

November inflation –Annual rate plunges to its lowest since May

- **Headline inflation (November): 0.08% m/m; Banorte: 0.15%; consensus: 0.14% (range of estimates: 0.07% to 0.21%); previous: 0.61%**
- **Core inflation (November): -0.08% m/m; Banorte: -0.05%; consensus: -0.04% (range of estimates: -0.11% to 0.21%); previous: 0.24%**
- **Inflation was significantly below its 5-year average of 0.80%, benefitted by discounts in *El Buen Fin* and benign non-core dynamics, among others. Goods fell 0.3% m/m, with services also low albeit more modestly, at 0.2%. The non-core stood at 0.56%, skewed higher due to the end of subsidies to electricity tariffs (22.7%). Nevertheless, fruits and vegetables and low-grade gasoline decreased 3.1% and 4.3%, in the same order**
- **With these, annual inflation plunged to 3.33% from 4.09% in October. Core inflation was also lower, at 3.66% from 3.98%. Despite of this, we reiterate our call that Banxico will remain on hold at 4.25% in the decision to be held on December 17th**
- **Positive view on long-term Mbonos and for receiving rates from 6 months onwards**

Consumer prices up 0.08% m/m. This was below market expectations at 0.14%, in line with our call. The core stood at -0.08%, also lower than our -0.05%. These results are benign, with the 5-year average for the headline at 0.80%. The period is usually skewed to the upside due to the end of summer discounts in electricity tariffs, albeit with a relevant relief from *El Buen Fin* and good non-core dynamics. The former showed up mainly in ‘other goods’, declining 0.8% m/m after [falling strongly in the first fortnight](#). As such, goods stood at -0.3%, with processed foods at +0.1%. Services benefitted less (0.2%), but also positive in airfares (-5.8%) and tourism-related (-2.2%). The non-core was up 0.56%. Electricity (22.7%) had a monthly contribution of 39bps. Nevertheless, agricultural goods fell 0.4%, benefitted by the 3.1% decline in fresh fruits and vegetables. Low-grade gasoline extended the move lower of the first fortnight, down 4.3% m/m, while LP gas was also positive at the margin, up 1.1% after surging 2.7% in October.

November inflation by components
%, monthly incidence

	INEGI	Banorte	Difference
Total	0.08	0.14	-0.06
Core	-0.06	-0.04	-0.02
Goods	-0.12	-0.10	-0.02
Processed foods	0.03	0.01	0.01
Other goods	-0.15	-0.11	-0.04
Services	0.06	0.06	0.00
Housing	0.02	0.02	0.00
Education	0.00	0.00	0.00
Other services	0.04	0.04	0.00
Non-core	0.14	0.18	-0.04
Agriculture	-0.04	-0.02	-0.03
Fruits & vegetables	-0.16	-0.12	-0.04
Meat & egg	0.12	0.11	0.01
Energy & government tariffs	0.18	0.20	-0.01
Energy	0.18	0.19	-0.01
Government tariffs	0.00	0.00	0.00

Source: INEGI, Banorte.

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

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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	38.6	22.7
Eggs	4.5	5.6
Chicken	4.1	2.6
LP Gas	2.2	1.1
Professional services	2.0	10.4
Goods and services with the largest negative contribution		
Low-grade gasoline	-20.6	-4.3
Tomatoes	-5.7	-8.1
Lemons	-2.3	-18.3
High-grade gasoline	-2.3	-3.6
Avocadoes	-2.0	-9.3

Source: INEGI

We expect Banxico to wait for more information to decide when to restart the easing cycle. Annual inflation plunged to 3.33% from 4.09% in October, back within the central bank’s variability range for the first time since August and its lowest since May. Core inflation also fell, at 3.66% from 3.98% in the same period. In our view, one key driver was the distortion induced by discounts from *El Buen Fin*, with the annual rate (in monthly frequency) calculated with average prices in both fortnights. Therefore, core prices in the first half were biased to the downside, quite relevant as it was stressed also by the central bank in its [3Q20 Quarterly Report](#). The behavior of this component will be key for price dynamics. In the past, discounts have typically reversed during the 1st half of December, ahead of the holiday shopping season. That report will be released on December 23rd, after Banxico’s last scheduled decision this year, on December 17th. Moreover, we also saw very benign dynamics at the non-core. Nevertheless, the latest evidence suggests modest pressures in relevant categories such as agricultural goods and gasolines after recent declines. Considering these, we believe the Board’s majority will remain prudent, waiting to restart the easing cycle at some point next year (in our view, in 2Q21), until more information is available about the direction of prices. In our view, their evolution will take center stage for upcoming decisions, both in absolute terms and relative to their forecasts. This is important as we recognize other positive developments at the margin, including exchange rate dynamics (with the USD/MXN trading below 20.00 per dollar in recent days) and credit agencies Fitch and [S&P Global reaffirming Mexico’s sovereign rating](#). Nevertheless, given the focus on prices, we expect the reference rate to end this year at 4.25%, with cuts restarting next year, with the terminal reference rate in 2021 reaching between 3.50% to 3.75%.

From our fixed income and FX strategy team

Positive view on long-term Mbonos and for receiving rates from 6 months onwards. The low print will keep supporting the recent rally in nominal rates and will pressure Udibonos, resulting in a cheapening of inflation breakevens. We hold a positive view for long-term Mbonos. Considering their relative valuation, we see greater attractive in maturities Nov’36 and Nov’38 given their duration-adjusted yield. On the other hand, the market has consolidated its expectation on a 25bps rate cut from Banxico next year, pricing in -12bps for the 1Q21 and -22bps for the 2Q21. Considering this, valuation and our expectation of total cuts in 2021 between 50bps and 75bps, we still see value in short-term securities, reason why suggest receiving securities with a 6-month maturity onwards.

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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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