

## April inflation – Pressures remain, especially in food items

- **Headline inflation (April): 0.54% m/m; Banorte: 0.57%; consensus: 0.58% (range: 0.52% to 0.80%); previous: 0.99%**
- **Core inflation (April): 0.78% m/m; Banorte: 0.79%; consensus: 0.74% (range: 0.69% to 0.82%); previous: 0.72%**
- **At the core, we highlight persistent pressures in goods (1.0% m/m), mainly processed foods (1.3%). Services (0.5%) benefitted from some reversal of seasonal increases related to the holidays in the second half. At the non-core, energy fell 1.5% as electricity tariffs declined 12.3%, partly offset by low-grade gasoline (+1.4%). Agricultural goods (1.0%) remained to the upside, especially in meat and egg (1.6%)**
- **Annual inflation stood at 7.68% from 7.45% on average in March. In monthly frequency, this is a new high since January 2001. The core reached 7.22% from 6.78% previously, up for 17<sup>th</sup> month in a row**
- **Given a difficult inflation backdrop and the Fed’s tighter policy, we expect a 50bps hike and a hawkish tone by Banxico on Thursday**
- **The market is pricing-in four 50bps hikes, in tandem with the Fed**

**Inflation at 0.54% m/m in April, slightly below consensus.** We saw an overall moderation in the second half of the period [relative to the first](#). At the core, goods remained pressured (1.0%), with the bulk of the increase in processed foods (1.3%). Corn tortillas (2.2%) were the main contributor. Services rose 0.5%, with ‘others’ at 0.8%. Despite a moderation in tourism in the 2<sup>nd</sup> half, earlier adjustments and the influence of higher costs in remaining categories still weighed. At the non-core, energy was lower (-1.5%) on electricity tariffs. Which stood at -12.3%. LP gas rose 0.8%, influenced by a negative base effect as this category has fallen for two straight fortnights. However, low-grade gasoline did remain to the upside (1.4%). In agricultural goods (1.0%), pressures were mostly seen in meat and egg (1.6%), especially chicken-related items. Fresh fruits were more mixed (0.4%), with tomatoes higher.

March inflation by components  
%, monthly incidence

|                             | INEGI | Banorte | Difference |
|-----------------------------|-------|---------|------------|
| Total                       | 0.54  | 0.57    | -0.03      |
| Core                        | 0.58  | 0.58    | -0.01      |
| Goods                       | 0.41  | 0.40    | 0.01       |
| Processed foods             | 0.27  | 0.26    | 0.01       |
| Other goods                 | 0.15  | 0.14    | 0.00       |
| Services                    | 0.17  | 0.18    | -0.01      |
| Housing                     | 0.03  | 0.03    | 0.00       |
| Education                   | 0.00  | 0.00    | 0.00       |
| Other services              | 0.14  | 0.15    | -0.02      |
| Non-core                    | -0.04 | -0.01   | -0.02      |
| Agriculture                 | 0.12  | 0.13    | -0.01      |
| Fruits & vegetables         | 0.02  | 0.02    | -0.01      |
| Meat & egg                  | 0.10  | 0.10    | 0.00       |
| Energy & government tariffs | -0.15 | -0.14   | -0.01      |
| Energy                      | -0.16 | -0.15   | -0.01      |
| Government tariffs          | 0.00  | 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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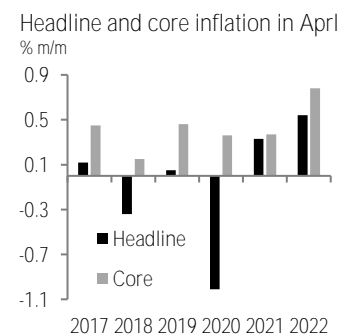
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Winners of the award for best  
economic forecasters for Mexico in  
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Source: INEGI

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April 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 |
|---|-----------|-------|
| Tomatoes  | 9.2       | 20.2  |
| Low-grade gasoline  | 6.9       | 1.4   |
| Chicken   | 5.2       | 3.0   |
| Avocadoes   | 4.5       | 14.0  |
| Corn tortillas  | 4.5       | 2.2   |
| Goods and services with the largest negative contribution |           |       |
| Electricity   | -25.4     | -12.3 |
| Lemons  | -8.7      | -29.0 |
| Onions  | -7.2      | -19.1 |
| Bananas   | -3.2      | -11.0 |
| Other fruits  | -0.8      | -2.7  |

Source: INEGI

**Annual headline inflation has probably reached its high.** Headline inflation stood at 7.68% y/y from 7.45% on average in March, while the core stood at 7.22% from 6.78%. The former reached a new 21-year high (January 2001), while the latter has picked up for 17 straight months. After today's result, we believe annual headline inflation has reached its highest point this year, expecting a slight moderation as soon as May, although not falling below 7% until October. Meanwhile, we expect the core to keep climbing, likely reaching its peak in late 2Q22 or early 3Q22. Despite signs of a moderation in some commodities, we believe companies have not fully passed on costs to consumers, a situation we expect to continue in coming months. In addition, risks are still tilted to the upside, with droughts extending globally and the possibility of additional shocks because of COVID-19 and the war in Ukraine.

**Banxico to hike 50bps this week.** Despite the slight downward surprise in today's report, we believe the inflation outlook remains challenging. Moreover, the 50bps hike from the Fed last Wednesday sets a high bar for Banxico's move on Thursday. Considering these factors, as well as prevailing market volatility among [other considerations](#), we expect a 50bps increase from the Mexican central bank this week (May 12<sup>th</sup>), taking the rate to 7.00% and with the tightening cycle extending to the remainder of the year and into 2023.

*From our fixed income and FX strategy team*

**The market is pricing-in four 50bps hikes in tandem with the Fed.** In a backdrop of inflationary pressures and persistent supply chain disruptions, the market has anchored its expectations of Banxico's restrictive stance, pricing-in a path of 50bps in each of the meetings on May, June, August, and September. The above, in tandem with the Fed after hiking 50bps on Wednesday and comments from Powell favoring further increases of the same magnitude in upcoming meetings. In this sense, the short-end of the local yield curve has incorporated cumulative hikes of 272bps for the remainder of this year vs 225bps at the beginning of April. Since Banxico's last decision, the TIIIE-IRS curve has steepened modestly, albeit with pressures of 50bps on average. In a similar fashion, the Mbonos' curve has recorded losses of 40bps at the short- and mid-end and 73bps in the long-end, on average. For their part, short-term Udibonos have adjusted +90bps, while long-term ones by +32bps. In terms of strategy, we see value in long-term Mbonos, particularly maturities Nov'42 and Nov'47. However, very high volatility limits the room for directional positions, which we keep avoiding. We also do not recommend positions in Udibonos despite the recent compression in the 3-year breakeven to its 12-month average of 4.60%, declining from 2008 highs of 5.56% in mid- April.

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, David Alejandro Arenas Sánchez, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José de Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Oscar Rodolfo Olivos Ortiz, Daniel Sebastián Sosa Aguilar and Salvador Austria Valencia 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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|-------------|---|
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