

Economic Analysis

Mexico Inflation Flash

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22 October 2018

We expect a headline inflation print of 0.45% HoH in the first fortnight of October, translating into a **4.99% YoY** number, compared to 5.17% in the second fortnight of September. Our monthly forecast is 0.45% MoM (4.93% YoY vs 5.02% in September). Although gasoline prices pick up their pace of increase again in the first half of the month, the non-core food tracker points towards a negative reading. This should allow headline inflation to resume its downward trend after increasing consistently since reaching 4.5% in May. The downward trend will likely become more clear in November when favorable base effects are likely to drive down the YoY pace around 0.2pp. We continue to expect headline inflation to reach 4.5% by year-end.

We expect core inflation to post an increase of 0.16% HoH, 3.74% YoY. In our view, the recent slight uptick from 3.6% to 3.7% does not represent a permanent reversal in core inflation's trend. We have been arguing that it was likely to remain sticky until November when it will resume its downward trend. We continue to expect core inflation trend to reach 3.4% by year end.

In our view, Banxico's hawkishness is overdone and the Board is likely to remain in a wait-and-see mode in the near-term. October's print is likely to confirm that September will mark the peak of the temporary rebound in headline inflation. This should bring some comfort to Banxico. Besides, their forecasts imply that they share the view that headline and core inflation were set to remain sticky to the downside in the near-term, but should clearly resume their downward trend in November. Thus, in a context of a restrictive real policy rate with temporary supply shocks to inflation and the little usefulness of the policy rate to revert these temporary factors, we expect Banxico to hold rates steady for the rest of 2018.

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