November inflation – Annual rate reaches 7.4%, highest since 2001

- **Headline inflation (November): 1.14% m/m; Banorte: 1.00%; consensus: 1.02% (range: 0.95% to 1.10%); previous: 0.84%**
- **Core inflation (November): 0.37% m/m; Banorte: 0.34%; consensus: 0.32% (range: 0.26% to 0.35%); previous: 0.49%**
- **Energy prices increased 3.7% m/m, with electricity contributing 41bps vs 27bps in October. The category was helped by LP gas (-1.4%) and low-grade gasoline (-0.2%). Moreover, agricultural goods shot up 4.5%, mainly in fresh fruits and vegetables. At the core, goods increased 0.3% –with a modest effect from season discounts– and services by 0.4%**
- **Annual inflation stood at 7.37% from 6.24% in October, new high since January 2001. The core keeps increasing, to 5.67% from 5.19%**
- **With inflation much higher than expectations and the Fed signaling a faster tapering, we expect Banxico to hike by 50bps on December 16th, to 5.50%. In our view, overall conditions have become more difficult at the margin, arguing in favor of a faster hiking pace**
- **The market will strengthen the discussion about a 50bps hike**

Inflation at 1.14% m/m in November. This was above consensus (1.02%) and our 1.00%. This is the highest for the same month since 1998 (see chart on the right). As already known, electricity tariffs grew 24.2% m/m, explaining 41bps of the headline. In contrast, LP gas (-1.4%) and low-grade gasoline (-0.2%) were both aided by lower international prices, helping energy (3.7%). Agricultural goods shot up (4.5%), pressured especially by fresh fruits and vegetables (8.0%) in both fortnights. At the core, goods (0.3%) were driven to some extent by discounts in *El Buen Fin* (Mexico's Black Friday), albeit more modest than in previous years. Moreover, processed foods (0.5%) remain elevated. Services picked up 0.4%, highlighting airfares (9.7%) and housing (0.2%), which accelerated at the margin. In our view, these were boosted by better COVID-19 dynamics and increased mobility.

November inflation by components
%, monthly incidence

	INEGI	Banorte	Difference
Total	1.14	1.00	0.15
Core	0.28	0.26	0.02
Goods	0.13	0.11	0.01
Processed foods	0.11	0.11	0.00
Other goods	0.02	0.01	0.01
Services	0.15	0.14	0.01
Housing	0.03	0.04	0.00
Education	0.00	0.00	0.00
Other services	0.12	0.10	0.01
Non-core	0.87	0.74	0.13
Agriculture	0.49	0.35	0.14
Fruits & vegetables	0.40	0.29	0.11
Meat & egg	0.09	0.06	0.03
Energy & government tariffs	0.38	0.39	-0.01
Energy	0.37	0.38	-0.01
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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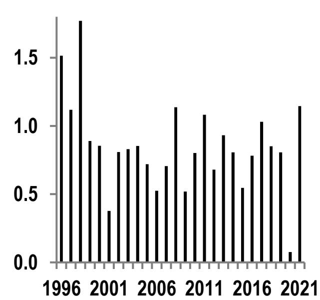
Headline inflation in November
% m/m



Source: INEGI

November inflation: Goods and services with the largest contributions
% m/m; monthly incidence in basis points

Goods and services with the largest positive contribution	Incidence	% m/m
Electricity	40.6	24.2
Tomatoes	17.2	25.4
Husk tomatoes	10.8	71.9
Chicken	4.5	2.8
Beef	3.8	1.7
Goods and services with the largest negative contribution		
LP Gas	-3.5	-1.4
Low grade gasoline	-1.2	-0.2
Avocadoes	-0.8	-3.3
Oranges	-0.6	-4.4
Beans	-0.5	-1.0

Source: INEGI

Annual inflation rises to a new high since January 2001. Headline inflation climbed to 7.37% y/y from 6.24% in October. This is in part because of a more difficult base effect –due to last year's extension of discounts because of the pandemic–, boosting the headline to a new high since January 2001. The core increased for a twelfth month in a row, to 5.67% from 5.19%. The latter has been consistently above the upper bound of Banxico's range at 4% since March. Given today's results which were strongly above expectations and adjusting our path for the two remaining fortnights for this year, we now expect year-end headline and core inflation at 7.8% and 5.7%, respectively. Among other factors, we add relatively more pressures stemming from holiday sales, with several companies expressing concerns about the possibility of not having enough inventories.

We expect a faster hiking pace from Banxico. Today's results reaffirm our conviction about the need to increase the hiking pace. Given high inflation as well as other, more recent drivers, we expect the central bank to hike the rate by +50bps next week, to 5.50%. Moreover, we anticipate accumulated rate hikes of 125bps in 2022, in the decisions to be held on February (+50bps), June (+25bps), September (+25bps) and December (+25bps). With this, the reference rate would reach 6.75% at the end of said year. Although this is meaningfully above analysts' consensus (year-end 2022: 6.25%), it is still below what is already priced-in, which implies accumulated increases of 214bps against our 175bps.

From our fixed income and FX strategy team

The market will strengthen the discussion about a 50bps hike. The valuation at the short-end of the local yield curve holds a pricing biased to a 50bps hike from Banxico in next Thursday's decision, currently incorporating a probability of 74% (+37bps). With today's CPI and ahead of a quite active central bank agenda next week, highlighting the Fed a day before Banxico (where we expect an acceleration in the tapering pace to be announced), this pricing will likely remain tilted towards the 50bps hike we anticipate. Meanwhile, the +214bps accumulated for the end of 2022 still look elevated when considering our estimate of the reference rate closing next year at 6.75%. We wait for better market conditions for directional strategies and given the recent local breakeven compression, the short-end of the Udibonos' curve reflects a greater relative value in a short-term horizon. Since the beginning of November, inflation breakevens from 3- to 30-year maturities average a decrease of 45bps, trading at 4.64% for the 3-year (+140bps year-to-date), 4.40% for the 5-year (+115bps), 4.00% for the 10-year (+39bps), and 4.30% for the 30-year (+75bps).

Analyst Certification

We, Alejandro Padilla Santana, 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, 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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Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
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.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

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