

# 1H-August inflation – Negative on a new price ceiling for LP gas

- **Headline inflation (1H-Aug): -0.02% 2w/2w; Banorte: 0.03%; consensus: 0.05% (range: -0.16% to 0.26%); previous: 0.24%**
- **Core inflation (1H-Aug): 0.28% 2w/2w; Banorte: 0.24%; consensus: 0.20% (range: 0.14% to 0.24%); previous: 0.13%**
- **The main highlight was LP gas (-15.1% 2w/2w), subtracting -39bps. Also, at the non-core, low grade gasoline was relatively stable (0.3%), but agricultural goods picked up 1.2%. Going to the core, goods (0.5%) keep leading higher, albeit this time it was in others' (0.6%) on an adverse seasonality. Services were more modest (0.1%), helped by tourism-related categories, but with others still relatively pressured**
- **Annual inflation fell to 5.58% from 5.81% on average in July. The core keeps moving upwards, at 4.78% from 4.66%. The non-core declined to 8.08% from 9.39%, in the same order**
- **We will watch carefully the comments about the inflation outlook by Board members in this week's Banxico minutes. We still see three more 25bps hikes this year, ending 2021 at 5.25%**
- **Today's report should not affect the market's pricing for Banxico**

**Inflation below expectations in 1H-Aug, at -0.02% 2w/2w.** This was lower than consensus at 0.05%, but closer to our 0.03%. As expected, the main highlight was LP gas (-15.1% 2w/2w), which fell strongly as the government established a price ceiling to this good. Also, at the non-core, low grade gasoline was modest (0.3%), but agricultural goods picked up (1.2%) despite better drought conditions in the country. Going to the core, goods (0.5%) keep leading higher, albeit this time it was in others' (0.6%) on an adverse seasonality (reversal of summer discounts in clothing). Services were more modest (0.1%), helped by the decline in tourism-related categories as the summer holiday period came to an end and with low pressures in education. Nevertheless, others were still relatively pressured, in our view still reflecting some issues with higher input costs.

1H-August inflation by components  
%, bi-weekly incidence

	INEGI	Banorte	Difference
Total	-0.02	0.03	-0.05
Core	0.21	0.18	0.03
Goods	0.19	0.16	0.03
Processed foods	0.08	0.06	0.02
Other goods	0.11	0.10	0.01
Services	0.02	0.03	0.00
Housing	0.01	0.02	0.00
Education	0.02	0.04	-0.02
Other services	-0.01	-0.02	0.01
Non-core	-0.23	-0.15	-0.08
Agriculture	0.13	0.07	0.06
Fruits & vegetables	0.11	0.05	0.06
Meat & egg	0.02	0.02	0.00
Energy & government tariffs	-0.36	-0.22	-0.14
Energy	-0.36	-0.23	-0.13
Government tariffs	0.00	0.01	-0.01

Source: INEGI, Banorte.

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

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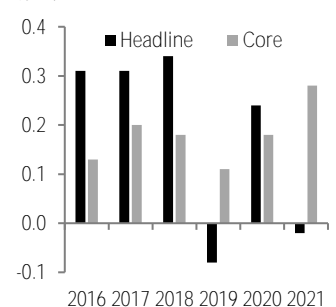
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Headline and core inflation in 1H-Aug  
% 2w/2w



Source: INEGI

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1H-August 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
Serrano chillies	2.5	26.8
Avocadoes	2.5	8.9
Tomatoes	1.6	2.5
Milk	1.5	1.0
Electricity	1.5	1.1
Goods and services with the largest negative contribution		
LP Gas	-39.1	-15.1
Airfares	-2.7	-11.5
Tourism services	-1.4	-4.5
Potatoes	-0.9	-2.6
Chicken	-0.7	-0.4

Source: INEGI|

**Annual inflation lower, but the core increases again at the margin.** The headline fell to 5.58% from 5.81% on average in July. This component remains helped by a base effect, although particularly boosted by energy within the non-core, which declined to 10.2% y/y from 14.4%. As mentioned above, the relief came mainly from LP gas. Despite of this, this good is still running high, at 13.7%. In contrast, the core increased again, up 12bps to 4.78%. This component has been increasing for eight months in a row, led by goods (6.0%). In turn, services stand at 3.4%, within the central bank’s variability range around the 3% target.

**Focus on inflation in Banxico’s minutes.** In our view, market participants will remain focused on the outlook of inflation among Board members in this week’s Banxico minutes. For further details, please see our document, [Ahead of the Curve](#). Specifically, the central bank made changes to its communication strategy, so we will focus on issues related to this. First, the reasons behind the dissenting vote of Deputy Governors Galia Borja and Gerardo Esquivel. Nevertheless, given that the Board is closely split, comments from the remaining three members will also be very important. Second, we will search for expanded comments about changes to their inflation forecasts, as: (1) They were included for the first time in the statement; and (2) the adjustments made were very significant. On the latter, our estimates remain higher than those of the central bank. In this sense, we keep seeing a difficult backdrop for inflation in the short-term, especially at the core. As a result, we maintain our view of three more 25bps hikes this year, ending 2021 at 5.25%, above analysts’ expectations which see only two more, to 5.00%.

*From our fixed income and FX strategy team*

**Today’s report should not affect the market’s pricing for Banxico.** The mixed balance in today’s report, especially with prevailing pressures in the core component should hold the yield curve’s pricing for Banxico with few variations, a reading that remains quite in line with our estimate for the reference rate closing 2021 at 5.25%, slightly moderating towards +70bps for year-end on the back of the recent global rates’ compression. In this sense, the local bonds relief rally could extender ahead of Thursday’s minutes should the global risk appetite support it. Meanwhile, inflation breakevens have experienced a more stable performance recently, yet remaining at elevated figures given the complex CPI backdrop. In this sense we see greater relative value in mid-term Udibonos.

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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, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Alik Daniel García Álvarez, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo 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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