

## June inflation – Inflation keeps moderating due to the non-core

- **Headline inflation (June): 0.10% m/m; Banorte: 0.07%; consensus: 0.09% (range: 0.0% to 0.15%); previous: -0.22%**
- **Core inflation (June): 0.30% m/m; Banorte: 0.29%; consensus: 0.28% (range: 0.25% to 0.31%); previous: 0.32%**
- **The result is quite positive relative to the five-year average at 0.48%. In particular, the non-core fell 0.52%, helped by energy (-1.2%) and agricultural items (-0.2%). The core moderated, now at 0.30%, with *Hot Sale* discounts helping the performance of ‘other goods’ (0.1%). Services (0.3%) were affected by seasonal factors, especially in tourism**
- **Annual inflation dropped to 5.06% from 5.84%, a new low since March 2021. The core also posted a significant decline at 6.89% from 7.39% previously**
- **Considering recent dynamics, we make a slight adjustment to our year-end inflation forecast, now at 4.5% (previous: 4.8%), with the core at 5.3% (previous: 5.6%). Despite the improvement –with several positive factors already having materialized–, we remain on the look to possible risks going forward, especially for the non-core**
- **CPI-linked bonds will become more attractive if inflation breakevens go below 4.00%**

**Inflation at 0.10% m/m.** Similar to the previous month, the result is very positive relative to the five-year average at 0.48%. The non-core component keeps providing good news, declining for a fourth consecutive month at -0.52%. Inside, energy (-1.2%) remains supported by LP gas (-7.8%), with modest upticks in low-grade gasoline (0.3%) and electricity (0.3%). In addition, agricultural items (-0.2%) extended the decline seen in the [first fortnight](#), especially on eggs, chicken and fish. The core (0.30%) was also favorable, moderating at the margin. In goods (0.3%), processed foods (0.4%) maintained a more positive dynamic, registering their smallest monthly increase since December 2020. ‘Others’ (0.1%) rebounded in the second half, partly on a reversion of *Hot Sale* discounts, albeit with the net effect being positive in the month. Lastly, services (0.3%) were impacted by airfares (7.1%) due to the start of the holiday period, albeit with ‘dining away from home’ still high (0.5%). On the contrary, mobile service fell 1.0%.

June inflation: Goods and services with the largest contributions

% m/m; monthly incidence in basis points

Goods and services with the largest positive contribution	Incidence	% m/m
Housing	3.1	0.3
Potatoes	2.8	5.9
Dining away from home	2.7	0.5
Oranges	2.2	9.7
Squash	2.2	36.4
Goods and services with the largest negative contribution		
LP Gas	-12.2	-7.8
Eggs	-11.3	-10.7
Chicken	-2.1	-1.2
Lemons	-2.1	-14.0
Mobile services	-0.9	-1.0

Source: INEGI

July 7, 2023

[@analisis\\_fundam](http://www.banorte.com/analisis-economico)

Alejandro Padilla Santana  
Chief Economist and Head of Research  
[alejandro.padilla@banorte.com](mailto:alejandro.padilla@banorte.com)

Juan Carlos Alderete Macal, CFA  
Executive Director of Economic Research and  
Financial Markets Strategy  
[juan.alderete.macal@banorte.com](mailto:juan.alderete.macal@banorte.com)

Francisco José Flores Serrano  
Director of Economic Research, Mexico  
[francisco.flores.serrano@banorte.com](mailto:francisco.flores.serrano@banorte.com)

Yazmín Selene Pérez Enríquez  
Senior Economist, Mexico  
[yazmin.perez.enriquez@banorte.com](mailto:yazmin.perez.enriquez@banorte.com)

Cintia Gisela Nava Roa  
Senior Economist, Mexico  
[cintia.nava.roa@banorte.com](mailto:cintia.nava.roa@banorte.com)

Fixed income and FX Strategy

Manuel Jiménez Zaldívar  
Director of Market Strategy  
[manuel.jimenez@banorte.com](mailto:manuel.jimenez@banorte.com)

Leslie Thalía Orozco Vélez  
Senior Strategist, Fixed Income and FX  
[leslie.orozco.velez@banorte.com](mailto:leslie.orozco.velez@banorte.com)

Isaías Rodríguez Sobrino  
Strategist, Fixed Income and FX  
[isaias.rodriguez.sobrino@banorte.com](mailto:isaias.rodriguez.sobrino@banorte.com)

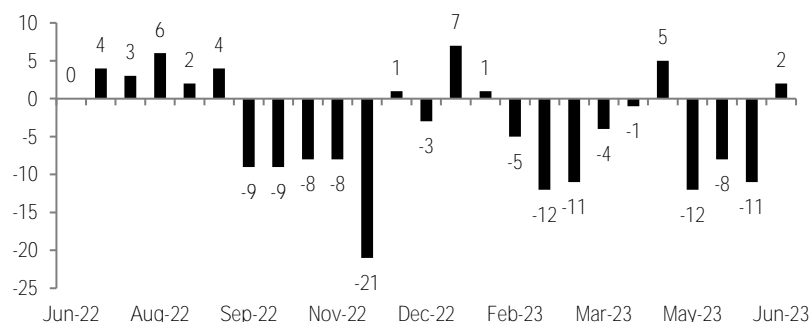
Winners of the 2023 award for best  
Mexico economic forecasters,  
granted by *Focus Economics*



Document for distribution among the  
general public

**Annual inflation close to breaching the 5% mark to the downside.** Headline inflation fell to 5.06% y/y from 5.84% in the previous month, with the core standing at 6.89% from 7.39% in the same order. As we have mentioned, a large part of this is explained by favorable base effects, situation which will continue at least until September or October. More important though: (1) Inflation surprises have been consistently to the downside (see char below); and (2) average headline and core inflation in 2Q23 came in at 5.7% and 7.3%, respectively, matching the latest estimates from Banxico.

