

1H-November inflation – Seasonal factors and food items behind most pressures

- **Headline inflation (1H-Nov): 0.69% 2w/2w; Banorte: 0.49%; consensus: 0.51% (range: 0.41% to 0.68%); previous: 0.38%**
- **Core inflation (1H-Nov): 0.15% 2w/2w; Banorte: 0.07%; consensus: 0.07% (range: -0.09% to 0.22%); previous: 0.20%**
- **Various seasonal factors were at play. Among them, energy picked up 3.3% (contribution: 33bps), with electricity up 24.2% given the final reversal of summer discounts. Nevertheless, LP gas fell 1.9%. We also note the +2.2% in agricultural goods. At the core, ‘other goods’ (-0.2%) benefited from the earlier timing than usual of *El Buen Fin* (Mexico’s Black Friday), albeit less than expected**
- **Annual inflation increased to 7.05% from 6.24% on average in October, while the core reached 5.53% from 5.19% in the same period**
- **We increase our year-end forecasts once again, to 7.3% from 6.6% for the headline, and to 5.6% at the core (previous: 5.2%). For 2022, we estimate the former at 4.4% y/y (previous: 4.0%)**
- **The yield curve will strengthen bets for greater hikes from Banxico**

Inflation at 0.69% 2w/2w in 1H-November, above its 5-year average. The core reached 0.15%. Energy prices were up 3.3% driven by electricity tariffs (24.2%) due to the final rollback of summer discounts. Nevertheless, LP gas fell 1.9% as global benchmarks waned, with low-grade gasoline also down (-0.5%). In contrast, agricultural goods extended higher (2.2%), mostly in fresh fruits and vegetables (3.5%), with reports of adverse weather (*e.g.* rain and cold weather) impacting crops. At the core, ‘other goods’ (-0.2%) benefited from the earlier than usual timing of *El Buen Fin* (Mexico’s Black Friday), this time around in the first half of the month. This included items such as TVs (-1.4%) and mobile phones (-1.2%). Nevertheless, processed foods stayed elevated (0.3%). In services, tourism-related categories increased and did not respond much to discounts, while others are likely still affected by higher costs.

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

| | INEGI | Banorte | Difference |
|-----------------------------|-------|---------|------------|
| Total | 0.69 | 0.49 | 0.20 |
| Core | 0.12 | 0.05 | 0.06 |
| Goods | 0.03 | -0.01 | 0.03 |
| Processed foods | 0.06 | 0.06 | 0.00 |
| Other goods | -0.03 | -0.07 | 0.03 |
| Services | 0.09 | 0.06 | 0.03 |
| Housing | 0.02 | 0.02 | 0.00 |
| Education | 0.00 | 0.00 | 0.00 |
| Other services | 0.07 | 0.04 | 0.03 |
| Non-core | 0.57 | 0.44 | 0.14 |
| Agriculture | 0.24 | 0.10 | 0.14 |
| Fruits & vegetables | 0.18 | 0.07 | 0.11 |
| Meat & egg | 0.06 | 0.03 | 0.03 |
| Energy & government tariffs | 0.34 | 0.34 | 0.00 |
| Energy | 0.34 | 0.34 | 0.00 |
| 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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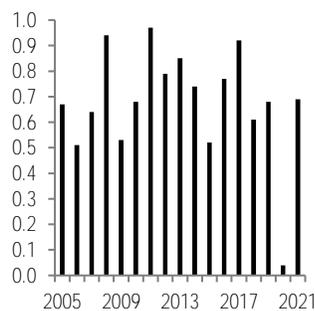
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Headline inflation in 1H-Nov
% 2w/2w



Source: INEGI

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

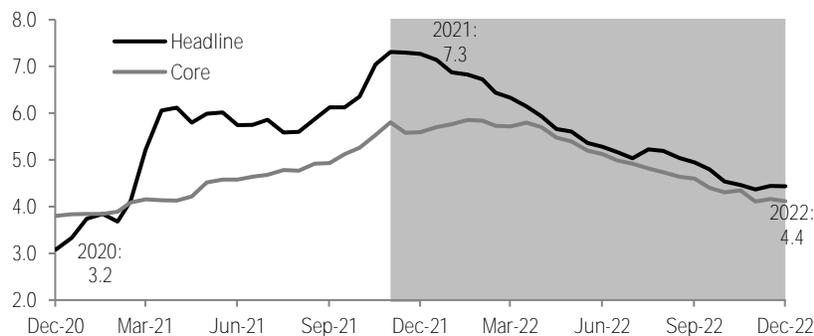
% 2w/2w; bi-weekly incidence in basis points

