

## 1H-April inflation – Upside surprise on higher-than-expected pressures in the core component

- **INEGI just published its inflation report for the first half of April**
- **Headline inflation (1H-Apr): -0.03% 2w/2w; Banorte: -0.14%; consensus: -0.18% (range of estimates: -0.34% - 0.01%); previous: 0.12%**
- **Core inflation (1H-Apr): 0.40% 2w/2w; Banorte: 0.29%; consensus: 0.19% (range of estimates: 0.11% - 0.29%); previous: 0.14%**
- **Deflation in the period was explained by the seasonal fall of electricity tariffs due to summer discounts, along with some pressures in core goods and other services explained by the Easter holiday**
- **With these figures, annual headline inflation increased to 4.38% from 4.00% at the end of March. Core-inflation was also higher at 3.94% from 3.55% previously, highest since the 1<sup>st</sup> half of March 2018**
- **Mexican assets reacting to a negative surprise in terms of inflation**

**Consumer prices declined 0.03% 2w/2w in 1H-April.** This number was considerably higher than consensus at -0.18% and our -0.14% forecast. Core inflation rose 0.40% also significantly above expectations of 0.19% but closer to our 0.22% estimate. The main deviation from our forecast came from: (1) A higher than expected contribution from other services (+16bp vs. our +12bps); (2) a higher impact from other goods at the core level (+11bps vs. our +8bps); (3) a stronger contribution from meat and egg (+3bps vs. our +2bps); and (4) more pressure in energy (-32bps vs. our -33bps), as shown in the table below:

### 1H-April inflation by components

% bi-weekly incidence

	INEGI	Banorte	Difference
Total	-0.03	-0.14	0.11
Core	0.30	0.21	0.08
Goods	0.11	0.08	0.03
Processed foods	0.05	0.05	0.00
Other goods	0.06	0.03	0.03
Services	0.19	0.14	0.05
Housing	0.03	0.02	0.01
Education	0.00	0.00	0.00
Other services	0.16	0.12	0.04
Non-core	-0.33	-0.36	0.03
Agriculture	-0.02	-0.04	0.02
Fruits & vegetables	-0.05	-0.05	0.00
Meat & eggs	0.03	0.02	0.02
Energy & government tariffs	-0.31	-0.32	0.01
Energy	-0.32	-0.33	0.01
Government tariffs	0.00	0.01	0.00

Source: INEGI, Banorte.

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

April 24, 2019

www.banorte.com

@analisis\_fundam

**Delia Paredes**

Executive Director of Economic Analysis  
delia.paredes@banorte.com

**Juan Carlos Alderete, CFA**

Senior Economist, Mexico  
juan.alderete.magal@banorte.com

**Francisco Flores**

Economist, Mexico  
francisco.flores.serrano@banorte.com

**Fixed income and FX Strategy**

**Alejandro Padilla**

Head Strategist – Fixed-Income and FX  
alejandro.padilla@banorte.com

**Santiago Leal Singer**

Fixed-Income and FX Strategist  
santiago.leal@banorte.com

**Leslie Orozco**

Fixed Income and FX Strategist  
leslie.orozco.velez@banorte.com

Document for distribution among public

**Inflation in the period was explained by the seasonal fall of electricity tariffs due to summer discounts, along some pressures in core goods and other services explained by the Easter holiday.** The former declined 12.3% 2w/2w, subtracting 26bps to headline inflation. Low-grade gasoline also declined 0.5%, taking 3bps from total index variation, on the back of the government's fiscal stimulus translating gradually into retail prices. Meanwhile, LP gas was down 1.5%, breaking four consecutive prints to the upside. Agricultural goods edged down 0.2%, driven by prices of fruits and vegetables (-1.1%) but compensated by the increase in meat and egg prices (0.6%). *INEGI* mentions among the products with rising prices: avocados (+15.3%), poultry (+1.8%) and onions (+6.1%). These were offset by falling prices of tomatoes (-11.8%), *serrano* chilies (-11.5%) and other products such as bananas and squash.

Core inflation increased 0.40% 2w/2w, adding 30bps to inflation in the period in question. As expected, airfares (+27.2%) and tourism services (19.4%) were pressured in anticipation of the Easter Holiday. Moreover, we highlight the increase of 0.3% in other goods, which is among the categories that Banxico has recently flagged as relevant in terms of some underlying pressures.

