

## May inflation – Relatively high despite the period’s benign seasonality

- **Headline inflation (May): 0.18% m/m; Banorte: 0.15%; consensus: 0.16% (range: 0.10% to 0.20%); previous: 0.54%**
- **Core inflation (May): 0.59% m/m; Banorte: 0.56%; consensus: 0.56% (range: 0.20% to 0.62%); previous: 0.78%**
- **At the core, processed foods remain high (1.2% m/m), while ‘other goods’ (0.4%) were partly benefitted by *Hot Sale* discounts. Services were mixed (0.3%), with tourism and airfares also lower because of the latter campaign. At the non-core, energy fell 3.5% as electricity tariffs declined 20.4%, with LP gas also lower (-0.9%) but low-grade gasoline up +0.6%. Agricultural (0.8%) was affected by meat and egg (1.2%)**
- **Annual inflation stood at 7.65% from 7.68% on average in April and is likely past a peak in said period. The core inched to 7.28% from 7.26%, its 18<sup>th</sup> month in a row higher**
- **Given recent central bank communications and news that maintain the balance of risks for inflation to the upside, we reiterate our call of a 75bps hike in June and a year-end reference rate of 9.50%**
- **Market expects 75bps hikes in the next two Banxico meetings**

**Inflation at 0.18% m/m in May.** We must recall that the month is seasonally low since [the first half](#) because of summer discounts to electricity tariffs (-20.4%). Also, at the non-core, LP gas (-0.9%) was lower at the margin, while low-grade gasoline picked up modestly (0.6%) despite a stronger MXN and higher subsidies to excise taxes. Nevertheless, agricultural goods (0.8%) were affected by meat and egg (1.2%), consistent with reports of higher bird flu cases in the north of the country and the US. At the core, processed foods stayed pressured (1.2%), especially in wheat-based products. We note that tariff exemptions in the [Plan Against Inflation](#) were enacted on May 17<sup>th</sup>, likely not having an impact yet on final prices. In contrast, ‘other goods’ (0.4%), as well as airfares (-2.7%) and tourism (-6.6%) –within services– were likely benefitted by *Hot Sale* discounts in the second fortnight. Nevertheless, non-tourism categories remain elevated, probably still resenting cost pressures.

May inflation by components  
%, monthly incidence

	INEGI	Banorte	Difference
Total	0.18	0.15	0.02
Core	0.44	0.42	0.02
Goods	0.33	0.31	0.01
Processed foods	0.25	0.25	-0.01
Other goods	0.08	0.06	0.02
Services	0.11	0.10	0.01
Housing	0.04	0.04	0.00
Education	0.00	0.00	0.00
Other services	0.07	0.07	0.00
Non-core	-0.26	-0.26	0.00
Agriculture	0.09	0.08	0.01
Fruits & vegetables	0.01	0.01	0.01
Meat & egg	0.08	0.08	0.00
Energy & government tariffs	-0.35	-0.34	-0.01
Energy	-0.35	-0.35	-0.01
Government tariffs	0.01	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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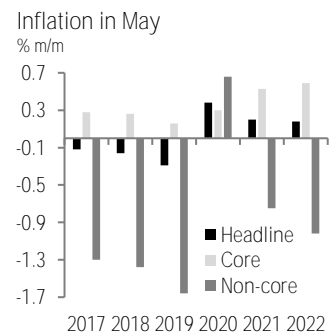
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Winners of the award for best  
economic forecasters for Mexico in  
2021, granted by *Refinitiv*



Source: INEGI

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general public

May 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
Avocados	7.1	19.1
Dining away from home	5.2	1.1
Tomatoes	4.6	8.4
Potatoes	3.8	12.1
Chicken	3.3	1.8
Goods and services with the largest negative contribution		
Electricity	-36.6	-20.4
Lemons	-8.0	-37.7
Onions	-6.3	-20.6
Tourism services	-2.4	-6.6
Serrano chillies	-2.3	-16.6

Source: INEGI

**Annual core inflation remains high.** Headline inflation stood at 7.65% y/y from 7.68% on average in April. This reinforces our view that this metric has likely passed its new peak since January 2001 last month, falling gradually for the rest of the year. Nevertheless, the core accelerated at the margin, at 7.28% from 7.22% and higher for 18 consecutive months. In our view, the latter is still Banxico's main concern and [justifies their more hawkish tone](#). Recent news suggests that the balance of risks for said component remains to the upside. Among them, we highlight: (1) Coca Cola's announcement on June 6 that they will increase prices of sodas, juice, milk and water by 6.6% on average, with some products up as much as 16.6%, given higher raw material prices; (2) higher beer prices in June, increasing up to 20% in wholesales, also related to scarcity in some inputs; and (3) potential increases in some fruits and vegetables due to hurricane Agatha, touching ground in Oaxaca on May 30<sup>th</sup> and affecting coffee and papaya, among others. In energy, oil prices have risen again on lower COVID-19 restrictions in China, with WTI and Brent above 120 US\$/bbl and *Bloomberg's* commodity index at new highs since the beginning of 2013.

**We reiterate our short-term monetary policy call.** Specifically, we see a 75bps hike on June 23<sup>rd</sup> and a year-end reference rate at 9.50%, which is also our estimate for the terminal level in this cycle. Despite recent MXN strength, we believe the inflation outlook is still very difficult and global central banks will continue with their restrictive cycles, especially the Fed. Therefore, Banxico has limited degrees of freedom against this backdrop.

*From our fixed income and FX strategy team*

**Market expects 75bps hikes in the next two meetings.** High global inflation continues to be the main topic within central banks. This, in a context in which energy and food prices keep rising, mainly on the supply crisis because of the war in Ukraine. Crude-oil is trading close to 3-month highs and above 120 \$/bbl. Locally, the market maintains its view of a more restrictive Banxico stance to curb inflation, discounting two hikes of 75bps in both the June and August decisions with a 90% probability. It also sees the terminal rate close to 9.50% by year-end, above the previous tightening cycle (8.25%) and in line with our call. We expect nominal yields to continue flattening as the view of at least one 75bps hike in June, as we anticipate, is not yet fully priced-in. The 2s10s Mbono spread is at -32bps from +43bps at the start of the year and has been negative since mid-May. Inflation hedges have become more expensive again, not seeing attractive levels for a directional trade. CPI-linked Udibonos have rallied 16bps on average in June with, gaining up to 57bps in short-term securities. In this sense, breakevens for all terms have increased, returning to levels close to 12-month highs.

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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, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José de Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Oscar Rodolfo Olivós Ortiz, Daniel Sebastián Sosa Aguilar and Salvador Austria Valencia 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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