

Inflation in October reaches 2.4%y/y

- **INEGI just published its inflation report for October**
- **Headline inflation (Oct): 0.51%/m/m (Banorte-Ixe: 0.51%/m/m; consensus: 0.52%/m/m)**
- **Core inflation (Oct): 0.25%/m/m (Banorte-Ixe: 0.26%/m/m; consensus: 0.26%/m/m)**
- **Inflation October was explained by pressures on electricity tariffs along with increases in processed foods prices**
- **With these numbers, annual inflation is at 2.48% vs. 2.52% in previous month**

Consumer prices increased 0.51%/m/m in October, in line with expectations. Core inflation was 0.25%, also in line with estimates. The deviations vs. our forecast are marginal, as shown in the table below.

October inflation by components % monthly incidence

	INEGI	Banorte-Ixe	Difference
Total	0.51	0.51	0.002
Core	0.19	0.19	-0.004
Goods	0.12	0.13	-0.009
Processed foods	0.06	0.07	-0.002
Other goods	0.06	0.07	-0.006
Services	0.07	0.06	0.005
Housing	0.02	0.02	0.001
Education	0.00	0.00	0.000
Other services	0.05	0.04	0.004
Non-core	0.33	0.33	0.007
Agriculture	0.00	0.00	0.009
Fruits & vegetables	0.02	0.01	0.009
Meat & eggs	-0.02	-0.02	0.000
Energy & government tariffs	0.34	0.34	-0.003
Energy	0.33	0.33	-0.003
Government tariffs	0.01	0.01	0.000

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.

November 9, 2015

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Inflation October was explained by pressures on electricity tariffs along with increases in processed foods prices. In the first case, energy prices were up 3.3% m/m on the back of an increase of 20.3% in electricity tariffs, as summer discounts are coming to an end. This more than offset for the decline low-grade gasoline prices (-0.93%), which subtracted 4.6pbs to inflation in the period in question. Meanwhile, merchandise prices increased 0.35% m/m, driven by higher processed food prices, up 0.4%, along with a 0.31% increase in the prices of other goods. These two elements added 12.2pbs to inflation in the tenth month of the year. Meanwhile, in the services sub-index, housing costs increased 0.11%, while other services inflation was 0.28%, with *INEGI* reporting higher costs in dining away from home items (+0.58 %), tourism services (+ 2.95%) and professional services (6.06%), which more than offset by lower costs of mobile phone service (-1.67%). In the non-core index, agricultural prices increased only 0.04% m/m, with prices of fruits and vegetables up 0.68% -as a result of significant increases in products such as onions (19.39%) and other vegetables (5.3%)-, while meat and egg prices were down 0.3%, explained by lower prices of poultry (-2.33%) and fish (-2.15%) in particular. Finally, government tariffs increased 0.25% m/m.

With these results, 12-month inflation hit what we believe will be an all-year minimum. Total inflation reached 2.48% from 2.52% in the previous month. Meanwhile, core inflation is now at 2.47% from 2.38% in September. We expect inflation to start converging towards our 3% YE2015 estimate.

From our fixed income and FX strategy team

Mexican bonds affected by global dynamics despite favorable inflation figures. Local rates are trading higher today (2-3bps vs Friday's closing marks) following closely the negative momentum in global fixed-income markets, with no reaction to an inflation report in Mexico that came in line with expectations. Inflation dynamics continue to be positive despite a weaker performance of the MXN throughout the year. Regardless of positive news in the inflation front, the yield curve heads towards a fourth consecutive negative week following investors' concerns regarding Fed future actions. This situation takes place in the aftermath of a strong employment report in the U.S. released last Friday which triggered a risk-premia adjustment in financial assets worldwide. Relative value in Mbonos from Dec'18 to Dec'24 remains attractive, although we suggest waiting for better entry levels and a more favorable market sentiment for long positions. On the other hand, Mexican linkers (Udibonos) such as Jun'19, Dec'20 and Jun'22 portray an appealing valuation. Nonetheless, we expect demand for inflation-linked instruments in Mexico to be weaker in coming weeks following the positive assessment on inflation depicted by Banxico inside its QIR last week. Breakevens are trading between 3.10% and 3.20% from 3-year to 30-year tenors.

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