

Ahead of the Curve

April 8, 2016

Market focus this week will on February's industrial production report

- February's industrial production report.** On Monday, at 9:00am (EDT), *INEGI* will release its monthly industrial production report. We anticipate a 1.3% yoy expansion in total output during the second month of 2016. Taking a look at the breakdown, construction output could have increased 4.4% yoy, as a result of the higher private investment in construction projects. Moreover, manufacturing production could post a 1.7% yoy expansion, explained by a 0.9% yoy expansion in manufacturing exports, a 5.6% yoy contraction in February's vehicle production, and a 1.8% yoy increase in U.S. manufacturing output, which has a strong correlation with Mexico's manufacturing sector. However, we believe that the additional working day provided by the leap-year will also explain the positive performance of Mexico's manufacturing sector. With calendar-adjusted figures, manufacturing output probably grew a scant 0.8% yoy. Finally, we believe that the 1.3% yoy expansion in industrial output during February will be mainly explained by the poor performance of mining activity. In this regard, we expect a 3.6% yoy contraction derived from lower oil production and the reduction in the extraction of other minerals

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Document for distribution among the general public

Mexico weekly calendar

DATE	TIME (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 11-Apr	9:00am	Industrial production	February	% yoy	<u>1.3</u>	<u>1.3</u>	1.1
		Mining		% yoy	<u>-3.2</u>	--	-2.5
		Utilities		% yoy	<u>1.4</u>	--	1.6
		Construction		% yoy	<u>4.4</u>	--	4.6
		Manufactures		% yoy	<u>1.7</u>	<u>2.2</u>	1.0
Tue 12-Apr	10:00am	International reserves	8-Apr	US\$ bn	--	--	177.5
Tue 12-Apr	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 20y MBono (Nov'34); 5y BondesD					

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

We expect a 1.3% yoy expansion in February's industrial output. On Monday, at 9:00am (EDT), *INEGI* will release its monthly industrial production report. We anticipate a 1.3% yoy expansion in total output during the second month of 2016. Taking a look at the breakdown, construction output could have increased 4.4% yoy, as a result of the higher private investment in construction projects. However, we believe that the overall construction output will be limited as a result of the lower public construction projects.

Moreover, manufacturing production could post a 1.7% yoy expansion, explained by a 0.9% yoy expansion in manufacturing exports, a 5.6% yoy contraction in February's vehicle production, and a 1.8% yoy increase in U.S. manufacturing output, which has a strong correlation with Mexico's manufacturing sector. However, we believe that the additional working day provided by the leap-year will also explain the positive performance of Mexico's manufacturing sector. With calendar-adjusted figures, manufacturing output probably grew a scant 0.8% yoy.

In this regard, we believe that the Mexican manufacturing sector of final goods will show better growth prospects, derived from: (1) The strong depreciation of the Mexican currency which will eventually translate into a recovery of Mexican exports; and (2) the higher growth of private consumption in Mexico, that will be reflected in a higher domestic demand for manufacturing products.

Finally, we believe that the 1.3% yoy expansion in industrial output during February will be also explained by the poor performance of mining activity. In this regard, we expect a 3.6% yoy contraction derived from lower oil production and the reduction in the extraction of other minerals.

Industrial production estimates

% yoy	Feb-16	Feb-15	Jan-Feb, '16	Jan-Feb, '15
Total	1.3	2.0	2.5	1.5
Mining	-3.2	-4.4	-2.8	-5.5
Utilities	1.4	6.2	1.5	6.5
Construction	4.4	1.0	4.5	3.7
Manufacturing	1.7	4.6	1.3	3.1

%m/m sa	Feb-16	Jan-16	Difference
Total	0.1	1.2	-1.1
Mining	1.6	1.4	0.2
Utilities	-0.5	-0.5	0.0
Construction	-2.8	4.0	-6.8
Manufacturing	1.0	-0.1	1.1

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 increased by US\$811mn amounting to US \$177.5bn on April 1. According to Banxico's report, this figure comes mainly as a result of: (1) Dollar sales by Pemex to the Central Bank for US\$500mn; (2) Dollar sales by Banxico to the Federal Government for US\$12mn; along with a (3) US\$323mn increase 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 accumulated US\$741mn international reserves this year (please refer to the table below).

Banxico's foreign reserve accumulation details

US\$, million

	2015	01/Apr/2016	01/Apr/2016	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,735	177,476	811	741
(B) Gross international reserve	177,597	179,031	-1,147	1,434
Pemex	--	--	-1,548	2,415
Federal govt	--	--	57	2,654
Market operations	--	--	0	-5,562
Other	--	--	343	1,927
(C) Short-term government's liabilities	861	1,554	-1,958	693

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). The results will be released at 12:30pm (EDT).

Auction specifics (Tuesday, April 12, 2016)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	12-May-16	--	5,500	3.73
3m	14-Jul-16	--	9,500	3.86
6m	13-Oct-16	--	11,000	3.98
Mbono				
20y	23-Nov-34	7.75	3,000	6.73
Bondes D				
5y	25-Mar-21	--	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

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