

1H-February inflation – Seasonal trends prevail amid pressures in energy prices

- **Headline inflation (1H-Feb): 0.23% 2w/2w; Banorte: 0.27%; consensus: 0.25% (range of estimates: 0.12% to 0.39%); previous: 0.50%**
- **Core inflation (1H-Feb): 0.22% 2w/2w; Banorte: 0.28%; consensus: 0.22% (range of estimates: 0.14% to 0.30%); previous: 0.17%**
- **Overall results were in line with expectations. At the core, goods went up 0.3%, with some adverse seasonal effects and a 0.7% increase in autos. Services remain more modest at 0.1%. At the non-core we note the 1.3% advance in energy prices, albeit compensated by a relevant decline of 2.4% in fruits and vegetables**
- **Annual inflation picked up again, at 3.84% from 3.54% on average in January. In line with recent dynamics, this is mainly due to pressures at the non-core, to 3.85% from 2.63%. The core has been more stable, unchanged at 3.84% in the same period**
- **Given recent inflation dynamics, we will watch closely comments by Board members about this in the latest Banxico minutes, which will be released on Thursday**
- **We hold long positions in the 3-year Udibono and 6-month TIE IRS**

Inflation at 0.23% 2w/2w in the first half of February. This was slightly below consensus at 0.25%, which was modestly lower than our estimate (0.27%). The core stood at 0.22% (Banorte: 0.28%). In the latter, we highlight that goods (0.3%) remain more pressured than services (0.1%), with ‘dining away from home’ in the latter up 0.3%. This is in part due to adverse seasonal effects (see chart, right), recalling the end of winter season discounts in clothing and other accessories. Moreover, we note that autos increased 0.7% within other goods (0.4%). The non-core was at 0.26% with a mixed performance. Energy prices extended their move higher (1.3%), mainly LP gas (1.1%) and low-grade gasoline (2.0%), which will remain affected by bad weather conditions. On the other hand, agricultural goods fell 0.7%, driven by the -2.4% in fruits and vegetables and with steep declines in tomatoes, onions and avocados, among others.

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

	INEGI	Banorte	Difference
Total	0.23	0.27	-0.04
Core	0.16	0.21	-0.05
Goods	0.12	0.16	-0.04
Processed foods	0.04	0.08	-0.04
Other goods	0.08	0.08	0.00
Services	0.05	0.06	-0.01
Housing	0.01	0.02	0.00
Education	0.01	0.00	0.00
Other services	0.03	0.04	-0.01
Non-core	0.06	0.05	0.01
Agriculture	-0.07	-0.10	0.02
Fruits & vegetables	-0.11	-0.11	0.00
Meat & egg	0.04	0.02	0.02
Energy & government tariffs	0.14	0.15	-0.01
Energy	0.13	0.14	-0.02
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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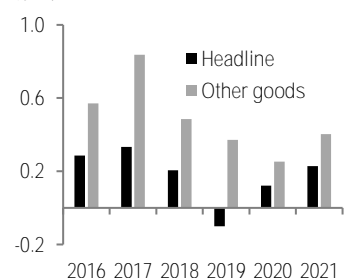
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Headline and other goods inflation in Feb-1H
% 2w/2w



Source: INEGI

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
Low-grade gasoline	9.8	2.0
LP Gas	2.6	1.1
Potatoes	2.0	4.8
Chicken	2.0	1.2
Bananas	1.7	6.4
Goods and services with the largest negative contribution		
Tomatoes	-10.4	-20.7
Onions	-1.8	-9.2
Avocadoes	-0.9	-5.2
Nopal	-0.6	-6.1
Hair styling products	-0.5	-1.6

Source: INEGI

Annual inflation to remain on the upside. Annual inflation picked up again, at 3.84% from 3.54% on average in January. This is mainly due to pressures at the non-core, to 3.85% from 2.63%. The core has been more stable, unchanged at 3.84% in the same period. Given recent pressures in commodities –particularly the strong disruption globally last week on halted operations in the US due to Arctic winds– it is very likely that the upward bias could extend further. Hence, the annual rate would remain pressured, estimating that it will surpass 5% in April also considering an increasingly challenging base effect (as a result of the initial impact of the pandemic last year). In this backdrop, we believe it will be key to analyze Board members’ comments in this regard in [Banxico’s minutes to be released on Thursday](#). Specifically, there were comments by some members after the decision about the ‘window of opportunity’ for more cuts, so we will be looking into this closely. Nevertheless, we will pay close attention to identify the comments from Deputy Governors Irene Espinosa and Galia Borja. We believe the document will maintain a dovish bias, supporting our call of two additional 25bps cuts in the March and May meetings, taking the rate to 3.50%, level where we expect it to remain by year-end. Despite of the latter, we recognize that the window for further easing could be closing more rapidly than originally expected given recent developments in the inflation front.

From our fixed income and FX strategy team

We hold long positions in the 3-year Udibono and 6-month TIE IRS. We expect that CPI in the following biweekly readings and April’s base effect contribute to an attractive carry in Mexican linkers, reason why we hold our recommendation of long positions in the 3-year Udibono. Moreover, inflation breakevens have taken a breather after their recent surge, improving the valuation in Udibonos with a 3-year mark at 3.43% from 3.63% a week ago. Meanwhile, the market is underpricing our expectation for Banxico’s rate cuts in the year, as the yield curve is currently discounting -19bps for the 3Q21. In this sense we also hold our trade recommendation on receiving the 6-month TIE IRS (6x1).

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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, Eridani Ruibal Ortega and Juan Barbier Arizmendi, 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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