

# Ahead of the Curve

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Market focus this week will be on July's inflation and June's industrial production

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

- Monthly inflation report (July).** On Thursday, at 9:00am, *INEGI* will release its monthly inflation report for July. We are forecasting a 0.56% m/m increase in the headline index, while we expect the core component to climb 0.32% m/m. Inflation during the period in question will be mainly explained by the increase in the price of fresh fruits and vegetables. In addition, we also expect pressures from energy prices, particularly gasoline, along with higher prices of other services. With these results, 12-month inflation will stand at 4.83% in July, higher than the 4.65% seen in June
- Industrial production (June).** Finally, on Friday, at 9:00am (ET), *INEGI* will release its monthly industrial production report. We anticipate a 0.1% yoy increase in total output in June. In the monthly comparison, and using the seasonally adjusted figures, we also expect a 0.1% expansion. Taking a look at the breakdown, and analyzing the non-seasonally adjusted figures, we forecast a 2.4% yoy growth in manufacturing output. Moreover, construction activity could edge-up 0.2% yoy. In addition, we forecast a 6.5% yoy contraction in mining activity

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## Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 6-Aug	9:00am	Gross fixed investment	May	% yoy	<u>2.6</u>	0.1	10.5
		Machinery and equipment		% yoy	<u>5.0</u>	--	16.8
		Domestic		% yoy	<u>3.0</u>	--	7.6
		Imported		% yoy	<u>6.4</u>	--	23.1
		Construction		% yoy	<u>0.7</u>	--	6.0
Tue 7-Aug	10:00am	International reserves	4-Aug	US\$ bn	--	--	173.2
Tue 7-Aug	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 5y Mbono (Dec'23); 10y Udibonos (Nov'28)					
Tue 7-Aug	4:30pm	Citibanamex bi-weekly survey of economic expectations					
Thu 9-Aug	9:00am	CPI inflation	July	% m/m	<u>0.56</u>	0.53	0.39
				% yoy	<u>4.83</u>	4.81	4.65
		Core		% m/m	<u>0.32</u>	0.30	0.23
				% yoy	<u>3.66</u>	--	3.62
Fri 10-Aug		Wage negotiations	June	%	<u>5.2</u>	--	5.6
Fri 10-Aug	9:00am	Industrial production	June	% yoy	<u>0.1</u>	0.4	0.3
		(sa)		% m/m	<u>0.1</u>	-0.2	0.1
		Mining		% yoy	<u>-6.5</u>	--	-6.6
		Utilities		% yoy	<u>-1.1</u>	--	-2.7
		Construction		% yoy	<u>0.2</u>	--	0.5
		Manufactures		% yoy	<u>2.4</u>	3.6	2.8

Source: Banorte; Bloomberg

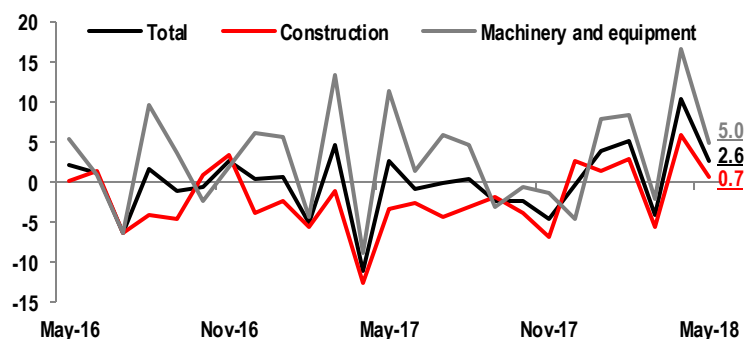
Proceeding in chronological order...

**We expect a 2.6% yoy expansion in May's GFI.** On Monday at 9:00am (ET), INEGI will publish its gross fixed investment (GFI) report for May, where we anticipate GFI up by 2.6% yoy.

We believe that within the report we will probably see a 6.4% yoy growth in imported machinery and equipment, given that trade balance figures showed a 9.1% yoy increase for capital goods imports. In addition, we expect a 3% increase in domestic machinery and equipment investment. Finally, we believe that construction investment will be up 0.7% yoy on the back of a 0.3% yoy in construction output, according to figures already published.

**GFI**

% yoy nsa



Source: INEGI, 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 decreased by US\$35 million amounting to US\$173.2 billion. According to Banxico's report, this figure comes mainly as a result of a negative valuation effect in central bank assets. In this context, the central bank's international reserves have increased by US\$436 million during 2018 (please refer to the following table).

