

Ahead of the Curve

November 4, 2016

Market focus this week will on October's inflation report

- October's inflation report.** On Wednesday, at 9:00am (EDT), *INEGI* will release its monthly inflation report. We are forecasting a 0.58% m/m increase in October (previous: 0.61%). In the core index, we expect a 0.26% increase. Inflation during the period in question will be explained by pressures on energy prices, as summer discounts to electricity tariffs come to an end. In addition, we expect to see some pressure on merchandise prices given the higher pass through from FX depreciation to prices. With these results, annual inflation will stand at 3.04% yoy in October, while core inflation will stand at 3.07% yoy
- Industrial Production.** On Wednesday at 9:00am (EDT), *INEGI* will release its monthly industrial production report. We anticipate a 1.5% yoy reduction in total output during September, after the 0.3% growth in August. Taking a look at the breakdown, manufacturing production could post a 0.9% yoy increase. In addition, we expect a 8.8% yoy reduction in mining output.

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Mexico weekly calendar

DATE	TIME (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS	
Mon 7-Nov	9:00am	Consumer confidence	October	index	<u>82.9</u>	--	84.1	
Mon 7-Nov	4:30pm	Banamex bi-weekly survey of economic expectations						
Tue 8-Nov	10:00am	International reserves	4-Nov	US\$ bn	--	--	175.1	
Tue 8-Nov	12:30pm	Government weekly auction: 1-, 3-, 6-, and 12-month Cetes; 20y MBono (Nov'34); 30y Udibono (Nov'46); 5y Bondes D						
Wed 9-Nov	9:00am	CPI inflation	October	% m/m	<u>0.58</u>	0.65	0.61	
				% yoy	<u>3.04</u>	3.11	2.97	
				Core	% m/m	<u>0.26</u>	0.29	0.19
				% yoy	<u>3.07</u>	--	3.07	
Thu 10-Nov		Wage negotiations	October	%	<u>3.6</u>	--	4.1	
Fri 11-Nov	9:00am	Industrial production (sa)	September	% yoy	<u>-1.5</u>	-0.3	0.3	
				% m/m	<u>-0.4</u>	-0.3	-0.4	
				Mining	% yoy	<u>-8.8</u>	--	-8.1
				Utilities	% yoy	<u>2.2</u>	--	2.9
				Construction	% yoy	<u>-1.8</u>	--	-0.6
				Manufactures	% yoy	<u>0.9</u>	1.3	3.7

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

Consumer confidence will continue to fall in October On Monday at 9:00am (EDT), Banxico and *INEGI* will publish its October's monthly survey on consumer confidence, where we expect a 9.2% yoy contraction, with the index reaching 82.9 points. In seasonally adjusted terms, we expect confidence levels to fall 1.5% m/m.

We believe that the reduction in consumer confidence will be explained by the upward trend in inflation. In particular, we've seen a higher passthrough effect to prices, within the core index. Moreover, we believe that the FX volatility in the last months has also induced a deterioration in inflation expectations, which will probably translate in a lower consumer confidence.

Banamex Survey: Market participants will focus on inflation and monetary policy forecasts. On Monday at 4:30pm (EDT) *Banamex* will release its bi-weekly survey of economic expectations, where market participants will focus on analysts' monetary policy assessments given the more hawkish stance by adopted by the Fed in Wednesday's monetary policy announcement.

In addition, analysts will also focus on the inflation forecasts for October (to be published on Wednesday, November 9), 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.

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\$138 million amounting to US \$175.1 billion on October 28. According to Banxico's report, this figure comes mainly as a result of: (1) Dollar sales by Banxico to the Federal Government for US\$50 million; along with a (2) US\$88 million reduction due to changes in the valuation of the Central Bank's assets. In this context, the Central Bank's international reserves have diminished by US\$1644 million this year (please refer to the table on the next page).

