# Ahead of the Curve

## Banxico's minutes will provide more information on the upcoming decision

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@analisis_fundam

**Juan Carlos Alderete Macal, CFA**
Executive Director of Economic Research and Financial Markets Strategy
juan.alderete.macal@banorte.com

**Francisco José Flores Serrano**
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com

**Yazmín Selene Pérez Enríquez**
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com

**Cintia Gisela Nava Roa**
Senior Economist, Mexico
cintia.nava.roa@banorte.com



- **Banxico's minutes (March 30th).** In its last decision, the Board increased the reference rate by 25bps to 11.25%, in line with expectations. We believe the tone was less hawkish considering: (1) A unanimous decision, despite some possibility of a dissenter pushing for a higher rate; (2) changes in the forward guidance, talking about the next hike with hints of probability; and (3) modest adjustments to inflation forecasts, noting the one for the headline lower. As such, our attention will center on factors that will drive the decision for members, which will likely include price dynamics (both present and future), the relative monetary stance vs. the US –albeit with this factor seemingly losing some importance–, recent performance of domestic assets (mainly the MXN) and the overall evaluation of the tightening already accomplished

- **Industrial production (March 30th).** We anticipate the figure at 3.3% y/y, up from the 2.8% of the previous month. More importantly, this result implies +0.5% m/m, rebounding after a mild stagnation in the previous month. We believe several factors would be behind the recovery, including: (1) Lower pressures from input prices; (2) some resilience in external demand; and (3) a favorable outlook for several sectors. As such, we expect strength to center in mining (0.9% m/m) and construction (0.4%), with a moderate decline in manufacturing (-0.3%)

**Mexico weekly calendar**

| DATE | TIME (ET) | EVENT | PERIOD | UNIT | BANORTE | CONSENSUS | PREVIOUS |
|---|---|---|---|---|---|---|---|
| **Tue 11-Apr** | **8:00am** | **Industrial production** | February | % y/y | 3.3 | -- | 2.8 |
| | | sa | | % m/m | 0.5 | -- | 0.0 |
| | | Mining | | % y/y | 3.4 | -- | -3.5 |
| | | Utilities | | % y/y | 4.9 | -- | 4.5 |
| | | Construction | | % y/y | 4.5 | -- | 3.0 |
| | | Manufacturing | | % y/y | 2.7 | -- | 4.8 |
| **Tue 11-Apr** | **11:00am** | **International reserves** | Apr-5 | US$ bn | -- | -- | 202.3 |
| **Tue 11-Apr** | | **Wage negotiations** | March | % | -- | -- | 8.4 |
| **Thu 13-Apr** | **11:00am** | **Banxico minutes** | Mar-30 | | | | |
| **Thu 13-Apr** | | **ANTAD: Same-store sales** | March | % y/y in real terms | -- | -- | -1.0 |

Source: Banorte; Bloomberg

## Proceeding in chronological order...

**Rebound in industry in February, spurred by mining and construction.** We anticipate industrial production at 3.3% y/y, up from the 2.8% of the previous month. With seasonally adjusted figures we anticipate +3.3% y/y, higher than the 2.9% within INEGI's *Timely Indicator of Economic Activity*. More importantly, this result implies +0.5% m/m, rebounding after a mild stagnation in the previous month. We believe several factors would be behind the recovery, including: (1) Lower pressures from input prices; (2) some resilience in external demand; and (3) a favorable outlook for several sectors. As such, we expect strength to center in mining and construction, with a moderate decline in manufacturing.

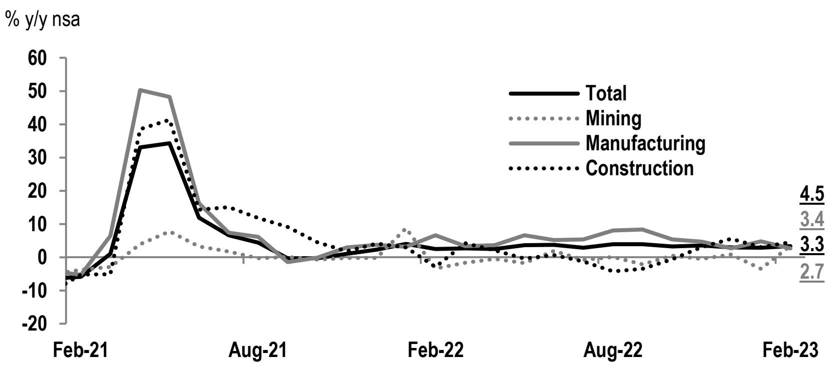
Mining would grow 0.9% m/m (3.4% y/y), with momentum concentrated in both the oil and non-oil sectors. On the former, according to the CNH crude oil extraction declined at the margin to 1,642kbpd (previous: 1,648), although with gas stronger at 5,003mcfpd (previous: 4,984), with the latter explaining the improvement. In the latter, we expect some resilience to have remained despite a slight moderation in prices, with expectations of a more modest global slowdown supporting demand. On the contrary, we continue to expect a negative impact on 'related services', considering a relatively marginal adjustment in the previous month.

