

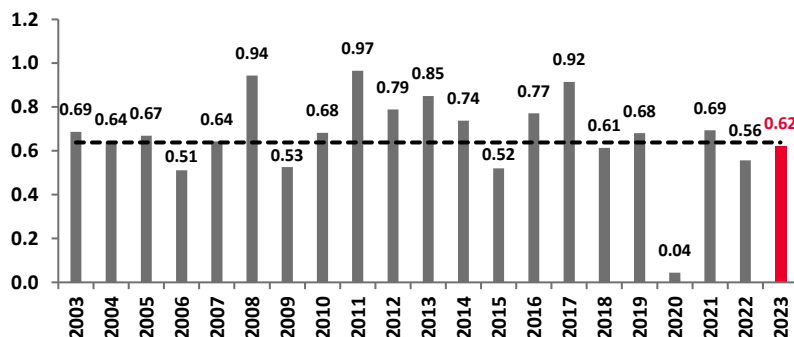
Mexico Economics – View from the Top

- Inflation dynamics have been more favorable than we expected in recent fortnights. We expect figures from 1H-November on Thursday. However, we believe that risks for prices remain tilted to the upside
- Busy schedule this week, noting Banxico's minutes, 3Q23 GDP and current account, as well as September's retail sales and the monthly GDP-proxy IGAE, among others

Favorable dynamics for prices in the last couple of fortnights, with relevant declines in agricultural items. Contrary to our view, since the 2nd half of September we have seen relevant contractions in the prices of agricultural items, accumulating -2.5% since said period up to the [2nd half of October](#). We highlight the -4.0% in fruits and vegetables, as well as the -1.1% in meat and egg. Specifically, we expected pressures in this category given challenging conditions in terms of drought in our country, coming on top of other adverse climatological issues. Nevertheless, this was not the case. Looking back, we believe the sector could have found some support in lower fertilizer prices and higher imports of some goods. Nevertheless, we believe the recent trend will reserve, expecting increases in these categories as soon as the 1st half of November, as detailed next.

Inflation of 0.62% 2w/2w in 1H-November... This would be higher than the 5-year average at 0.52%, bit closer to the 10-year median at 0.64% (see chart below, in black the 10-year average is shown). As it is well known, performance is dominated by the end of summer discounts in electricity traffic, with the second tranche being reverted in this period. Nevertheless, the result would be influenced by dynamics in other categories.

Inflation in the 1st half of November
% 2w/2w



Source: Banorte with data from INEGI

...expecting relevant increases in tomatoes and some items in meat and egg, just to name a few. Within our monitoring, we note increases in key goods within agricultural items, such as tomatoes, chicken, and eggs. For the latter two, press reports signal that production is currently affected by: (1) Persistence of bird flu outbreaks in some regions in the country, with an emergency declaration in the US; and (2) a colder climate that impacts how fast hens lay eggs.

Important challenges for agricultural and energy items given expectations of a harsh winter... According to NOAA's *Climate Prediction Center*, the probability of a 'historically strong' event of *El Niño* increased to 35% in November from 30% in October. We expect that its effects result in more extreme conditions, impacting crops and the demand of energy in an important manner. On the latter, expectations from the *Energy Information Administration* (EIA) in the US for this winter is that current actual gas inventories will meet demand, both in the US and Europe.



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



#1 OVERALL FORECASTER - MEXICO

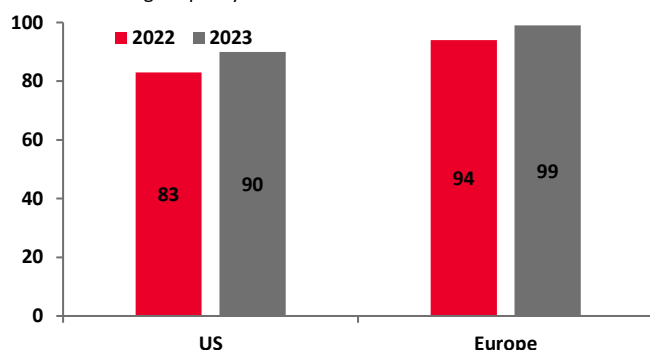
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The key for this is that inventory build-up in both regions has been high (see chart below on the left). Nevertheless, they acknowledge that risks for prices are tilted to the upside, considering the likelihood of lower temperatures, along possible supply issues.

