

Ahead of the Curve

July 14, 2017

Market focus this week will be on June's unemployment report

- **Unemployment report (June).** On Friday (July 21), *INEGI* will publish its unemployment report for the sixth month of 2017, in which we estimate an unemployment rate of 3.49% nsa, below the 3.56% observed in May. In seasonally adjusted terms, we believe that the unemployment rate could stand at 3.48% which implies a marginal 0.02%-pts reduction. It is likely that June's labor market report will reflect the higher growth dynamics of the Mexico's domestic demand, particularly reflected in the upward trend of services

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Mexico weekly calendar

DATE	TIME (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Tue 18-Jul	10:00am	International reserves	14-Jul	US\$ bn	--	--	173.9
Tue 18-Jul	12:30pm	Government weekly auction: 1-, 3-, 6-, 12-month CETES; 20y Mbono (Nov'36); 30y Udibonos (Nov'46); 5y Bondes D					
Wed 19-Jul	12:30pm	CETES extraordinary auction 182, 259, 308 and 336 days					
Thu 20-Jul	4:30pm	Citibanamex bi-weekly survey of economic expectations					
Fri 21-Jul	9:00am	Unemployment rate	June	%	<u>3.49</u>	--	3.56
		sa		%	<u>3.48</u>	--	3.50

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 decreased by US\$314 million amounting to US\$173.9 billion. According to Banxico’s report, this figure comes mainly as a result of: (1) US\$191 million dollar sales from Banxico to the Federal Government; and (2) a negative revalorization in central bank assets amounting to US\$123 million. In this context, the Central Bank’s international reserves have diminished by US\$2.6 billion this year (please refer to the table on the next page).

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

	2016	Jul 7, 2017	Jul 7, 2017	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,542	173,931	-314	-2,610
(B) Gross international reserve	178,025	175,409	14	-2,616
Pemex	--	--	347	-377
Federal government	--	--	-133	-1,866
Market operations	--	--	0	-2,000
Other	--	--	-200	1,627
(C) Short-term government's liabilities	1,483	1,478	328	-5

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 20-year fixed-rate Mbonos (Nov’36), 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 (EDT).

Auction specifics (Tuesday, July 11, 2017)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	17-Aug-17	--	7,000	6.98
3m	19-Oct-17	--	11,000	7.07
6m	18-Jan-18	--	11,500	7.15
12m	21-Jun-18	--	12,500	7.20
Bondes D				
5y	14-Jul-22	--	3,750	0.19
M Bono				
20y	20-Nov-36	10.00	2,500	7.25
Udibonos				
30y	08-Nov-46	4.00	400	3.49

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

Extraordinary government bond auction. On Wednesday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent-, will offer 182-, 259-, 308-, and 336-day Cetes. The auction will take place at 1:30pm (EDT).

Citibanamex Survey: Market participants will focus on inflation and monetary policy forecasts. On Thursday around 3:30pm (EDT) *Citibanamex* will release its bi-weekly survey of economic expectations, where market participants will focus on analysts' monetary policy assessments given the latest monetary policy minutes, which were published one day after the latest survey. In this regard we are forecasting no more changes in the reference rate through the end of the year.

Furthermore, analysts will also focus on the inflation forecasts for the first half of July (to be published on Monday 24), as well as on CPI estimations for 2017. In addition, *Citibanamex* will also publish consensus' growth and FX forecasts for 2017. In the first case, we do not expect strong revisions to the median GDP forecast. In the second case, we expect some downward revisions to the FX estimates for 2017 after the strong revisions seen in the last survey.

Unemployment rate in June will stand at 3.49%. On Friday (July 21), *INEGI* will publish its unemployment report for the sixth month of 2017, in which we estimate an unemployment rate of 3.49% nsa, below the 3.56% observed in May. In seasonally adjusted terms, we believe that the unemployment rate could stand at 3.48% which implies a marginal 0.02%-pts reduction.

It is likely that June's labor market report will reflect the higher growth dynamics of the Mexico's domestic demand, particularly reflected in the upward trend of services. Looking ahead, we believe that the unemployment rate will hover around this level as a result of: On the positive side: (1) the higher growth of domestic demand –particularly within the services–, will continue to foster the formal labor market; (2) the recovery of external demand will push forward job creation within the manufacturing industry; and on the downside: (3) the downward trend in public spending has translated in a higher number of unemployed workers, which has already affected private investment projects.

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