

Ahead of the Curve

November 13, 2015

Market focus this week will on Mexico's GDP report

- GDP will show a 2.5% yoy expansion in 3Q15.** Next Friday, at 9:00am (EST), *INEGI* will publish its GDP report for the third quarter of 2015, where we expect a 2.5% yoy expansion, marginally above the 2.4% yoy estimated by *INEGI* in their preliminary report. In seasonally adjusted terms, we expect a 0.7% q/q expansion during 3Q15. Taking a look at the breakdown, we believe that the services sector will show a 3.2% yoy expansion, which would be marginally above the 3.1% yoy growth observed in the previous quarter. Regarding industrial activities, manufacturing output expanded 2.8% yoy as a result of the lower growth in the U.S. manufacturing sector. Moreover, the current recession in the mining industry (-5.6% yoy) –derived from the significant contraction in Mexico's oil production– has limited the recovery of industrial activity, which we believe grew 1.2% yoy in 3Q15
- We expect a 2.8% yoy expansion in September's IGAE.** Also on Friday, at 9:00am (EST), *INEGI* will release its monthly global economic indicator for September (monthly proxy for the GDP). We expect a 2.8% yoy expansion of economic activity (0.1% m/m). As we had mentioned in our last IP report, the 1.7% growth in industrial production during September was explained in part by the 3.3% yoy expansion in manufacturing output. Moreover, construction increased 4% yoy as a result of the expansion in private investment projects. Moreover, we believe that September's growth was driven by the performance of the service sector, which we forecast at 3.4% yoy

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Document for distribution among the general public

Mexico weekly calendar

DATE	TIME (EST)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 16-Nov		Banking holiday: Mexican Revolution					
Tue 17-Nov	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 3y Mbono (Dec'18); 3y Udibonos (Jun'19)					
Wed 18-Nov	10:00am	International reserves	13-Nov	US\$ bn	--	--	174.1
Fri 20-Nov	9:00am	GDP	3Q15	% yoy	2.5	2.4	2.2
		(sa)		% q/q	0.7	0.6	-0.7
		Primary activities		% yoy	2.8	--	2.7
		Industrial production		% yoy	1.2	--	0.5
		Services		% yoy	3.2	--	3.1
Fri 20-Nov	9:00am	Global economic indicator	September	% yoy	2.8	2.6	2.6
		(sa)		% m/m	0.1	--	-0.5
		Primary activities		% yoy	1.5	--	8.1
		Industrial production		% yoy	1.7	--	1.0
		Services		% yoy	3.4	--	3.3
Fri 20-Nov	4:30pm	Banamex bi-weekly survey of economic expectations					

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

Weekly government bond auction. On Tuesday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent-, will offer 3-year fixed-rate Mbonos (Dec’18) as well as 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 (EST).

Auction specifics (Tuesday, November 17, 2015)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	17-Dec-15	--	5,500	3.00
3m	18-Feb-16	--	9,500	3.22
6m	12-Dec-16	--	11,000	3.47
Mbono				
3y	13-Dec-18	8.50	9,000	4.60
Udibono				
3y	13-Jun-19	4.00	850	1.56

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

Weekly international reserves report. On Wednesday, at 10:00am (EST), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US\$1,474mn amounting to US \$174.1bn on November 6. According to Banxico’s report, this figure comes mainly as a result of: (1) Dollar sales by the Central Bank to the Federal Government for US\$31mn; (2) US\$800mn decrease explained by the introduction of Banxico’s USD daily auction without minimum price and US\$200mn with minimum price; along with a (3) US\$443mn reduction 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 an accumulated reduction of US\$19,149mn international reserves this year (please refer to the table below).

Banxico's foreign reserve accumulation details

US\$, million

	2014	6/Nov/2015	6/Nov/2015	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	193,239	174,090	-1,474	-19,149
(B) Gross international reserve	195,682	175,642	-1,483	-20,040
Pemex	--	--	192	2,883
Federal govt	--	--	-73	-1,115
Market operations	--	--	-1,000	-21,005
Other	--	--	-603	-803
(C) Short-term government's liabilities	2,443	1,551	-9	-892

Source: Banco de México

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Taking a look at the breakdown, we believe that the services sector will show a 3.2% yoy expansion, which would be marginally above the 3.1% yoy growth observed in the previous quarter. We highlight that we have seen a significant recovery in several of the indicators associated with household spending. In particular, the creation of jobs in the formal sector during the period in question has been significantly higher, while trade has begun to show clear signs of acceleration. However, we believe that the lower growth in the Mexican manufacturing industry will have a negative impact on other services associated with this sector, such as transportation.

Regarding industrial activities, manufacturing output expanded 2.8% yoy as a result of the lower growth in the U.S. manufacturing sector, which led to a deceleration of Mexico's manufacturing output and exports. Moreover, construction output grew 3.5% yoy, as result of a significant downturn in non-residential construction, and the recovery in household's spending, which reflected in the exceptional performance of construction in the residential sector. However, the current recession in the mining industry (-5.6% yoy) –derived from the significant contraction in Mexico's oil production– has limited the recovery of industrial activity, which we believe grew 1.2% yoy in 3Q15.

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As we had mentioned in our last IP report, the 1.7% growth in industrial production during September was explained in part by the 3.3% yoy expansion in manufacturing output. Moreover, construction increased 4% yoy as a result of the increase in private investment projects. In this regard, we believe that construction output will show better growth prospects given the higher expectations that prevail today in most of Mexico's private firms regarding economic growth. Similarly, the recovery of households' purchasing power - given the lower inflation levels and the recovery of the Mexican labor market- has led to a significant expansion in residential construction which will continue throughout the second half of the year. Finally, given the fall in Mexico's oil production, mining activity posted a 5.1% yoy reduction.

As we already explained in the GDP section, we believe that growth in September was driven by the performance of the service sector, which we forecast at 3.4% yoy. We highlight that trade has begun to show clear signs of acceleration. Finally, for the agricultural sector, we estimate a 1.5% yoy expansion.

***Banamex* Survey: Market participants will focus on analysts' monetary policy assessments.** On Friday at 4:30pm (EST) *Banamex* will release its bi-weekly survey of economic expectations, where market participants will focus on analysts' monetary policy assessments after Banxico's decision. In the last survey published by *Banamex* 15 out of 24 analysts surveyed expected a rate hike in 2015. Furthermore, analysts will also focus on November's first half inflation forecast (to be published on Tuesday November 24), as well as on CPI estimations for 2015 and 2016. Moreover, we expect moderate downward revisions to the economic growth estimates for 2015 and 2016.

Disclaimer

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