

## September inflation – A downward surprise, but the trend remains challenging

- **Headline inflation (September): 0.62% m/m; Banorte: 0.68%; consensus: 0.67% (range: 0.61% to 0.73%); previous: 0.70%**
- **Core inflation (September): 0.67% m/m; Banorte: 0.71%; consensus: 0.73% (range: 0.68% to 0.80%); previous: 0.80%**
- **The figure was benefitted by lower pressures in the core in the 2<sup>nd</sup> half. In goods (0.9% m/m), we highlight the slight moderation in processed foods (1.1%). The main surprise within services (0.4%) was a hefty drop of 4.0% in mobile phone services, with seasonal factors related to the return to classes also influencing. In the non-core, the relief came from energy (-0.7%), with agricultural goods (1.5%) still high**
- **Annual headline inflation was unchanged from the previous month at 8.70%. Nevertheless, the core advanced again, to 8.28% from 8.05% in the same period**
- **We reiterate our call of a 75bps hike by Banxico in November, with the reference rate reaching 10.50% by the end of the year**
- **Market expects Banxico to maintain the hiking pace in November**

September's inflation at 0.62% m/m, still higher than historical averages. Meanwhile, the core reached 0.67%. The second half of the month showed a moderation in both categories, although not enough to reverse [built-up pressures in the first half of the month](#). We highlight goods at 0.9%, lower at the margin, especially on processed foods (1.1%). We did not identify new and important announcements of price adjustments, although this category stayed high. 'Others' stood at 0.8%, not so distant from its latest performance. Services (0.4%) surprised to the downside. First, they were influenced by the seasonality of the return to classes. As a result, education (2.1%) rose, airfares inched higher (0.6%), and tourism services (-1.2%) fell. But the single most relevant highlight was the 4.0% decline in mobile phone services, slashing 4bps to the headline. Other categories such as 'dining away from home', maintain challenging dynamics. The non-core (0.5%) also provided some relief, especially energy (-0.7%) since the first fortnight, especially LP gas (-3.3%). Low-grade gasoline accelerated in the second half, although lower for the full month (-0.6%). Agricultural goods were skewed to the upside, with pressures mostly in fruits and vegetables (1.5%), but also in meat and egg (0.8%).

September 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
Tomatoes	6.2	11.6
Dining away from home	4.9	1.0
Onions	4.5	11.4
Corn tortillas	4.5	2.1
Electricity	2.9	2.0
Goods and services with the largest negative contribution		
LP Gas	-7.1	-3.3
Avocados	-5.4	-16.4
Mobile phone services	-4.1	-4.0
Professional services	-3.1	-14.6
Low-grade gasoline	-2.9	-0.6

Source: INEGI

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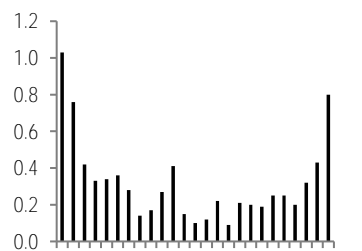
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economic forecasters for Mexico in  
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Core inflation in September  
% m/m



Source: INEGI

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**The rise in annual inflation pauses temporarily.** With these results, headline inflation was unchanged from the previous month at 8.70%. Nevertheless, the core picked up to 8.28% from 8.05% in the same period. As we detailed in the previous fortnight, we believe both will remain to the upside in the short-term. Among the latest news, we had a [complementary agreement to the Plan Against Inflation](#) early this week. However, we believe its effect will be limited. In addition, press reports assure that COPARMEX will propose a 15% increase for the minimum wage in 2023 in coming days, topic which we have already warned as important for inflation and its expectations. We still believe that the adjustment will be closer to 20%. On other fronts, the situation on energy prices remains fragile. On one hand, [OPEC+ will cut production](#) starting in November; on the other, the US government could evaluate if it limits the export of oil and refined products (such as gasolines). Although it seems little likely to be implemented, we do not rule out volatility and even pressures due to this. Lastly, in the short-term we will be looking into: (1) Potential upside distortions in goods such as TVs and computers ahead of the *FIFA World Cup 2022* in Qatar, which begins on November 20<sup>th</sup>; (2) the magnitude and scope of discounts during *El Buen Fin*, which will return to its four-day format from November 18<sup>th</sup> to 21<sup>st</sup>. Overall, we remain cautious over the trajectory for prices, seeing inflation by the end of the year at 9.0%, above analysts' expectations.

**Banxico will maintain the course, at least for now.** In our opinion, the recent evolution of domestic inflation, the forward guidance and comments from Fed speakers about upcoming decisions, and the increase in financial market volatility, suggest that the central bank will continue with a very cautious stance. In this context, we reiterate our call of a new 75bps reference rate hike on November 10<sup>th</sup>, followed by +50bps in December, closing the year at 10.50%. Among other things, we will look carefully to possible signs regarding monetary policy in the minutes of the last decision, which will be released next week.

*From our fixed income and FX strategy team*

**Market expects Banxico to maintain the hiking pace in November.** In Mexico, as globally, inflation remains high and without clear signs of slowing down. Hence, the market expects Banxico to continue with the same pace of 75bps hikes in November, as in the three previous decisions. As a result, the benchmark rate would stand at 10.00%, in line with our call. However, it is pricing-in additional adjustment of only 75bps for the rest of the year, ending the tightening cycle at 10.75% against our expectation of 11.00% (+100bps). Therefore, we believe rates are poised for renewed pressures, mainly in short-term tenors, while extending their flattening bias and even more inversion of nominal yield curves. Given high volatility, we reaffirm our preference for relative value strategies, although Mbonos Nov'38 and Nov'42 reflect an attractive valuation. In this sense, we maintain [our trade idea to pay TIE-IRS \(26x1\) and receive 2-year SOFR](#), initiated on August 18<sup>th</sup>. For its part, inflation hedges have become more expensive in relative terms, with breakevens for all maturities trading close to 12-month highs. Therefore, we do not see enough attractiveness in CPI-linked bonds (Udibonos), at least for now.

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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, Cintia Gisela Nava Roa, 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, 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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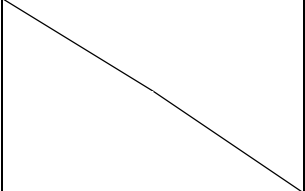
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