Ahead of the Curve

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Market focus this week will be on Banxico's Quarterly Inflation Report and January's trade balance

- **Banxico's Quarterly Inflation Report (4Q17).** Banco de Mexico will publish its Quarterly Inflation Report (QIR) for the last quarter of 2017 on Wednesday around 1:30pm (ET). The release will be accompanied by a press conference led by Governor Diaz de Leon. In our view, market participants will focus on three issues: (1) Banxico's GDP, labor and output gap projections will be particularly interesting to watch after several board members highlighted the absence of slack in the Mexican economy; (2) the reduction in inflation's rate of convergence towards the 3% target, as a result of the current cyclical conditions, which will be depicted in their traditional fan charts; and (3) the relative monetary stance between Mexico and the US, given that within the minutes it ranked second, while in the November and December's releases it was the first factor to consider.

- **Trade balance (January).** On Tuesday at 9:00am (ET), Banxico and *INEGI* will make available its preliminary trade report for January, where we expect to see a US$3,919.9 million surplus. On the exports side, we will probably see a 40% yoy expansion of oil exports as a result of the higher prices for the Mexican crude oil basket (28.8% yoy). In addition, non-oil exports could have increased 7.7% yoy, on the back of a 6.9% hike in manufacturing exports. On the imports side, we estimate a 10.3% yoy expansion in total imports, as a result of the increase in oil related imports.

Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 26-Feb	**9:00am**	**Retail sales**	December	% yoy	-0.9	--	-1.5
		sa		% m/m	-0.7	--	-0.3
Tue 27-Feb	**9:00am**	**Unemployment rate**	January	%	3.38	--	3.13
		sa		%	3.31	--	3.37
Tue 27-Feb	**9:00am**	**Trade balance**	January	US$ mn	-3,920	--	-157.0
		Total exports		% yoy	9.9	--	7.9
		Oil exports		% yoy	40.0	--	46.1
		Non-oil exports		% yoy	7.7	--	5.7
		Total imports		% yoy	10.3	--	8.4
Tue 27-Feb	**10:00am**	**International reserves**	Feb-23	US$ bn	--	--	173.0
Tue 27-Feb	**12:30pm**	**Government weekly auction: 1-, 3-, 6-, 12-month CETES; 30y Mbono (Nov'47); 30y Udibonos (Nov'46); 5y Bondes D**					
Wed 28-Feb	**10:00am**	**Comercial banking credit**	January	% yoy	5.7	--	5.0
		Consumption		% yoy	3.1	--	1.4
		Housing		% yoy	2.5	--	1.6
		Firms			8.1	--	8.0
Wed 28-Feb	**1:30pm**	**Banxico's quarterly inflation report**	4Q16				
Thu 1-Mar	**10:00am**	**Family remmittances**	January	US$ mn	2,181.3	--	2,604.2
Thu 1-Mar	**1:00pm**	**PMI's survey (IMEF)**	February				
		Manufacturing		index	51.7	--	51.2
		Non-manufacturing		index	52.3	--	53.1
Thu 1-Mar	**10:00am**	**Banxico's survey of economic expectations**	February				
Fri 2-Mar	**3:30pm**	**Budget balance**	January	MXN bn	--	--	-238.5

Source: Banorte; Bloomberg

Proceeding in chronological order...

Retail sales will post a 0.9% yoy contraction in December. On Monday at 9:00am (ET), *INEGI* will publish its retail sales report for December, where we anticipate a 0.9% yoy contraction, above the 1.5% reduction observed in November.

We believe that retail sales contraction will be mainly explained by the 17.6% reduction in vehicle sales. In addition, *ANTAD* same store sales posted a 1.9% yoy decrease in real terms. By contrast, non-oil consumption goods expanded 12.7% yoy, which will partially compensate the fall in vehicle and *ANTAD* sales.

Exports will continue to recover. On Tuesday at 9:00am (ET), Banxico and *INEGI* will make available its preliminary trade report for January, where we expect to see a US$3,919.9 million surplus.

On the exports side, we will probably see a 40% yoy expansion of oil exports as a result of the higher prices for the Mexican crude oil basket (28.8% yoy). In addition, non-oil exports could have increased 7.7% yoy, on the back of a 6.9% hike in manufacturing exports.

On the imports side, we estimate a 10.3% yoy expansion in total imports, as a result of the increase in oil related imports. However, taking a look at the breakdown, we believe that non-oil consumption goods imports increased 10.5% yoy, while imports of intermediate goods could have increased 9.5% yoy. Finally, we estimate a 5% expansion in capital goods imports.

The unemployment rate in January will stand at 3.38%. Also on Tuesday, *INEGI* will publish its unemployment report for the first month of 2018, in which we estimate an unemployment rate of 3.38% nsa, above the 3.13% observed in December 2017. However, in seasonally adjusted terms, we believe that the unemployment rate could stand at 3.31% which implies a 0.06%-pts reduction from last month’s figures.

We believe that the fall in the unemployment rate (seasonally adjusted) will be due to the recent pickup in construction, which will continue to be fostered by greater infrastructure investment by states and counties given the electoral process that will take place in July. Looking ahead we believe that the unemployment rate will hover around 3.5%.

Weekly international reserves report. Additionally on Tuesday, at 10:00am (ET), Banco de Mexico will release its weekly balance report. Last week, net international reserves increased by US$227 million amounting to US$173 billion. According to Banxico's report, this figure comes mainly as a result of a positive valuation effect in central bank assets. In this context, the Central Bank's international reserves have increased by US$222 million during 2018 (please refer to the table below).