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

	2015	28/Oct/2016	28/Oct/2016	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,735	175,091	-138	-1,644
(B) Gross international reserve	177,597	176,981	-1,310	-615
Pemex	--	--	-1,125	2,818
Federal government	--	--	-18	-447
Market operations	--	--	0	-5,562
Other	--	--	-166	2,576
(C) Short-term government's liabilities	861	1,890	-1,171	1,028

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), 30-year inflation-linked Udibonos (Nov’46), as well as 5-year BondesD, 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, November 8, 2016)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	8-Dec-16	--	5,500	4.75
3m	9-Feb-17	--	9,500	4.91
6m	11-May-17	--	11,000	5.04
12m	9-Nov-17	--	10,000	5.22
Mbono				
20y	23-Nov-34	7.75	2,500	6.47
Udibono				
30y	08-Nov-46	4.00	400	3.46
Bondes D				
5y	15-Sep-21	--	3,000	0.20

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

Inflation in October will be explained by pressures on the price of energy, as summer discounts on electricity tariffs come to an end. On Wednesday, at 9:00am (EDT), *INEGI* will release its monthly inflation report. We are forecasting a 0.58% m/m increase in October (previous: 0.61%). In the core index, we expect a 0.26% increase.

Inflation during the period in question will be explained by pressures on energy prices, as summer discounts to electricity tariffs come to an end. In addition, we expect to see some pressure on merchandise prices given the higher pass through from FX depreciation to prices. With these results, annual inflation will stand at 3.04% yoy in October, while core inflation will stand at 3.07% yoy.

Inflation by components in October

% monthly incidence

	2016	2015	Difference
Headline	0.58	0.51	0.07
Core	0.19	0.19	0.00
Goods	0.12	0.12	0.00
Processed foods	0.07	0.06	0.01
Other goods	0.05	0.06	-0.01
Services	0.08	0.07	0.01
Housing	0.03	0.02	0.01
Education	0.00	0.00	0.00
Other services	0.04	0.05	-0.01
Non-core	0.40	0.33	0.07
Agricultural	0.00	0.00	-0.009
Fresh fruits and vegetables	-0.01	0.02	-0.04
Meat and egg	0.01	-0.02	0.03
Energy and government regulated	0.41	0.34	0.08
Energy	0.41	0.33	0.08
Government regulated	0.01	0.01	0.00

Source: Banorte-ixe and INEGI

October's wage negotiations. On Thursday, the Ministry of Labor (STPS) will make its contractual wage negotiations monthly data available. We anticipate workers to have negotiated an annual average wage increase of 3.6% in October, below the 4.2% average observed year-to-date. In this regard, we believe that October's figure was mainly driven by the increase in wages within the Social Security Workers Syndicate and the National Autonomous University of Mexico Workers Syndicate.

We expect a 1.5% yoy contraction in September's industrial output. On Wednesday at 9:00am (EDT), *INEGI* will release its monthly industrial production report. We anticipate a 1.5% yoy reduction in total output during September, after the 0.3% growth in August.

Taking a look at the breakdown, manufacturing production could post a 0.9% yoy increase, explained by: (1) the 0.7% yoy expansion in the US manufacturing sector (NAICS, original figures); (2) the moderate 2.4% yoy increase in Mexico's vehicle production; (3) the higher growth in the production sub-index within *IMEF's* PMI survey; and (4) the 0.7% yoy growth in manufacturing exports.

In addition, the 1.5% yoy contraction in industrial output during September will be also explained by the poor performance of mining activity. In this regard, we expect a 8.8% yoy reduction derived from lower oil production and the reduction in the extraction of other minerals. Finally, we believe that construction output will show a 1.8% contraction given the lower growth in private construction investment projects, coupled with the reduction in public infrastructure spending, given the recent fiscal cuts implemented by the Federal Government.

Industrial production estimates: September 2016

%yoy	Sep-16	Sep-15	Jan-Sep, '16	Jan-Sep, '15
Total	-1.5	1.8	0.1	1.2
Mining	-8.8	-5.1	-5.1	-6.3
Utilities	2.2	4.1	3.9	4.2
Construction	-1.8	3.6	1.1	3.7
Manufacturing	0.9	3.6	1.3	3.0

%m/m sa	Sep-16	Aug-16	Difference
Total	-0.4	-0.4	-0.1
Mining	-1.0	-1.7	0.7
Utilities	0.0	-1.0	1.1
Construction	-0.5	-0.8	0.3
Manufacturing	-0.4	0.2	-0.6

Source: Banorte-Ixe

Disclaimer

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