

October inflation – Agricultural items declined despite a challenging backdrop

- **Headline inflation (October): 0.38% m/m; Banorte: 0.36%; consensus: 0.39% (range: 0.36% to 0.44%); previous: 0.44%**
- **Core inflation (October): 0.39% m/m; Banorte: 0.39%; consensus: 0.38% (range: 0.35% to 0.41%); previous: 0.36%**
- **The period is characterized by relevant seasonal patterns, noting the end of summer discounts on electricity (19.2% m/m), which materialized since the 1st fortnight. Other energy items were more mixed, while declines in agricultural goods were broader (-2.1%). In the core, goods accelerated (0.3%), driven by processed foods. In services (0.4%), ‘others’ rose 0.6% given seasonal upticks in several categories**
- **With this, annual inflation moderated to 4.26% from 4.47%. The core was also lower, coming in at 5.50% (previous: 5.76%)**
- **Dynamics in the last couple of fortnights within the agricultural sector have surprised to the downside, despite very challenging weather conditions. Nevertheless, given this, along other challenges, could imply risks of a rebound in this category –possibly impacting the headline index further ahead–**
- **Attention on Banxico’s decision later today, where we expect them to maintain a hawkish tone, hinting that the easing cycle will take longer to start**

Inflation of 0.38% m/m in October. This month is one of the most affected by seasonal patterns, with the most relevant ones having already materialized in the first fortnight. Among them, the end of the first tranche of the summer discounts on electricity stands out, resulting in a 19.2% increase in this item. Other energy items were mixed, with low-grade fuel falling marginally (-0.03%), while LP gas increased (+3.4%). Agricultural goods fell 2.1%, dragged down by both fruits and vegetables (-3.1%) –highlighting declines in tomatoes, onions, and oranges– and meat and egg (-1.1%) –even despite a slight reversal higher in the 2nd half, especially in eggs. At the core (0.39%), we highlight an acceleration in goods, up 0.3%. The boost came mainly from processed foods (0.5%) –with a relevant increase in sugar– although with ‘others’ also higher (0.2%). Seasonal gains also stand out in services (0.4%), particularly in ‘others’ (0.6%). The latter included airfares (13.4%) and tourism services (7.0%), as well as a rebound in professional services (4.7%). In addition, increases continued in ‘dining away from home’, up 0.4%. Finally, housing was higher at the margin at 0.3%.

October 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
Electricity	27.1	19.2
LP gas	5.1	3.4
Sugar	4.3	9.7
Housing	3.1	0.3
Air fares	3.0	13.4
Goods and services with the largest negative contribution		
Tomatoes	-10.5	-14.5
Chicken	-6.9	-4.1
Onions	-3.5	11.7
Oranges	-2.7	-11.9
Avocadoes	-2.2	-8.6

