

1H-January inflation – Higher on pressures in energy prices

- **Headline inflation (1H-Jan): 0.51% 2w/2w; Banorte: 0.43%; consensus: 0.42% (range of estimates: 0.23% to 0.66%); previous: 0.19%**
- **Core inflation (1H-Jan): 0.24% 2w/2w; Banorte: 0.20%; consensus: 0.16% (range of estimates: 0.08% to 0.26%); previous: 0.08%**
- **We highlight the 1.37% increase at the non-core. Specifically, energy picked up 2.9%, with gasolines and LP gas adding 17bps and 11bps, respectively. At the core, we noted the 0.4% increase in goods, mainly due to processed foods (0.5%) given typical adjustments at the start of the year and updates in excise taxes, among others**
- **Annual inflation stood at 3.33% from 3.15% by year-end 2020, still within Banxico’s variability range. The core was broadly stable, to 3.83% from 3.80%. The non-core went up to 1.84% from 1.18%, albeit still quite modest**
- **We keep expecting Banxico to cut the reference rate by 25pb in its decision to be held on February 11th, followed by two more of the same magnitude in March and May**
- **Today’s print will hold a short-term positive performance in Udibonos**

Inflation up 0.51% 2w/2w in the first half of January. This was above our 0.43% forecast, which was close to consensus (0.42%), with a wide range of analysts’ estimates. The core stood at 0.24% (Banorte: 0.20%). Within, we highlight pressures at the non-core, mainly on energy (2.9%). This was due to both gasolines and LP gas. Agricultural goods were more modest (0.3%). At the core, goods (0.4%) remain higher than services (0.1%). In the former, we noted some processed foods with adjustments to excise taxes (*e.g.* soda and cigarettes), apart from several businesses which typically adjust prices by the end of the year, and likely some influence from the minimum wage increase. In services, we flag airfares (-20.9%) and tourism (-8.7%) after the holiday season, a situation we still attribute to the effects of the pandemic. We note that the cities of Tapachula and Chetumal had relevant declines, related to lower taxes due to stimulus programs.

1H-January inflation by components
%, bi-weekly incidence

	INEGI	Banorte	Difference
Total	0.51	0.43	0.09
Core	0.18	0.15	0.03
Goods	0.16	0.12	0.04
Processed foods	0.10	0.10	0.00
Other goods	0.06	0.02	0.04
Services	0.02	0.03	-0.01
Housing	0.02	0.02	0.00
Education	0.00	0.01	-0.01
Other services	0.01	0.01	0.00
Non-core	0.34	0.28	0.06
Agriculture	0.03	-0.01	0.04
Fruits & vegetables	0.03	-0.02	0.05
Meat & egg	0.00	0.02	-0.01
Energy & government tariffs	0.30	0.28	0.02
Energy	0.28	0.26	0.02
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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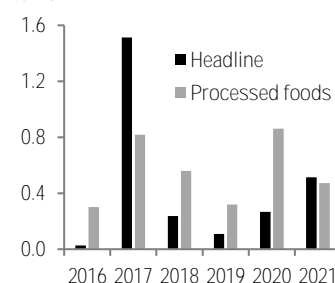
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Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



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Headline and processed foods inflation in Jan-1H
% 2w/2w



Source: INEGI

1H-January inflation: Goods and services with the largest contributions
 % 2w/2w; bi-weekly incidence in basis points

Goods and services with the largest positive contribution	Incidence	% 2w/2w
Low-grade gasoline	15.3	3.3
LP Gas	11.4	5.3
Potatoes	3.1	9.4
Dining away from home	2.7	0.6
Cigarettes	2.1	2.2
Goods and services with the largest negative contribution		
Airfares	-3.8	-20.9
Tourism services	-2.7	-8.7
Onions	-2.5	-10.4
Eggs	-2.4	-2.8
Pants for men	-0.8	-2.5

Source: INEGI

Annual inflation picks up but remains contained. With today’s print, the annual rate reached 3.33% from 3.15% by year-end 2020, still within Banxico’s variability range. Meanwhile, the core was broadly stable, at 3.83% from 3.80%. Therefore, the headline was driven by the non-core, up to 1.84% from 1.18%, albeit still quite modest. We will monitor this component closely, as expectations of a stronger economic recovery, along more fiscal stimulus –particularly in the US–, among other factors, have pushed oil and other commodities higher in recent weeks. Despite of this, we [see relatively benign price dynamics this year](#), with economic slack and a relatively stable FX rate helping to dampen price pressures, among other factors. Hence, we expect year-end inflation at 3.7% y/y, with the core more muted at 3.1%.

We keep expecting Banxico to cut the reference rate by 25pb in its decision to be held on February 11th. Moreover, this would be followed by two more reductions of the same magnitude, on March 25th and May 13th. Our call for easing is more aggressive than consensus based on the latest central bank survey, with a year-end rate of 4.00% (Banorte: 3.50%). One key factor behind our expectations is the inflation outlook. Nevertheless, we see other supporting factors, such as: (1) Changes to the central bank’s Board, with Javier Guzmán [replaced by Galia Borja](#), in our view with a more dovish stance; (2) risks for activity, mainly on the recent uptick in COVID-19 cases; (3) a more positive scenario for financial inflows, with renewed risk appetite after the ‘Blue Wave’ in the US and extended monetary stimulus around the world; and (4) greater awareness about the risks to the central bank’s independence due to amendments proposed to the law that governs its operations, for which we expect more updated information to start flowing in coming days.

From our fixed income and FX strategy team

Today’s print will hold a short-term positive performance in Udibonos. This Friday’s CPI report will extend the stronger relative performance experienced in Udibonos during the last sessions, although we prefer to wait for better entry points for long strategies in these securities. We hold [a positive view for the belly of the Mbonos’ curve and our recommendation of receiving the 6-month TIEE-28 IRS \(6x1\)](#), ahead of Banxico’s next meeting on February 11th (Banorte -25bps). In this context, the market currently discounts accumulated implied cuts of 12bps for the 1Q21, 31bps for the 2Q21, and 38bps for the 3Q21 vs our expectation of a total cut of 75bps to the reference rate in 2021.

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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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