

November inflation – Strong downward surprise, both at the core and non-core

- **Headline inflation (November): 0.58% m/m; Banorte: 0.69%; consensus: 0.68% (range: 0.59% to 0.79%); previous: 0.57%**
- **Core inflation (November): 0.45% m/m; Banorte: 0.53%; consensus: 0.53% (range: 0.47% to 0.56%); previous: 0.63%**
- **This print is influenced by seasonal factors. At the core, we highlight *El Buen Fin* discounts (Mexico's Black Friday), benefitting 'other goods' strongly at 0.2%. In addition, processed foods moderated, although still high (0.6%). Services (0.5%) also reflected discounts, especially in tourism-related categories. At the non-core, electricity tariffs were up 20.3%, albeit with declines in LP gas (-2.3%) and low-grade gasoline (-0.3%). Agricultural goods fell 0.4%**
- **Annual inflation declined for a second month in a row, from 8.41% to 7.80%. The core keeps rising, from 8.42% to 8.51%**
- **We reiterate our call of +50bps from Banxico in December to 10.50%, followed by two 25bps hikes each in February and March 2023**
- **Udibonos remain relatively expensive despite lower breakevens**

Inflation at 0.58% m/m, influenced by seasonal factors but with a downward surprise. The core reached 0.45%, low relative to recent dynamics. Although the [1st half remained pressured](#), the overall result is mostly explained by the positive effects of discounts during *El Buen Fin* (Mexico's Black Friday), which took place between November 18th to 21st. Goods (0.4%) were the most benefitted, especially 'others' (0.2%), although staying positive in the month. Processed foods (0.6%) moderated relative to recent figures but remain high. In services, airfares (10.4%) and tourism packages (2.4%) responded to this initiative, albeit not enough to turn them negative for the full month given important rises in the first fortnight. The non-core increased 0.94%, recalling that the second block of summer discounts to electricity tariffs (20.3%) ends in this period. However, LP gas dropped again (-2.3%) and low-grade gasoline surprised to the downside (-0.3%). Contrary to our view, fruits and vegetables declined (-0.8%) despite pressures in chilies and tomatoes, among others. Meat & egg (-0.1%) fell at the margin, noting chicken among those with the steepest contractions, which has a relevant weight in the index.

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 tariffs | 34.8 | 20.3 |
| Serrano chilies | 6.2 | 65.8 |
| Dining away from home | 4.1 | 0.8 |
| Tomatoes | 3.9 | 5.6 |
| Air fares | 2.2 | 10.4 |
| Goods and services with the largest negative contribution | | |
| Onions | -8.4 | -23.6 |
| LP gas | -4.4 | -2.3 |
| Potatoes | -3.7 | -8.4 |
| Chicken | -2.7 | -1.6 |
| Husk tomatoes | -2.7 | -15.4 |

Source: INEGI

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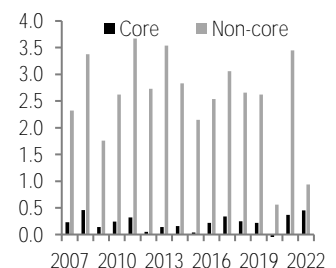
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Winners of the award for best
economic forecasters for Mexico in
2021, granted by Refinitiv



Core and non-core inflation in
November
% m/m



Source: INEGI

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general public

Annual inflation likely past its peak, but the core went up again. Headline inflation fell for a second consecutive month, from 8.41% to 7.80%. The recent relief at the non-core has been critical to explain this, albeit with base effects also helping. From the current level, we still see a move higher towards 8.4% by the end of the year, considering a more adverse base. Despite of this, it is very likely that the peak in the headline is already past us, as it reached 8.77% (in bi-weekly frequency) in August's second fortnight. On a less positive note, the core picked up from 8.42% to 8.51%, its 24th month consecutive higher. Broadly speaking, the main concerns remain in place, such as persistent pressures in processed foods and dining away from home within services. In the short-term, we will keep watching these components closely. We also think that at least two factors may be relevant soon: (1) The possibility that pent-up demand during the holidays inserts pressures, especially in goods; and (2) potential adjustments higher in prices at the turn of the year after the announcement of a [20% minimum wage increase](#), which in our view was above market expectations (and closer to our view). Globally, recent developments in crude oil are also worth noting, with WTI and Brent lower even after [the decision by OPEC and allies to maintain production cuts unchanged](#) and the European Union's sanctions to Russian crude. With the winter arriving to the Northern Hemisphere, oil-related products such as gasoline and gas are likely to remain volatile, with their direction still very important for short-term inflation and its expectations.

Banxico will keep following the Fed. We anticipate the US monetary authority to hike the *Fed funds* rate by 50bps next week, as signaled by several members before the start of the silence period. Recently, the debate among Banxico's Board has been centered on the possibility of 'decoupling' from the Fed, including comments from various members about not following it mechanically, among other issues. On the other hand, we still perceive strong concerns about core inflation. Considering all the latest comments and the skew that we attribute to each member, we see as very likely that Banxico will also hike by 50bps on December 15th, to 10.50%. After this, we reiterate our view of two more rate increases of 25bps each in February and March to reach a terminal rate of 11.00% by the end of 1Q23.

From our fixed income and FX strategy team

Udibonos remain relatively expensive despite lower breakevens. Increasing fears of a global recession in 2023 continue to permeate the market given the conviction of central banks to raise interest rates amid a still complex inflationary backdrop. In this context, yield curves in both Mexico and the US point to a moderation in the rate hiking pace in December. For the former, market expectations about the terminal rate are in line with our call of 11.00% at the end of 1Q23. This week, short-term Mbonos have rallied 10bps, while CPI-linked bonds of the same duration have lost 30bps on average. Hence, the 3-year breakeven dipped 25bps, close to its 12-month average of 4.96%. Despite of these, we believe that real-rate securities remain expensive, not seeing enough attractiveness in Udibonos for now. In addition, valuation advantages that we saw in long-term Mbonos –mainly the Nov'38 and Nov'42 tenors– have been exhausted after November's rally. Given the unusual volatility in bonds and the shape of the curve, we reaffirm our preference for relative value strategies.

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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 Thalia 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, and Daniel Sebastián Sosa Aguilar 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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