

September inflation – Lower than consensus on benign non-core dynamics

- **Headline inflation (September): 0.23% m/m; Banorte: 0.27%; consensus: 0.27% (range of estimates: 0.22% to 0.31%); previous: 0.39%**
- **Core inflation (September): 0.32% m/m; Banorte: 0.32%; consensus: 0.31% (range of estimates: 0.29% to 0.33%); previous: 0.32%**
- **Within the core, we highlight the relative stabilization in goods (0.4% m/m), although mixed between components. Services were below our expectations (0.2%), despite with some items showing modest pressures. The non-core was flat, helped by lower prices in the second half in both agricultural goods and energy prices**
- **Annual inflation inched lower, to 4.01% from 4.05% in August, breaking with four months in a row on the upside. In contrast, core inflation stood at 3.99% from 3.97%. We reiterate our call of an unchanged reference rate for the rest of the year at 4.25%, focused on the minutes to be released later today**
- **Mexican linkers' valuation could improve in the following days**

Consumer prices up 0.23% m/m. This figure was slightly below expectations at 0.27%, while the core stood at 0.32%, in line with our forecast. The bi-weekly print was negative and below the market for the first time in seven fortnights. Within the core, we note the relative stabilization in goods, up 0.4% m/m, aided by a moderation in processed foods (0.3%), but with 'other' accelerating at the margin. Services stayed low (0.2%), [with some seasonal patterns distorted in the first half](#) although with dining away from home slightly pressured, possibly related to the reopening and higher food prices. The non-core was flat. Agricultural goods were up at the margin although correcting their increase in the first fortnight. Energy extended its decline (-0.3%), driven by both LP gas (-1.0%) and low-grade gasoline (-0.4%), with the latter reversing some temporary disruptions due to hurricanes.

September inflation by components
%, monthly incidence

	INEGI	Banorte	Difference
Total	0.23	0.27	-0.04
Core	0.24	0.24	0.00
Goods	0.17	0.15	0.02
Processed foods	0.07	0.07	0.00
Other goods	0.10	0.08	0.01
Services	0.07	0.09	-0.02
Housing	0.02	0.02	0.00
Education	0.04	0.04	0.00
Other services	0.01	0.03	-0.02
Non-core	-0.01	0.03	-0.03
Agriculture	0.00	0.03	-0.02
Fruits & vegetables	0.00	0.01	-0.01
Meat & egg	0.00	0.02	-0.01
Energy & government tariffs	-0.01	0.00	-0.01
Energy	-0.03	-0.02	-0.01
Government tariffs	0.02	0.02	0.00

Source: INEGI, Banorte.

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

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Winners of the award for best economic forecasters for Mexico in 2019, granted by Refinitiv



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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
Onions	8.4	39.9
Chicken	3.1	2.0
Lemons	1.8	12.6
Autos	1.7	0.9
Dining away from home	1.6	0.3
Goods and services with the largest negative contribution		
Tomatoes	-6.8	-10.1
Eggs	-3.3	-4.0
Professional services	-3.1	-14.0
Oranges	-2.9	-14.5
Avocadoes	-2.3	-9.0

Source: INEGI

Waiting for additional information on monetary policy ahead. With today’s report, annual inflation remained broadly stable and close to 4%, the upper bound of Banxico’s variability range. Specifically, the headline reached 4.01% from 4.05% in August, breaking with four consecutive months on the upside. Meanwhile, core inflation stood at 3.99% from 3.97% and remains somewhat sticky. Despite of the latter, average inflation in 3Q20 was 3.9%, in line with Banxico’s forecasts contained in the latest [Quarterly Report](#). We still believe that inflation has passed its peak for 2020, maintaining our call that the headline will moderate towards 3.7% by year-end, slightly below [consensus expectations at 3.8%](#). On the positive side, goods’ prices seem to be stabilizing after persistently high increases since April, related to distortions due to the pandemic and, to a lesser extent, the depreciation of the Mexican peso. On the contrary, some services may be showing signs of higher pressures on the back of the economic reopening. It should be mentioned that the latter has decelerated strongly, most likely reflecting the effects of higher economic slack. Although these short-term dynamics are mostly positive, it is our take that the majority of Banxico’s Board members are waiting for clearer information about prices going forward, with the balance of risks still characterized as uncertain. In this sense, we will be looking for additional clues about monetary policy ahead in the minutes, to be released later today. The tone is likely to be very similar to the statement, which we saw as less dovish. We believe market attention will be centered on members’ comments about the “available room to maneuver” for additional cuts in the easing cycle. In our view, the most significant changes in the latest statement were in this front, [leading us to believe the central bank signaled it has closed the door for more cuts this year, although leaving it unlocked](#). As a result, we expect the reference rate to stay unchanged at the current level of 4.25%.

INEGI publishes the ‘minimum consumption basket’ price index for the first time. Starting with today’s print, the statistics agency released a new sub-index which aims to reproduce price variations that CONEVAL (*Consejo Nacional de Evaluación de la Política de Desarrollo Social*, in Spanish) incorporates into their food and non-food consumption baskets to satisfy essential requirements. In turn, these are directly related to the measurement of poverty in the country. The basket includes 176 generic items –compared to 299 for the headline index–, with the historical series available since August 2018 and only in monthly frequency. In our view, this is very valuable information to enhance the measurement of welfare levels and the effectiveness of public policies aimed to alleviate poverty levels.

From our fixed income and FX strategy team

Mexican linkers' valuation could improve in the following days. The local yield curve has experienced a sharp steepening bias in the last two weeks, in line with our expectation of a short-end anchored and longer-term securities more sensible to foreign premiums. In this sense, September's inflation printing below market expectations could limit at the margin part of the adjustment ahead of Banxico's minutes later today, with a market pricing in implied cuts for the reference rate at -8bps by end of 2020 and at -13bps by the 2Q21. We wait for better market conditions for new trade recommendations holding a view of steep slopes and an attractive carry in Udibonos going forward, with a valuation that has become expensive for these last securities but could improve in the aftermath of this report.

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