** On Friday (November 27), at 10:00am (EST), *INEGI* and Banxico will make available its trade report for October, where we expect to see a US\$2,629.4 million deficit. On the exports side, we will probably see a 46.7% yoy contraction of oil exports given the significant fall in oil prices during the period in question. Moreover, non-oil exports could have expanded 1% yoy, on the back of a 1.8% expansion in manufacturing exports.

On the imports side, we estimate a 6.3% yoy expansion in total imports. Taking a look at the breakdown, we estimate that imports of consumption goods decreased 1.4% yoy, while imports of intermediate goods could have grown 7.5% yoy. Finally, we estimate a 4.8% expansion in capital goods imports.

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