Economic and Financial Markets Research
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Inflation 1H-February – Positive seasonality in vegetables offset by higher meat & egg prices

- **Headline inflation (1H-Febraury): 0.15% 2w/2w; Banorte: 0.01%; consensus: 0.17% (range: 0.01% to 0.33%); previous: 0.12%**
- **Core inflation (1H-February): 0.27% 2w/2w; Banorte: 0.23%; consensus: 0.25% (range: 0.17% to 0.33%); previous: 0.22%**
- **The result was partly explained by a drop in the non-core (-0.25% 2w/2w), particularly fruits and vegetables, which declined 4.0% on a positive seasonal pattern in tomatoes and improvements in other crops. In the rest of the component, meat and egg accelerated (1.5%) but energy was more stable (0.0%). Turning to the core, goods (0.2%) were higher due to 'others' (0.3%), with the end of clothing discounts impacting. Meanwhile, services came in at 0.3%, highlighting an adjustment in education (0.5%), as well as in 'others' (0.4%)**
- **In bi-weekly terms, annual inflation rebounded to 3.74% from 3.48% in the second half of January, acknowledging a challenging base effect. The core was more stable at 3.63% (previous: 3.61%)**
- **We believe that short-term price dynamics will continue to favor rate cuts from Banxico, still expecting -50bps in the March 27th decision**

Inflation of 0.15% 2w/2w in the first half of February. This was partially driven by the 0.25% decline in the non-core component. Specifically, fruits and vegetables contracted 4.0%, highlighting a seasonal decline in tomatoes, accompanied by improvements in onions, zucchinis, and nopales. On the contrary, meat and egg advanced 1.5%, driven by eggs –feeling the effects of the bird flu in the US. Energy was more stable at 0.0%, with increases in international references, but with a slight appreciation of the MXN compensating. Thus, both LP gas (0.1%) and low-grade gasoline (-0.2%) moved modestly, while electricity was higher at 0.6%. Government tariffs increased 0.5%, accelerating at the margin. The core expanded 0.27%. Goods were stable at 0.2%, explained by 'others' (0.3%) after the end of winter discounts on clothing. Processed foods were constrained at 0.1%. In services (0.3%), adjustments were a little more notable, with education standing out at 0.5%, driven by universities and 'additional teaching'. 'Others' advanced 0.4%, once again affected by an uptick in 'dining away from home' (0.5%). Finally, housing expanded 0.2%.

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
Eggs	5.4	5.3
Dining away from home	2.6	0.5
Housing	2.5	0.2
Beef	2.0	1.1
Restaurants	1.6	0.6
Goods and services with the largest negative contribution		
Tomatoes	-9.8	-18.5
Onions	-1.9	-7.8
Zucchinis	-1.3	-10.3
Nopales	-1.0	-10.7
Low-grade gasoline	-0.9	-0.2

Source: INEGI


Alejandro Padilla Santana
Chief Economist and Head of Research
alejandro.padilla@banorte.com


Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Market Strategy
juan.alderete.macal@banorte.com

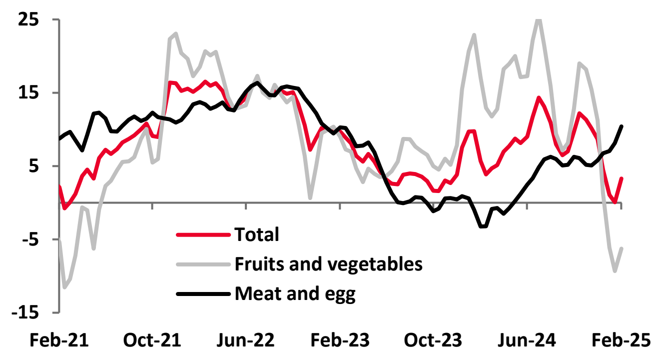

Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com


Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com


Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com

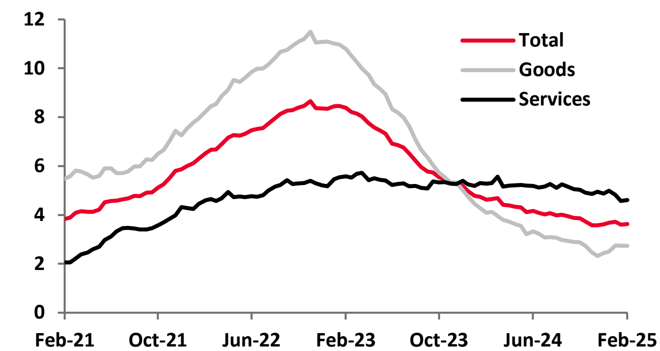
Modest rebound in headline inflation, driven by a more challenging base. This came in at 3.74% from 3.48% y/y in the 2nd half of January. This is due to the rebound at the non-core to 3.98% from 3.09%. As we had previously mentioned, this is explained by an adverse arithmetic effect in fruits and vegetables –which stood at -6.2% (see chart below, left)– given a substantial decline in the same period last year (and with the effect deepening in the following fortnight). Despite this, its recent performance of the item has been very favorable, boosted by a positive seasonality as well. However, as we detailed in our last *View from the Top*, the outlook could turn adverse in the short-term. In meat and egg (at 10.4%), we remain relatively vigilant due to bird flu cases in the US, which have impacted around 9 million birds so far in February –and even with some human cases reported. For energy (at 1.8%), we will continue to keep a close eye on OPEC's actions, especially with Brazil's recent membership. The backdrop for international benchmarks has bien quite mixed in recent weeks. On the local front, President Sheinbaum has promoted efforts to reach an agreement to reduce gasoline prices, which could materialize in the following fortnights. The core was more stable at 3.63% (previous: 3.61%). Inside goods –at 2.7%– and services –4.6%– were broadly unchanged relative to the trend in previous fortnights, as shown in the chart below, right. In the former, increases have been seen in both food and others, where start-of-the year adjustments seem to have been left behind, although bases effects have become more challenging. Meanwhile, reductions in services had been generalized, validating the central bank's view of lower pressures given more slack conditions in the economy.

