

Ahead of the Curve

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Market focus this week will be on inflation for the first half of March and January's IGAE

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- Bi-weekly inflation report (1H-Mar).** On Thursday, at 9:00am, *INEGI* will release its bi-weekly inflation report for the first half of March. We are forecasting a 0.35% 2w/2w increase in the headline index, while we expect the core index to rise 0.24% 2w/2w. Inflation during the period in question will be mainly explained by increases in the price of fresh fruits and vegetables, particularly tomatoes. Moreover, gasoline prices will continue their upward trend. With these results, annual inflation will stand at 5.23% in the first half of March, marginally lower than the 5.34% seen in February. Moreover, we forecast core inflation at 4.15% yoy (previous: 4.27% yoy).
- Economic activity IGAE (January).** On Friday, *INEGI* will also release its monthly economic activity indicator for January (GDP monthly proxy), where we expect a 2.03% yoy expansion, above December's 1.14% growth. As we had mentioned in our last report, IP's marginal expansion in January was explained by the 4% yoy increase in construction output while mining output edged-down 5% yoy. In addition, manufacturing output increased a scant 1.7% yoy. Moreover, we believe that services will show a 2.9% yoy expansion, as a result of the positive trend in the formal labor market coupled with an above-trend growth in banking credit.

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Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 19-Mar		Banking holiday: Anniversary of the birth of Benito Juarez					
Tue 20-Mar	1:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 5y Mbono (Jun'22); 10y Udibonos (Nov'28)					
Tue 20-Mar	4:30pm	Citibanamex bi-weekly survey of economic expectations					
Wed 21-Mar	10:00am	Aggregate Demand	4Q17	% yoy	<u>2.1</u>	--	2.5
		Private consumption		% yoy	<u>2.2</u>	--	3.1
		Government consumption		% yoy	<u>0.5</u>	--	-1.0
		Gross-fixed investment		% yoy	<u>-2.4</u>	--	-0.8
Wed 21-Mar	11:00am	International reserves	16-mar	US\$ bn	--	--	173.0
Thu 22-Mar	10:00am	CPI inflation	1H-Mar	% 2w/2w	<u>0.35</u>	--	0.04
				% yoy	<u>5.23</u>	--	5.23
		Core		% 2w/2w	<u>0.24</u>	--	0.14
				% yoy	<u>4.15</u>	--	4.23
Fri 23-Mar	10:00am	Global economic indicator (sa)	January	% yoy	<u>2.03</u>	--	1.1
				% m/m	<u>0.3</u>	--	0.7
		Primary activities		% yoy	<u>-3.7</u>	--	2.1
		Industrial production		% yoy	<u>0.9</u>	--	-0.7
		Services		% yoy	<u>2.9</u>	--	1.9

Source: Banorte; 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 5-year fixed rate Mbonos (Jun’22), 10-year inflation-linked Udibonos (Nov’28), 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 1:30pm (ET).

Auction specifics (Tuesday, March 13, 2018)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²	
Cetes					
	1m	19-Apr-18	--	7,000	7.46
	3m	21-Jun-18	--	11,000	7.64
	6m	13-Sep-18	--	11,500	7.80
M Bono					
	5y	09-Jun-22	6.50	8,500	7.65
Udibonos					
	10y	30-Nov-28	4.00	UDIS 700	3.78

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

Citibanamex Survey: Market participants will focus on inflation and monetary policy forecasts. Also on Tuesday around 4:30pm (ET) *Citibanamex* will release its bi-weekly survey of economic expectations, where focus will be on analysts’ inflation forecasts for the first half of March (to be published on March 22). Furthermore, attention will be on monetary policy assessments, given the publication of the last *Quarterly Inflation Report*. In addition, the survey will also contain forecasts for growth and FX estimations. In the first case, we do not expect strong revisions to the median GDP forecast for 2018. In the second case, we expect marginally downward revisions given the latest performance of the Mexican peso.

We estimate a 2.1% yoy expansion in aggregate demand during 4Q17. On Wednesday at 10:00am (ET), *INEGI* will publish its aggregate supply and demand report, where we believe aggregate demand increased 2.1% yoy in the fourth quarter of the year vs. the 2.5% yoy expansion observed in the previous quarter.

