

# The CRE outlines price liberalization calendar

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- **The Energy Regulating Commission (CRE) approved the timeline for the liberalization of gasoline and diesel markets**
- **This plan will be done in two stages for the five different regions**
- **The process will start in the Northwestern states of Baja California and Sonora (March 30, 2017)**
- **The Ministry of Finance (MoF) will establish as of January 1<sup>st</sup>, 2017 the maximum prices in the regions were prices have not yet been liberalized**
- **Meanwhile, the Ministry of Energy presented the program Minimum Storage of Oil**
- **These measures are in line with our estimated 50bp impact on inflation from gasoline price liberalization in 2017**
- **Today's announcement validates the concerns for higher inflation in 2017 but benefits our trade ideas in CPI-linked Udibonos**

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**The Energy Regulating Commission (CRE) approved the timeline for the liberalization of gasoline and diesel markets.** Today, the CRE announced the timeline with which the gasoline and diesel markets will be liberalized. The plan includes two stages: (1) The announcement of the winners of the “open season”, which consists of the use of Pemex’s infrastructure and resources by third parties; and (2) the liberalization of the price of gasoline and diesel. This process will be carried out gradually in five different regions, beginning in the Northwest (Baja California and Sonora) and ending in the peninsular states (Campeche, Quintana Roo and Yucatan), as shown in the table below.

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**Timeline for the liberalization of gasoline and diesel prices**

Region	States	“Open season” winners announcement	Price liberalization
Northwest	Baja California and Sonora	15-Feb-17	30-Mar-17
North	Chihuahua, Coahuila, Nuevo Leon, Tamaulipas and Gomez Palacio, Durango	1-May-17	15-Jun-17
West	Baja California Sur, Durango and Sinaloa	14-Sep-17	30-Oct-17
Center / South	Aguascalientes, Mexico City, Colima, Chiapas, State of Mexico, Guanajuato, Hidalgo, Jalisco, Michoacán, Morelos, Nayarit, Puebla, Querétaro, San Luis Potosí, Oaxaca, Tabasco, Tlaxcala, Veracruz and Zacatecas	16-Oct-17	30-Nov-17
Peninsular	Campeche, Quintana Roo and Yucatan	15-Nov-17	30-Dec-17

Source: Energy Regulating Commission

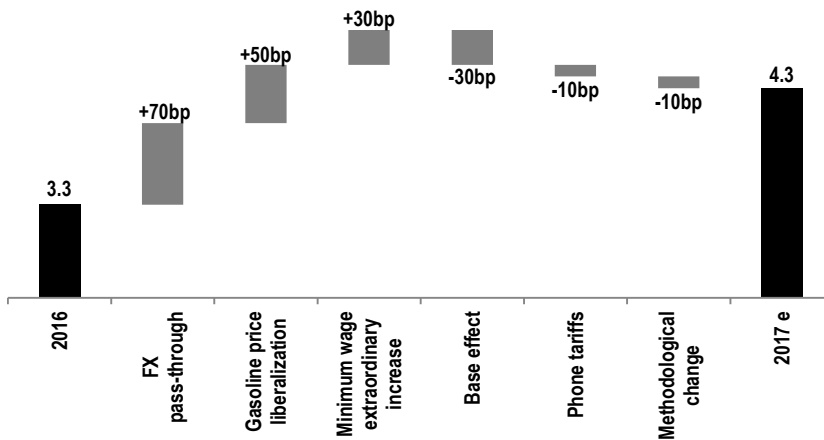
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**The Ministry of Finance (MoF) will establish as of January 1st, 2017 the maximum prices in the regions were prices have not yet been liberalized.** In addition, the Energy Regulatory Commission (CRE) will implement a system of monitoring prices in order to observe compliance with the established limit.

**Meanwhile, the Ministry of Energy presented the program Minimum Storage of Oil.** This program aims to increase energy stability by establishing minimum volume of storage of fuel, diesel and jet fuel. The storage volumes will grow from 5 to 10 and 15 days of national demand, from 2019 to 2021 and 2025, respectively. The stored inventory would be used only in extraordinary cases and under orders of the Coordinating Council of the Energy Sector.

**These measures are in line with our estimated 50bp impact on inflation from gasoline price liberalization in 2017.** Our 4.3% y/y estimate for year-end also includes a 70bps impact from increased pass-through from exchange rate depreciation, along with 30bp from the increase in the minimum wage. Nevertheless, we expect the base effect to subtract 30bps, while competition in telecommunication service as well as the change in methodology will result in a further reduction of 10bps respectively, as shown in the following chart.

**Inflation forecast 2017**  
%



Source: Banorte-IXE

*From our fixed income and FX strategy team*

**Today's announcement validates the concerns for higher inflation in 2017 but benefits our trade ideas in CPI-linked Udibonos.** Inflation next year could be severely impacted by three factors, mainly: (1) An additional pass-through effect from peso weakness to prices, (2) gasoline price liberalization, and (3) the increase in minimum wages. We forecast 2016 year-end inflation at 3.3%, finishing 2017 at 4.3%. For details, see: "*Inflation 2017 – Increase in minimum wage will have a small, but not negligible effect*" <[pdf](#)>, December 8, 2016. This has already impacted inflation forecasts among private-sector analysts and market breakevens, trading around 3.1% a month ago in almost all tenors and currently hovering around 4.0%. The latest surveys show a pickup in inflation forecasts near 4.0%yoy from a previous range between 3.2%-3.4%. In the same vein, Banxico has adjusted its inflation forecasts for 2017. Considering the latter we reiterate our recommendation of long positions in Udibonos Jun'19, Dec'20, and Jun'22.

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