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Latam Daily: Mexico H1-June Inflation Recap

• **Mexico: marginal beat in headline inflation**

In the first half of June, inflation exceeded estimates, standing at 4.78% y/y from 4.59% (vs. 4.71% consensus), while core inflation also increased to 4.17% y/y from 4.11%, slightly lower than expected (vs. 4.19% consensus). In particular, merchandise prices rose 3.33% y/y (3.21% previously), and services moderated to 5.19% y/y (5.21% previously), see chart 1. On the other hand, non-core inflation led the increase (chart 2), 6.73% y/y (6.10% previously), highlighting the advance of agricultural inflation, which rose 8.99% y/y (8.12% previously). In its biweekly sequential comparison, headline inflation increased 0.21% 2w/2w (-0.20% previously, 0.14% consensus), the core component 0.17% 2w/2w (-0.02% previously, 0.18% consensus) and non-core rose 0.34% (-0.72% previously).

Inflation is in the 4.0%–5.0% range during the last 24 fortnights, with a significant moderation in merchandise that has led to a lesser pace of core inflation (also above 4.0%), although services have exceeded 5.0% y/y for twenty-three months (chart 1 again), whose persistence represents a significant upside risk. The pressures also come, as we have been mentioning in the latest prints, from non-core inflation, since food and energy prices continue to rise, owing to climatic events and the high demand for electricity (after six months showed negative prints in energy).

In the following months, we believe that inflation will remain in the same range (4.0%–5.0%) for the remainder of the year, and that it will slow down to 4.5% in December. In monetary policy implications, this reading reinforces our perspective that Banxico will hold the target rate unchanged at this Thursday’s meeting, in line with consensus. Although the increase comes from volatile components, such as energy and agriculture, if these pressures continue, the pressures could further reduce the gap for Banxico to cut the rate in the meetings during the second half of the year. In this sense, we believe that the inflation risks for the following months also imply upward risks for the rate level during the year.

Chart 1

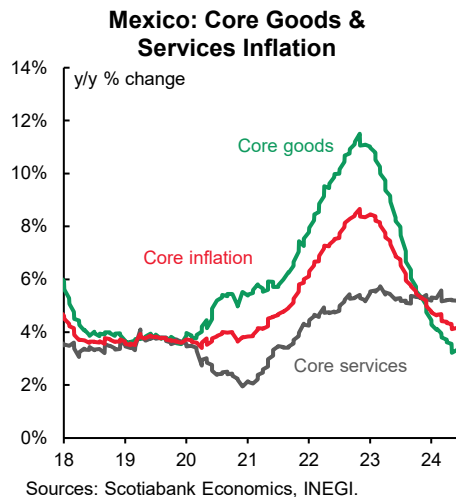
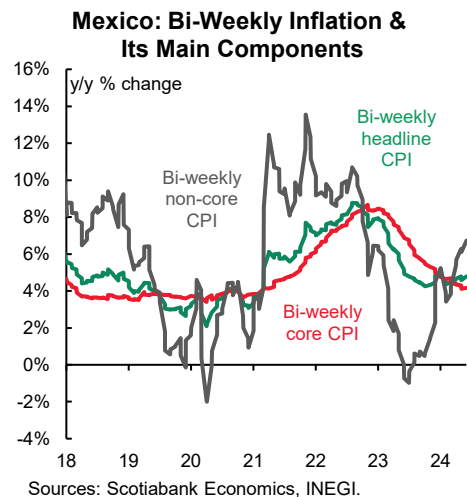


Chart 2



—Brian Pérez & Miguel Saldaña

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