

Ahead of the Curve

We expect industrial production in January to remain weak on both mining and construction

- Industrial production (January).** We anticipate weakness in industrial activity to extend to the first month of the year, estimating a 2.4% yoy decline, marginally above the -2.5% observed in December. With seasonally-adjusted figures this implies a slight increase of 0.1% m/m after three consecutive months in contraction. In our view, a rebound in manufacturing (+1.8% yoy) will not be enough to compensate for weakness in both mining (-12.6%) and construction (-4.4%). Moreover, we expect performance to be hindered by disruption in supply chains due to railway blockades, delays in gas distribution and strikes during the period

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 Document for distribution among the
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Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Tue 12-Mar	11:00am	International reserves	Mar-9	US\$ bn	--	--	175.6
Tue 12-Mar	1:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 30y MBono (Nov'47); 5y Bondes D					
Wed 13-Mar	10:00am	Industrial production	January	% yoy	-2.4	--	-2.5
		(sa)		% m/m	0.1	--	-0.4
		Mining		% yoy	-12.6	--	-8.4
		Utilities		% yoy	-0.3	--	-1.4
		Construction		% yoy	-4.4	--	-3.9
		Manufacturing		% yoy	1.8	--	0.2

Source: Banorte; Bloomberg

Proceeding in chronological order...

Weekly international reserves report. Last week, net international reserves fell by US\$48 million, closing at US\$175.6 billion. According to Banxico's report, this figure comes mainly from a negative valuation effect in central bank assets. In this context, the central bank's international reserves have increased US\$854 million during 2019 (please refer to the following table).

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

	2018	Mar 1, 2019	Mar 1, 2019	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	174,793	175,646	-48	854
(B) Gross international reserve	176,384	181,317	762	4,933
Pemex	--	--	180	214
Federal government	--	--	245	3,829
Market operations	--	--	0	0
Other	--	--	337	891
(C) Short-term government's liabilities	1,592	5,671	809	4,079

Source: Banco de México

Weekly government bond auction. The Ministry of Finance (MoF) –via Banco de Mexico as its financial agent, will offer 30-year fixed-rate Mbonos (Nov'47), 5-year Bondes D, in addition to the “traditional” 1-, 3-, and 6-month zero-coupon Cetes (please refer to the following table). As usual, results will be released at 12:30pm (ET).

Auction specifics (Tuesday, March 12th, 2019)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	11-Apr-19	--	5,000	8.00
3m	13-Jun-19	--	5,000	8.08
6m	12-Sep-19	--	10,500	8.16
Bondes D				
5y	29-Feb-24	--	5,500	0.14
Mbonos				
30y	07-Nov-47	8.00	3,700	8.69

Source: Banorte 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

Weak industrial production in January on mining and construction. We estimate a 2.4% yoy contraction, marginally above the -2.5% seen in December. With seasonally-adjusted figures, this would imply a modest expansion of 0.1% m/m after three consecutive months declining. In our view, a rebound in manufacturing will not be enough to compensate for weakness in both mining and construction. Moreover, performance could be hindered by the disruption to supply chains due to railway blockades, delays in fuel distribution and strikes during the period.

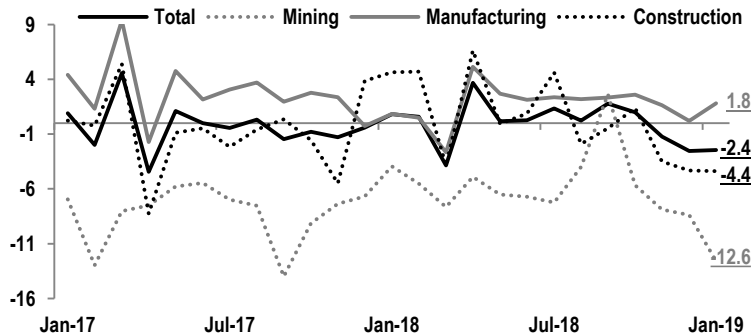
In mining, we anticipate a strong 12.6% yoy contraction, weakest since September 2017 when natural disasters impacted production. In this respect, Pemex's crude-oil production plunged 15% yoy to 1,641 thousand barrels per day, lowest since at least 30 years, while natural gas extraction fell 5.3%.

Moreover, we forecast non-oil mining to decline 2.5%, with a sequential improvement but extending the fall observed since mid-2018. We estimate construction at -4.4%. We highlight that employment growth in this sector has decelerated for several months, with the annual rate reaching a low since October 2013. Moreover, business confidence in the sector also declined, with the index also at its weakest since mid-2018. In this context, we anticipate both sectors to start the year on a relatively weak footing.

In contrast, information from manufacturing has been more positive after the 0.7% m/m contraction observed in December. We estimate a 1.8% yoy increase for the month (+1.0% m/m). In particular, auto production rebounded strongly at 9.8% yoy, industrial activity in the US has remained relatively dynamic (+3.2%) and employment keeps growing at a stable rate, up 4.4% and not moderating significantly even after the minimum wage hike since the start of the year. On the other hand, intermediate-goods imports improved after plunging at the end of last year. Last but not least, and although the *IMEF* manufacturing index improved and left contraction territory, this was due to the rebound in the new orders and employment components more than making up for the fall in deliveries, inventories and, to a lesser extent, production. In our view, this suggests that overall demand conditions were more favorable but that an impact was indeed felt due to the transitory factors mentioned above. Therefore, we expect a better performance relative to December, but with more modest growth when compared to 2Q and 3Q18.

Industrial production

% yoy



Source: INEGI, Banorte

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