Construction would advance 0.4% (4.5% y/y), benefiting from a favorable base –after a 1.0% decline in the previous month– and supported by positive signals. In this sense, we believe that the sector continues to benefit from nearshoring efforts. Opinion indicators were better, with gains in business confidence and in the aggregate trend indicator. Employment was also positive, with seasonally adjusted figures (using in-house models) showing significant gains with both IMSS and INEGI data. However, a negative effect from prices would persist, with PPI for the sector stringing a second month of sequential increases after substantial declines in 2H22.

Finally, manufacturing output would fall 0.3% (2.7% y/y), impacted by a challenging base. In addition, timely data has shown mixed signals. Overall, IMEF's manufacturing PMI showed an increase to 51.2pts, highlighting advances in production. Manufacturing exports declined 6.0% m/m, with weakness centered in the auto sector. However, we remain cautious considering that the strong advance in the previous month did not translate into a substantial boost in production either. Meanwhile, manufacturing in the US maintained some resilience at 0.1%, providing some support. Locally, auto production according to AMIA rebounded 4.8% m/m, after falling 4.2% in January. In addition, employment signals remained favorable, with increases in both reports for the period.

Going forward, we expect activity in the sector to remain positive, although we do not rule out a moderation given increased risks on several fronts, including: (1) Increased expectations of a global recession; (2) additional monetary tightening; and (3) the possibility of renewed inflationary pressures in light of recent OPEC+ actions, among others.

**Industrial production**



Source: INEGI, Banorte

**Weekly international reserves report.** Last week, net international reserves decreased by US$131 million, closing at US$202.3 billion (see table below). This was mainly due to a negative valuation effect in institutional assets. Year-to-date, central bank reserves have increased by US$3.2 billion.

**Banxico's foreign reserve accumulation details**
US$, million

| | 2022 | Mar 31, 2023 | Mar 31, 2023 | Year-to-date |
|---|---|---|---|---|
| | Balance | | Flows | |
| International reserves (B)-(C) | 199,094 | 202,338 | -131 | 3,243 |
| (B) Gross international reserve | 201,143 | 206,313 | 31 | 5,170 |
| Pemex | -- | -- | 0 | 0 |
| Federal government | -- | -- | -25 | 2,220 |
| Market operations | -- | -- | 0 | 0 |
| Other | -- | -- | 57 | 2,950 |
| (C) Short-term government's liabilities | 2,049 | 3,976 | 162 | 1,927 |

Source: Banco de México

**Expecting additional information regarding Banxico's next move, with the end of the tightening cycle in sight.** In its last decision, the Board increased the reference rate by 25bps to 11.25%, in line with expectations. We believe the tone was less hawkish considering: (1) A unanimous decision, despite some possibility of a dissenter pushing for a higher rate; (2) changes in the forward guidance, talking about the next hike with hints of probability; and (3) modest adjustments to inflation forecasts, noting the one for the headline lower. As such, our attention will center on factors that will drive the decision for members, which will likely include price dynamics (both present and future), the relative monetary stance vs. the US –albeit with this factor seemingly losing some importance–, recent performance of domestic assets (mainly the MXN) and the overall evaluation of the tightening already accomplished.

On prices, the revisions were quite modest, noting a slight downward adjustment to the headline, with the core an inch higher. We should mention that considering March's CPI print, forecasts for 1Q23 did come in line with expectations. Regarding the adjustment, Governor Victoria Rodríguez mentioned in an interview with *El Universal* that "*...annual headline inflation was revised slightly lower as a result of an improvement in some factors...*". As such, we will be on the look over which factors these could be, with some hints coming from the updated balance of risks in the statement. Regarding the latter, while it remained tilted to the upside, we will be looking into changes in the factors –which at the moment we though suggested a more balanced view–, albeit also weighing recent actions by OPEC+ and how these could impact conditions ahead.

