

1H-November inflation – Higher on some pressures in the non-core component

- **Headline inflation (1H-Nov): 0.68% 2w/2w; Banorte: 0.62%; consensus: 0.66% (range: 0.10% - 0.81%); previous: 0.16%**
- **Core inflation (1H-Nov): 0.16% 2w/2w; Banorte: 0.17%; consensus: 0.17% (range: 0.13% - 0.70%); previous: 0.12%**
- **As is typical in the period, dynamics were driven by the reversal of electricity tariffs' subsidies in some states (23.3% 2w/2w, contributing 40bps). We also highlight pressures in agricultural goods within the non-core component**
- **With these, annual headline inflation edged-up to 3.10% from 3.02% in October. Core inflation was basically unchanged at 3.66%, improving marginally. On the other hand, non-core inflation was up once again, ending at 1.45% from 1.01% in the same period**
- **The market holds its pricing on further stimulus from Banxico, acknowledging seasonality in today's CPI**

Consumer prices up 0.68% 2w/2w in 1H-November. This number was higher than consensus (0.66%), and our 0.62% forecast. Core inflation rose 0.16% (Banorte: 0.17%). The main deviation came from: (1) A higher impact from agricultural goods (15bps vs. our +3bps), both because of fresh fruits and vegetables (10bps) and meat and egg (5bps); (2) a lower contribution from energy (+40bps vs our +46bps); and (3) a more significant contribution from other services (+7bps vs. our +4bps), as shown in the table below.

1H-Nov inflation by components

% bi-weekly incidence

	INEGI	Banorte	Difference
Total	0.68	0.62	0.06
Core	0.12	0.13	-0.01
Goods	0.04	0.06	-0.02
Processed foods	0.02	0.04	-0.01
Other goods	0.02	0.03	-0.01
Services	0.08	0.06	0.01
Housing	0.01	0.02	-0.01
Education	0.00	0.00	0.00
Other services	0.07	0.04	0.02
Non-core	0.56	0.49	0.07
Agriculture	0.15	0.03	0.12
Fruits & vegetables	0.10	0.04	0.06
Meat & egg	0.05	-0.01	0.06
Energy & government tariffs	0.41	0.46	-0.05
Energy	0.40	0.46	-0.05
Government tariffs	0.01	0.01	0.00

Source: INEGI, Banorte.

Note: Contributions might not add due to the number of decimals allowed in the table.

November 22, 2019

www.banorte.com

@analisis_fundam

Juan Carlos Alderete, CFA

Senior Economist, Mexico

juan.alderete.macal@banorte.com

Francisco Flores

Economist, Mexico

francisco.flores.serrano@banorte.com

Fixed income and FX Strategy

Alejandro Padilla

Head Strategist – Fixed-Income and FX

alejandro.padilla@banorte.com

Santiago Leal Singer

Fixed-Income and FX Strategist

santiago.leal@banorte.com

Leslie Orozco

Fixed Income and FX Strategist

leslie.orozco.velez@banorte.com

Document for distribution among public

Dynamics explained by pressures in components within non-core inflation.

In particular and as is typical in the period, the highest contribution came from the reversal of electricity tariffs' subsidies in some states (23.3% 2w/2w, contributing 40bps). Apart from this, we also highlight pressures in some energy and agricultural goods. Regarding the former, LP gas picked up 0.5% 2w/2w, now with six consecutive fortnights increasing. On the contrary, low-grade gasoline was basically flat in a context in which the international reference price and the peso were relatively stable, while tax subsidies decreased marginally. Regarding agricultural goods, we observed a 1.5% increase (15bps contribution). Among the products with the highest impact, we highlight tomatoes, up by 13.3% 2w/2w, on top of the 5.9% monthly increase registered in October. Other goods in the top ten within this category included eggs (4.7%), husk tomatoes (15.2%), nopal cactus (19.8%), and chicken (0.5%). On the contrary, these were partially offset by avocados (-6.8%), lemon (-6.4%), and oranges (-4.0%).

