

Ahead of the Curve

March 31, 2017

Market focus this week will be on March's consumer confidence and inflation report

- Consumer confidence (March).** On Wednesday at 9:00am (EDT), Banxico and *INEGI* will publish its March's monthly survey on consumer confidence, where we expect a 9.8% yoy contraction, with the index reaching 80.5 points, above February's 75.7 points. In seasonally adjusted terms, we expect confidence levels to increase 2.1% m/m. We believe that the 2.1% m/m growth in consumer confidence will be explained by the appreciation of the Mexican currency coupled with the static behavior of gasoline prices.
- Monthly inflation report (March).** On Thursday, at 9:00am, *INEGI* will release its monthly inflation report for March. We are forecasting a 0.58% m/m increase in the headline index (consensus: 0.57% m/m), while we expect the core index to rise 0.54% m/m (consensus 0.50% m/m). Inflation during the period in question will be explained by pressures in fresh fruits and vegetables prices, mainly driven by the increase seen in the first half of the month in the price of tomatoes. With these results, annual inflation will stand at 5.32% in March (previous: 4.86% yoy), while core inflation will be at 4.44% (previous: 4.26% yoy).

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Mexico weekly calendar

DATE	TIME (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Sun 2-Apr		Mexico's begins Daylight Saving Time (DST)			-		
Mon 3-Apr	10:00am	Family remittances	February	US\$ mn	<u>2,193.5</u>	<u>2,152.5</u>	2,055.2
Mon 3-Apr	10:00am	Banxico's survey of economic expectations	March				
Mon 3-Apr	1:00pm	PMI's survey (IMEF)	March				
		Manufacturing		index	<u>46.8</u>	<u>48.0</u>	46.8
		Non-manufacturing		index	<u>46.8</u>	<u>48.8</u>	46.2
Tue 4-Apr	10:00am	International reserves	Mar-31	US\$ bn	--	--	175.0
Tue 4-Apr	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 3y MBono (Jun'20); 3y Udibonos (Dec'20)					
Wed 5-Apr	9:00am	Gross fixed investment	January	% yoy	<u>-0.8</u>	<u>0.9</u>	0.9
		Machinery and equipment		% yoy	<u>4.7</u>	--	2.3
		Domestic		% yoy	<u>8.0</u>	--	10.0
		Imported		% yoy	<u>3.1</u>	--	-2.1
		Construction		% yoy	<u>-4.1</u>	--	0.0
Wed 5-Apr	9:00am	Consumer confidence	March	index	<u>80.5</u>	<u>73.2</u>	75.7
Wed 5-Apr	1:45pm	New 10y Udibono (Nov'28) syndicated auction					
Wed 5-Apr	4:30pm	Citibanamex bi-weekly survey of economic expectations					
Thu 6-Apr	9:30am	Cetes extraordinary auction (175-, 273-, and 364-day securities)					
Fri 7-Apr	9:00am	CPI inflation	March	% m/m	<u>0.58</u>	<u>0.58</u>	0.58
				% yoy	<u>5.32</u>	<u>5.31</u>	4.86
		Core		% m/m	<u>0.54</u>	<u>0.52</u>	0.76
				% yoy	<u>4.44</u>	--	4.26

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

On the logistics side, Mexico will begin its Daylight Saving Time. Before we start with next week's description, we highlight that on Sunday April 2, Mexico will begin its Daylight Saving Time (DST), which implies that Mexico City will once again have a one-hour difference with EDT.

Family remittances will post a 5.4% yoy expansion in February. On Monday, at 10:00am (EDT), Banxico will make its family remittances monthly data available. We expect Mexican workers living abroad -mainly in the US-, to have sent US\$2,193.5 million to their families in Mexico during February. This would imply a 5.4% yoy expansion.

We believe that the expansion in the flow of remittances during February will be determined by Immigration policy implemented in the US, since Mexican migrants without citizenship are probably discounting a higher probability of being deported. In this context, we consider that the flow of remittances during the next couple of months will be also determined by this factor.