Inflation surprises\*  
Basis points, bi-weekly frequency

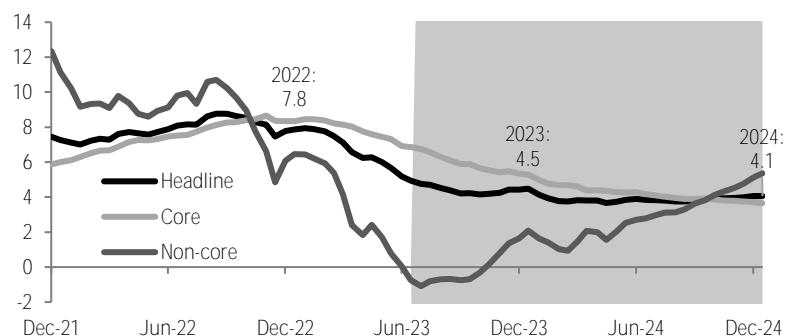


\*Nota: Surprises are calculated as the difference between actual data and consensus in Bloomberg's survey  
Source: Banorte with figures from INEGI and Bloomberg

**Small changes to our 2023 year-end forecast after the performance seen in recent months.** We adjust our year-end headline inflation forecast from 4.8% to 4.5%. The change is primarily explained by inflation surprises in recent months. The latter pushed our *nowcast* for headline inflation about 80bps lower than our estimate, to 4.00%. In this regard, we are mainly acknowledging the unexpectedly sharp drop in the non-core component. However, we also add other relevant elements. Regarding energy items, we believe that they will probably remain stable and even with a slight downward trend due to recession fears, led by China. On the other hand, food is a greater concern due to the *El Niño* phenomenon, [as we recently warned](#), which could have a more prolonged and persistent effect. Specifically, we see more pressures in this category, particularly starting in September. All in all, this category will probably rise, although the advance would be relatively gradual and will likely accumulate towards next year. At the core component, MXN strength is the main factor behind our revision from 5.6% to 5.3% by the end of December. However, we remain cautious on the strength of domestic demand and its potential impact on non-tradable goods and services. The latter component will likely maintain upward pressures due to [employment strength](#). [We agree with Banxico](#) on the need to remain vigilant due to the possibility of domestic pressures on price dynamics. We reiterate our forecast that the first central bank cut is likely to be until February next year.

Towards 2024, our main assumptions include: (1) The slowdown of the global economy, especially in the first half of the year, even though the US would experience a modest recession in time and magnitude; (2) increasing difficulties for the USD as the Fed starts its easing cycle, which could also induce pressures on the MXN. (3) the continuation of *El Niño*, which would be pressure food and energy prices; and (4) a boost to domestic demand due to factors related to the electoral process. With all this in mind, we estimate headline inflation at 4.1%, with the core at 3.7%. The next chart presents our new projections:

Inflation forecasts  
% y/y, bi-weekly frequency



Source: Banorte with data from INEGI

*From our fixed income and FX strategy team*

**CPI-linked bonds will become more attractive if inflation breakevens go below 4.00%.** Positive inflation surprises have favored fixed-income securities despite a more hawkish Fed tone and its high correlation with US Treasuries. In relative terms, Mbonos outperformed CPI-linked bonds (Udibonos) during June, resulting in lower breakevens for all tenors. In our view, shorter-term Udibonos have become more attractive, especially if breakevens dip below 4.00%. Historically, said level has triggered strong buying interest from pension funds, which are the main holders of these securities (53% of the total amount outstanding). We highlight the 3-year on-the-run Udibono that traded at all-time highs of 5.55% at the start of 2Q23 and is currently at 5.27%, with a breakeven of 4.10%; only 40bps above the 12-month low.

## Analyst Certification

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalia Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Juan Carlos Mercado Garduño, Daniel Sebastián Sosa Aguilar, Jazmin Daniela Cuautencos Mora and Andrea Muñoz Sánchez, 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.

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

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**

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

**Economic Research**

Juan Carlos Alderete Macal, CFA	Executive Director of Economic Research and Financial Markets 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
Yazmin 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) 1103 - 4000
Luis Leopoldo López Salinas	Manager Global Economist	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707

**Market Strategy**

Manuel Jiménez Zaldivar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
-------------------------	-----------------------------	----------------------------	------------------

**Fixed income and FX Strategy**

Leslie Thalia Orozco Vélez	Senior Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Isaías Rodríguez Sobrino	Strategist, Fixed Income, FX and Commodities	isaias.rodriguez.sobrino@banorte.com	(55) 1670 - 2144

**Equity Strategy**

Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Carlos Hernández García	Senior Strategist, Equity	carlos.hernandez.garcia@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Juan Carlos Mercado Garduño	Strategist, Equity	juan.mercado.garduno@banorte.com	(55) 1103 - 4000 x 1746

**Corporate Debt**

Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

**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
Miguel Alejandro Calvo Domínguez	Senior Analyst, Quantitative Analysis	miguel.calvo@banorte.com	(55) 1670 - 2220
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
Jazmin Daniela Cuautencos Mora	Strategist, Quantitative Analysis	jazmin.cuautencos.mora@banorte.com	(55) 1103 - 4000
Andrea Muñoz Sánchez	Analyst, Quantitative Analysis	andrea.munoz.sanchez@banorte.com	(55) 1103 - 4000

**Wholesale Banking**

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5004 - 1282
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 5140
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8173 - 9127
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) 5249 - 6423
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5004 - 1051
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 1670 - 1899