

Economic Research

Mexico

1H-August inflation – Food items keep pushing annual rates higher

- **Headline inflation (1H-Aug): 0.42% 2w/2w; Banorte: 0.33%; consensus: 0.36% (range: 0.27% to 0.43%); previous: 0.23%**
- **Core inflation (1H-Aug): 0.49% 2w/2w; Banorte: 0.37%; consensus: 0.35% (range: 0.30% to 0.40%); previous: 0.30%**
- **Data remains pressured, especially the core. Goods accelerated (0.7%), both because of processed foods (0.8%) and ‘others’ (0.6%). In services (0.2%), education grew 1.0% on higher college (1.2%) and high school (2.0%) tuitions, albeit compensated by tourism-related categories. The non-core was mixed, with agricultural goods (0.4%) higher than with energy (0.0%), with the latter aided by electricity**
- **In bi-weekly frequency, annual inflation picked up to 8.62% from 8.14%. The core was also higher, at 7.97% from 7.75%. On a more positive note, we think this month we could see a high in the headline**
- **We reiterate our call of +75bps by Banxico on September 29th –following the Fed– and the reference rate at 10.00% by the end of the year**
- **Market expects Banxico to continue with the same pace of hikes in September**

Inflation remained high in the 1st half of August. The headline (0.42% 2w/2w) was higher consensus, with most pressures still at the core (0.49%). In the latter, goods accelerated (0.7%), with processed foods still not showing signs of relief (0.8%). We highlight higher prices in milk, corn tortillas and sodas, among others. ‘Other goods’ (0.6%) also increased more strongly, noting seasonal effects (*e.g.* school supplies given the return to classes). Services grew 0.2%, with tuitions (1.0%) also affected by the latter factor. On the contrary, airfares (-12.5%) and tourism services (-2.8%) adjusted as summer vacations ended. Nevertheless, non-tourism kept exhibiting difficult dynamics. At the non-core, energy (0.0%) was helped by electricity (-0.4%), with LP gas (-0.1%) and low-grade gasoline (0.1%), more stable. Nevertheless, agricultural goods rebounded 0.4% after falling 0.2% in the previous fortnight, with relevant pressures on fresh and vegetables (1.6%).

1H-August inflation by components
%, bi-weekly incidence

	INEGI	Banorte	Difference
Total	0.42	0.33	0.09
Core	0.36	0.28	0.09
Goods	0.29	0.22	0.07
Processed foods	0.18	0.14	0.04
Other goods	0.11	0.08	0.03
Services	0.07	0.06	0.01
Housing	0.02	0.02	0.00
Education	0.03	0.04	-0.01
Other services	0.02	0.00	0.02
Non-core	0.06	0.05	0.01
Agriculture	0.05	0.05	0.00
Fruits & vegetables	0.09	0.05	0.04
Meat & egg	-0.03	0.00	-0.03
Energy & government tariffs	0.00	0.00	0.01
Energy	0.00	-0.01	0.01
Government tariffs	0.00	0.01	0.00

Source: INEGI, Banorte. Note: Contributions might not add due to the number of decimals allowed in the table.

August 24, 2022

www.banorte.com
@analysis_fundam

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

Juan Carlos Alderete, CFA
Executive Director of Economic Research
and Financial Markets Strategy
juan.alderete.magal@banorte.com

Francisco Flores
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com

Yazmín Pérez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com

Fixed income and FX Strategy

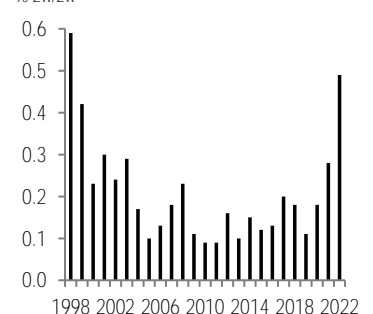
Manuel Jiménez
Director of Market Strategy
manuel.jimenez@banorte.com

Leslie Orozco
Senior Strategist, Fixed Income and FX
leslie.oroazco.velez@banorte.com

Winners of the award for best
economic forecasters for Mexico in
2021, granted by Refinitiv



Core inflation 1H-August
% 2w/2w



Source: INEGI

Document for distribution among the
general public

1H-August inflation: Goods and services with the largest contributions

% 2w/2w: bi-weekly incidence in basis points

Goods and services with the largest positive contribution	Incidence	% 2w/2w
Onions	9.9	37.7
Dining away from home	3.6	0.7
Corn tortillas	3.3	1.6
College tuitions	1.7	1.2
Other prepared food	1.5	1.4
Goods and services with the largest negative contribution		
Avocados	-3.3	-8.9
Air fares	-3.1	-12.5
Chicken	-2.5	-1.4
Eggs	-2.0	-2.0
Bananas	-1.0	-3.7

