

Ahead of the Curve

March 9, 2018

Market focus this week will be on January's industrial production

- **Industrial production (January).** On Tuesday at 10:00am (ET), *INEGI* will release its monthly industrial production report. We anticipate 0.4% yoy growth in total output during January, after the 0.7% contraction in the previous month.

Taking a look at the breakdown, we expect a moderate 2.5% yoy increase in manufacturing production, as a result of the scant expansion in the *IMEF*'s purchasing managers index. In addition, industrial output during January will be also explained by: (1) The 1.2% yoy expansion in construction output, as a result of the higher growth in public construction investment projects, given the presidential elections on July 1st; and (2) the poor performance of mining activity, where we estimate a 6.9% yoy reduction.

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Mexico weekly calendar

DATE	HOURL (EDT)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Tue 13-Mar	10:00am	Industrial production	January	% yoy	<u>0.4</u>	--	-0.7
		(sa)		% m/m	<u>0.5</u>	--	0.9
		Mining		% yoy	<u>-6.9</u>	--	-7.7
		Utilities		% yoy	<u>1.6</u>	--	-1.6
		Construction		% yoy	<u>1.2</u>	--	3.6
		Manufactures		% yoy	<u>2.5</u>	--	-0.1
Tue 13-Mar	11:00am	International reserves	Mar-9	US\$ bn	--	--	173.0
Tue 13-Mar	1:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 10y MBono (Jun'27); 5y Bondes D					

Source: Banorte; Bloomberg

Proceeding in chronological order...

Logistics – U.S. is back to daylight saving time. On Sunday, the U.S. will begin its *Daylight Savings Time* (DST). However, Mexico’s Daylight Saving Time period will not begin until April 1 which implies that Mexico City will have a two-hour difference with *Eastern Daylight Time* (EDT).

We expect a 0.4% yoy expansion in January’s industrial output. On Tuesday at 9:00am (ET), *INEGI* will release its monthly industrial production report. We anticipate 0.4% yoy growth in total output during January, after the 0.7% contraction in the previous month. Taking a look at the breakdown, we expect a moderate 2.5% yoy expansion in manufacturing production, as a result of the scant expansion in the *IMEF*’s purchasing managers index.

In addition, industrial output during January will be also explained by: (1) The 1.2% yoy increase in construction output, as a result of the higher growth in public construction investment projects, given the presidential elections on July 1st; and (2) the poor performance of mining activity, where we estimate a 6.9% yoy reduction.

Industrial production estimate: January 2018

% yoy nsa; % m/m sa

% yoy	Jan-18	Jan-17	2017	2016
Total	0.4	0.3	-0.6	0.4
Mining	-6.9	-9.5	-9.8	-4.1
Utilities	1.6	0.9	-0.2	0.1
Construction	1.2	0.6	-1.0	2.0
Manufacturing	2.5	4.2	2.9	1.5
%m/m sa	Jan-18	Dec-17	Difference	
Total	0.5	0.9	-0.4	
Mining	0.6	-0.5	1.1	
Utilities	2.2	-4.0	6.2	
Construction	-0.3	3.7	-4.0	
Manufacturing	0.6	0.1	0.5	

Source: Banorte-ixe

Weekly international reserves report. Additionally on Tuesday, at 11:00am (ET), Banco de Mexico will release its weekly balance report. Last week, net international reserves increased by US\$94 million amounting to US\$173 billion. According to Banxico’s report, this figure comes mainly as a result of a positive valuation effect in central bank assets. In this context, the Central Bank’s international reserves have increased by US\$203 million during 2018 (please refer to the table below).

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

	2016	Mar 2, 2018	Mar 2, 2018	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	172,802	173,005	94	203
(B) Gross international reserve	175,450	177,015	-260	1,565
Pemex	--	--	-478	-489
Federal government	--	--	-38	2,081
Market operations	--	--	0	0
Other	--	--	255	-27
(C) Short-term government's liabilities	2,648	4,011	-354	1,363

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 10-year fixed rate Mbonos (Jun’27), 5-year Bondes D, 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	12-Apr-18	--	7,000	7.50
3m	14-Jun-18	--	11,000	7.66
6m	13-Sep-18	--	11,500	7.84
Bondes D				
5y	09-Mar-23	--	4,500	0.15
M Bono				
10y	03-Jun-27	7.50	9,000	7.64

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

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