

Inflation surges to 2.94% yoy in the first half of February

- **INEGI just published its inflation report for the first half of February**
- **Headline inflation (1H-Feb): 0.29% 2w/2w; Banorte-Ixe: 0.34%; consensus: 0.2% (range of estimates: 0.07% to 0.34%); previous: 0.35%**
- **Core inflation (1H-Feb): 0.23% 2w/2w; Banorte-Ixe: 0.28%; consensus: 0.23% (range of estimates: 0.13% to 0.35%); previous: 0.14%**
- **Inflation in the first half of February was explained by pressures on “other goods” prices along with increases in “fruits & vegetables” prices**
- **With these numbers, annual inflation is at 2.94% vs. 2.75% in previous month**

Consumer prices increased 0.29% 2w/2w in 1H-February. According to *INEGI's* report published today, consumer prices increased 0.29% 2w/2w in the first half of February, above consensus' forecast (+0.2% 2w/2w), but similar to our 0.29% estimate. Moreover, core inflation was 0.23% vs. our 0.28% estimate. The main deviation from our forecast comes from: (1) A lower than expected contribution of services prices (3.6bps vs. our 8.7bps); (2) a lower than expected contribution of energy prices (-2.8bps vs. our -0.5bps); and (3) a larger than expected contribution of goods prices (13.4bps vs. our 12.5bps), as shown in the table below.

February's 1H inflation by components

% bi-weekly incidence

| | INEGI | Banorte-Ixe | Difference |
|-----------------------------|-------|-------------|------------|
| Total | 0.29 | 0.34 | -0.06 |
| Core | 0.17 | 0.21 | -0.04 |
| Goods | 0.13 | 0.13 | 0.01 |
| Processed foods | 0.03 | 0.05 | -0.02 |
| Other goods | 0.11 | 0.08 | 0.03 |
| Services | 0.04 | 0.09 | -0.05 |
| Housing | 0.02 | 0.02 | 0.00 |
| Education | 0.00 | 0.01 | 0.00 |
| Other services | 0.01 | 0.06 | -0.05 |
| Non-core | 0.12 | 0.13 | -0.01 |
| Agriculture | 0.13 | 0.13 | 0.00 |
| Fruits & vegetables | 0.08 | 0.10 | -0.02 |
| Meat & eggs | 0.06 | 0.04 | 0.02 |
| Energy & government tariffs | -0.02 | 0.00 | -0.02 |
| Energy | -0.03 | 0.00 | -0.02 |
| Government tariffs | 0.01 | 0.00 | 0.00 |

Source: Banorte-Ixe with data from INEGI and Banco de México.

Note: Contributions might not add due to the number of decimals allowed in the table. Previous to year 2011, contributions might not add because of the change in CPI-calculation methodology.

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Inflation in the first half of February was explained by pressures on “other goods” prices along with increases in “fruits & vegetables” prices. Within the core sub-index, goods prices increased 0.39% 2w/2w given the 0.17% increase in “processed foods” prices, along with a significant 0.57% hike in “other goods” prices, which could signal a higher pass-through effect of the FX depreciation to prices. Moreover, services prices increased a scant 0.09% 2w/2w as a result of higher housing prices (+0.1%).

Within the non-core sub-index, agricultural prices edged-up 1.4% 2w/2w as a result of the 2.1% hike in “fruits and vegetables” prices. In this regard, *INEGI* highlights the higher prices of onions (+6.23% 2w/2w), peppers (+ 19.21% on average), and banana (+ 5.9%). Similarly, “meat and egg” prices also increased 0.94%. Finally, energy prices fell -0.27% as a result of the reduction in the price of low-grade gasoline (-0.67%).

With these numbers, annual inflation is at 2.94% vs. 2.75% in previous month. Moreover, core inflation is at 2.62%. We believe that 12-month inflation will remain around 3% yoy in the next couple of months.

From our fixed income and FX strategy team

Mexican linkers rallying in the aftermath of the CPI report. Mexican bonds are observing a modest sell-off in the extremes of the Mbonos and derivatives curves, while the belly is depicting a defensive stance this morning. On the other hand, linkers (Udibonos) are rallying nearly 10bps following the inflation report released today as we anticipated at the beginning of this week (see “*Fixed-Income and FX Weekly*” dated February 22, 2016 <[pdf](#)>). Prices for the first half of February depicted a 0.29% increase (Banorte-Ixe 0.34%, Market consensus 0.20%, Previous 0.35%) which suggests the evidence of some FX pass-through effects on inflation, especially in certain core components. Today’s pressures were also explained by a spike several agricultural prices. As a result, short-term securities sold off nearly 2bps as investors remain cautious of Banxico’s policy path ahead, especially after the surprising 50bps rate hike from last week. On the other hand, the long-end is catching up from the losses in previous weeks as a response to higher global risk aversion. In our view, 10- and 20-year Mbonos depict an attractive relative valuation after important changes that took place since last week. However, we acknowledge that volatility will remain elevated and suggest waiting for better conditions in order to increase exposure in directional trades regarding this segment of the curve. In addition, we expect Udibonos to experience better demands going forward as inflation dynamics could improve the embedded carry, and valuation remains attractive. In this regards, inflation breakevens, especially in the mid-end of the Udibonos curve are appealing for long positions. Market inflation expectations stand at 2.89% for the 3-year tenor, 2.87% for 5-year, 2.80% for 10-year and 2.89% for 30-year.

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