

Ahead of the Curve

December 2, 2016

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

- Inflation report (November).** Next Thursday at 10:00am EDT, Banco de Mexico will publish the minutes of its monetary policy meeting held back on November 17, in which the board decided to increase by 50bps the reference rate. We believe that the decision to hike rates was unanimous. In addition, we expect discussions during the meeting to have focused on two issues: (1) The depreciation of the Mexican currency and the higher volatility in local markets generated by several geopolitical events, such as the US election results, the expected normalization of the Fed's monetary policy, and the volatility in oil prices; and (2) the deterioration of the balance of risks to inflation in the short and medium term, given the adjustment of relative prices generated by the MXN depreciation.
- Consumer confidence (November).** On Tuesday at 9:00am (EDT), Banxico and *INEGI* will publish its November's monthly survey on consumer confidence, where we expect a 11.9% yoy contraction, with the index reaching 81.5 points, its lowest level since February 2010. In seasonally adjusted terms, we expect confidence levels to fall 4.5% m/m.

www.banorte.com
www.ixe.com.mx
@analisis_fundam

Delia Paredes
Executive Director of Economic Analysis
delia.paredes@banorte.com

Alejandro Cervantes
Senior Economist, Mexico
alejandro.cervantes@banorte.com

Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

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Mexico weekly calendar

DATE	TIME (EDT)	EVENT	PERIOD	UNIT	BANORTE-IXE	CONSENSUS	PREVIOUS
Mon 5-Dec	9:00am	Gross fixed investment	September	% yoy	<u>0.9</u>	0.7	1.3
		Machinery and equipment		% yoy	<u>3.1</u>	--	7.5
		Domestic		% yoy	<u>6.5</u>	--	8.4
		Imported		% yoy	<u>1.6</u>	--	7.1
		Construction		% yoy	<u>-0.5</u>	--	-2.8
Tue 6-Dec	9:00am	Consumer confidence	November	index	<u>81.5</u>	83.5	85.0
Tue 6-Dec	10:00am	International reserves	2-Dec	US\$ bn	--	--	174.1
Tue 6-Dec	12:30pm	Government weekly auction: 1-, 3-, 6-, and 12-month Cetes; 10y MBono (Mar'26); 30y Udidono (Nov'46); 5y Bondes D					
Tue 6-Dec	4:30pm	Banamex bi-weekly survey of economic expectations					
Thu 8-Dec	9:00am	CPI inflation	November	% m/m	<u>0.80</u>	0.81	0.61
				% yoy	<u>3.32</u>	3.33	3.06
		Core		% m/m	<u>0.26</u>	0.29	0.28
				% yoy	<u>3.33</u>	--	3.09
Fri 9-Dec		Wage negotiations	November	%	<u>4.7</u>	--	3.4

Source: Banorte-IXE; Bloomberg

Proceeding in chronological order...

We expect a 0.9% yoy expansion in September's GFI. On Monday at 9:00am (EST), *INEGI* will publish its September's gross fixed investment (GFI) report. We anticipate GFI up by 0.9% yoy. We believe that within the report we will probably see a 1.6% yoy increase in imported machinery and equipment, given that trade balance figures showed a similar growth for capital goods imports. Moreover, we expect a 6.5% growth in domestic machinery and equipment. Finally, we believe that construction spending fell 0.5% yoy derived from the lower public construction spending observed in the latest industrial production figures.

GFI estimates: September 2016

% yoy; %-pts

%yoy	Sep-16	Sep-15	Jan-Sep, '16	Jan-Sep, '15
Total	0.9	5.2	0.2	5.0
Machinery and equipment	3.1	14.4	0.7	9.7
Domestic	6.5	8.9	7.0	9.3
Imported	1.6	16.9	-2.1	9.9
Construction	-0.5	0.0	-0.2	2.1

Annual contribution	Sep-16	Sep-15	Difference
Total	0.9	5.2	-4.3
Machinery and equipment	1.2	5.2	-4.0
Domestic	0.8	1.0	-0.3
Imported	0.4	4.2	-3.8
Construction	-0.3	0.0	-0.3

Source: Banorte-Ixe

November's consumer confidence will stand at its lowest level in six years.

On Tuesday at 9:00am (EDT), Banxico and *INEGI* will publish its November's monthly survey on consumer confidence, where we expect a 11.9% yoy contraction, with the index reaching 81.5 points, its lowest level since February 2010. In seasonally adjusted terms, we expect confidence levels to fall 4.5% m/m.

We believe that the 4.5% m/m reduction in consumer confidence will be explained by the US election result and the subsequent depreciation of the Mexican currency. In the first case, we believe that Mexican consumers probably discounted a less favorable future outlook for the Mexican economy given the higher probability that Donald Trump's administration would have a negative impact on the Mexican economy. In the second case, we consider that the strong depreciation of the Mexican currency after the election result in the US probably caused a deterioration in inflationary expectations, which will be reflected in a reduction in the purchasing consumer confidence in November.

