

December inflation – 2021 closes at 7.4%, highest in little over two decades

- **Headline inflation (December): 0.36% m/m; Banorte: 0.40%; consensus: 0.46% (range: 0.35% to 0.97%); previous: 1.14%**
- **Core inflation (December): 0.80% m/m; Banorte: 0.81%; consensus: 0.78% (range: 0.43% to 0.85%); previous: 0.37%**
- **Some of the trends of the 1st half extended through the rest of the period. Especially, energy prices fell 2.3% m/m on the back of a 12.3% fall in LP gas. The print was also benefitted by a modest fall in agricultural goods (-0.1%), particularly fruits and vegetables (-2.4%). At the core, goods remain pressured (0.9%) and services accelerated at the margin (0.7%), to some extent on seasonal effects related to year-end holidays**
- **Annual headline and core inflation reached 7.36% and 5.94%, in the same order. These are at their highest for a full calendar year since 2000 for both cases**
- **We still see complicated inflation dynamics, at least in the short term. In this backdrop, we reiterate our call of a 50bps rate hike by Banxico in February and of 125bps in 2022**
- **The market reaffirms its pricing of a restrictive stance from Banxico**

Inflation at 0.36% m/m in December. This was below consensus (0.46%) and closer to our 0.40%. Some of the trends of the 1st half extended through the rest of the period. Especially, energy prices (-2.3%) benefitted mainly from LP gas, which exacerbated its decline (-12.3%) on lower global benchmarks and some peso relief. Low-grade gasoline (0.7%) rebounded modestly. Fruits and vegetables (-2.4%) within agricultural (-0.1%) also fell strongly, albeit with meat and egg (2.0%) limiting the downfall. Nevertheless, the core remained high despite some of the pressures coming from seasonal effects related to year-end holidays, such as airfares (22.2%) and tourism services (14.0%). Concerns are still primarily on goods (0.9%), particularly processed foods (0.8%), which grew at their highest pace in annual terms since mid-2009.

December inflation by components
%, monthly incidence

	INEGI	Banorte	Difference
Total	0.36	0.40	-0.04
Core	0.60	0.60	-0.01
Goods	0.36	0.36	0.00
Processed foods	0.18	0.16	0.02
Other goods	0.18	0.20	-0.01
Services	0.23	0.24	-0.01
Housing	0.03	0.03	0.00
Education	0.00	0.00	0.00
Other services	0.20	0.21	-0.01
Non-core	-0.23	-0.20	-0.03
Agriculture	-0.01	0.04	-0.05
Fruits & vegetables	-0.13	-0.07	-0.06
Meat & egg	0.12	0.11	0.01
Energy & government tariffs	-0.23	-0.25	0.02
Energy	-0.24	-0.26	0.02
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.

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Fixed income and FX Strategy

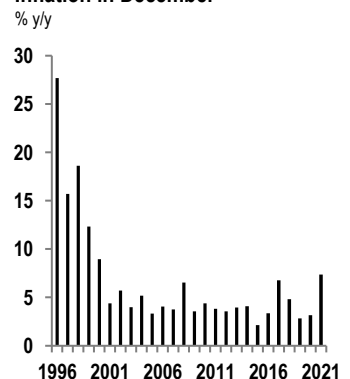
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Inflation in December



Source: INEGI

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December 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
Beef	6.4	2.9
Lemons	5.2	46.1
Airfares	5.0	22.2
Dining away from home	4.7	1.0
Tourism services	4.4	14.0
Goods and services with the largest negative contribution		
LP gas	-29.7	-12.3
Husk tomatoes	-6.4	-24.8
Tomatoes	-5.4	-6.4
Serrano chilies	-4.9	-27.7
Other chilies	-2.8	-17.5

Source: INEGI

Full-year inflation in 2021 at highs in little over two decades. Annual headline and core inflation reached 7.36% and 5.94%, in the same order. Both are at their highest for a full calendar year since 2000. More positively, the former has likely peaked since last month and will keep moving gradually lower. Nevertheless, we remain more cautious about the latter, with our estimated path still moving up until February 2022 to above 6%. This is important for our monetary policy call (see below) and central bank members' concerns about the evolution of this component. In the short-term, we are watching closely: (1) Non-core prices, especially energy and food given recent corrections; and (2) companies' possible start-of-the-year price adjustments. The latter may be particularly relevant due to accumulated cost pressures since the reopening began, updated excise taxes and the [22% minimum wage increase for 2022](#), among others.

Banxico to hike 50bps again. It is our take that marginal data since the [last monetary policy decision](#), when the central bank hiked 50bps (in line with our call), supports another, equally-sized increase in February. Despite some relief to headline inflation because of non-core prices and a more favorable MXN, most members remain concerned about the core, with the annual rate up again today. Also, the Fed minutes showed the possibility of an even more accelerated normalization process, which in our view also justifies at least one more 50bps point hike. For the rest of the year, we reiterate our view of 25bps increases each in June, September and December, in tandem with the Fed.

From our fixed income and FX strategy team

The market reaffirms its pricing of a restrictive stance from Banxico. Today's CPI continues to support the market's perception about a restrictive stance from Banxico. In this sense, the market incorporates a 100% probability of a 50bps hike in February and accumulated implicit hikes of +218bps by the end of the year. This scenario looks elevated relative to our estimate of a benchmark rate closing 2022 at 6.75%, equivalent to +125bps. In this backdrop, inflation breakevens still trade above their 12-month average. However, in a short-term horizon we see greater relative value in 3- and 5-year tenors, which have compressed around 40bps from 12-month highs reached in early November of 5.19% and 5.13%, respectively. Moreover, we keep waiting better levels in Mbonos as the start of the year has been quite difficult. We still see a flattening bias in the nominal yield curve, in a backdrop of hawkish central banks, high volatility and inflationary pressures.

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, José Itzamna Espitia Hernández, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez and Gerardo Daniel Valle Trujillo, 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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