

# Ahead of the Curve

May 4, 2018

Market focus this week will be on April's inflation and March's industrial production

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- **Monthly inflation report (April).** On Wednesday, at 9:00am, *INEGI* will release its monthly inflation report for April. We are forecasting a 0.30% m/m fall in the headline index, while we expect the core index to advance 0.16% m/m. Inflation during the period in question will be mainly explained by the start of the summer discounts in electricity tariffs, as well as an additional fall in fresh fruits and vegetables prices. However, these will be partially offset by a higher contribution from other goods. With these results, annual inflation will stand at 4.59% in April, lower than the 5.04% seen in March. Moreover, we forecast core inflation at 3.73% yoy (previous: 4.02% yoy).
- **Industrial production (March).** Next Friday at 9:00am (ET), *INEGI* will release its monthly industrial production report. We anticipate a 4.5% yoy contraction in total output during March, after the 0.7% expansion in the previous month. Part of the decrease will be explained by a calendar effect, as the industrial output in March will be negatively affected by the *Holy Week* holiday that started in March (vs. April in 2017), subtracting working days to the annual comparison.

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## Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 7-May	9:00am	Consumer confidence	April	index	<u>84.3</u>	--	82.5
Mon 7-May	9:00am	Gross fixed investment	February	% yoy	<u>4.0</u>	--	4.1
		Machinery and equipment		% yoy	<u>7.7</u>	--	7.9
		Domestic		% yoy	<u>1.9</u>	--	1.0
		Imported		% yoy	<u>11.9</u>	--	12.5
		Construction		% yoy	<u>1.7</u>	--	1.5
Mon 7-May	4:30pm	Citibanamex bi-weekly survey of economic expectations					
Tue 8-May	10:00am	International reserves	May-4	US\$ bn	--	--	173.1
Tue 8-May	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 20y Mbono (Nov'38); 5y Bondes D					
Wed 9-May	9:00am	CPI inflation	April	% m/m	<u>-0.30</u>	--	0.32
				% yoy	<u>4.59</u>	--	5.04
		Core		% m/m	<u>0.16</u>	--	0.33
				% yoy	<u>3.73</u>	--	4.02
Thu 10-May		Wage negotiations	April	%	<u>5.1</u>	--	5.4
Fri 11-May	10:00am	Industrial production	March	% yoy	<u>-4.5</u>	--	0.7
		(sa)		% m/m	<u>0.0</u>	--	0.4
		Mining		% yoy	<u>-6.6</u>	--	-5.7
		Utilities		% yoy	<u>1.6</u>	--	3.1
		Construction		% yoy	<u>-2.5</u>	--	4.5
		Manufactures		% yoy	<u>-5.2</u>	--	0.9

Source: Banorte; Bloomberg

Proceeding in chronological order...

**Consumer confidence will marginally recover in April.** On Monday, at 9:00am (EDT), Banxico and *INEGI* will publish its April's monthly survey on consumer confidence, where we expect a marginal 0.5% expansion, with the index reaching 84.3 points. In seasonally adjusted terms, we expect confidence levels to increase 0.5% m/m.

We believe that the 0.5% increase in consumer confidence will be explained by: (1) The marginal appreciation of the Mexican currency during the first 18 days of April (period in which *INEGI* conducts most of its consumer confidence survey); (2) the growth momentum in the Mexican labor market; and (3) inflation's downward trend. In this regard, headline inflation in the first half of April stood at 4.69% yoy from the 6.78% observed in December.

**We expect a 4% yoy expansion in February's GFI.** On Monday at 9:00am (ET), *INEGI* will publish its February's gross fixed investment (GFI) report. We anticipate GFI up by 4% yoy. We believe that within the report we will probably see an 11.9% yoy expansion in imported machinery and equipment, given that trade balance figures showed a similar increase for capital goods imports.

However, we expect a marginal 1.9% expansion in domestic machinery and equipment. Finally, we believe that construction spending increased 1.7% yoy given that construction output within the industrial production report showed a similar result.

**GFI estimates: February 2018**

% yoy nsa; %-pts

%yoy	Feb-18	Feb-17	Jan-Feb, '18	Jan-Feb, '17
Total	4.0	-5.0	4.1	-2.2
Machinery and equipment	7.7	-4.2	7.8	0.6
Domestic	1.9	-3.9	1.5	-0.6
Imported	11.9	-4.4	12.2	1.5
Construction	1.7	-5.5	1.6	-4.0
Annual contribution	Feb-18	Feb-17	Difference	
Total	4.0	-5.0	9.0	
Machinery and equipment	3.0	-1.6	4.6	
Domestic	0.3	-0.6	1.0	
Imported	2.7	-1.0	3.7	
Construction	1.0	-3.4	4.4	

Source: Banorte

**Citibanamex Survey.** Also on Monday around 3:30pm (ET) *Citibanamex* will release its bi-weekly survey of economic expectations, where market focus will be on analysts' inflation forecasts for April (to be published on May 9). Furthermore, attention will be on monetary policy assessments, given Banxico's tone in the last monetary policy announcement. In addition, the survey will also contain forecasts for growth and FX.

**Weekly international reserves report.** On Tuesday, at 10:00am (ET), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US\$188 million amounting to US\$173.1 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\$267 million during 2018 (please refer to the table below).

