

Ahead of the Curve

January 13, 2017

Market focus this week will on December's unemployment report

- Unemployment (December).** On Friday, INEGI will publish its employment report for the last month of 2016, in which we estimate an unemployment rate of 3.27% nsa, below the 3.96% observed in December 2015. In seasonally-adjusted terms, we believe that the unemployment rate could stand at 3.71%, which implies a 0.11%-pts increase. It is likely that December's labor market report will reflect the lower growth dynamics of the Mexican economy. In particular, the downward trend in public spending has translated in a higher number of unemployed workers, and has already affected private investment projects. In addition, we believe that December's report will also reflect the lower growth dynamics of the formal labor market as a result of the uncertainty surrounding Trump's policies on the Mexican economy.
- International reserves (January 13).** On Tuesday, at 9:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves fell by US\$1,816 million amounting to US\$174.5 billion on the first week of January. According to Banxico's report, this figure comes mainly as a result of: (1) A US\$2,000 million reduction as a result of the Foreign Exchange Commission (FEC) intervention in the FX market; along with a (2) US\$184 million increase due to changes in the valuation of the Central Bank's assets

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

Alejandro Cervantes

Senior Economist, Mexico
alejandro.cervantes@banorte.com

Francisco Flores

Economist, Mexico
francisco.flores.serrano@banorte.com

Document for distribution among the general public

Mexico's weekly calendar

DATE	HOUR (EST)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Tue 17-Jan	10:00am	International reserves	13-Jan	US\$ mn	--	--	174.7
Tue 17-Jan	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 10y Mbono (Mar'26); 5y Bondes D					
Fri 20-Jan	9:00am	Unemployment rate	December	%	<u>3.27</u>	<u>3.38</u>	3.51
		sa		%	<u>3.72</u>	3.76	3.61

Source: Bloomberg, Banxico, Banorte-IXE

Proceeding in chronological order...

Weekly international reserves report. On Tuesday, at 9:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves fell by US\$1,816 million amounting to US\$174.5 billion on the first week of January. According to Banxico's report, this figure comes mainly as a result of: (1) A US\$2,000 million reduction as a result of the Foreign Exchange Commission (*FEC*) intervention in the FX market; along with a (2) US\$184 million increase due to changes in the valuation of the Central Bank's assets (please refer to the table below).

In our view, the *FEC* intended to show that it still has instruments available to counter speculative bets against the peso, suggesting that they stand ready to act if needed (which we believe is highly likely). The decision was probably related to the still low levels of liquidity in the market, while we also highlight that foreign financial institutions were counterparties to Banxico for the first time in addition to local players.

Banxico's foreign reserve accumulation details
US\$, million

	2015	6/Jan/2017	6/Jan/2017	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,542	174,728	-1,816	-1,816
(B) Gross international reserve	178,025	177,843	-179	-179
Pemex	--	--	-369	-369
Federal government	--	--	110	110
Market operations	--	--	0	0
Other	--	--	80	80
(C) Short-term government's liabilities	1,483	3,120	1,637	2,260

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 12:30pm (EDT).

Auction specifics (Tuesday, January 17, 2016)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	16-Feb-17	--	7,000	5.87
3m	20-Apr-17	--	12,000	6.32
6m	20-Jul-17	--	11,500	6.56
M Bono				
10y	5-Mar-26	5.75	8,000	7.25
Bondes D				
3y	13-Jan-22	--	4,500	0.23

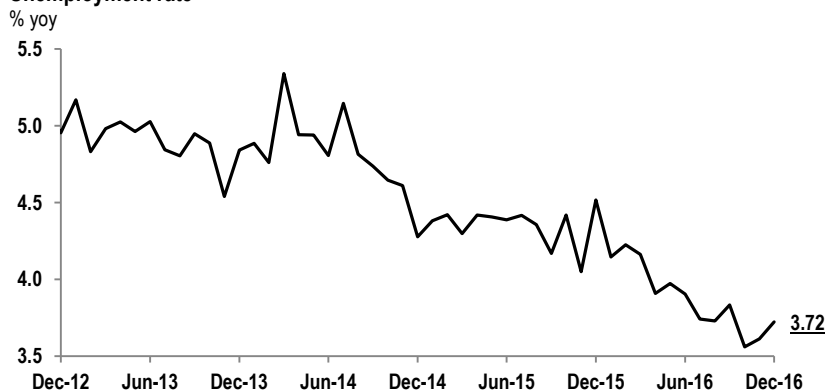
Source: Banorte-ixe with data from Banco de México

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

Unemployment rate in December will stand at 3.27%. On Friday, *INEGI* will publish its employment report for the last month of 2016, in which we estimate an unemployment rate of 3.27% nsa, below the 3.96% observed in December 2015. In seasonally-adjusted terms, we believe that the unemployment rate could stand at 3.71%, which implies a 0.11%-pts increase.

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Unemployment rate



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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
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
Francisco José Flores Serrano	Economist, National	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 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
José Itzamna Espitia Hernández	Equity Research Analyst – Airlines / Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Analyst, Corporate Debt	hugo.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.roldan.ferrer@banorte.com	(55) 5004 - 1454