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



www.banorte.com/analisiseconomico
@analisis_fundam

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



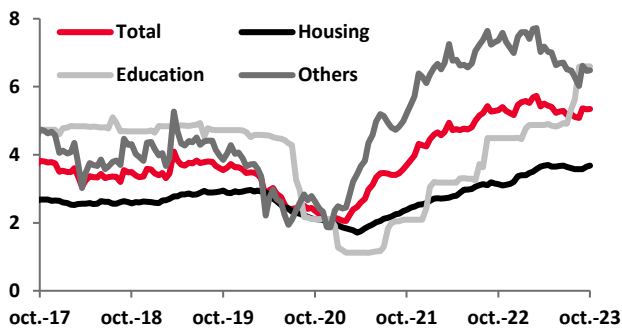
#1 OVERALL FORECASTER - MEXICO

Document for distribution among the general public

The annual rate continues to moderate, although risks remain to the upside. With these results, annual inflation moderated to 4.26% from 4.45% in September, its lowest level since early 2021, even though base effects have become more challenging. Meanwhile, the core declined to 5.50% (previous: 5.76%), with goods behind this (at 5.6% from 6.2%), considering that services maintain larger persistence to the upside (at 5.3% from 5.2%), as seen in the chart below on the left. As mentioned in previous publications, the latter is quite relevant as we believe risks are more tangible (*e.g.* such as cost increases, including wages) and also as this is one of the components where monetary policy may have a greater effect. On the other hand, non-core inflation adjusted lower to 0.56% after increases in the previous two months. Despite significant declines in some items within the latter, we remain concerned going forward. We are struck by the recent downward reversal in fruits and vegetables –accumulating a 4.0% decline since the 1st half of September–, despite drought levels in our country having reached some of their worst points in about three years. We believe that a catalyst for the decline has been the fall in fertilizer prices. According to *Grupo Consultor de Mercados Agrícolas*, this is explained by higher imports at lower prices. However, if the benefits cannot be transferred to production further due to water scarcity –especially given greater disruptions due to the *El Niño* phenomenon–, it is very likely that prices will rebound. We must add to this the effects from the aftermath of Hurricane Otis. Just on this front, according to several press reports, about 70% of the crops in the state of Guerrero are at risk of being lost. Considering these and other factors [detailed recently](#), we maintain our year-end inflation estimate at 5.0%, while acknowledging that the figure could be slightly lower given most recent dynamics.

Services inflation

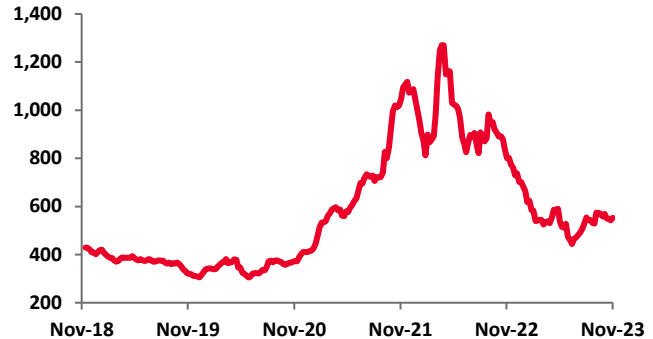
% y/y, bi-weekly frequency



Source: Banorte with data from INEGI

Fertilizer prices in North America

US\$ per short ton



Source: Banorte with figures from Bloomberg and Green Markets

Attention on Banxico’s decision later today. We expect the monetary authority to maintain its reference rate unchanged at 11.25%. This is a forecast we have held since late April, with the consensus view converging to this point only recently. We think the statement will maintain a hawkish tone, consistent with a complex outlook for monetary policy. On some of the most relevant points that are included in the release, we anticipate: (1) Upward revisions in headline and core inflation forecasts, with changes between 10 and 30bps in coming quarters; (2) a balance of risks to prices still skewed to the upside; (3) the repetition of the phrase about the convenience of an ‘extended period’ with the rate at the current level; and (4) reaffirming a constructive view on economic activity. As such, we believe the document will support our view that the easing cycle will take longer to materialize, starting with a 25bps cut in May 2024’s meeting.

Analyst Certification.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldivar, 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 Enriquez, 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, Paula Lozoya Valadez, 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.

Directory

Research and Strategy



Raquel Vázquez Godínez
Assistant
raquel.vazquez@banorte.com
(55) 1670 - 2967



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



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

Market Strategy



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



José Itzamna Espitia Hernández
Senior Strategist, Equity
jose.espitia@banorte.com
(55) 1670 - 2249



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



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

Quantitative Analysis



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



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



Andrea Muñoz Sánchez
Analyst, Quantitative Analysis
andrea.muñoz.sanchez@banorte.com
(55) 1103 - 4000



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



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



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



Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com
(55) 1103 - 4000



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



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



Isaías Rodríguez Sobrino
Analyst, Fixed Income, FX and Commodities
isaias.rodriguez.sobrino@banorte.com
(55) 1670 - 2144



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



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



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



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



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



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



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



Hugo Armando Gómez Solís
Senior Analyst, Corporate Debt
hugoa.gomez@banorte.com
(55) 1670 - 2247



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



Miguel Alejandro Calvo Domínguez
Senior Analyst, Quantitative Analysis
miguel.calvo@banorte.com
(55) 1670 - 2220



Jazmin Daniela Cuautencos Mora
Strategist, Quantitative Analysis
jazmin.cuautencos.mora@banorte.com
(55) 1103 - 4000