

Economic Analysis

Mexico Inflation Flash (data)

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Inflation eases in 1H October as expected but MXN pressures keep a possible hike on the table

Headline inflation came in below expectations. It increased 0.40% HoH in the first fortnight of October, which was lower than our slightly below-consensus forecast (BBVA Research: 0.45%, consensus: 0.47%). In annual terms, it eased to 4.94% from 5.17% in the previous fortnight. Non-core food prices declined slightly as we anticipated, while gasoline prices increased in line with our tracker (0.7%). The downward surprise was driven by more moderate increases in electricity prices (than anticipated 17.8% HoH vs. 19.9% expected). **Core inflation also eased** and was broadly in line with our and consensus forecasts. Core prices increased 0.17%, only slightly higher than our and consensus 0.16% forecast. In annual terms, Core inflation moderated slightly from 3.78% in the previous fortnight to 3.74%.

Banxico's Board is still likely to remain on a wait-and-see mode in the near-term but MXN pressures maintain a possible hike on the table. The positive inflation prints in 1H October confirm that September will most likely mark the peak of the temporary rebound in headline inflation. The context of inflation and rates point to an extended pause, particularly considering the little usefulness of the policy rate to revert the temporary factors that are behind the temporary rebound in headline inflation and the stickiness in core inflation, which in our view should be viewed as a possible development considering all the factors that have affected inflation recently. Both headline and core inflation will most likely start to clearly resume their downward trend in November. **We still expect Banxico to hold rates steady for the rest of 2018 but the outcome of the Mexico airport survey and its effect on the MXN could end up changing our call.**

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