Banamex Survey: Market participants will focus on inflation, growth, and monetary policy forecasts.

On Tuesday at 4:30pm (EST) *Banamex* will release its bi-weekly survey of economic expectations, where market participants will focus on analysts' monetary policy assessments given the cautious stance adopted by Banxico in their last monetary policy announcement. In addition, analysts will also focus on the inflation forecasts for November (to be published on Thursday, December 8), as well as on CPI estimations for 2016 and 2017. Moreover, *Banamex* will also publish consensus' growth and FX forecasts for 2016-17, where we expect strong revisions to the median forecasts.

Weekly government bond auction. On Tuesday, the Ministry of Finance (MoF) –via Banco de Mexico as its financial agent-, will offer 5-year Bondes D (Nov’21), 10-year M Bonos (Mar’26), and 30-year Udibonos (Nov’46), in addition to the “more traditional” 1-, 3-, 6- and 12-month zero-coupon Cetes (please refer to the table below). As usual, the results will be released at 12:30pm (EDT).

Auction specifics (Tuesday, December 6, 2016)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	5-Jan -17	--	7,000	5.62
3m	9-Mar-17	--	11,000	5.99
6m	8-Jun-17	--	12,000	6.10
12m	9-Nov-17	--	11,000	5.31
Bondes D				
5y	18-Nov-21	--	4,000	0.24
Mbonos				
10y	5-Mar-26	5.75	5,500	6.09
Udibonos				
30y	8-Nov-46	4.00	250	3.58

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

Weekly international reserves report. On Tuesday, at 10:00am (EDT), Banco de Mexico will release its weekly balance report. Last week, net international reserves decreased by US\$61 million amounting to US \$174.1 billion on November 25. According to Banxico’s report, this figure comes mainly as a result of changes in the valuation of the Central Bank’s assets. In this context, the Central Bank’s international reserves have diminished by US\$2,658 million this year (please refer to the table below).

Banxico's foreign reserve accumulation details

US\$, million

	2015	18/Nov/2016	18/Nov/2016	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	176,735	174,078	-61	-2,657
(B) Gross international reserve	177,597	176,055	-1,707	-1,541
Pemex	--	--	-1,216	2,623
Federal government	--	--	-698	-529
Market operations	--	--	0	-5,562
Other	--	--	270	1,992
(C) Short-term government's liabilities	861	1,978	-1,646	1,116

Source Banxico

Source: Banco de México

Inflation in November will be explained by pressures on electricity tariffs as summer discounts have come to an end. On Thursday, at 9:00am, *INEGI* will release its monthly inflation report. We are forecasting a 0.80% m/m increase in November. In the core index, we expect a 0.26% m/m increase. Inflation in November will be explained by pressures on electricity tariffs as summer discounts have come to an end.

Nevertheless, we expect this figure to be 25bps higher than the observed in same period last year, derived from: (1) 7.2bps stemming from a higher contribution of energy prices (57.9pbs vs. 50.7 in 2015); (2) 14.5bps stemming from a higher contribution of services prices (7.5pbs vs. -7.1 in 2015); and (3) a higher contribution of goods prices (9.3pbs vs. 6.4pbs in 2015), as shown in the table below.

With these results, annual inflation is at 3.32% yoy in t November from 3.06% in October, while core inflation is at 3.33% from 3.1% yoy.

November inflation by components
% monthly incidence

	Banorte-Ixe	2015	Difference
Total	0.80	0.55	0.25
Core	0.20	0.03	0.17
Goods	0.09	0.06	0.03
Processed foods	0.05	0.04	0.00
Other goods	0.05	0.02	0.03
Services	0.10	-0.04	0.14
Housing	0.03	0.03	0.00
Education	0.00	0.00	0.00
Other services	0.07	-0.07	0.15
Non-core	0.62	0.53	0.08
Agriculture	0.05	0.04	0.01
Fruits & vegetables	0.03	0.06	-0.03
Meat & eggs	0.02	-0.02	0.04
Energy & government tariffs	0.57	0.50	0.07
Energy	0.58	0.51	0.07
Government tariffs	0.00	0.01	0.00

Source: Banorte-Ixe with data from INEGI and Banco de México.

Note: Contributions might not add due to the number of decimals allowed in the table. Previous to year 2011, contributions might not add because of the change in CPI-calculation methodology.

Disclaimer

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Francisco José Flores Serrano	Economist, National	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Juan Carlos Alderete Macal, CFA	FX Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates / Financials/ Mining / Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research Analyst – Airlines / Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454