

Ahead of the Curve

April 1, 2016

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

- March's monthly inflation report.** On Thursday, at 9:00am, *INEGI* will release its monthly inflation report. We are forecasting a 0.27% m/m increase in March, in line with consensus 0.28% estimate according to *Bloomberg*. In the core index, we expect an increase of 0.42% m/m, above market consensus (0.36%). Inflation in March will be explained by seasonal pressures on the prices of services. CPI in the first half of the month resented the effects of higher prices in tourism services amid the Easter holiday season. In addition, we are starting to see significant pressures on merchandise prices, probably as a result of higher FX pass-through. Regarding agricultural prices, even though there were sharp declines during the first half of the month, particularly in the prices of fruits and vegetables, our price monitoring throws mixed results for the second half of March, with strong increases in products such as tomatoes, *Husk* tomatoes and lemons, along with declines in the price of onions, potatoes and chilies
- Consumer confidence (March).** On Friday, at 9:00am (EDT), Banxico and *INEGI* will publish its March's monthly survey on consumer confidence, where we expect a 1.3% yoy contraction, with the index reaching 91.9 points. However, in seasonally adjusted terms, we expect confidence levels to increase 0.5% m/m. We believe that consumer confidence (measured in seasonally adjusted terms) will show a moderate growth given the appreciation of the Mexican currency, which will be reflected in a higher growth of consumer's expectations regarding the country's present and future economic outlook

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Mexico weekly calendar

DATE	TIME (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Sun 3-Apr		Mexico's begins Daylight Saving Time (DST)					
Tue 5-Apr	9:00am	Gross fixed investment	January	% yoy	0.4	--	1.1
		Machinery and equipment		% yoy	-1.6	--	6.4
		Domestic		% yoy	6.3	--	11.5
		Imported		% yoy	-4.9	--	3.7
		Construction		% yoy	1.7	--	-2.1
Tue 5-Apr	9:00am	Private consumption	January	% yoy	--	--	5.1
Tue 5-Apr	10:00am	International reserves	1-Apr	US\$ bn	--	--	176.7
Tue 5-Apr	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 3y MBono (Dec'19); 3y Udibonos (Jun'19)					
Tue 5-Apr	4:30pm	Banamex bi-weekly survey of economic expectations					
Thu 7-Apr	9:00am	CPI inflation	March	% m/m	0.27	0.28	0.44
				% yoy	2.73	2.73	2.87
		Core		% m/m	0.42	0.36	0.36
				% yoy	2.83	--	2.66
Fri 8-Apr	9:00am	Consumer confidence	March	index	91.9	91.9	88.7
Fri 8-Apr		Wage negotiations	March	% yoy	4.6	--	4.2

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

On the logistics side, Mexico will begin its Daylight Saving Time. Before we start with next week's description, we highlight that on Sunday April 3, Mexico will begin its Daylight Saving Time (DST), which implies that Mexico City will once again have a one-hour difference with EDT.

We expect a 0.4% yoy expansion in January's GFI. On Tuesday at 9:00am (EDT), *INEGI* will publish its January's gross fixed investment (GFI) report. We anticipate GFI up by a scant 0.4% yoy. We believe that within the report we will probably see a 4.9% yoy reduction in imported machinery and equipment given that trade balance figures for January showed a similar fall for capital goods imports. Moreover, we expect a 6.3% growth in domestic machinery and equipment. Finally, we believe that construction spending could increase 1.7% yoy derived from the higher construction spending observed in the latest industrial production figures.

GFI estimate

% yoy	Jan-16	Jan-15	Jan-Dec, '15	Jan-Dec, '14
Total	0.4	8.8	3.8	2.9
Machinery and equipment	-1.6	13.7	8.6	5.6
Domestic	6.3	12.9	8.5	5.2
Imported	-4.9	14.0	8.7	5.7
Construction	1.7	5.9	0.9	1.4

Annual contribution	Jan-16	Jan-15	Difference
Total	0.4	8.8	-8.3
Machinery and equipment	-0.6	5.1	-5.7
Domestic	0.7	1.4	-0.7
Imported	-1.3	3.7	-5.0
Construction	1.0	3.7	-2.6

%m/m sa	Jan-16	Dec-15	Difference
Total	0.9	1.6	-0.7
Machinery and equipment	-1.8	6.6	-8.4
Domestic	-3.8	0.3	-4.1
Imported	-2.2	7.7	-9.9
Construction	4.5	0.6	3.9

Source: Banorte-ixe; INEGI

Weekly international reserves report. On Tuesday, at 10:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US\$274mn amounting to US \$176.7bn on March 23. According to Banxico's report, this figure comes mainly as a result of: (1) Dollar sales by Banxico to the Federal Government for US\$12mn; along with a (2) US\$262mn 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\$70mn international reserves this year (please refer to the table below).

