

## Economic Analysis

# 1H November CPI HoH forecast: annual headline inflation likely to drop further

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**We expect a headline inflation print of 0.65% HoH in the first fortnight of November**, translating into a **4.60% YoY** number, compared to 4.87% in the second fortnight of October. Our monthly forecast is 0.79% MoM (4.65% YoY vs 4.90% in October). After picking up their pace in October, our gasoline price tracker suggests that gasoline prices did not increase in the first half of the month. All year we have been anticipating a favorable base effect to bring down annual headline inflation in 4Q. It already eased in October, it is set to fall further in Nov-Dec. We continue to expect headline inflation to reach 4.5% by year-end.

**We expect core inflation to post an increase of 0.15% HoH, 3.59% YoY.** We have been arguing that core inflation was likely to remain sticky until November when it would resume its downward trend. Our monthly forecast is 0.20% MoM (3.58% YoY vs 3.73% in October). We continue to expect core inflation trend to reach 3.4% by year end, but our bias is slightly to the upside. In any case, after hovering in a narrow range of 3.6-3.7% since April, core inflation is likely to ease in the remainder of the year.

In spite of better inflation incoming data, the risks are tilted for an additional 25bp hike in December's meeting. However, our base scenario still anticipates Banxico to stay on hold if the 2019 budget proposal does not increase market jitters further. The key will be the budget. Our call will most likely depend on the budget outcome.

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