Banxico's foreign reserve accumulation detail
US$, million

	2016	Feb 16, 2018	Feb 16, 2018	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	172,802	173,024	227	222
(B) Gross international reserve	175,450	177,432	-153	1,982
Pemex	--	--	152	-229
Federal government	--	--	-662	2,244
Market operations	--	--	0	0
Other	--	--	357	-33
(C) Short-term government's liabilities	2,648	4,408	-381	1,760

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 30-year fixed rate Mbonos (Nov'47), 30-year inflation-linked Udibonos (Nov'46), 5-year Bondes D, in addition to the "more traditional" 1-, 3-, 6-, and 12-month zero-coupon Cetes (please refer to the table below). As usual, the results will be released at 12:30pm (ET).

Auction specifics (Tuesday, February 27, 2018)

	Maturity	Coupon rate, %	To be auctioned[1]	Previous yield[2]
Cetes				
1m	28-mar-18	- -	7,500	7.49
3m	31-may-18	- -	11,000	7.66
6m	30-ago-18	- -	11,500	7.84
12m	31-ene-19	- -	12,500	7.70
Bondes D				
5y	05-ene-23	- -	4,500	0.16
M Bono				
30y	07-nov-47	8.00	3,500	7.86
Udibonos				
30y	08-nov-46	4.00	UDIS 400	3.78

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

Banking credit will show a 5.7% yoy increase in January. Banco de Mexico will make available its banking credit report on Wednesday at 10:00am (ET). It is our take that banking credit continued flowing in January. In particular, we estimate a 5.7% yoy expansion in banking credit (in real terms), as a result of increases in the area of 3.1%, 2.5%, and 8.1% yoy in consumer, housing and business credit, respectively.

Banxico's QIR. Banco de Mexico will publish its Quarterly Inflation Report (QIR) for the last quarter of 2017 on Wednesday around 1:30pm (ET). The release will be accompanied by a press conference led by Governor Diaz de Leon. In our view, market participants will focus on three issues: (1) Banxico's GDP, labor and output gap projections will be particularly interesting to watch after several board members highlighted the absence of slack in the Mexican economy; (2) the reduction in inflation's rate of convergence towards the 3% target, as a result of the current cyclical conditions, which will be depicted in their traditional fan charts; and (3) the relative monetary stance between Mexico and the US, given that within the minutes it ranked second, while in the November and December's releases it was the first factor to consider.

In this context, we perceived a generalized hawkish tone in the last central bank's minutes, which hasn't reflected the tone we have perceived in recent speeches by some board members, which introduces some uncertainty about Banxico's future monetary stance.

Nevertheless, we maintain our call for an additional 25bps hike on April 12, following a 25bps Fed hike on March 21. In addition, we do not rule out a further increase if uncertainty persists before the presidential elections (1st of July). In this context, we consider that the central bank could increase the reference rate again by 25bps during the June 21st meeting, just after a 25bps hike from the FOMC (June 13). Looking ahead, and as volatility due to the aforementioned factors starts to dissipate, it is likely that the Central Bank could cut rates by 50bps in the second half of 2018.

Family remittances will post a 5.8% yoy expansion in January. On Thursday, at 10:00am (ET), Banxico will make its family remittances monthly data available. We expect Mexican workers living abroad -mainly in the US-, to have sent US$2,181.3 million to their families in Mexico during January. This would imply a 5.8% yoy expansion.

We believe that the remittances inflows will be explained by the increase in real wages for Mexican workers in the US, despite that labor opportunities for migrant Mexican workers without citizenship have become scarcer. Looking ahead, we believe that the flow of remittances will be mainly explained by the Trump's anti-migration policy.

Banxico's survey of economic expectations. Also on Thursday, at 10:00am (ET), Banco de Mexico will publish its monthly survey of economic expectations. Market focus will be on inflation forecasts for 2018, which as of last survey stand at 4.06% (Banorte: 4.3%), as well as inflation expectations for the medium and long term. Moreover, attention will also be on monetary policy forecasts, particularly on its path for 2018.

Additionally, we will be looking into 2018's GDP forecast, which we expect at 2.5% (consensus: 2.2%). Furthermore, we expect marginal revisions to FX forecasts, and we will be particularly attentive to its trajectory throughout the next twelve months.

February's PMI surveys. On Thursday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators for February. We expect the manufacturing PMI at 51.7 points (seasonally adjusted figures), marginally above January's 51.2 pts. We believe that the expansion in the manufacturing PMI during the month will be explained by a pickup in the production and new orders components. However, it is likely that the uncertainty regarding the prospects of the Mexican manufacturing industry under Trump's economic policies will continue to weigh on the other components of the index.

Regarding the non-manufacturing PMI, we believe that it will stand at 52.3 points from 53.1 points in January (seasonally adjusted figures). We consider that the decrease will be explained by a slowdown in new orders and production, given the prospects of solwer private demand given the persistence of high inflation.

The MoF's monthly report. Finally on Friday, the Ministry of Finance (MoF) will release its monthly finance report available for the first month of the year. This report is particularly important since it will provide information of public finances for the first time in 2018. On the revenue side, we will be looking at non-oil tax collection, as it will provide additional information about domestic demand behavior. Moreover, considering the increase in oil prices compared to last year, the behavior of oil revenues generated by the Federal Government will be particularly relevant.

In addition, markets will focus on the spending side of the report, in order to assess the execution of the fiscal budget for 2018. Finally, it will be important to evaluate the evolution of public sector debt, which currently represents around 46.5% of Mexico's GDP.

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