

1H-February inflation – Annual rate rises again, with special concerns about the core

- **Headline inflation (1H-Feb): 0.42% 2w/2w; Banorte: 0.37%; consensus: 0.37% (range: 0.21% to 0.60%); previous: 0.39%**
- **Core inflation (1H-Feb): 0.43% 2w/2w; Banorte: 0.39%; consensus: 0.33% (range: 0.27% to 0.40%); previous: 0.35%**
- **Core inflation remains highly pressured. Goods increased 0.6%, and accelerated at the margin, with processed foods up 0.5% and other goods at 0.6%. Services were more stable (0.3%), with a more adverse seasonality in some tourism categories and relevant increases in non-tourism. The non-core was mixed, with energy up 1.0% given pressures in international prices, albeit more modest in agricultural goods (-0.1%)**
- **Annual inflation increased marginally after four fortnights lower, at 7.22% from 7.07% on average in January. The core keeps climbing, at 6.52% from 6.21% in the same period**
- **We reaffirm our call that Banxico will hike by 25bps on March 24th, following the Fed as we expect them to increase by the same magnitude**
- **After today’s print, we see increased value in short-term Udibonos.**

Inflation at 0.42% 2w/2w in 1H-February, with the core still pressured. The latter stood at 0.43%, higher than consensus. Inside, goods increased 0.6%, with processed foods still high (0.5%), highlighting tortillas and milk. Other goods picked up 0.6%, noting autos. Services increased 0.3%, with a more adverse seasonality in some tourism categories after correcting at the start of the year and relevant increases in non-tourism, probably because of new cost pressures. At the non-core, energy extended their upward move (1.0%), with LP gas (3.0%) and low-grade gasoline (0.5%) influenced by higher international benchmarks. Agricultural goods (-0.1%) were more mixed, benefitted by fruits and vegetables (-1.4%), among them tomatoes and potatoes. In contrast, meat and egg increased 0.9%, dragged by beef and chicken prices.

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

	INEGI	Banorte	Difference
Total	0.42	0.37	0.05
Core	0.32	0.29	0.02
Goods	0.23	0.18	0.04
Processed foods	0.11	0.10	0.01
Other goods	0.11	0.08	0.03
Services	0.09	0.11	-0.02
Housing	0.02	0.02	0.00
Education	0.01	0.01	0.00
Other services	0.06	0.08	-0.02
Non-core	0.11	0.08	0.03
Agriculture	-0.01	-0.01	0.00
Fruits & vegetables	-0.07	-0.05	-0.02
Meat & egg	0.06	0.04	0.02
Energy & government tariffs	0.12	0.09	0.03
Energy	0.10	0.08	0.02
Government tariffs	0.03	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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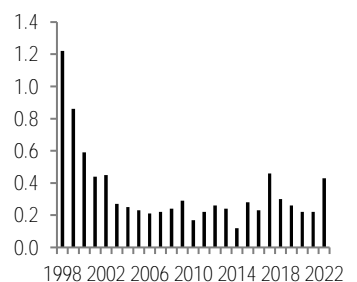
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Winners of the award for best economic forecasters for Mexico in 2021, granted by *Refinitiv*



Core inflation in 1H-Feb
% 2w/2w



Source: INEGI

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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
LP Gas	6.4	3.0
Low-grade gasoline	2.6	0.5
Autos	2.4	1.2
Beef	2.4	1.0
Dining away from home	2.3	0.5
Goods and services with the largest negative contribution		
Tomatoes	-4.7	-10.3
Potatoes	-1.4	-3.9
Poblano chillies	-1.3	-19.3
Squash	-1.2	-11.3
TV	-0.5	-1.6

Source: INEGI

Headline and core inflation again higher. Annual headline inflation picked up from 7.07% on average in January to 7.22%. With bi-weekly data, this is a new increase after four prints in a row lower. The downward trend will likely be reestablished from here and throughout year-end on favorable base effects. Nevertheless, energy price pressures globally and still high core inflation suggests increased caution. In this sense, the latter kept climbing, from 6.21% to 6.52% in the same period, a new high since July 2001. In the short term, we remain watchful of energy prices, gaining even more relevance given yesterday's invasion of Ukraine by Russia which also affected other commodities, such as LP gas and wheat. Trade sanctions and other disruptions are likely, which would pressure prices even more. Despite the Fed's hawkishness, the MXN has been resilient, which is favorable. On the other hand, non-tourism services have kept difficult dynamics. On this, the latest Banxico minutes, to be released later today, will be quite important on heightened concerns among most Board members.

Banxico will continue the hiking cycle given high inflation and global monetary restriction. [We reiterate our call](#) of a 25bps hike on March 24th, with the hiking cycle extending further and the reference rate reaching 7.25% by year-end. We believe the current interest rate spread with the US (at 575bps) is wide enough, with the central bank giving increasing importance to the relative stance with the Fed. Hence, they would match the latter, which we expect to hike in the same magnitude on March 16th. Nevertheless, given the difficult local and global backdrop for prices, we believe risks remain clearly skewed to higher rate increases than the ones we already expect.

From our fixed income and FX strategy team

We maintain our trade idea of paying 2-year TIE-IRS and see value in short-term Udibonos. Markets remain focused on geopolitical tensions which have driven a surge in energy prices, in turn increasing upside risks to inflation. In this backdrop, markets remain anchored towards a more hawkish stance by Banxico. Specifically, the short-end has priced-in cumulative hikes of +190bps for the rest of the year, with a high probability of +50bps in upcoming decisions –March (+44bps) and May (+45bps)–. On real rates, latest inflation prints could increase appetite for Udibonos. The 3-year breakeven stands at 3.93%, an 8-month low. We maintain our [trade idea of paying 2-year TIE-IRS \(26x1\)](#) with a target of 8.10% and stop-win of 7.75% to protect accumulated gains (Current: 7.86%). Furthermore, we see short-term Udibonos as attractive when compared to other maturities and with the highest value for trading positions.

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, José Luis García Casales, Yazmín Selene Pérez Enríquez, José Itzamna Espitia Hernández, Carlos Hernández García, Paola Soto Leal, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Daniela Olea Suárez, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez and Gerardo Daniel Valle Trujillo, 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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