| Goods and services with the largest positive contribution | Incidence | % 2w/2w |
|---|-----------|---------|
| Electricity | 40.5 | 24.2 |
| Husk tomatoes | 7.2 | 42.1 |
| Chicken | 4.4 | 2.8 |
| Tomatoes | 2.7 | 3.9 |
| Other chillies | 2.5 | 19.8 |
| Goods and services with the largest negative contribution | | |
| LP Gas | -4.7 | -1.9 |
| Low grade gasoline | -2.3 | -0.5 |
| Men's shoes | -0.6 | -2.3 |
| Pork meat | -0.5 | -0.8 |
| Bags, suitcases and belts | -0.5 | -2.7 |

Source: INEGI

Adjusting our forecasts higher, again. The headline increased to 7.05% from 6.24% on average in October, while the core to 5.53% from 5.12%. As a result, we adjust higher our year-end forecasts once again, marking them up to 7.3% from 6.6% and to 5.6% from 5.2%, respectively. The latter component remains most concerning. Specifically, energy costs and supply bottlenecks that are causing direct and indirect effects on prices have done so even more than we had already anticipated, while agricultural goods keep surprising significantly higher. Our forecast path is slightly above Banxico's latest estimates of average inflation in 4Q21 at 6.8% and 5.5%, in the same order. For 2022, we adjust our call to 4.4% from 4.0% at the headline, and to 4.1% from 4.0% at the core (see chart below). Hence, the underlying assumption remains that lingering pressures will remain in place, with supply and demand imbalances and the pandemic maintaining a difficult scenario. In the short-term, we are watching carefully to: (1) The minimum wage hike for 2022, with an announcement likely in early December; (2) recent developments in the oil market, with the US and other nations announcing the release of strategic reserves in a bid to push prices lower, albeit also waiting for the response from OPEC and its allies; (3) pressures and higher volatility in the MXN, partially on bets of a more rapid normalization by the Fed, but also with contagion from other EM issues, such as Turkey's adjustment; (4) the 'fourth wave' of COVID-19 currently affecting Europe the most and increasingly cautious given the upcoming winter season, and which could exacerbate supply problems; and (5) global pressures in some food staples, with warnings that the weather phenomenon "La Niña" could keep disrupting production. Our estimates are above consensus with the latest banking sector survey seeing the headline at 4.0% and the core at 3.8%.

Inflation forecasts
% y/y, bi-weekly frequency



Source: INEGI, Banorte

Banxico to keep going with its hiking cycle. We maintain our forecast path for the reference rate unchanged, expecting a longer hiking cycle that would take the rate to 6.50% by year-end 2022. As we have mentioned, this is mainly grounded on the more difficult scenario for prices despite Banxico's view that it remains 'mostly' transitory. Nevertheless, given the high uncertainty surrounding the outlook, we will analyze closely the comments made by Board members about prices in the minutes to be released tomorrow. Among them, we are especially interested on: (1) Recent dynamics and the debate whether it is transitory or not; (2) updates on estimates; and (3) adjustments to the balance of risks. In addition, there may be disagreements about the expected timeframe for convergence to the target and the risks on the anchoring of medium-and long-term expectations. For further details see our document, [*Ahead of the Curve*](#).

From our fixed income and FX strategy team

The yield curve will strengthen bets for greater hikes from Banxico. The market pricing regarding Banxico's next movements has corrected upwards in the last sessions after compressing in the aftermath of the last policy decision. In the midst of the global rates' sell-off permeating to local fixed-income, and with the MXN depreciation joining in the last 5 days that pushed the currency to its weakest since March, the yield curve discounts little less than 40bps of implied hikes for the end of this year, retaking the speculation about a more aggressive hike path for Banxico in the short-term. This report will probably validate this adjustment and will be reflected in wider short-term breakevens, extending this week's increase. We wait for better levels for tactical longs in the Mbonos' long-end and see greater value in mid-term Udibonos.

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Manuel Jiménez Zaldivar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez and Gerardo Daniel Valle Trujillo, 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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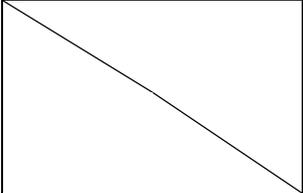
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| | |
|---|---|
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