Non-core inflation: Agricultural items
% y/y, bi-weekly frequency



Source: Banorte with data from INEGI

Core inflation
% y/y, bi-weekly frequency



Source: Banorte with data from INEGI

Banxico will continue easing, expecting -50bps in the March 27th decision. With these results, headline inflation has averaged 3.6% so far this quarter, 10bps below the central bank's point estimate. But a more challenging base effect is coming in the upcoming fortnights, as already mentioned. Meanwhile, the average for the core is 3.7% (vs 3.6%), albeit likely converging with the institution's estimate given higher stability. In this context, the monetary authority's view on growth has become much more adverse, while the skew of Board members remains very accommodative. As such, we continue to expect a -50bps in the March 27th decision and the reference rate at 8.50% by the end of 2025.

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Santiago Leal Singer, Víctor Hugo Cortes Castro, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Carlos Hernández García, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, José De Jesús Ramírez Martínez, Daniel Sebastián Sosa Aguilar, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Marcos Saúl García Hernandez, Juan Carlos Mercado Garduño, Ana Gabriela Martínez Mosqueda, Ana Laura Zaragoza Félix, Jazmin Daniela Cuautencos Mora, Andrea Muñoz Sánchez and Paula Lozoya Valadez, 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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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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Directory

Research and Strategy

Alejandro Padilla Santana
Chief Economist and Head of Research
alejandro.padilla@banorte.com
(55) 1103 - 4043

Raquel Vázquez Godinez
Assistant
raquel.vazquez@banorte.com
(55) 1670 – 2967

Itzel Martínez Rojas
Analyst
itzel.martinez.rojas@banorte.com
(55) 1670 - 2251

Lourdes Calvo Fernández
Analyst (Edition)
lourdes.calvo@banorte.com
(55) 1103 - 4000 x 2611

María Fernanda Vargas Santoyo
Analyst
maria.vargas.santoyo@banorte.com
(55) 1103 - 4000 x 2586

Economic Research

Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Market Strategy
juan.alderete.macal@banorte.com
(55) 1103 - 4046

Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com
(55) 1670 - 2957

Katia Celina Goya Ostos
Director of Economic Research, Global
katia.goya@banorte.com
(55) 1670 - 1821

Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com
(55) 5268 - 1694

Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com
(55) 1105 - 1438

Luis Leopoldo López Salinas
Economist, Global
luis.lopez.salinas@banorte.com
(55) 1103 - 4000 x 2707

Market Strategy

Santiago Leal Singer
Director of Market Strategy
santiago.leal@banorte.com
(55) 1670 - 1751

Marissa Garza Ostos
Director of Equity Strategy
marissa.garza@banorte.com
(55) 1670 - 1719

Víctor Hugo Cortes Castro
Senior Strategist, Technical
victorh.cortes@banorte.com
(55) 1670 - 1800

Carlos Hernández García
Senior Strategist, Equity
carlos.hernandez.garcia@banorte.com
(55) 1670 – 2250

Hugo Armando Gómez Solís
Senior Strategist, Equity
hugoa.gomez@banorte.com
(55) 1670 - 2247

Leslie Thalía Orozco Vélez
Senior Strategist, Fixed Income and FX
leslie.orozco.velez@banorte.com
(55) 5268 - 1698

Marcos Saúl García Hernandez
Analyst, Fixed Income, FX and Commodities
marcos.garcia.hernandez@banorte.com
(55) 1670 - 2296

Gerardo Daniel Valle Trujillo
Senior Analyst, Corporate Debt
gerardo.valle.trujillo@banorte.com
(55) 1670 - 2248

Ana Laura Zaragoza Félix
Strategist, Corporate Debt
ana.zaragoza.felix@banorte.com
(55) 1103 - 4000

Juan Carlos Mercado Garduño
Strategist, Equity
juan.mercado.garduno@banorte.com
(55) 1103 - 4000 x 1746

Ana Gabriela Martínez Mosqueda
Strategist, Equity
ana.martinez.mosqueda@banorte.com
(55) 5261 - 4882

Paula Lozoya Valadez
Analyst, Equity
paula.lozoya.valadez@banorte.com
(55) 1103 - 4000 x 2060

Quantitative Analysis

Alejandro Cervantes Llamas
Executive Director of Quantitative Analysis
alejandro.cervantes@banorte.com
(55) 1670 - 2972

José Luis García Casales
Director of Quantitative Analysis
jose.garcia.casales@banorte.com
(55) 8510 - 4608

José De Jesús Ramírez Martínez
Senior Analyst, Quantitative Analysis
jose.ramirez.martinez@banorte.com
(55) 1103 - 4000

Daniel Sebastián Sosa Aguilar
Senior Analyst, Quantitative Analysis
daniel.sosa@banorte.com
(55) 1103 - 4000 x 2124

Jazmin Daniela Cuautencos Mora
Strategist, Quantitative Analysis
jazmin.cuautencos.mora@banorte.com
(55) 1670 - 2904

Andrea Muñoz Sánchez
Strategist, Quantitative Analysis
andrea.muñoz.sanchez@banorte.com
(55) 1105 - 1430

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