On the other hand, the core component grew 0.16%, resulting in a 12bps contribution. We highlight that goods were up 0.1%, which was modest. Contrary to our expectations, this component was not pressured due to a previous adjustment higher in prices due to the start of *El Buen Fin* (Mexico's version of Black Friday in the US). In this respect, we should mention that one day of the event (November 15th) fell within the sample period. Moreover and as we expected, airfares (11.7%) were slightly pressured as a result of the extended weekend due to the holiday in remembrance of the Day of the Mexican Revolution, albeit tourism services were not as impacted (0.6%). We also highlight that professional services saw a sizable 12.6% increase, which is relevant in a context of concerns over the effect of a higher pace of minimum wage hikes on labor costs.

Annual inflation inching slightly higher, but still close to the 3% target.

In particular and using bi-weekly figures, headline inflation was up by 7bps to 3.10%, still hovering near Banxico's target. Nonetheless, it should be mentioned that non-core inflation, while remaining low at 1.45%, has been increasing for the last four consecutive prints. Core inflation inched lower at the margin, standing at 3.66%. We believe controlled price dynamics, along the weakness of activity and the widening of the output gap, among other factors, still argue for the continuation of the central bank's easing cycle in a prudent manner. For details, see: "*Banxico – The easing cycle will continue, decoupling from the Fed*", <[pdf](#)>, November 14, 2019. We maintain our year-end inflation forecast at 3.00% and will be focused on the adjustments of the central bank's estimates –both for headline and non-core inflation– within the *3Q19 Quarterly Report*, to be published in November 27th. In the short-term, the central bank will keep its attention to the magnitude of the minimum wage hike for 2020, which was ranked at second place in the list of the main upside risks for inflation going forward in the latest communique. This decision is going to be announced in coming weeks. Lastly, we will keep looking at non-core dynamics, particularly agricultural goods and energy, with some signs of an upward trend in the former after an unusually muted behavior almost all year long, while the latter remains negative at -2.2% yoy, aided by government policies.

From our fixed income and FX strategy team

The market holds its pricing on further stimulus from Banxico, acknowledging seasonality in today's CPI. November's 1H CPI printing at 0.68% 2w/2w came slightly above market expectations (0.66%) and our estimate (0.62%), with a general annual reading that at 3.10% is still fairly close to Banxico's target. Meanwhile, core annual inflation located at 3.66% (from 3.68% at the end of last month), a factor to be considered in the central bank's following communications (*Quarterly Report* due on Wednesday and the minutes from its last policy decision on Thursday). Pressures registered in the bi-weekly reading are consistent with the typical and expected seasonality, associated with the electric tariffs subsidy withdrawal at this stage of the year. The market has acknowledged more favorable inflation dynamics in the last months, expressed among in other gauges, in breakevens that hold at relatively low levels despite recent adjustments that we link to the widespread local rate sell-off recently experienced, on the back of weaker risk appetite conditions globally. In particular, the 3- and 5-year readings print at 3.25% and 3.37%, respectively, from 3.03% and 3.14% at the end of October, though still holding a drop of nearly 70bps from the beginning of the year. This perception joins a market pricing which is consistent with our view of further stimulus from the central bank going forward. Specifically, the market currently discounts implied rate cuts of -28bps for 2019 year-end and -138bps for 2020 year-end. In this sense, we expect an additional 25bps rate cut for Banxico's next meeting on December 19th and an accumulated cut of 125bps in 2020, leaving the benchmark rate at 6.00%. In terms of strategy, we prefer to wait for better entry levels and market conditions for new directional recommendations.

Disclaimer

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

Analyst Certification

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Luis Leopoldo López Salinas, Jorge Antonio Izquierdo Lobato and Leslie Thalía Orozco Vélez, 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.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1% of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

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

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Luis Leopoldo López Salinas	Analyst, Global Economist	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research – Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials / Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts / Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Manager, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454