

# Ahead of the Curve

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

- Bi-weekly inflation report.** On Friday, at 9:00am, *INEGI* will release its bi-weekly inflation report. We are forecasting a 0.09% 2w/2w increase in the first half of January, in line with consensus 0.1% forecast (according to *Bloomberg*). In the core index, we expect a 0.17% 2w/2w increase, below market consensus (0.2%). We expect this figure to be 27.7bps higher than the observed in the same period of 2015 derived from 16.4bps stemming from a higher contribution of services (2.5bps vs. -13.9 in 2015), and 11bps from a higher contribution of agriculture prices (-3.5bps vs. -14.5 in 2015). In addition, we expect 1.8bps from a higher contribution of government tariffs (4.5bps vs. 2.7 in 2015). By contrast, we expect -4.9bps from a lower contribution of energy prices given the 3% reduction in gasoline prices introduced by the Federal Government on January 1<sup>st</sup>. However, we believe that the deflation within the “energy” sub-index will be limited given the recent hike in natural gas prices. With these results, annual inflation will stand at 2.54% yoy in the first half of January from 2.13% in December, while core inflation will stand at 2.7% from 2.4% yoy

## Mexico weekly calendar

DATE	HOOR (EST)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Tue 19-Jan	10:00am	International reserves	15-Jan	US\$ mn	--	--	175.8
Tue 19-Jan	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 20y Mbono (Nov'34); 5y Bondes D					
Wed 20-Jan	4:30pm	Banamex bi-weekly survey of economic expectations					
Fri 22-Jan	9:00am	CPI inflation	1Q Jan	% 2w/2w	<u>0.09</u>	0.10	0.36
				% yoy	<u>2.54</u>	2.55	2.13
		Core		% 2w/2w	<u>0.17</u>	0.20	0.09
				% yoy	<u>2.70</u>	--	2.41

Source: Banorte-IXE; Bloomberg

## Proceeding in chronological order...

**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\$968mn amounting to US \$175.8bn on January 8. 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\$28mn; (2) US\$600mn decrease explained by the Banxico’s USD ordinary auction with minimum price and US\$400mn by the supplementary auction with minimum price; along with a (3) US\$60mn increase due to changes in the valuation of the Central Bank’s assets (please refer to the table below). It is worth noting that Pemex is currently the only significant source of reserve accumulation.

**Banxico's foreign reserve accumulation details**

US\$, million

	2015	8/Jan/2016	8/Jan/2016	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,723	175,755	-968	-968
(B) Gross international reserve	177,584	177,321	-263	-263
Pemex	--	--	6	6
Federal govt	--	--	-3	-3
Market operations	--	--	-206	-206
Other	--	--	-60	-60
(C) Short-term government's liabilities	861	1,566	705	705

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) 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, January 19, 2016)**

	Maturity	Coupon rate, %	To be auctioned <sup>1</sup>	Previous yield <sup>2</sup>
<b>Cetes</b>				
1m	18-Feb-16	--	5,500	3.05
3m	21-Apr-16	--	9,500	3.28
6m	21-Jul-16	--	11,000	3.44
<b>Mbono</b>				
20y	23-Nov-34	7.75	3,000	6.81
<b>Bondes D</b>				
5y	26-Nov-20	--	4,500	0.25

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

**Banamex Survey: Market participants will focus on 2016 estimates.** On Wednesday at 4:30pm (EST) *Banamex* will release its bi-weekly survey of economic expectations, where market participants will focus on analysts' monetary policy assessments. Furthermore, analysts will also focus on the inflation report for 1H-January (to be published on Friday, Jan'22), as well as on CPI estimations for 2016 and 2017. Moreover, *Banamex* will also publish consensus' growth and FX forecasts for 2016-17. In the first case, we believe that most economists will discount a higher economic growth for 2016. In the second case, we expect moderate upward revisions to the FX estimates for 2016.

**Inflation in the first half of January will be explained by pressures on the price of goods along with higher prices of services.** On Friday, at 9:00am, *INEGI* will release its bi-weekly inflation report. We are forecasting a 0.09% 2w/2w increase in the first half of January, in line with consensus 0.1% forecast, according to Bloomberg. In the core index, we expect an increase of 0.17% 2w/2w, below market consensus (0.2%).

We expect this figure to be 27.7bps higher than the observed in the same period of 2015 derived from 16.4bps stemming from a higher contribution of services (2.5bps vs. -13.9 in 2015), and 11bps from a higher contribution of agriculture prices (-3.5bps vs. -14.5 in 2015). In addition, we expect 1.8bps from a higher contribution of government tariffs (4.5bps vs. 2.7 in 2015). By contrast, we expect -4.9bps from a lower contribution of energy prices given the 3% reduction in gasoline prices introduced by the Federal Government on January 1st. However, we believe that the deflation within the “energy” sub-index will be limited given the recent hike in natural gas prices.

With these results, annual inflation will stand at 2.54% yoy in the first half of January, from 2.13% in December, while core inflation will stand at 2.7% from 2.4% yoy.

**1H-January inflation by components**  
% bi-weekly incidence

	Banorte-Ixe	2015	Difference
Total	0.09	-0.19	0.28
Core	0.13	-0.07	0.19
Goods	0.10	0.07	0.03
Processed foods	0.07	0.06	0.01
Other goods	0.03	0.01	0.02
Services	0.03	-0.14	0.16
Housing	0.02	0.02	0.00
Education	0.01	0.01	0.00
Other services	-0.01	-0.17	0.16
Non-core	-0.04	-0.12	0.09
Agricultural	-0.04	-0.15	0.11
Fresh fruits and vegetables	-0.05	-0.20	0.15
Meat and egg	0.02	0.05	-0.04
Energy and government regulated	0.00	0.03	-0.03
Energy	-0.05	0.00	-0.05
Government regulated	0.05	0.03	0.02

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

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