Banxico's survey of economic expectations. On Tuesday at 10:00am (EDT), Banco de Mexico will publish its monthly survey of economic expectations. The report is particularly relevant considering the recent 25bps hike to the reference rate. In this context, we now forecast two 25bps increases in the reference rate, in tandem with the Fed, for the remainder of the year (September and December).

Moreover, we expect marginal revisions to FX forecasts, which we now believe to stand at USD/MXN19.50 by YE17. Moreover, market participants will focus will be on 2017 inflation expectations that currently are at 5.4% (Banorte-Ixe: 5.7%) and the analysts' assessments of GDP growth for 2017 which stands at 1.6% yoy, above our 1.1% yoy forecast.

March's PMI surveys. Also on Monday, *IMEF* (Mexican Institute of Financial Executives) will publish its PMI business confidence indicators for March. We expect manufacturing PMI at 46.8, in line with February's figure (seasonally adjusted terms). We believe that the null growth in the manufacturing PMI during March will be explained by the uncertainty regarding the prospects of the Mexican manufacturing industry under Trump's economic policies. We think that this uncertainty will mainly be seen in the new orders and production sub-components.

In addition, we believe that the non-manufacturing PMI will stand at 46.8 points from 46.2 points. Despite March's marginal increase –which will be explained by the recovery in consumer confidence– the headline index will stand well below the 50 points threshold. In this regard, we believe that the lower growth prospects for the overall economy will also translate into a lower growth outlook for the construction and services industries, which encompass most of the firms measured in *IMEF's* non-manufacturing survey.

Weekly international reserves report. On Tuesday, at 10:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves increased by US\$190 million amounting to US\$175 billion. According to Banxico's report, this figure comes mainly as a result of: changes in valuation of the Central Bank's assets. In this context, the Central Bank's international reserves have diminished by US\$1.5 billion this year (please refer to the table below).

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

	2016	Mar 24, 2017	Mar 24, 2017	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,542	175,015	190	-1,527
(B) Gross international reserve	178,025	177,008	-323	-1,017
Pemex	--	--	-657	-501
Federal government	--	--	-83	-154
Market operations	--	--	0	-2,000
Other	--	--	416	1,638
(C) Short-term government's liabilities	1,483	1,993	-513	510

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 3-year fixed-rate Mbonos (Jun'20), as well as 3-year inflation-linked Udibonos (Dec'20), 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 (EDT).

Auction specifics (Tuesday, April 4, 2017)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	4-May-17	--	7,000	6.43
3m	6-Jul-17	--	11,000	6.65
6m	28-Sep-17	--	11,500	6.81
M Bono				
3y	11-Jun-20	8.00	8,500	7.04
Udibonos				
3y	20-Dec-20	2.50	800	2.92

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

March's consumer confidence will continue to recover. On Wednesday at 9:00am (EDT), Banxico and *INEGI* will publish its March's monthly survey on consumer confidence, where we expect a 9.8% yoy contraction, with the index reaching 80.5 points, above February's 75.7 points. In seasonally adjusted terms, we expect confidence levels to increase 2.1% m/m.

We believe that the 2.1% m/m growth in consumer confidence will be explained by the appreciation of the Mexican currency coupled with the static behavior of gasoline prices. However, despite March's expected increase, consumer confidence will be subdued by the following factors: (1) Lower private consumption, as a result of the deceleration of the Mexican economy; (2) lower investment given the uncertainty surrounding the impact Trump's economic policies on the Mexican economy, particularly through our trade relationship with the US; and (3) higher inflation stemming from the still depreciated Mexican currency and the liberalization of gasoline prices.

We expect a 0.8% yoy contraction in January's GFI. Also on Wednesday, at 9:00am (EDT), *INEGI* will publish its January's gross fixed investment (GFI) report. We anticipate GFI down by 0.8% yoy. We believe that within the report we will probably see a 3.1% yoy expansion in imported machinery and equipment, given that trade balance figures showed a similar growth for capital goods imports. Moreover, we expect a 8% growth in domestic machinery and equipment. Finally, we believe that construction spending posted a 4.1% yoy contraction derived from the lower public construction spending observed in the latest industrial production figures.

