

# February inflation – Upside surprise on price pressures in fruits and vegetables

- **Headline inflation (February): 0.42% m/m; Banorte: 0.27%; consensus: 0.30% (range of estimates: 0.21%-0.42%); previous: 0.48%**
- **Core inflation (February): 0.36% m/m; Banorte: 0.36%; consensus: 0.37% (range of estimates: 0.35%-0.39%); previous: 0.33%**
- **Performance was driven by core prices, contributing with the 27bps. Nevertheless, the main shock came from non-core prices, with significant pressures in fruits and vegetables in the second half of the period**
- **With today’s print, annual inflation climbed to 3.70% from 3.24% in the previous month, influenced by a difficult base-effect, but also by the increase at the non-core level which stood at 3.81%, up 200bps from January. Core inflation declined at the margin, to 3.66% from 3.73%**
- **We suggest caution under the intense global risk-off mode**

**Consumer prices up 0.42% m/m, with a strong upside surprise in the non-core component.** In addition, the core index was also pressured in the month, up 0.36% m/m, in line with our expectations and with a 27bps contribution. We highlight that most of the latter was concentrated in goods, with both processed foods and other goods up 0.4% (9bps and 6bps, respectively). In services, we observed a more muted performance, increasing 0.3%, with housing (4bps) and other services (6bps) as the main drivers. More surprisingly, the non-core component was up 0.6% m/m, contributing 14bps. In this context, most of the impact was concentrated in fresh fruits and vegetables (15.5%, 14bps), with pressures centered in the second half, as they had declined in the first part of the month. Meanwhile, pressures from meat and egg (4bps) were offset by an additional fall in energy prices (-6bps).

**February inflation by components**  
%, monthly incidence

	INEGI	Banorte	Difference
Total	0.42	0.27	0.15
Core	0.27	0.27	0.00
Goods	0.15	0.16	-0.01
Processed foods	0.09	0.09	0.00
Other goods	0.06	0.07	0.00
Services	0.12	0.11	0.01
Housing	0.04	0.05	0.00
Education	0.02	0.02	0.00
Other services	0.06	0.05	0.01
Non-core	0.14	0.00	0.14
Agriculture	0.18	0.05	0.14
Fruits & vegetables	0.14	0.00	0.14
Meat & eggs	0.04	0.04	0.00
Energy & government tariffs	-0.04	-0.05	0.01
Energy	-0.06	-0.07	0.01
Government tariffs	0.02	0.02	0.00

Source: INEGI, Banorte.

Note: Contributions might not add due to the number of decimals allowed in the table.

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### February 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	7.8	9.2
Husk tomatoes	7.5	40.3
Eggs	5.4	6.3
Housing (own)	3.0	0.3
Dining away from home items	2.5	0.5
Goods and services with the largest negative contribution		
Onions	-3.3	-10.9
LP gas	-2.4	-1.3
Low-grade gasoline	-2.2	-0.4
High-grade gasoline	-0.9	-1.2
Airfares	-0.8	-4.5

Source: INEGI

**Annual inflation climbed both due to an unfavorable base-effect, but also by the abovementioned shock.** The headline index came in at 3.70% y/y, up from 3.24% registered in January. This was mainly explained by an adverse base-effect, remembering that last year we observed an important reduction in fresh fruits and vegetables, which led to an important fall in the non-core component. To this we must add the adverse shock observed this year, pushing the yearly comparison to 3.81%, significantly above the 1.81% registered in the previous month. On the contrary, core inflation fell marginally, from 3.73% to 3.66%. In this context, we consider that the possibility of inflation coming in line with Banxico's forecast for the current quarter (3.3% on average) has decreased significantly, limiting the possibility of a stronger easing pace. In addition, the degree of uncertainty over the policy outlook and the decisions that may be undertaken in the following meetings has increased meaningfully, as at least two factors that influence the central bank's decision are diverging: (1) The relative monetary stance; and (2) exchange rate dynamics. The first seems to be pointing to more room for cutting the reference rate, particularly when considering the recent [50bps surprise rate cut by the Fed](#) and the market's pricing of additional cuts for the next meetings. However, in the second case the strong depreciation of the Mexican peso recently, with today's dynamic showing a high of 22.13 per dollar, could not only prompt the central bank to maintain a prudent stance as risks to the upside for inflation have increased, but could even trigger actions from the Foreign Exchange Commission (formed by 3 members of the Ministry of Finance, and 3 from the central bank), a scenario we do not rule out.

*From our fixed income and FX strategy team*

**We suggest caution under the intense global risk-off mode.** The higher than expected CPI print is adding pressures to the Mexican sovereign bonds' performance, under a remarkable pressured opening session for nominal rates amid the intense risk aversion shock in global markets. The combination of the uncertainty of the Covid-19 effects to the economic activity and the oil price collapse have triggered dramatic flight to quality movements, with Mbonos averaging a 30bps sell-off, while TIEE-28 swaps depict a 20bps loss. Meanwhile, real-rate Udibonos are revealing a slightly more defensive performance. Amid other effects, the Mexican peso has also captured this intense risk aversion mode, reaching intraday levels as high as 22.14 this Monday, currently trading at 21.35, equivalent to a 6.2% depreciation against last Friday's close. Under this context, we do not rule out announcements from the Foreign Exchange Commission and Banxico. In terms of strategy, we suggest waiting for more stable conditions to build directional positions.

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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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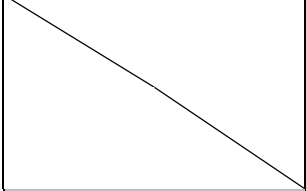
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