Banxico's foreign reserve accumulation details

US\$, million

	2015	23/Mar/2016	23/Mar/2016	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,735	176,665	-274	-70
(B) Gross international reserve	177,597	180,178	-539	2,581
Pemex	--	--	-321	3,963
Federal govt	--	--	42	2,597
Market operations	--	--	0	-5,562
Other	--	--	-260	1,584
(C) Short-term government's liabilities	861	3,512	-265	2,651

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 (EDT).

Auction specifics (Tuesday, April 5, 2016)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	05-May-16	--	5,500	3.76
3m	07-Jul-16	--	9,500	3.87
6m	29-Sep-16	--	11,000	3.99
Mbono				
3y	11-Dec-19	5.00	9,000	5.25
Udibono				
3y	13-Jun-19	4.00	800	2.35

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 monetary policy forecasts. On Tuesday at 4:30pm (EDT) *Banamex* will release its bi-weekly survey of economic expectations, where market participants will focus on analysts' monetary policy assessments given the recent dovish tone adopted by several voting Fed members. In this regard, we highlight that Banxico has emphasized several times that Mexico's monetary policy is tied to the Fed's policy.

Furthermore, analysts will also focus on the inflation report for March (to be published on Thursday, April 8), 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 do not expect strong revisions to the median GDP forecast. In the second case, we expect moderate downward revisions to the FX estimates for 2016.

Inflation in March will be explained by seasonal pressures on the prices of services along with higher merchandise prices on the back of some pass-through from FX depreciation. On Thursday, at 9:00am, *INEGI* will release its monthly inflation report. We are forecasting a 0.27% m/m increase in March, in line with consensus 0.28% estimate according to *Bloomberg*. In the core index, we expect an increase of 0.42% m/m, above market consensus (0.36%).

Inflation in March will be explained by seasonal pressures on the prices of services. CPI in the first half of the month resented the effects of higher prices in tourism services amid the Easter holiday season. In addition, we are starting to see significant pressures on merchandise prices, probably as a result of higher FX pass-through. Regarding agricultural prices, even though there were sharp declines during the first half of the month, particularly in the prices of fruits and vegetables, our price monitoring throws mixed results for the second half of March, with strong increases in products such as tomatoes, *Husk* tomatoes and lemons, along with declines in the price of onions, potatoes and chilies.

Nevertheless, we expect this figure to be 13.6bps lower than the observed in same period last year, derived from: (1) 7.5bps stemming from a higher contribution of merchandise prices (12.5bps vs. 5 in 2015); (2) 4.5bps stemming from a higher contribution of services prices (19bps vs. 14.5 in 2015). By contrast, we expect (3) a lower contribution energy prices (-3bps vs. 13.8 in 2015) and (4) -9bps stemming from a lower contribution of agricultural prices (-2.2bps vs. 6.9 in 2015), as shown in the table below.

With these results, 12-month inflation will be at 2.73% yoy in March from 2.87%, while core inflation could edge-up to 2.83% from 2.66% yoy.

Inflation by components in March

% monthly incidence

	Banorte-Ixe	2015	Difference
Headline	0.27	0.41	-0.14
Core	0.32	0.20	0.12
Goods	0.13	0.05	0.08
Processed foods	0.06	0.00	0.06
Other goods	0.07	0.05	0.02
Services	0.19	0.14	0.04
Housing	0.04	0.03	0.01
Education	0.00	0.00	0.00
Other services	0.15	0.11	0.04
Non-core	-0.05	0.22	-0.27
Agricultural	-0.02	0.07	-0.09
Fresh fruits and vegetables	-0.07	0.07	-0.14
Meat and egg	0.04	0.00	0.04
Energy and government regulated	-0.03	0.15	-0.18
Energy	-0.03	0.14	-0.17
Government regulated	0.00	0.01	-0.01

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

Consumer confidence will recover given the better growth dynamics in the labor market. On Friday, at 9:00am (EDT), Banxico and *INEGI* will publish its March's monthly survey on consumer confidence, where we expect a 1.3% yoy contraction, with the index reaching 91.9 points. However, in seasonally adjusted terms, we expect confidence levels to increase 0.5% m/m.

We believe that consumer confidence (measured in seasonally adjusted terms) will show a moderate growth given the appreciation of the Mexican currency, which will be reflected in a higher growth of consumer's expectations regarding the country's present and future economic outlook. Moreover, March's 0.5% increase will be also explained by the moderate levels of inflation, which will translate in an expansion of the purchasing power component.

March's wage negotiations. Finally, on Friday, the Ministry of Labor (*STPS*) will make its contractual wage negotiations monthly data available. We anticipate workers to have negotiated an average wage increase of 4.6% in March. This would be above the 4.2% observed in February. In this context, we believe that March's figure was mainly driven by the increase in wage negotiations in the educational sector, specifically wage increases in universities unions, such as those in *Veracruz*, *Campeche*, *Michoacán* and *Querétaro*. Along with wage increases in the mining sector, such as the *National Union of Mine, Metal and Steelworkers (SNTMMSRM)* union. Finally, we highlight the salary reviews in some unions workers in the government's entities.

Disclaimer

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