Regarding the relative monetary stance, comments regarding Fed actions –along with other central banks– remained in the statement. However, considering comments from several Board members before the decision, its relative importance within their reaction function seems to have diminished. However, as concerns regarding the banking sector in the US and Europe have risen, opting to follow the Fed may prove to be the most cautious path ahead. Meanwhile, the market reaction in the immediate aftermath of the decision was relatively limited, with adjustments in the following days including gains in long-term rates –resulting in an additional flattening of the yield curve– and a very slight depreciation of the MXN. However, the latter remains resilient, in our view being a relevant driver behind the moderation in some components within CPI, particularly in goods.

About the next decision, the guidance stated that "*…the Board will take into account the inflation outlook, considering the monetary policy stance already attained…*". In our view this phrasing leaves the door open either for Banxico to stand pat or to tighten further. Focusing on the policy stance, Deputy Governor Jonathan Heath posted on his Twitter account that the ex-ante real rate "*…reached 6.4% in this phase, which consists on reaching a terminal rate…*" (elaborating on the stages of the tightening cycle he mentioned in the previous minutes), while also adding that we now add six months in restrictive territory. In our view, the comment suggests that the end of the tightening cycle is relatively close, but still provides some flexibility. We have not had comments from other Board members regarding this, with the low volume likely related to the Easter holiday. As such, their statements within the document will be rather important.

All in all, we see the end of the tightening cycle rather soon. In particular, we expect one more 25bps hike in May's decision, taking the rate to a terminal level of 11.50%. After this, we expect no additional moves in the remainder of the year, with cuts likely materializing in 1H24. However, we still believe risks remain tilted to the upside, with Banxico likely opting for more hikes if inflation proves to be sticky and/or if other adverse factors come into play.

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**We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Daniel Sebastián Sosa Aguilar and Andrea Muñoz Sánchez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.**

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|---|---|
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| **HOLD** | When the share expected performance is similar to the MEXBOL estimated performance. |
| **SELL** | When the share expected performance is lower than the MEXBOL estimated performance. |

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**GRUPO FINANCIERO BANORTE S.A.B. de C.V.**