**Banxico's foreign reserve accumulation detail**

US\$, million

	2017	Jul 27, 2018	Jul 27, 2018	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	172,802	173,238	-35	436
(B) Gross international reserve	175,450	176,649	-613	1,199
Pemex	--	--	-207	-565
Federal government	--	--	-351	780
Market operations	--	--	0	0
Other	--	--	-55	984
(C) Short-term government's liabilities	2,648	3,411	-578	763

Source: Banco de México

**Weekly government bond auction.** In addition, 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, August 7<sup>th</sup>, 2018)**

	Maturity	Coupon rate, %	To be auctioned <sup>1</sup>	Previous yield <sup>2</sup>
<b>Cetes</b>				
1m	06-Sep-18	--	7,000	7.74
3m	08-Nov-18	--	11,000	7.90
6m	31-Jan-19	--	11,500	8.00
<b>M Bono</b>				
5y	07-Dec-23	8.00	8,500	7.65
<b>Udibono</b>				
10y	30-Nov-28	4.00	UDIS 700	3.51

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

**Citibanamex Survey.** Also on Tuesday, around 4:30pm (ET) *Citibanamex* will release its bi-weekly survey of economic expectations, where market focus will be on analysts’ inflation forecasts for July (to be published on Thursday, August 9). Furthermore, attention will be on monetary policy assessments, particularly given the slightly less hawkish tone of the last monetary policy *communiqué*. In addition, the survey will contain forecasts for growth and FX.

**Inflation during July will be explained by an increase in fresh fruit and vegetables prices.** On Thursday, at 9:00am, *INEGI* will release its monthly inflation report for July. We are forecasting a 0.56% m/m increase in the headline index, while we expect the core component to climb 0.32% m/m. Inflation during the period in question will be mainly explained by the increase in the price of fresh fruits and vegetables. In addition, we also expect pressures from energy prices, particularly gasoline, along with higher prices of other services.

We forecast inflation to be 18bps above the figure seen in 2017, given some differences stemming from: (1) A higher contribution from energy prices (13bps vs. -8bps in 2017); (2) a lesser impact from agricultural goods prices (19bps vs. 24bps in 2017); and (3) a greater participation from the prices of other goods (2bps vs. -2bps in 2017), as shown in the table below.

With these results, 12-month inflation will stand at 4.83% in July, higher than the 4.65% seen in June. Moreover, we forecast core inflation at 3.66% yoy (previous: 3.64% yoy). Currently, we think that inflation is being pressured by higher energy prices, an effect that we consider temporary, and once it dissipates, inflation will continue to converge towards our forecast of 4.3% at the end of the year.

% monthly incidence

	2018 F	2017	Difference
Headline	0.56	0.38	0.18
Core	0.24	0.20	0.03
Goods	0.08	0.04	0.04
Processed foods	0.07	0.06	0.00
Other goods	0.02	-0.02	0.04
Services	0.15	0.16	-0.01
Housing	0.04	0.03	0.00
Education	0.01	0.01	0.00
Other services	0.11	0.12	-0.01
Non-core	0.32	0.18	0.14
Agricultural	0.19	0.24	-0.05
Fresh fruits and vegetables	0.22	0.20	0.02
Meat and egg	-0.04	0.03	-0.07
Energy and government regulated	0.13	-0.06	0.20
Energy	0.13	-0.08	0.20
Government regulated	0.01	0.01	-0.01

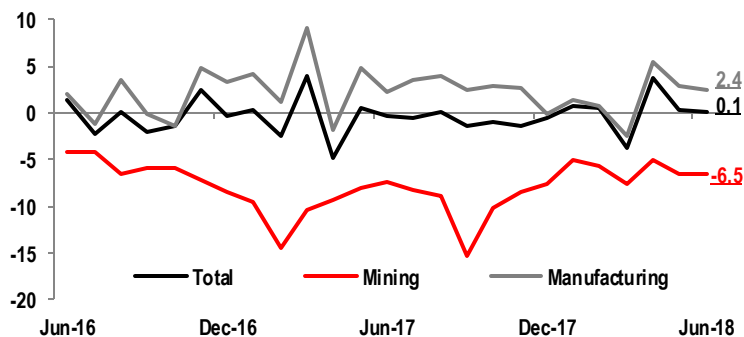
Source: Banorte, INEGI

**Wage negotiations will climb 5.6% during July.** On Friday, the Ministry of Labor (MoL) will publish the contractual wage negotiations for July. We expect workers to have negotiated an average growth of 5.2%, below the 5.6% seen in June. We believe that this figure will be continue to be explained by the high levels of inflation seen at the end of 2017 and the beginning of 2018, as well as the sharp increase in the minimum wage at the end of 2017 and the high levels of inflation observed at the end of 2017 and at the beginning of 2018.

**We expect a 0.1% yoy expansion in June's industrial output.** Finally, on Friday, at 9:00am (ET), *INEGI* will release its monthly industrial production report. We anticipate a 0.1% yoy increase in total output in June. Using seasonally adjusted figures, we also expect a 0.1% m/m expansion. Taking a look at the breakdown, and analyzing the non-seasonally adjusted figures, we forecast a 2.4% yoy growth in manufacturing output. Moreover, construction activity could edge-up 0.2% yoy. In addition, we forecast a 6.5% yoy contraction in mining activity due to a fall in oil and gas production. In this regard, the figures reported by Pemex show a contraction of 8.1% and 7.9% in the extraction of oil and gas, respectively.

#### Industrial production

% yoy



Source: INEGI, Banorte

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**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
Katía Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
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