...while pressures persist in services. Within this category we note the recent performance both in education and in 'others' (see chart below on the right). As we have mentioned in previous occasions, we believe that one of the main reasons behind the increases are rising labor costs. In this sense, going forward we identify challenges stemming from the upcoming adjustment to the minimum wage –likely being announced in early December and coming into force in January–, considering that recent reports point to a revision between 20% and 25%. This is relevant given that the 'lighthouse effect' coming from said adjustment seems to be getting passed through faster to the rest of the wage curve, and therefore, to companies costs'.

Natural gas inventories in underground storage

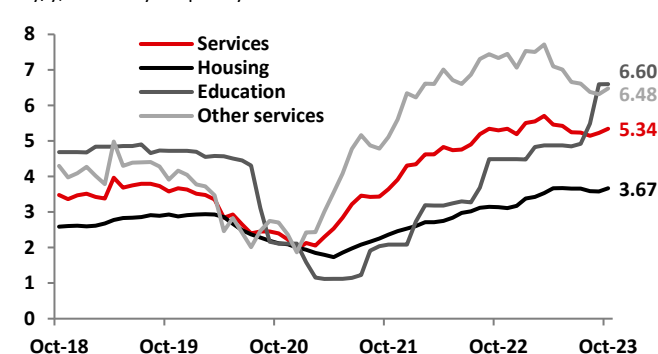
% of total storage capacity at the end of October



Source: EIA

Services inflation

% y/y, bi-weekly frequency



Source: Banorte with figures from INEGI

Calendar of economic events

Date	Time (ET)	Event or indicator	Period	Unit	Banorte	Consensus	Previous
Mon 20-Nov		Markets closed in remembrance of the Mexican Revolution					
Tue 21-Nov	4:30pm	Citibanamex bi-weekly survey of economic expectations			--	--	3.0
Tue 21-Nov	8:00am	Timely Indicator of Economic Activity*	October	% y/y	--	--	3.0
Tue 21-Nov	11:00am	Weekly auction of 1-, 3-, 6-, and 24-month Cetes, 5-year Mbono (Mar'29), 30-year Udibono (Nov'50), and 1-, 3-, and 7-year Bondes F					
Wed 22-Nov	8:00am	Retail sales	September	% y/y	3.6	4.0	3.2
		Retail sales*		% m/m	0.5	--	-0.4
Wed 22-Nov	11:00am	International reserves	Nov-17	US\$ bn	--	--	205.3
Thu 23-Nov	8:00am	CPI inflation	1Q-Nov	% 2w/2w	0.62	0.62	0.13
		CPI inflation		%y/y	4.32	4.31	4.25
		Core		%2w/2w	0.23	0.21	0.18
		Core		%y/y	5.34	5.32	5.46
Thu 23-Nov	11:00am	Banxico's Minutes	Nov-9				
Fri 24-Nov	8:00am	GDP	3Q23 (F)	% a/a	3.2	3.2	3.3
		GDP*		% q/q	0.9	0.8	0.9
		Agriculture		% q/q	2.9	--	3.2
		Industrial production		% q/q	1.3	--	1.4
		Services		% q/q	0.6	--	0.6
Fri 24-Nov	8:00am	Monthly GDP-proxy IGAE	September	% a/a	3.1	3.0	3.7
		Monthly GDP-proxy IGAE*		% m/m	0.5	--	0.4
		Primary activities*		% m/m	3.3	--	2.6
		Industrial production*		% m/m	0.2	--	0.3
		Services*		% m/m	0.6	--	0.3
Fri 24-Nov		Current account	3Q23	US\$ bn	3.4	3.9	6.2

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

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, Paula Lozoya Valadez, Daniel Sebastián Sosa Aguilar, Jazmin Daniela Cautencos 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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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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