| | | | |
|---|---|---|---|
| **Research and Strategy** | | | |
| Alejandro Padilla Santana | Chief Economist and Head of Research | alejandro.padilla@banorte.com | (55) 1103 - 4043 |
| Raquel Vázquez Godinez | Assistant | raquel.vazquez@banorte.com | (55) 1670 - 2967 |
| Itzel Martínez Rojas | Analyst | itzel.martinez.rojas@banorte.com | (55) 1670 - 2251 |
| Lourdes Calvo Fernández | Analyst (Edition) | lourdes.calvo@banorte.com | (55) 1103 - 4000 x 2611 |
| María Fernanda Vargas Santoyo | Analyst | maria.vargas.santoyo@banorte.com | (55) 1103 - 4000 |
| **Economic Research** | | | |
| Juan Carlos Alderete Macal, CFA | Executive Director of Economic Research and Financial Markets Strategy | juan.alderete.macal@banorte.com | (55) 1103 - 4046 |
| Francisco José Flores Serrano | Director of Economic Research, Mexico | francisco.flores.serrano@banorte.com | (55) 1670 - 2957 |
| Katia Celina Goya Ostos | Director of Economic Research, Global | katia.goya@banorte.com | (55) 1670 - 1821 |
| Yazmín Selene Pérez Enríquez | Senior Economist, Mexico | yazmin.perez.enriquez@banorte.com | (55) 5268 - 1694 |
| Cintia Gisela Nava Roa | Senior Economist, Mexico | cintia.nava.roa@banorte.com | (55) 1103 - 4000 |
| Luis Leopoldo López Salinas | Manager Global Economist | luis.lopez.salinas@banorte.com | (55) 1103 - 4000 x 2707 |
| **Market Strategy** | | | |
| Manuel Jiménez Zaldívar | Director of Market Strategy | manuel.jimenez@banorte.com | (55) 5268 - 1671 |
| **Fixed income and FX Strategy** | | | |
| Leslie Thalía Orozco Vélez | Senior Strategist, Fixed Income and FX | leslie.orozco.velez@banorte.com | (55) 5268 - 1698 |
| Isaías Rodríguez Sobrino | Strategist, Fixed Income, FX and Commodities | isaias.rodriguez.sobrino@banorte.com | (55) 1670 - 2144 |
| **Equity Strategy** | | | |
| Marissa Garza Ostos | Director of Equity Strategy | marissa.garza@banorte.com | (55) 1670 - 1719 |
| José Itzamna Espitia Hernández | Senior Strategist, Equity | jose.espitia@banorte.com | (55) 1670 - 2249 |
| Carlos Hernández García | Senior Strategist, Equity | carlos.hernandez.garcia@banorte.com | (55) 1670 - 2250 |
| Víctor Hugo Cortes Castro | Senior Strategist, Technical | victorh.cortes@banorte.com | (55) 1670 - 1800 |
| Paola Soto Leal | Strategist, Equity | paola.soto.leal@banorte.com | (55) 1103 - 4000 x 1746 |
| **Corporate Debt** | | | |
| Hugo Armando Gómez Solís | Senior Analyst, Corporate Debt | hugoa.gomez@banorte.com | (55) 1670 - 2247 |
| Gerardo Daniel Valle Trujillo | Analyst, Corporate Debt | gerardo.valle.trujillo@banorte.com | (55) 1670 - 2248 |
| **Quantitative Analysis** | | | |
| Alejandro Cervantes Llamas | Executive Director of Quantitative Analysis | alejandro.cervantes@banorte.com | (55) 1670 - 2972 |
| José Luis García Casales | Director of Quantitative Analysis | jose.garcia.casales@banorte.com | (55) 8510 - 4608 |
| Miguel Alejandro Calvo Domínguez | Senior Analyst, Quantitative Analysis | miguel.calvo@banorte.com | (55) 1670 - 2220 |
| José De Jesús Ramírez Martínez | Senior Analyst, Quantitative Analysis | jose.ramirez.martinez@banorte.com | (55) 1103 - 4000 |
| Daniel Sebastián Sosa Aguilar | Analyst, Quantitative Analysis | daniel.sosa@banorte.com | (55) 1103 - 4000 |
| Andrea Muñoz Sánchez | Analyst, Quantitative Analysis | andrea.munoz.sanchez@banorte.com | (55) 1103 - 4000 |
| **Wholesale Banking** | | | |
| Armando Rodal Espinosa | Head of Wholesale Banking | armando.rodal@banorte.com | (55) 1670 - 1889 |
| Alejandro Aguilar Ceballos | Head of Asset Management | alejandro.aguilar.ceballos@banorte.com | (55) 5004 - 1282 |
| Alejandro Eric Faesi Puente | Head of Global Markets and Institutional Sales | alejandro.faesi@banorte.com | (55) 5268 - 1640 |
| Alejandro Frigolet Vázquez Vela | Head of Sólida Banorte | alejandro.frigolet.vazquezvela@banorte.com | (55) 5268 - 1656 |
| Arturo Monroy Ballesteros | Head of Investment Banking and Structured Finance | arturo.monroy.ballesteros@banorte.com | (55) 5004 - 5140 |
| Carlos Alberto Arciniega Navarro | Head of Treasury Services | carlos.arciniega@banorte.com | (81) 1103 - 4091 |
| Gerardo Zamora Nanez | Head of Transactional Banking, Leasing and Factoring | gerardo.zamora@banorte.com | (81) 8173 - 9127 |
| 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) 5249 - 6423 |
| Lizza Velarde Torres | Executive Director of Wholesale Banking | lizza.velarde@banorte.com | (55) 4433 - 4676 |
| Osvaldo Brondo Menchaca | Head of Specialized Banking Services | osvaldo.brondo@banorte.com | (55) 5004 - 1423 |
| Raúl Alejandro Arauzo Romero | Head of Transactional Banking | alejandro.arauzo@banorte.com | (55) 5261 - 4910 |
| René Gerardo Pimentel Ibarrola | Head of Corporate Banking | pimentelr@banorte.com | (55) 5004 - 1051 |
| Ricardo Velázquez Rodríguez | Head of International Banking | rvelazquez@banorte.com | (55) 5004 - 5279 |
| Víctor Antonio Roldan Ferrer | Head of Commercial Banking | victor.roldan.ferrer@banorte.com | (55) 1670 - 1899 |