

1H-November inflation – Back within Banxico's variability range

- **Headline inflation (1H-Nov): 0.04% 2w/2w; Banorte: 0.22%; consensus: 0.23% (range of estimates: 0.12% to 0.71%); previous: 0.16%**
- **Core inflation (1H-Nov): -0.11% 2w/2w; Banorte: -0.03%; consensus: 0.09% (range of estimates: -0.03% to 0.19%); previous: 0.07%**
- **The final reversal of summer discounts in electricity tariffs was observed this period, up 22.7% 2w/2w, adding 39bps to the headline. Other components within the non-core were more positive, with fresh fruits and vegetables down 3.3% and low-grade gasoline falling 3.2%. The core was also below market consensus, with goods (-0.3%) benefited by the extended discounts period of *El Buen Fin***
- **Annual inflation fell to 3.43% from 4.09% in October, below the upper bound of Banxico's variability range for the first time since August. This was helped by a more benign base effect at the non-core, which fell to 2.67% from 4.42%. Core inflation also declined, to 3.68% from 3.98%**
- **Along with this report, we will focus on Banxico's Quarterly Report tomorrow and the latest minutes on Thursday, which in our view could provide further valuable information about the policy path ahead**
- **We expect a further breather in Mbonos and additional compression in inflation breakevens**

Consumer prices up 0.04% 2w/2w in the first half of November. This was below our 0.22% forecast, which was close to consensus (0.23%), with analysts' range quite wide. The core stood at -0.11% (Banorte: -0.03%). First, we recall the final reversal of summer discounts to electricity tariffs, up 22.7% 2w/2w, adding 39bps to the headline. Nevertheless, other components within the non-core were much more positive, with fresh fruits and vegetables down 3.3% and low-grade gasoline falling 3.2%. The core was very modest on both goods (-0.3%) and services (0.1%), albeit the latter to a lesser extent. In our view, both benefited from the extended discounts period on *El Buen Fin* (Mexico's Black Friday), mainly other goods (see chart, right), as this year was available from November 9th to 20th as opposed to typically being only in the 2nd half of the month.

1H-November inflation by components

%, bi-weekly incidence

	INEGI	Banorte	Difference
Total	0.04	0.22	-0.17
Core	-0.08	-0.02	-0.06
Goods	-0.12	-0.03	-0.09
Processed foods	0.01	0.03	-0.02
Other goods	-0.13	-0.06	-0.07
Services	0.04	0.01	0.03
Housing	0.01	0.01	0.00
Education	0.00	0.00	0.00
Other services	0.03	0.00	0.03
Non-core	0.12	0.24	-0.12
Agriculture	-0.10	-0.07	-0.03
Fruits & vegetables	-0.17	-0.10	-0.07
Meat & egg	0.07	0.03	0.04
Energy & government tariffs	0.23	0.31	-0.08
Energy	0.22	0.31	-0.08
Government tariffs	0.00	0.00	0.00

Source: INEGI, Banorte. Note: Contributions might not add due to the number of decimals allowed in the table.

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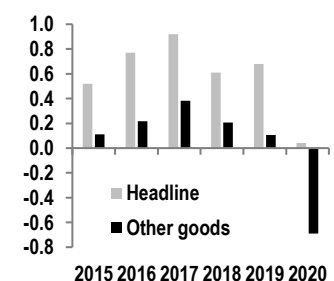


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Headline and other goods inflation in Nov-1H

% 2w/2w



Source: INEGI

1H-November inflation: Goods and services with the largest contributions

% 2w/2w; bi-weekly incidence in basis points

Goods and services with the largest positive contribution	Incidence	% 2w/2w
Electricity	38.6	22.7
Chicken	3.0	1.9
Eggs	2.1	2.6
Professional services	1.9	9.6
Autos	1.4	0.7
Goods and services with the largest negative contribution		
Low-grade gasoline	-15.4	-3.2
Tomatoes	-10.0	-13.4
High-grade gasoline	-1.7	-2.7
Men's pants	-1.3	-4.0
Lemons	-1.3	-10.9

Source: INEGI

Annual inflation falls towards Banxico's variability range. With today's print, the annual rate plunged to 3.43% from 4.09% in October, within the central bank's variability range for the first time since the second half of August, when it surpassed 4%. Moreover, the fortnightly print was much lower than recently (see chart above, right), with the five-year average at 0.70%. This was mainly driven by the non-core, which declined to 2.67% from 4.42%. In turn, the latter benefited from: (1) Declines in other components excluding electricity; and (2) a more favorable base effect in energy (with last year from -1.8% y/y to -0.8% in the same period, mainly because of LP gas), which would extend towards January 2021. Nevertheless, core inflation was also lower, at 3.68% from 3.98%. In line with our expectations, this was influenced by the extended discounts period of *El Buen Fin* (Mexico's Black Friday), with some businesses extending it through November 22nd. In this respect, we anticipate some reversion higher by the end of November and the first half of December. Nevertheless, given these dynamics (particularly at the non-core), we reiterate our call that inflation will close the year at 3.7% (core: 3.9%), below the 3.95% anticipated by market consensus.

Waiting for more information by the central bank in coming days. In addition to this report, we will heed the [Quarterly Report and the minutes](#), to be released tomorrow and Thursday, respectively. In our view, these documents will provide additional and valuable information to evaluate with greater clarity when the easing cycle could resume. Specifically, we will be even more focused than usual considering the surprise pause in the last decision. In the meantime, we believe the reference rate will be maintained at the current level of 4.25% by the end of the year given the abovementioned pause and expected short-term inflation dynamics. We still see the restart of rate cuts in 2021, albeit still uncertain about both the magnitude and timing of when this could materialize.

From our fixed income and FX strategy team

We expect a further breather in Mbonos and additional compression in inflation breakevens. In the aftermath of the downward surprise in today's print, we expect a further breather for Mbonos, resulting in an additional compression in inflation breakevens that will offer better entry points to position in Udibonos and allow to capitalize the interesting carry these securities will offer in the following months. For the Mbonos' curve, we hold a view of steeper slopes relative to the effect of the last monetary policy from Banxico, in which we identify greater relative value in the Nov'36 and Nov'38 maturities. Meanwhile, the market has repriced the possibility of further easing from Banxico, discounting -16bps for the reference rate in the 2Q21.

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We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, 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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