**Annual inflation edged up to 4.38% from 4.00% at the end of March, above the upper bound of Banxico's target range.** In bi-weekly terms, this is the first time that this limit is breached to the upside since the 2<sup>nd</sup> half of January. More importantly, in our view, core-inflation picked up to 3.94% from 3.55%, highest since the first half of March 2018. This is not entirely surprising given the shift in timing of the Easter holiday when compared to the previous year, which was poised to impact prices at the core level. Nonetheless, its dynamics remain very relevant for Banxico, particularly considering that the increase in core goods was also relatively high. Moreover, the recent acceleration in nominal wage revisions (to 6.5% yoy in March) could keep the central bank with a somewhat cautious tone as they have stressed pass-through risks to the upside from this factor.

*From our fixed income and FX strategy team*

**Mexican assets reacting to a negative surprise in terms of inflation.** Local rates are extending the losses observed in previous days in the aftermath of a worse than expected CPI report in Mexico for the first half of April. As a result, Mbonos and TIEE-IRS are selling off 6bps on average this morning. In contrast, short-term CPI-linked Udibonos are rallying 2bps. Inflation is entering the seasonally negative prints of April and May (explained by subsidies in electricity tariffs), however with an annual print that is pulling back toward levels above 4% (4.38% with today's report), after reaching a minimum of 3.89% on February. This could result in stronger concerns for the central bank about the drivers for inflation. Taking into account the actual landscape, market participants continue betting on a lower repo rate in Mexico in the 2H19 although acknowledging a cautious stance from several Board members, which could be exacerbated by current inflation dynamics. As of today, the Mexican yield curve is pricing-in implied rate cuts in the repo rate of -29bps for this year, which is lower than the -35bps from previous week and -53bps a month ago.

In terms of strategy we hold a positive view in terms of Mexican rates, as they will continue to benefit from the dovish inertia worldwide. However, we suggest waiting for better entry levels for a new directional long trade idea in 20-year Mbonos as we acknowledge an expensive valuation.

In the FX market, the Mexican peso is experiencing today its third negative session in a row, originally triggered by a broad USD strengthening, particularly visible in yesterday's session as the Bloomberg Dollar Index (BBDXY) reached its highest level in almost 7 weeks. Although, currency weakness is perceptible throughout the main developed and emerging pairs, USD/MXN has breached the 19.00 handle and slightly extended its sell-off following the CPI print up to intraday 19.05, yet currently trading at 19.01 (-0.5%). The peso traded steadily below 19.00 since April 8<sup>th</sup>, reaching its strongest level since October at 18.75 during April 12<sup>th</sup>. We have suggested taking advantage of these opportunities for USD longs, considering a "fair value" for the peso according to our REER model hovering at 18.90 and a short-term technical support at the 50-day MA at 19.13. We see the main floor at the 18.75 area, should the pair breach will find a strong resistance at the 18.64 200-week MA. Looking ahead, we expect a challenging path for the currency, recently updating our 2019 year-end forecast to USD/MXN 20.30. More details in our research note "*Fixed-Income, FX, and Commodities - 2Q19 Outlook*" [<pdf>](#), released on April 10<sup>th</sup>, 2019. However, given the most recent local CPI data, the embedded carry in the peso will remain as the main anchorage factor.

**Disclaimer**

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

## Analyst Certification.

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Francisco Duarte Alcocer, Jorge Antonio Izquierdo Lobato and Leslie Thalia Orozco Vélez, 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.

## Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

## Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

## Last-twelve-month activities of the business areas.

*Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.*

*Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.*

## Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

## Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

## Guide for investment recommendations.

	<b>Reference</b>
<b>BUY</b>	<i>When the share expected performance is greater than the MEXBOL estimated performance.</i>
<b>HOLD</b>	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
<b>SELL</b>	<i>When the share expected performance is lower than the MEXBOL estimated performance.</i>

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

## Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

*The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.*

**GRUPO FINANCIERO BANORTE S.A.B. de C.V.**
**Research and Strategy**

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

**Economic Analysis**

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Francisco Duarte Alcocer	Analyst, Global Economist	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

**Fixed income and FX Strategy**

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

**Equity Strategy**

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

**Corporate Debt**

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Manager, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

**Wholesale Banking**

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454