Source: INEGI

Still cautious on inflation, despite the possibility of reaching a peak close. In bi-weekly frequency, annual inflation picked up to 8.62% from 8.14%. The core was also higher, at 7.97% from 7.75%. On a more positive note, we think this month we could see a high in the headline close to 8.8%. Nevertheless, the core would take more time to fall, with our forecast path showing these pressures extending towards the fourth quarter towards 8.4%. On the latter, we warn that more companies have been announcing price adjustments. Among them, we highlight Coca Cola FEMSA, which stated that sodas and other drinks increased on August 17th, which comes on top of a similar change in the 1H-June. In addition, milk producer Grupo Lala hiked prices by about \$1 on average in several products starting on August 15th. As we have mentioned previously, it is our take that these moves reflect cost pressures, with food especially –but not exclusively– affected. On the other hand, we believe risks remain skewed to the upside. One key driver to watch for during the rest of the year is the minimum wage (MW) increase for 2023. We recall that the [MW is at \\$172.87 per day after increasing 22% for this year](#). The *National Wage Commission* wants to update the target for the MW by the end of 2024 due to price pressures, from \$226 per day currently, to \$260. This would imply 50.4% growth in two years. Given significant cost pressures in other fronts, the decision could gain even more relevance for Banxico’s policy rate path next year. Broadly speaking, the outlook still looks challenging, in our view maintaining the central bank vigilant.

Banxico to follow the Fed, at least for the rest of 2022. We reiterate our call of +75bps by Banxico on September 29th and a reference rate at 10.00% by the end of the year. On the former, we pencil-in this move as we expect the Fed to hike in the same magnitude on September 21st. In this respect, we note that Deputy Governor Jonathan Heath said late last week that this is the most likely scenario at least for the rest of the year, and that he would not even consider otherwise. Although we identify him among the most hawkish members of the Board, we think the majority could have a very similar rationale. Hence, we do not see Banxico as decoupling from the Fed anytime soon.

From our fixed income and FX strategy team

Market expects Banxico to continue with the same pace of hikes in September. Since Banxico’s latest decision, on August 11th, the market has recalibrated its expectations towards a more aggressive hike of 75bps in September from a moderation in the tightening cycle to 50bps at the beginning of the month. The foregoing, in a backdrop of prevailing upward risks for inflation with constant negative surprises both in Mexico and other regions (e.g. Europe).

In this period, Mbonos and TIE-IRS curves have registered a steepening bias with a 40bps sell-off, on average. Currently, the curve is pricing-in implicit hikes of 138bps for the rest of the year, slowly approaching our 10.00% call (+150bps). In terms of strategy, last Thursday we [recommended paying TIE-IRS \(26x1\) and receive 2-year SOFR](#) with an entry of 583bps, target of 620bps and stop-loss of 565bps (current: 598bps). The investment horizon is 3 months. We believe the strategy is attractive due to: (1) Market expectations of an eventual ‘decoupling’ between the monetary policy cycles of Banxico and the Fed, which we do not see; (2) additional room for further hikes in short-term rates relative to those currently discounted for both central banks; and (3) the spread between both securities has decreased significantly. Furthermore, we see greater relative value in Mbonos vs Udibonos. The latter have become more expensive, considering a general increase in *breakevens* above the 12-month average. In particular, the 3-year reading stands at 4.97% from 4.67% at the beginning of the month.

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, David Alejandro Arenas Sánchez, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Oscar Rodolfo Olivares Ortiz, Daniel Sebastián Sosa Aguilar and Salvador Austria Valencia 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
Luis Leopoldo López Salinas	Manager Global Economist	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	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
Paola Soto Leal	Analyst	paola.soto.leal@banorte.com	(55) 1103 - 4000 x 1746
Oscar Rodolfo Olivos Ortiz	Analyst	oscar.olivos@banorte.com	(55) 1103 - 4000
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
Daniela Olea Suárez	Senior Analyst, Quantitative Analysis	daniela.olea.suarez@banorte.com	(55) 1103 - 4000
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	Analyst, Quantitative Analysis	daniel.sosa@banorte.com	(55) 1103 - 4000
Salvador Austria Valencia	Analyst, Quantitative Analysis	salvador.austria.valencia@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.cebaltos@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
Oswaldo Brondo Menchaca	Head of Specialized Banking Services	oswaldo.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.roldan.ferrer@banorte.com	(55) 1670 - 1899