

July inflation – Below expectations, but with higher pressures at the non-core

- **Headline inflation (July): 0.48% m/m; Banorte: 0.50%; consensus: 0.49% (range: 0.39% to 0.50%); previous: 0.10%**
- **Core inflation (July): 0.39% m/m; Banorte: 0.43%; consensus: 0.42% (range: 0.37% to 0.45%); previous: 0.30%**
- **We highlight again higher-than-expected pressures at the non-core, in line with our view. Specifically, this component picked up 0.77% m/m, especially affected by fruits and vegetables (5.5%). The core was marginally higher, in part due to seasonal effects in tourism-related categories due to the holiday period**
- **Notwithstanding, annual inflation fell to 4.79% from 5.06% in the previous month. The core declined to 6.64% from 6.89%**
- **We expect Banxico to keep the rate unchanged tomorrow at 11.25%, in line with consensus. Moreover, we still believe it will stay at that level for the remainder of 2023**
- **We maintain our preference for paying THIE-IRS at the front-end and in short-term Udibonos**

Inflation at 0.48% m/m, with signs of pressures at the non-core. This was slightly below expectations, and also lower than its five-year average of 0.58%. Despite this, the non-core component surprised to the upside, increasing 0.77%. Specifically, on agricultural goods (1.9%), mainly fruits and vegetables (5.5%) on sizable increases in items such as avocados and onions. Energy remains to the downside (-0.4%), albeit moderating its recent declines due to a rebound in LP gas in the 2nd fortnight (+0.9% 2w/2w). Given recent dynamics in international markets, we reiterate our warning of a potential inflection point in this component for the rest of the year. At the core, goods were stable (0.3%), with some items within ‘other goods’ (0.2%) moderating, among them school supplies (-0.9%). Services (0.5%) accelerated at the margin, partly due to seasonal drivers. Airfares (17.0%) and tourism services (6.8%) were high since [the first fortnight](#) due to the start of the holiday season. In addition, ‘dining away from home’ within ‘others’ picked up 0.5%, remaining as a constant to the upside. Housing (0.3%) struck out another period of stability in the monthly comparison.

July 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
Avocados	6.5	28.3
Onions	4.1	22.9
Airfares	3.7	17.0
Bananas	3.0	10.7
Oranges	3.0	12.2
Goods and services with the largest negative contribution		
LP gas	-6.1	-4.3
Eggs	-5.9	-6.2
Grapes	-2.3	-29.8
Potatoes	-2.1	-4.3
Tomatoes	-1.8	-3.4

Source: INEGI

August 9, 2023

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

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

Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and
Financial Markets 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

Fixed income and FX Strategy

Manuel Jiménez Zaldívar
Director of Market Strategy
manueljimenez@banorte.com

Leslie Thalía Orozco Vélez
Senior Strategist, Fixed Income and FX
leslie.orozco.velez@banorte.com

Isaías Rodríguez Sobrino
Strategist, Fixed Income and FX
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

Despite of the abovementioned pressures, annual inflation declined further.

Headline inflation dropped to 4.79% y/y from 5.06% in June. Meanwhile, the core fell to 6.64% from 6.89% in the same period. This materialized despite seeing more price pressures throughout the month, particularly at the non-core, as we had previously warned. In any case, the latter component remains negative in annual terms, reaching -0.67% from -0.36%. As we have stated before, base effects play a key role, with said component reaching 9.65% in the same period last year. This distortion will remain in place at least until August, when it shot up towards 10.65%. At the core, the same effect will be important a little longer, probably up until November. Despite the fact that the path of annual inflation remains relevant for upcoming monetary policy decisions (considering also that it is positively correlated to 12-month expectations, essential for the calculation of the real ex ante policy rate), we will be watching closely the possible passthrough effect from higher agricultural goods and energy prices to the core, particularly on: (1) Processed foods, which could resent this despite being mitigated by a strong MXN that has also helped other tradeable goods; and (2) 'dining away from home' within services, with this category still high at an annual pace of 10.15%. On the contrary, the move higher in international goods' prices could be lessened by expectations of an economic deceleration during the rest of the year and into 2024. Here, we note China due to its strong influence on commodities. This country has announced some stimulus measures to boost growth, albeit so far with widespread skepticism about its potential effect.

We expect Banxico to stand pat at 11.25% tomorrow. This would be in line with consensus. It would be more important if there are any changes in the statement's language and tone pointing towards a possible start of an easing cycle before year-end. Among them, we identify as candidates dropping out the phrase about 'an extended period' in the forward guidance, and/or an improvement in the balance of risks for prices. Nevertheless, we do not expect modifications this time around. For further details, see our document, [Ahead of the Curve](#). In a still uncertain backdrop for prices and with the possibility of more rate hikes in developed economies, we believe Banxico will remain vigilant. With this in mind, we reiterate our view that the reference rate will stay at the current level for the rest of 2023, with a first rate cut until February 2024.

From our fixed income and FX strategy team

We maintain preference for paying TIEE-IRS at the front-end and in short-term Udibonos. Despite a slightly positive surprise, we expect Banxico to keep the reference rate unchanged at 11.25% for the remainder of the year. For its part, the market has slowly reduced its bets for cuts in 2023, pricing-in an accumulated adjustment to December of -32bps from -47bps at the beginning of July. In this backdrop, we continue to see value in paying very short-term TIEE-IRS, expecting the market to assimilate a higher-for-longer rate path ahead. On other hand, long-term Mbonos with yields above 9.00% have gained appeal, particularly the Nov'42 node. However, we do not favor directional positions due to the positive correlation with Treasuries and higher-than-expected supply announced in the latter securities. Lastly, short-term Udibonos with breakevens below 4.00% reflect better valuation in relative terms. In particular, the 3-year breakevens has been around 3.92% during August. Although today's print could keep it low, it is our take that these instruments are at attractive levels for longer-term positions.

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
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	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