

Ahead of the Curve

January 8, 2016

Market focus this week will on November's industrial output

- Industrial production (November).** On Monday, at 9:00am (EST), *INEGI* will release its monthly industrial production report. We anticipate a 1.6% yoy expansion in total output during the eleventh month of the year. Taking a look at the breakdown, we believe that construction output could have expanded 2.3% 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 2.9% yoy expansion, explained by a 0.8% yoy growth in manufacturing exports, a 4.1% yoy expansion in November's vehicle production, and a 1.1% yoy increase in U.S. manufacturing output
- Gross fixed investment (October).** Finally, on Thursday at 9:00am (EST), *INEGI* will publish its October's gross fixed investment (GFI) report. We anticipate GFI up by a scant 1.9% yoy. We believe that within the report we will probably see a 3.1% yoy expansion in imported machinery and equipment given that trade balance figures for October showed a similar growth rate. Moreover, we expect a 7.6% growth in domestic machinery and equipment. Finally, we believe that construction spending could increase a scant 0.2% yoy derived from the lower construction spending observed in the latest industrial production figures

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

Gabriel Casillas

Chief Economist and Head of Research
gabriel.casillas@banorte.com

Delia Paredes

Executive Director of Economic Analysis
delia.paredes@banorte.com

Alejandro Cervantes

Senior Economist, Mexico
alejandro.cervantes@banorte.com

Saúl Torres

Analyst, Mexico
saul.torres@banorte.com

Document for distribution among the general public

Mexico weekly calendar

DATE	HOUR (EST)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS	
Mon 11-Jan	9:00am	Industrial production	November	% yoy	<u>1.6</u>	<u>1.6</u>	0.5	
		(sa)		% m/m	<u>0.7</u>	<u>0.4</u>	-0.1	
		Mining		% m/m	<u>-3.9</u>	--	-4.2	
		Utilities		% m/m	<u>5.9</u>	--	4.3	
		Construction		% m/m	<u>2.3</u>	--	2.4	
		Manufactures		% m/m	<u>2.9</u>	<u>2.9</u>	1.2	
Mon 11-Jan		Wage negotiations	December	%	<u>4.6</u>	--	4.0	
Tue 12-Jan	10:00am	International reserves	8-Jan	US\$ mn	--	--	176.7	
Tue 12-Jan	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 3y MBono (Dec'19); 3y Udibonos (Jun'19)						
Thu 14-Jan	9:00am	Gross fixed investment	October	% yoy	<u>1.9</u>	<u>2.8</u>	5.3	
		Machinery and equipment		% yoy	<u>4.5</u>	--	14.4	
		Domestic		% yoy	<u>7.6</u>	--	8.9	
		Imported		% yoy	<u>3.1</u>	--	17.0	
		Construction		% yoy	<u>0.2</u>	--	0.1	

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

We expect 1.6% yoy growth in November's industrial output. On Monday, at 9:00am (EST), *INEGI* will release its monthly industrial production report. We anticipate a 1.6% yoy expansion in total output during the eleventh month of the year. Taking a look at the breakdown, we believe that construction output could have expanded 2.3% 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 2.9% yoy expansion, explained by a 0.8% yoy growth in manufacturing exports, a 4.1% yoy expansion in November's vehicle production, and a 1.1% yoy increase 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 translate into a higher domestic demand for manufacturing products.

Finally, we believe that the 1.6% yoy growth in industrial output during November will be limited by the poor performance of mining activity. In this regard, we expect a 3.9% yoy contraction derived from lower oil production and the reduction in the extraction of other minerals.

Industrial production estimates: November 2015

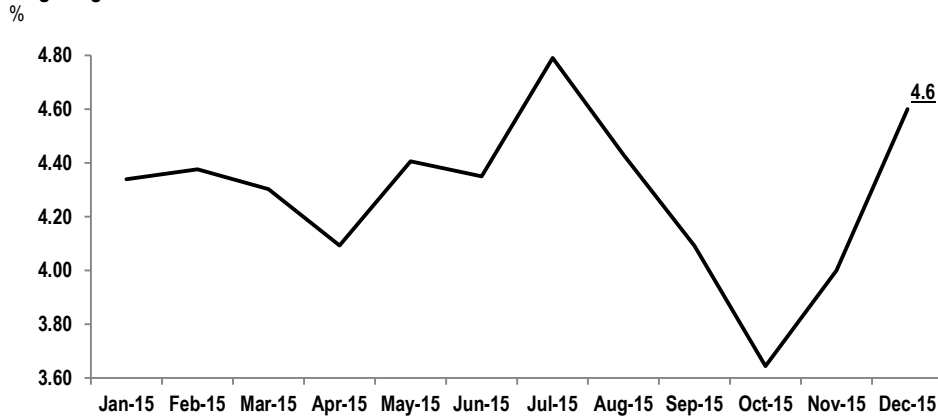
% yoy	Nov-15	Nov-14	Jan-Nov, '15	Jan-Nov, '14
Total	1.6	2.1	1.2	2.5
Mining	-3.9	-5.3	-5.9	-1.1
Utilities	5.9	6.8	4.1	8.2
Construction	2.3	4.5	3.3	1.5
Manufacturing	2.9	3.7	2.9	3.7