GFI forecasts

% yoy; %-pts

%yoy	Jan-17	Jan-16	Jan-Dec, '16	Jan-Dec, '15
Total	-0.8	0.0	0.4	4.2
Machinery and equipment	4.7	-2.5	1.2	8.5
Domestic	8.0	8.6	9.2	9.6
Imported	3.1	-7.3	-2.5	8.1
Construction	-4.1	1.6	-0.1	1.6
Annual contribution	Jan-17	Jan-16	Difference	
Total	-0.8	0.0	-0.8	
Machinery and equipment	1.8	-1.0	2.8	
Domestic	1.0	1.0	0.0	
Imported	0.8	-2.0	2.7	
Construction	-2.6	1.0	-3.5	

Source: Banorte-Ixe

Syndicated bond auction. On Wednesday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent-, will offer 10-year inflation-linked Udibonos (Nov'28) amounting up to 3bn UDIS. The bidding will take place between 1:30pm and 2:00pm.

Citibanamex Survey: Market participants will focus on inflation and monetary policy forecasts. On Wednesday around 4:30pm (EDT) *Citibanamex* will release its bi-weekly survey of economic expectations, where market participants will focus on analysts' monetary policy assessments for the remainder of 2017, given the 25bps hike in Banxico's, reference rate.

Furthermore, analysts will also focus on the inflation forecasts for March (to be published on Friday, April 7), 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 moderate downward revisions to the FX estimates for 2017.

Monetary regulation bond auction. On Thursday, 6, 9, and 12 month zero-coupon Cetes will be auctioned amounting up to MXN20bn. The bidding will take place between 9:30am and 10:00am.

Inflation during March will be explained by pressures in fresh fruits and vegetables and goods prices. On Thursday, at 9:00am, *INEGI* will release its monthly inflation report for March. We are forecasting a 0.58% m/m increase in the headline index (consensus: 0.57% m/m), while we expect the core index to rise 0.54% m/m (consensus 0.50% m/m).

Inflation during the period in question will be explained by pressures in fresh fruits and vegetables prices, mainly driven by the increase seen in the first half of the month in the price of tomatoes. Moreover, we believe the goods component to also contribute to inflation given the accumulated depreciation of the exchange rate in recent months.

We expect inflation to be 43bp higher than the observed in same period last year, derived from: (1) 27bp from a higher contribution of fruits and vegetables (16bp vs. -11bp in 2016); (2) 8bp derived from a higher contribution of prices of other goods (15bp vs. 7bp in 2016); and (3) 6bp derived from a higher contribution of prices of processed foods (12bp vs. 12.5bp in 2016), as shown in the table below, as shown in the table below.

With these results, annual inflation will stand at 5.32% in March (previous: 4.86% yoy), while core inflation will be at 4.44% (previous: 4.26% yoy). Moving forward, we will be attentive to the evolution of energy prices given the beginning of the US driving season.

March CPI inflation forecast by major subcomponent
 %, monthly incidence

	2017	2016	Difference
Headline	0.58	0.15	0.43
Core	0.40	0.27	0.13
Goods	0.26	0.12	0.14
Processed foods	0.12	0.05	0.06
Other goods	0.15	0.07	0.08
Services	0.14	0.15	-0.01
Housing	0.04	0.04	0.00
Education	0.00	0.00	0.00
Other services	0.09	0.11	-0.02
Non-core	0.18	-0.13	0.31
Agricultural	0.18	-0.10	0.274
Fresh fruits and vegetables	0.16	-0.11	0.27
Meat and egg	0.01	0.01	0.00
Energy and government regulated	0.00	-0.03	0.03
Energy	-0.02	-0.03	0.01
Government regulated	0.02	0.00	0.02

Source: Banorte-Ixe, INEGI

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