

Ahead of the Curve

September 15, 2016

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

- Bi-weekly inflation report.** On Thursday, at 9:00am, *INEGI* will release its bi-weekly inflation report. We are forecasting a 0.41% 2w/2w increase in the first half of September. In the core index, we expect an increase of 0.23% 2w/2w. Inflation during the period in question will be explained by pressures on agricultural prices and education costs on the back of the start of the school year. Our price monitoring suggests strong increases in fruits and vegetables such as tomatoes, husk tomatoes, and onions. In addition, we also observed some pressures coming from higher energy prices, as a result of the increase announced on low-grade gasoline prices, as well as the upward trend shown by natural gas prices.
- July's retail sales.** Finally, on Friday at 9:00am (EDT), *INEGI* will publish its retail sales report for July, where we anticipate an 8.9% yoy expansion. Retail sales' growth will be explained by the favorable performance of durable goods sales. In particular, vehicles sales increased by 17.9% yoy according to *AMIA's* report. Moreover, *ANTAD* total store sales edged-up 10.6% yoy in real terms during the period in question. However, retail sales growth will be bounded by the 12.6% yoy contraction in consumption goods imports –which have a strong correlation with retail sales.

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Document for distribution among the general public

Mexico weekly calendar

DATE	HOUR (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Tue 20-Sep	10:00am	International reserves	16-Sep	US\$ bn	--	--	176.3
Tue 20-Sep	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 3y Mbono (Dec'19); 3y Udibonos (Jun'19)					
Tue 20-Sep	4:30pm	Banamex bi-weekly survey of economic expectations					
Wed 21-Sep	9:00am	Aggregate Demand	2Q16	% yoy	<u>2.1</u>	--	2.5
		Private consumption		% yoy	<u>3.2</u>	--	3.3
		Government consumption		% yoy	<u>-1.6</u>	--	-0.4
		Gross-fixed investment		% yoy	<u>-0.6</u>	--	0.6
Thu 22-Sep	9:00am	CPI inflation	1H Sep	% 2w/2w	<u>0.41</u>	--	-0.02
				% yoy	<u>2.75</u>	--	2.73
		Core		% 2w/2w	<u>0.23</u>	--	0.08
				% yoy	<u>2.91</u>	--	2.96
Fri 23-Sep	9:00am	Retail sales	July	% yoy	<u>8.9</u>	--	9.4

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

Weekly international reserves report. On Tuesday, at 10:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves fell by US\$35 million amounting to US \$176.3 billion on September 9. According to Banxico's report, this figure comes mainly as a result of changes in the valuation of the Central Bank's assets. In this context, the Central Bank's international reserves have diminished by US\$433 million this year (please refer to the table below).

Banxico's foreign reserve accumulation details

US\$, million

	2015	9/Sep/2016	9/Sep/2016	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,735	176,302	-35	-433
(B) Gross international reserve	177,597	178,897	-1,518	1,301
Pemex	--	--	358	2,497
Federal government	--	--	-1,829	1,880
Market operations	--	--	0	-5,562
Other	--	--	-48	2,484
(C) Short-term government's liabilities	861	2,595	-1,484	1,734

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 3-year fixed-rate Mbonos (Dec'19), and 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, September 20, 2016)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	20-Oct-16	--	5,500	4.22
3m	22-Dec-16	--	9,500	4.34
6m	16-Mar-17	--	11,000	4.62
Mbono				
3y	11-Dec-19	5.00	7,500	5.34
Udibono				
3y	13-Jun-19	4.00	750	2.04

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.

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. In this regard, we believe that a higher number of analysts may consider an additional rate hike in September given: (1) The hawkish tone depicted in Banxico's minutes; (2) the significant depreciation of the Mexican currency in the last two weeks, and (3) the higher probability of a further depreciation of the peso, given the recent US poll results, where Donald Trump is virtually tied to Hillary Clinton.

In addition, analysts will also focus on the inflation report for the first half of September (to be published on Thursday, September 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 do not expect strong revisions to the median GDP forecast. In the second case, we expect moderate upward revisions to the FX estimates for 2016.

We estimate a 2.1% yoy expansion in aggregate demand during 2Q16. On Wednesday, *INEGI* will publish its aggregate supply and demand report for the second quarter of the year, where we believe aggregate demand increased 2.1% yoy, vs. the 2.4% yoy expansion observed in 1Q16.

Taking a look at the breakdown, we expect a 3.2% yoy increase in private consumption, while we estimate a 0.6% yoy contraction for gross fixed investment. Moreover, we believe that government spending will likely show a 1.6% yoy contraction, given the fiscal cuts implemented by the federal government.

Inflation in the first half of September will be explained by pressures on agricultural prices and education costs. On Thursday, at 9:00am, *INEGI* will release its bi-weekly inflation report. We are forecasting a 0.41% 2w/2w increase in the first half of September. In the core index, we expect an increase of 0.23% 2w/2w.

Inflation during the period in question will be explained by pressures on agricultural prices and education costs on the back of the start of the school year. Our price monitoring suggests strong increases in fruits and vegetables prices, such as tomatoes, husk tomatoes and onions. In addition, we also observed some pressures coming from higher energy prices as a result of the increase announced on gasoline prices, as well as the upward trend shown by natural gas prices.

Nevertheless, we expect this figure to be 9.3bps higher than the observed in same period last year, derived from: (1) 10bps stemming from a higher contribution of agricultural prices (19bps vs. 9 in 2015); (2) 4.5bps stemming from a higher contribution of energy prices (5.1bps vs. 0.6 in 2015). By contrast, we expect (3) a lower contribution goods prices (6.3bps vs. 11.7 in 2015) along with (4) -1.8bps stemming from a lower contribution of government tariffs (0bps vs. 1.8 in 2015), as shown in the table below.

With these results, annual inflation is at 2.75% yoy in the first half of September from 2.73% in August, while core inflation is at 2.91% from 2.96% yoy.

1H-September inflation by components

% bi-weekly incidence

	Banorte-Ixe	2015	Difference
Total	0.41	0.32	0.09
Core	0.17	0.20	-0.03
Goods	0.06	0.12	-0.05
Processed foods	0.04	0.03	0.00
Other goods	0.03	0.08	-0.06
Services	0.11	0.09	0.02
Housing	0.01	0.01	0.00
Education	0.11	0.11	0.01
Other services	-0.02	-0.03	0.01
Non-core	0.24	0.12	0.12
Agriculture	0.19	0.09	0.10
Fruits & vegetables	0.15	0.07	0.08
Meat & eggs	0.04	0.02	0.02
Energy & government tariffs	0.05	0.02	0.03
Energy	0.05	0.01	0.05
Government tariffs	0.00	0.02	-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.

Retail sales will post an 8.9% yoy expansion in July. Finally, on Friday at 9:00am (EDT), *INEGI* will publish its retail sales report for July, where we anticipate an 8.9% yoy expansion. Retail sales' growth will be explained by the favorable performance of durable goods sales. In particular, vehicles sales increased by 17.9% yoy according to *AMIA*'s report. Moreover, *ANTAD* total store sales edged-up 10.6% yoy in real terms during the period in question. However, retail sales growth will be bounded by the 12.6% yoy contraction in consumption goods imports –which have a strong correlation with retail sales.

Looking ahead, we believe that retail sales and private consumption will continue to show a favorable performance derived from: (1) An improvement in private banking credit; (2) the contained levels of inflation; (3) the stronger growth dynamics in the Mexican labor market; and (4) the higher growth in remittances inflows.

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.

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