

Mexico Economics – View from the Top

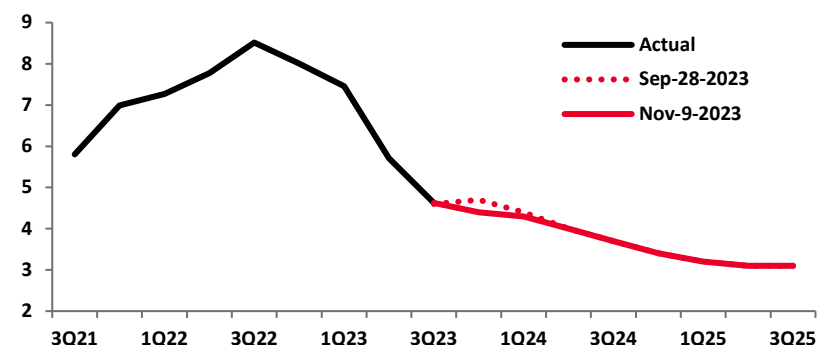
- We expect Banxico to hold its reference at 11.25% in its last meeting of the year. Focus on the forward guidance, especially if there is additional clarity on the timing of the first rate cut
- Few releases next week, noting October's industrial production and November's ANTAD sales

Banxico will maintain the reference rate at 11.25%. In its last scheduled meeting of the year, we expect the monetary authority to leave the target rate unchanged at 11.25%. The decision will likely be unanimous, as in the last seven decisions. Nevertheless, attention will be on the tone of the statement, particularly on the forward guidance, on top of possible changes to inflation estimates and/or the balance of risks. At the margin, we have had [relevant updates from the institution recently](#), providing us with additional clarity relative to other times in the year.

The forward guidance will be key to determine the timing of the first cut. One of the main changes in the [previous statement](#) was the adjustment in the section regarding future actions, with the institution now mentioning that “...the reference rate must be maintained at its current level for some time...”, instead of an “...extended period...”. This was expanded further in the [minutes](#), with several members suggesting that the moment to start discussing cuts could be in 1Q24, with one of them talking about a reduction as soon as February. This was reaffirmed in the *Quarterly Report*. In our opinion, the statement could remain unchanged to maintain some flexibility about the specific timing. In our view, the current language suggests that it could happen on February or March, considering that we are still missing the release of inflation in December and January. Therefore, keeping it would be consistent with data dependency and with our forecast that the first 25bps rate cut would happen in March. Nevertheless, if the Board wants to transmit a more dovish tone, we cannot fully rule out a change in the language to signal more forcefully the moment of the cut, which would increase the probability of materializing as soon as February.

We expect relatively modest revisions in inflation estimates... With [figures available so far](#), it is possible that they adjust their 4Q23 for the headline marginally to the downside, by about -10bps, with the core more stable. Considering the less hawkish tone, we believe adjustments for upcoming quarters could be more modest –like those seen in the previous decision, as shown in the chart below–, with the convergence to the target remaining in 2Q25.

Banxico's inflation forecasts
% y/y, quarterly average



Source: Banorte with data from Banxico



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



[@analisis_fundam](http://www.banorte.com/analisiseconomico)

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



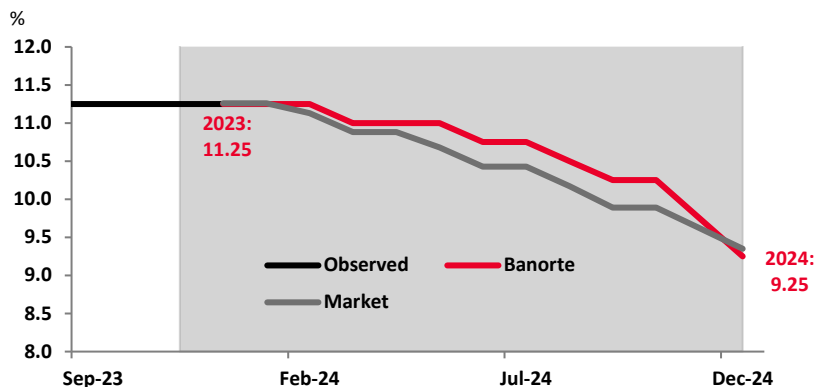
Document for distribution among the general public

...although we believe risks remain tilted to the upside. Despite of this, we maintain a higher projected path for inflation through 2024, recognizing a balance of risks still tilted to the upside. We remain somewhat concerned over climatic distortions from the drought and *El Niño*, which so far seem to have been mitigated by higher imports and lower fertilizer prices. Nevertheless, if the weather becomes more adverse and/or accumulated effects globally are more substantial, the effect on final prices could be stronger. We must also consider the risks stemming from higher economic activity, with an output gap clearly in positive territory, along with expectations of a relevant fiscal boost in 1H24 and the possibility of a more significant 'lighthouse effect' from the [minimum wage](#) increase, among other issues.

We expect accumulated rate cuts of 200bps in 2024, taking the rate to 9.25% gradually at the beginning... In our opinion, a more challenging outlook will impact Banxico's first decisions in two ways: (1) Delaying the moment of the first cut to March (relative to February); and (2) a gradual pace to cuts, at least in the first couple of adjustments. The latter is consistent with the view of "fine-tuning" monetary policy from Deputy Governor Heath, as well as comments from other members, particularly Governor Rodríguez in several participations in the last few weeks. Considering this, we expect just two 25bps cuts each in 1H24, materializing in March and June.

...but picking up the pace in the second half of the year. Turning to this period, the consolidation lower in core inflation, a more challenging backdrop for economic activity, and the start of the easing cycle by the Fed will allow Banxico to perform consecutive cuts, which we expect to be of -25bps in August and September. After this, and consistent with our call of sequential declines in 2H24 GDP, we expect the magnitude of these reductions in November and December to be -50bps each.

Reference rate forecasts



Source: Banorte with figures from Bloomberg, PIP, and Banxico

Economic Calendar

Date	Time (ET)	Event or indicator	Period	Unit	Banorte	Consensus	Previous
Mon 11-Dec		ANTAD: Same-store sales	November	% y/y in real terms	--	--	-1.3
Mon 11-Dec	10:00am	Auction of 1-, 3-, 6-, and 12-month Cetes, 10-year Mbono (May'33), 10-year Udibono (Nov'31) and 2-, and 5-year Bondes F					
Tue 12-Dec		Markets closed due to Banking Employees Holiday					
Tue 12-Dec	7:00am	Industrial production	October	% y/y	4.1	--	3.9
		Industrial production*		% m/m	0.0	--	0.2
		Mining*		% m/m	1.0	--	-1.0
		Utilities*		% m/m	-0.3	--	-0.2
		Construction*		% m/m	2.8	--	-4.1
		Manufacturing*		% m/m	-0.9	--	1.7
Wed 13-Dec	10:00am	International reserves	Dec-8	US\$ bn	--	--	XXX
Thu 14-Dec	2:00pm	Banxico's monetary policy decision	Dec-14	%	11.25	11.25	11.25
Fri 15-Dec	10:00am	Banxico's survey of economic expectations	December				
Fri. 15-Dec		Last day before Congress' winter break					

*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.

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.



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