

# Ahead of the Curve

## Inflation in 1H-November expected at 0.62% 2w/2w

- Bi-weekly inflation report (1H-November).** We estimate headline inflation at 0.62% 2w/2w in the first half of November, above the 0.16% of the previous fortnight. Core inflation is expected at 0.17% (previous: 0.12%). As is typical in this period, this will be largely due to the reversal of electricity tariffs' subsidies in some states. Also within the non-core index, we expect a 3.5bps contribution from LP gas to add 3.5bps to the headline, now with six consecutive fortnights higher. We see mixed results in agricultural goods, with pressures in fresh fruits and vegetables compensated partially by meat and egg. In the core component, we expect specific pressures in some categories within the core component prior to the start of *El Buen Fin* (Mexico's version of Black Friday in the US), with a contribution of 13bp from this category. With these, annual inflation would come in at 3.04% from 3.02% in October. The non-core component would stay low at 1.18%, and core inflation would marginally improve, to 3.67%.

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### Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 18-Nov		Banking holiday: Mexican Revolution					
Tue 19-Nov	12:30pm	Government weekly auction: 1-, 3-, 6-month CETES; 10y Mbono (Jun'27); 5y Bondes D					
Wed 20-Nov	10:00am	International reserves	Nov-15	US\$ bn	--	--	180.3
Wed 20-Nov	3:30pm	Citibanamex bi-weekly survey of economic expectations					
Fri 22-Nov	7:00am	CPI inflation	1H-Nov	% 2w/2w	<u>0.62</u>	--	0.16
				% yoy	<u>3.04</u>	--	3.03
		Core		% 2w/2w	<u>0.17</u>	--	0.12
				% yoy	<u>3.67</u>	--	3.69

Source: Banorte; Bloomberg

Proceeding in chronological order...

**Weekly government bond auction.** The Ministry of Finance (MoF) –via Banco de Mexico as its financial agent, will offer 30-year fixed-rate Mbonos (Nov’47), 5-year Bondes D, in addition to the 1-, 3-, and 6-month zero-coupon Cetes (see following table). As usual, results will be released at 12:30pm (ET).

**Auction specifics (Tuesday, November 19<sup>th</sup>, 2019)**

	Maturity	Coupon rate, %	To be auctioned <sup>1</sup>	Previous yield <sup>2</sup>
<b>Cetes</b>				
1m	19-Dec-19	--	6,000	7.45
3m	20-Feb-20	--	15,000	7.44
6m	21-May-20	--	15,000	7.33
<b>Bondes D</b>				
5y	24-Oct-24	--	6,500	0.16
<b>M Bono</b>				
30y	07-Nov-47	8.00	4,000	7.17

Source: Banorte with data from Banco de México 1. Except for Udibonos, which are expressed in UDI million, everything else is expressed in MXN million. 2. Yield-to-maturity reported for Cetes, Mbonos and Udibonos

**Weekly international reserves report.** Last week, net international reserves decreased US\$450 million, closing at US\$180.3 billion. According to Banxico’s report, this comes mainly from a negative valuation effect in central bank assets. In this context, the central bank’s international reserves have increased US\$5.5 billion during 2019 (please refer to the following table).

**Banxico's foreign reserve accumulation detail**

US\$, million

	2018	Nov 8, 2019	Nov 8, 2019	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	174,793	180,278	-450	5,485
(B) Gross international reserve	176,384	183,953	308	7,569
Pemex	--	--	76	72
Federal government	--	--	553	2,040
Market operations	--	--	0	0
Other	--	--	-321	5,457
(C) Short-term government's liabilities	1,592	3,676	757	2,084

Source: Banco de México

**Citibanamex survey.** Markets will center on analysts’ inflation forecasts for the first half of November (to be published on Friday, October 22<sup>nd</sup>) along with the 2019 year-end estimate. It will be important to see monetary policy assessments, particularly after the latest decision from Banxico, in which the monetary authority cut the reference rate by 25bps. We will also pay attention to GDP growth and the exchange rate.

**Annual inflation to stay close the target.** We estimate headline inflation at +0.62% 2w/2w in the first half of November, above the 0.16% of the previous fortnight. Core inflation is expected at 0.17% (previous: 0.12%). As is typical in this period, this will be largely due to the reversal of electricity tariffs’ subsidies in some states. In particular, electricity tariffs would rise 24.0% (contribution: +41.1bps), remembering that in November we see a reciprocal upward adjustment relative to May’s reduction, which was -20.5%. In other energy goods, we expect LP gas to add 3.5bps to the headline, now with six consecutive fortnights higher.

Meanwhile, low-grade gasoline would contribute +1bp, with the international price and the Mexican peso relatively stable, while tax subsidies decreased marginally. On agricultural goods we expect mixed results, with fruits and vegetables at +3.5bps and meat and egg at -1bp. Within the former, we expect tomatoes to climb further, with onions and chilies partly offsetting this. On the latter, our price monitoring shows a decline in chicken, with upward pressures in beef.

We expect specific pressures in some categories within the core component prior to the start of *El Buen Fin* (Mexico's version of Black Friday in the US), with a total contribution of 13bp from the category. While one of the days of the promotion will fall within the sample period (November 15<sup>th</sup>), we believe previous upward adjustments will more than compensate for this. In particular, the items that could have a greater impact are processed foods (+3.5bps), other goods (+2.8bps) and other services (+4.4bps). Among the latter, it is also important to highlight increases in airfares and tourism services, driven higher by the holiday weekend due to the Day of the Mexican Revolution. Finally, we anticipate a 1.9bp contribution from housing.

With these, annual inflation would come in at 3.04% from 3.02% in October. The non-core component would stay low at 1.18%, increasing relative to the 0.57% low in the first half of September. This would be explained by energy, mainly LP gas, and some agricultural goods. Core inflation would marginally improve to 3.67%, lowest since March. Going forward, we continue to believe that one of the key factors for inflation to keep hovering around 3% will be non-core dynamics, which have recently showed some signs of picking up, and very relevant as this component has been the main driver behind the fall of inflation near the central bank's target.

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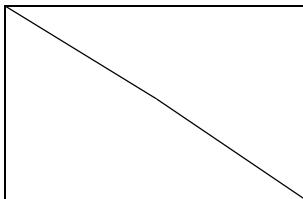
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