% m/m sa	Nov-15	Oct-15	Difference
Total	0.7	-0.1	0.9
Mining	-0.1	-0.6	0.5
Utilities	0.6	0.6	0.0
Construction	0.4	0.0	0.4
Manufacturing	2.1	-1.0	3.1

Source: Banorte-Ixe with data from *INEGI*

December's wage negotiations. On Monday, 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 4.6% in the last month of 2015. This would be above with the average observed year-to-date. In this regard, we believe that December'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, and in the automotive sector, such as *Audi's* union of workers.

Wage negotiations in 2015



Source: Banorte-Ixe; MoL

Weekly international reserves report. On Tuesday, at 10:00am (EST), Banco de Mexico will release its weekly balance report. Last week, net international reserves increased by US\$370mn amounting to US \$176.7bn on December 31. According to Banxico's report, this figure comes mainly as a result of: (1) Dollar sales by the Federal Government to the Central Bank for US\$442mn; (2) US\$6mn decrease explained by Banxico's USD ordinary auction with minimum price; along with a (3) US\$66mn 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 had an accumulated reduction of US\$16,516mn international reserves in 2015 (please refer to the table below).

Banxico's foreign reserve accumulation details

US\$, million

	2014		31/Dec/2015	
	Balance	31/Dec/2015	31/Dec/2015	Flows
International reserves (B)-(C)	193,239	176,723	370	-16,516
(B) Gross international reserve	195,682	177,584	-1,085	-18,098
Pemex	--	--	-995	2,777
Federal govt	--	--	-123	4,731
Market operations	--	--	0	-24,515
Other	--	--	33	-1,091
(C) Short-term government's liabilities	2,443	861	-1,455	-1,582

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 (Dec’19) as well as 3-year inflation-linked Udibonos (Jun’19), 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 (EST).

Auction specifics (Tuesday, January 12, 2016)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	11-Feb-16	--	5,500	3.05
3m	14-Apr-16	--	9,500	3.27
6m	07-Jul-16	--	11,000	3.52
Mbono				
3y	11-Dec-19	5.00	9,000	4.80
Udibono				
3y	13-Jun-19	4.00	800	2.62

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

We expect a 1.9% yoy expansion in October’s GFI. Finally, on Thursday at 9:00am (EST), *INEGI* will publish its October’s gross fixed investment (GFI) report. We anticipate GFI up by a scant 1.9% yoy. We believe that within the report we will probably see a 3.1% yoy expansion in imported machinery and equipment given that trade balance figures for October showed a similar growth rate. Moreover, we expect a 7.6% growth in domestic machinery and equipment. Finally, we believe that construction spending could increase a scant 0.2% yoy derived from the lower construction spending observed in the latest industrial production figures.

GFI estimates: October 2015

% yoy	Oct-15	Oct-14	Jan-Oct, '15	Jan-Oct, '14
Total	1.9	7.0	4.7	2.3
Machinery and equipment	4.5	11.0	9.2	4.6
Domestic	7.6	10.4	9.3	3.1
Imported	3.1	11.2	9.1	5.3
Construction	0.2	4.6	1.9	0.9

Annual contribution	Oct-15	Oct-14	Difference
Total	1.9	7.0	-5.1
Machinery and equipment	1.8	4.1	-2.4
Domestic	0.9	1.2	-0.3
Imported	0.8	2.9	-2.1
Construction	0.1	2.9	-2.7

%/m sa	Oct-15	Sep-15	Difference
Total	-2.1	1.2	-3.2
Machinery and equipment	-3.8	5.0	-8.7
Domestic	2.1	2.8	-0.7
Imported	-7.4	5.1	-12.5
Construction	0.2	0.1	0.1

Source: Banorte-ixe with data from *INEGI*

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
Rey Saúl Torres Olivares	Analyst	saul.torres@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 Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst 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	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates/Financials/ Mining/ Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
Marisol Huerta Mondragón	Equity Research Analyst – Food/Beverages	marisol.huerta.mondragon@banorte.com	(55) 1670 - 1746
José Itzamna Espitia Hernández	Equity Research Analyst – Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto parts	valentin.mendoza@banorte.com	(55) 1670 - 2250
María de la Paz Orozco García	Analyst	maripaz.orozco@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	Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@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.roltan.ferrer@banorte.com	(55) 5004 - 1454