

October 6, 2023

Mexico Economics – View from the Top

- Banxico's minutes will reaffirm a hawkish tone, with greater concerns about the inflation outlook
- Related to this, we expect a 0.50% m/m increase in September's inflation. With this, the annual print would stand at 4.52% from 4.64% in August
- On activity, most relevant will be August's industrial production, along September's ANTAD sales

Banxico's minutes will reveal more information on the institution's hawkish tone. We think the document will be very important to elaborate on the main changes contained in the [statement](#). Generally, we perceived greater concerns about the inflation outlook. In terms of their relative importance, we highlight: (1) The upward revision to headline and core inflation estimates; (2) the delay in the timing of the convergence to the inflation target; (3) changes in the factors that make up the balance of risks for prices, which remains skewed to the upside; (4) the possibility of an extension of an environment of high interest rates in advanced economies; and (5) the absence of a balance of risks for growth.

Higher inflation over the forecast horizon... While we anticipated an upward revision, actual adjustments were higher. This sends us a message of greater caution from the institution. Excluding 3Q23 figures –given that we practically have all the necessary data, with September's print to be published on Monday, expecting +0.50% m/m–, forecasts for both the headline and core were adjusted by +20bps on average. We believe these revisions are a result of: (1) Higher pressures at the non-core –acknowledging a more challenging outlook for both agricultural and energy items, which could result in a greater pass-through effect to other categories; and (2) evidence of higher persistence to the upside in services within the core, in our view impacted by input costs and possible demand-side pressures, among other factors. Given that the latter could extend for longer, risks are tilted towards additional upward revisions to the central bank's estimates in upcoming decisions.

Banxico: Inflation forecasts

% y/y, quarterly average

	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25
Headline										
Current	5.7*	4.6	4.7	4.4	4.0	3.7	3.4	3.2	3.1	3.1
Previous	5.7*	4.7	4.6	4.1	3.7	3.4	3.1	3.1	3.1	--
Difference (bps)	--	-10	10	30	30	30	30	10	0	--
Core										
Current	7.3*	6.2	5.3	4.5	3.9	3.5	3.3	3.2	3.1	3.1
Previous	7.3*	6.2	5.1	4.2	3.6	3.2	3.1	3.1	3.1	--
Difference (bps)	--	0	20	30	30	30	20	10	0	--

*Figures with an asterisk indicate observed data. Source: Banxico

...with a delayed convergence to the target. In March 2021, Banxico started publishing the quarter in which they expected to achieve the convergence of inflation to the 3% target. For example, on that occasion, they forecasted it by 2Q22. However, average annual inflation for said quarter was 7.77%, well above the goal. In this regard, we recognize that there have been adverse shocks that have been practically impossible to anticipate (e.g. supply chain disruptions, war in Ukraine). However, they have impacted the outlook meaningfully and appear to have induced an uptick in inflation expectations, a variable that is specially important for the central bank. Medium- and long-term analyst and market expectations based on bond breakevens (graphs below) have: (1) Been consistently above 3%; and (2) risen in recent quarters, following the shocks initiated by COVID-19. Considering this, the central bank's estimate of convergence in 2Q25 may still be somewhat optimistic.



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

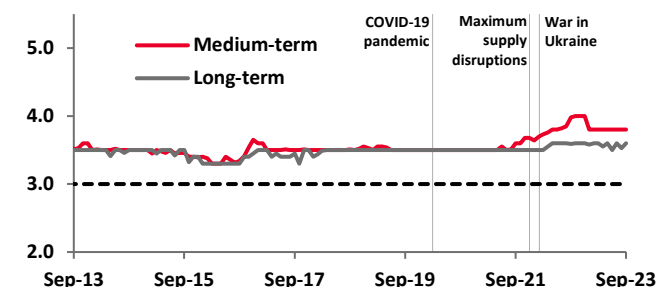


#1 OVERALL FORECASTER - MEXICO

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Medium- and long-term analyst inflation expectations

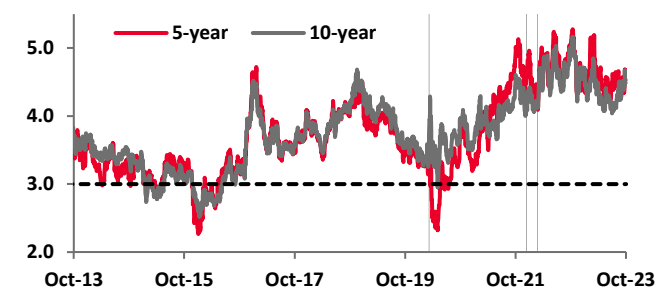
% y/y



Source: Banxico

5- and 10-year inflation breakevens*

%



*Vertical lines indicate the same events as in the chart to the left

Source: Banorte with data from PIP

Economic resilience now constitutes an upside risk to inflation. Although there were other changes in the drivers addressed by Banxico, we believe this one was very relevant. They also: (1) Removed the comment on the balance of risks for growth, which was previously labeled as 'balanced'; and (2) explicitly stated that *"...the effects of the shocks continue affecting inflation [...] in an environment where economic activity is more resilient than previously anticipated..."* This is consistent with [the upward revision to the output gap](#). If we also weigh this against a more constructive outlook for the economy for the remainder of the year and into 2024, this also supports the need to maintain a restrictive stance for longer.

Global financial conditions have become more challenging, reducing the room to maneuver. Central banks in advanced economies have warned of a still uncertain and complex outlook. Although some EMs have started to cut rates (e.g. Brazil, Chile, Peru, and Poland), we believe the room for easing locally has narrowed, especially if the Fed hikes again and keeps the *Fed funds* elevated for an extended period.

We delayed our view about the start and magnitude of rate cuts in 2024. Forward guidance included again the phrase about the 'extended period' in which the central bank expected to maintain the reference rate at its current level. This also added to our hawkish assessment. Thus, we now believe that the first 25bps cut will take place in May 2024 (previous: -25bps in February). In addition, we raised our year-end rate forecast to 9.25% from 8.25%.

Calendar of economic events

Date	Time (ET)	Event or indicator	Period	Unit	Banorte	Consensus	Previous
Mon 9-Oct	8:00am	CPI inflation	September	% m/m	0.50	0.47	0.55
				% y/y	4.52	4.48	4.64
		Core		% m/m	0.37	0.36	0.27
				% y/y	5.76	5.75	6.08
Tue 10-Oct		Wage negotiations	September	%	--	--	8.2
Tue 10-Oct	11:00am	International reserves	Oct-6	US\$ bn	--	--	203.8
Tue 10-Oct	11:00am	1-, 3-, 6-, and 24-month Cetes; 3-year Mbono (Sep'26); 20-year Udibono (Nov'43) and 1-, and 3-year Bondes F auction					
Tue 10-Oct		ANTAD: Same-store sales	September	% y/y in real terms	--	--	-1.5
Thu 12-Oct	8:00am	Industrial production	August	% y/y	4.9	4.6	4.8
		sa		% m/m	0.2	0.4	0.5
		Mining		% m/m	1.6	--	-2.6
		Utilities		% m/m	0.9	--	3.5
		Construction		% m/m	0.6	--	2.0
		Manufacturing		% m/m	-0.3	--	0.3
Thu 12-Oct	11:00am	Banxico's Minutes	Sep-28		-		

*Seasonally adjusted figures. Source: Banorte with figures from INEGI, Banxico, and Bloomberg

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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.

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