

# 1H-February inflation – Relevant declines in the non-core component

- **Headline inflation (1H-Feb): 0.12% 2w/2w; Banorte: 0.21%; consensus: 0.16% (range of estimates: 0.10%-0.27%); previous: 0.11%**
- **Core inflation (1H-Feb): 0.22% 2w/2w; Banorte: 0.20%; consensus: 0.26% (range of estimates: 0.20%-0.30%); previous: 0.16%**
- **The period’s performance was benefited by the non-core component, particularly fruits and vegetables –highlighting tomatoes and onions–as well as energy showing significant declines**
- **With today’s print, annual inflation climbed to 3.52% from 3.24% in the previous month, mainly driven up by a base-effect. On the contrary, core inflation fell to 3.69% from 3.73%**
- **We continue expecting accumulated cuts by Banxico of 50bps in the remainder of the year, although risks seem to be skewing towards higher policy easing**
- **We hold a view of further flattening for the local yield curve amid foreign conditions favoring sovereign bonds’ performance**

**Consumer prices increased 0.12% 2w/2w in the first half of February.** In particular, inflation was benefited by relevant reductions in the non-core component, which came in at -0.16% 2w/2w. Inside, fruits and vegetables –with tomatoes and onions leading the decline–, as well as energy –highlighting gasoline and LP gas– were the categories with lower overall prices. Nevertheless, the core component was also relatively contained at 0.22%, with a favorable performance in other goods –which posted its lowest increase for a comparable period since 2014–. Finally, other services advanced modestly, in line with their recent behavior.

**1H-February inflation by components**  
%, bi-weekly incidence

	INEGI	Banorte	Difference
Total	0.12	0.21	-0.08
Core	0.16	0.15	0.01
Goods	0.09	0.10	-0.01
Processed foods	0.05	0.04	0.01
Other goods	0.05	0.06	-0.01
Services	0.07	0.05	0.02
Housing	0.02	0.02	0.00
Education	0.01	0.01	0.00
Other services	0.04	0.02	0.01
Non-core	-0.04	0.05	-0.09
Agriculture	0.01	0.06	-0.05
Fruits & vegetables	-0.02	0.03	-0.05
Meat & eggs	0.04	0.03	0.01
Energy & government tariffs	-0.05	-0.01	-0.05
Energy	-0.06	-0.02	-0.05
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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### 1H-February inflation: Goods and services with the largest contributions

% 2w/2w; bi-weekly incidence in basis points

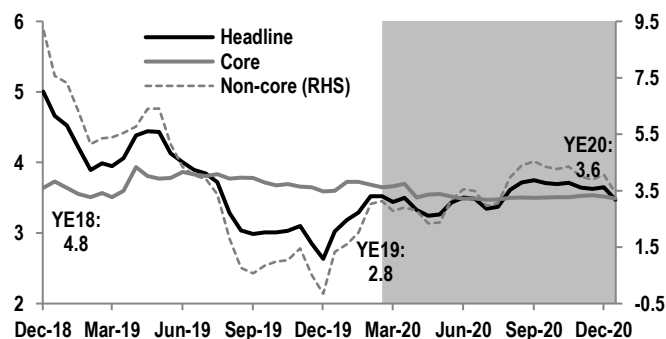
Goods and services with the largest positive contribution	Incidence	% 2w/2w
Husk tomatoes	5.6	28.0
Eggs	3.7	4.3
Housing (own)	1.5	0.1
Dining away from home items	1.4	0.3
Bananas	0.9	3.5
Goods and services with the largest negative contribution		
Tomatoes	-6.3	-7.5
Low-grade gasoline	-3.3	-0.6
Onions	-2.1	-7.2
LP gas	-1.8	-1.0
High-grade gasoline	-0.8	-1.1

Source: INEGI

**Annual inflation climbed due to an unfavorable base-effect.** In particular, the headline index came in at 3.52% y/y, increasing 28bps relative to January's print. This is mainly explained by an adverse base-effect, remembering that last year we saw an important reduction in fruits and vegetables, which resulted in an important decline in the non-core component. In this sense, the latter increased to 3.03% from 1.81% in the previous month. On the contrary, core inflation fell marginally, going from 3.73% to 3.69%. We believe the result is still consistent with a moderate easing cycle from Banxico going forward, expecting only two 25bps cuts, to take the reference rate to 6.50% by year-end. Nevertheless, the behavior of some specific components, highlighting other services and other goods, may be showing a higher impact to the downside on prices because of greater slack in the economy relative to possible pressures due to the minimum wage increase. Given this, we recognize risks could be starting to tilt to additional easing from the monetary authority. Nevertheless, we will be paying close attention to Banxico's publications this week, which include the 4Q19 Quarterly Report and the latest monetary policy minutes, which we believe will be key to measure the willingness of the central bank to continue easing.

### Inflation

% y/y, bi-weekly frequency



Source: INEGI

*From our fixed income and FX strategy team*

**We hold a view of further flattening for the local yield curve amid foreign conditions favoring sovereign bonds' performance.** The more negative tone for risk appetite has been reflected in solid demand for safe havens, especially visible in US Treasuries. We see this context as supportive for our flattening view of the nominal yield curve, although we wait for market conditions for long positions in the long-end identifying greater relative value in the Mbono Nov'47. Regarding real rates, this Monday's CPI printed its second bi-weekly reading below expectations, a factor that along with pressures in risk assets could result in a valuation improvement for the Udi-linked securities for which we hold a mid-term positive view after recently closing our trade ideas in the Udibonos [Jun'22](#) and [Nov'28](#).

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We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Jorge Antonio Izquierdo Lobato and Eridani Ruibal Ortega, 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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