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

	2017	Apr 27, 2018	Apr 27, 2018	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	172,802	173,068	-188	267
(B) Gross international reserve	175,450	176,596	-1,533	1,147
Pemex	--	--	-181	-707
Federal government	--	--	-1,079	1,519
Market operations	--	--	0	0
Other	--	--	-272	335
(C) Short-term government's liabilities	2,648	3,528	-1,344	880

Source: Banco de México

**Weekly government bond auction.** Also on Tuesday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent–, will offer 20-year fixed rate Mbonos (Nov'38), 5-year Bondes D, in addition to the “more traditional” 1-, 3-, and 6-month zero-coupon Cetes (please refer to the table on the following page). As usual, the results will be released at 12:30pm (ET).

**Auction specifics (Tuesday, May 8, 2018)**

	Maturity	Coupon rate, %	To be auctioned <sup>1</sup>	Previous yield <sup>2</sup>
<b>Cetes</b>				
1m	07-Jun-18	--	7,000	7.47
3m	09-Aug-18	--	11,000	7.64
6m	08-Nov-18	--	11,500	7.68
<b>Bondes D</b>				
5y	04-May-23	--	5,000	0.14
<b>M Bono</b>				
20y	18-Nov-38	8.50	2,000	7.72

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

**Inflation during April will be explained by the start of the summer discounts in electricity tariffs.** On Wednesday, at 9:00am, INEGI will release its monthly inflation report for April. We are forecasting a 0.30% m/m fall in the headline index, while we expect the core index to advance 0.16% m/m.

Inflation during the period in question will be mainly explained by the start of the summer discounts in electricity tariffs, as well as an additional fall in fresh fruits and vegetables prices. However, these will be partially offset by a higher contribution from other goods.

We forecast inflation to be 43bps below the figure seen in 2017 as a result of: (1) a lesser contribution of fresh fruits and vegetables (-3bps vs. 12bps in 2017); (2) a negative impact of other services (-4bps vs. 9bps in 2017); (3) a smaller participation of processed foods (3bps vs. 10bps in 2017); and (4) a lesser contribution of meat and egg (-1bps vs. 5bps in 2017), as shown in the below.

With these results, annual inflation will stand at 4.59% in April, lower than the 5.04% seen in March. Moreover, we forecast core inflation at 3.73% yoy (previous: 4.02% 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.

#### April inflation by components

% Monthly incidence	2018 F	2017	Difference
Headline	-0.30	0.12	-0.43
Core	0.12	0.34	-0.21
Goods	0.12	0.21	-0.09
Processed foods	0.03	0.10	-0.07
Other goods	0.08	0.11	-0.02
Services	0.00	0.13	-0.12
Housing	0.04	0.03	0.00
Education	0.00	0.00	0.00
Other services	-0.04	0.09	-0.13
Non-core	-0.42	-0.21	-0.21
Agricultural	-0.04	0.17	-0.22
Fresh fruits and vegetables	-0.03	0.12	-0.15
Meat and egg	-0.01	0.05	-0.06
Energy and government regulated	-0.38	-0.39	0.01
Energy	-0.39	-0.42	0.03
Government regulated	0.01	0.04	-0.03

Source: Banorte, INEGI

**Wage negotiations will climb 5% during April.** On Thursday, the Ministry of Labor (MoL) will publish the contractual wage negotiations for April. We expect workers to have negotiated an average increase of 5%, below the 5.4% seen in January. This figure will be mainly explained by a greater dynamism in the negotiations of the private sector, which averaged 5.5% in 2017. However, during the year the negotiations of the public sector have been on average 3.6%, which will marginally drag down the overall figure. Looking ahead, we anticipate that wage negotiations will continue to be relatively high, mainly explained by the sharp increase in the minimum wage at the end of 2017 and the high levels of inflation observed at the end of 2017 and at the beginning of 2018.

**We expect a 4.5% yoy contraction in March's industrial output.** Next Friday at 9:00am (ET), INEGI will release its monthly industrial production report. We anticipate a 4.5% yoy contraction in total output during March, after the 0.7% expansion in the previous month. Part of the decrease will be explained by a calendar effect, as the industrial output in March will be negatively affected by the *Holy Week* holiday that started in March (vs. April in 2017), subtracting working days to the annual comparison.

Taking a look at the breakdown, manufacturing production could post a 5.2% yoy contraction, explained by the negative calendar effect already mentioned. Correcting for this calendar effect, we expect a 1% yoy increase.

In addition, industrial output during March will be also explained by: (1) The 1.8% yoy increase in construction output (calendar adjusted figures), as a result of the higher growth in public construction investment projects, given the presidential elections on July 1<sup>st</sup>; and (2) the poor performance of mining activity.

**Industrial production estimate: March 2017**

% yoy, nsa

% yoy	Mar-18	Mar-17	Jan-Mar, '18	Jan-Mar, '17
Total	-4.5	3.9	-1.1	0.6
Mining	-6.6	-10.2	-5.7	-11.3
Utilities	1.6	2.5	2.1	0.8
Construction	-2.5	5.3	2.0	1.9
Manufacturing	-5.2	9.1	-1.1	4.8

  

%m/m sa	Mar-18	Feb-18	Difference
Total	0.0	0.4	-0.4
Mining	0.0	-1.9	1.9
Utilities	-0.3	0.8	-1.1
Construction	-0.3	0.5	-0.8
Manufacturing	0.2	0.6	-0.4

Source: Banorte

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