Taking a look at the breakdown, we expect a 2.2% yoy increase in private consumption, while we estimate a 2.4% yoy contraction for gross fixed investment. Moreover, we believe that government spending will likely show a marginal 0.5% yoy increase given the fiscal cuts implemented by the federal government.

Weekly international reserves report. Additionally on Wednesday, at 11:00am (ET), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US\$12 million amounting to US\$173 billion. According to Banxico's report, this figure comes mainly as a result of a negative valuation effect in central bank assets. In this context, the Central Bank's international reserves have increased by US\$191 million during 2018 (please refer to the table below).

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

	2017	Mar 9, 2018	Mar 9, 2018	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	172,802	172,993	-12	191
(B) Gross international reserve	175,450	176,848	-167	1,398
Pemex	--	--	143	-346
Federal government	--	--	-184	1,897
Market operations	--	--	0	0
Other	--	--	-127	-153
(C) Short-term government's liabilities	2,648	3,856	-155	1,208

Source: Banco de México

Inflation during the first half of March will be explained by increases in the prices of fresh fruits, particularly tomatoes. On Thursday, at 9:00am, *INEGI* will release its bi-weekly inflation report for the first half of March. We are forecasting a 0.35% 2w/2w increase in the headline index, while we expect the core index to rise 0.24% 2w/2w.

Inflation during the period in question will be mainly explained by increases in the price of fresh fruits and vegetables, particularly tomatoes. Moreover, gasoline prices will continue their upward trend.

We forecast inflation to be practically in line when compared to the same period of last year. However, we expect certain differences in the following components: (1) energy (7bps vs. -2bps in 2017); (2) other goods (4bps vs. 9bps in 2017); (3) fresh fruits and vegetables (8bps vs. 13bps in 2017); (4) processed foods (3bps vs. 6bps in 2017); and (5) other services (9bps vs. 6bps. in 2017), as shown in the table on the following page.

With these results, annual inflation will stand at 5.23% in the first half of March, marginally lower than the 5.34% seen in February. Moreover, we forecast core inflation at 4.15% yoy (previous: 4.27% yoy). Moving forward, we will focus on the evolution of energy prices and the behavior of agricultural prices, and the impact they might have in Mexico's CPI.

1H-March inflation by components

% Bi-weekly incidence

	2018 F	2017	Difference
Headline	0.35	0.35	-0.01
Core	0.18	0.23	-0.05
Goods	0.06	0.15	-0.09
Processed foods	0.03	0.06	-0.03
Other goods	0.04	0.09	-0.06
Services	0.12	0.08	0.03
Housing	0.03	0.02	0.00
Education	0.00	0.00	0.00
Other services	0.09	0.06	0.03
Non-core	0.17	0.12	0.05
Agricultural	0.10	0.13	-0.03
Fresh fruits and vegetables	0.08	0.13	-0.05
Meat and egg	0.02	0.00	0.02
Energy and government regulated	0.07	-0.01	0.08
Energy	0.07	-0.02	0.10
Government regulated	0.00	0.01	-0.01

Source: Banorte, INEGI

We expect a 2.03% yoy expansion in January's IGAE. On Friday, *INEGI* will also release its monthly economic activity indicator for January (GDP monthly proxy), where we expect a 2.03% yoy expansion, above December's 1.14% growth.

As we had mentioned in our last report, IP's marginal expansion in January was explained by the 4% yoy increase in construction output as a result of the 5.5% expansion in building projects, whereas public civil engineering construction projects declined 5.6% yoy, given the austerity program implemented by the Federal Government. By contrast, mining output edged-down 5% yoy, derived from the 5.4% reduction in oil and gas production. In addition, manufacturing output increased a scant 1.7% yoy, as a result of the 27% yoy reduction in the fabrication of oil and carbon-based products. Nevertheless, vehicle production increased 5.7% yoy, while the fabrication of machinery and equipment posted a 3.7% yoy expansion.

Moreover, we believe that services will show a 2.9% yoy expansion, as a result of the positive trend in the formal labor market coupled with an above-trend growth in banking credit.

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