Ahead of the Curve

Food prices likely kept inflation under pressure in 1H-July

- **Inflation (1H-July).** We expect headline inflation at 0.38% 2w/2w, relatively close to the 0.31% five-year average. This would be relatively benign, especially when compared to recent fortnights. The period's dynamics would be characterized by additional pressures in food items, both processed and fresh. More positively, there are tentative signs of some relief in services and other goods, while energy would be more mixed. In this sense, we anticipate the core at +0.29% (contribution: +22bps), with the non-core up 0.63% (+16bps). If our forecasts are correct, annual inflation will climb from 7.99% on average in June to 8.10%. Both the core and non-core would accelerate at the margin. The first would come in at 7.50% (previous: 7.49%), with the latter at 9.90% (previous: 9.47%)

- ***Timely Indicator of Economic Activity* (Jun).** This release will include the first estimate for June, as well as revised figures for May. On the latter, the IP report surprised slightly to the downside. Some dynamism likely prevailed in services, supported by a favorable seasonality. Nevertheless, the sequential print could well turn negative after also considering a better result in the previous month. For June, signals are more negative. Specifically, we identify several headwinds, including: (1) Higher inflationary pressures; (2) an increase in contagions (albeit with mobility relatively stable); and (3) a potentially adverse effect from the absence of social programs' payments due to the electoral ban, among others

Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Tue 19-Jul	7:00am	Timely Indicator of Economic Activity (sa)	June	% y/y	--	--	1.0
Tue 19-Jul	10:00am	International reserves	Jul-15	US$ bn	--	--	198.4
Wed 20-Jul	3:30pm	Citibanamex bi-weekly survey of economic expectations					
Thu 23-Jun	7:00am	Retail Sales	May	% y/y	4.8	--	4.6
		sa		% m/m	0.4	--	0.4
Fri 22-Jul	7:00am	CPI inflation	1H July	% 2w/2w	0.38	--	0.39
				%y/y	8.10	8.11	8.09
		Core		%2w/2w	0.29	--	0.26
				%y/y	7.50	--	7.52

Source: Banorte; Bloomberg

July 15, 2022

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

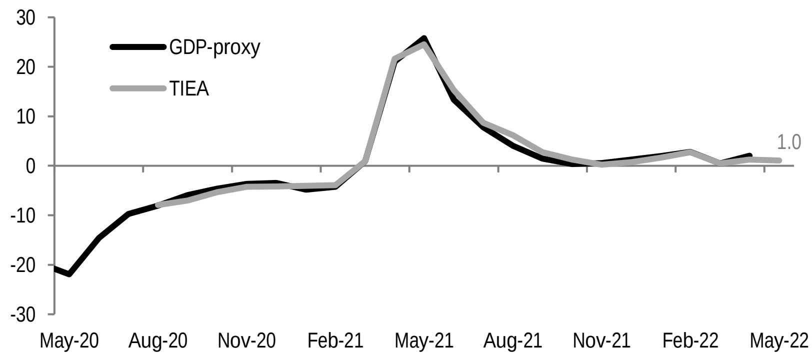
STARMINE AWARDS FOR REUTERS POLLS FROM REFINITIV

Proceeding in chronological order…

The *Timely Indicator of Economic Activity* will likely suggest a decline in June. This release will include the first estimate for June, as well as revised figures for May. We recall that April's mid-point forecast stood at 1.3% y/y (using sa figures), below the 2.0% in the GDP-proxy (IGAE). Turning to May, the IP report surprised slightly to the downside. Some dynamism likely prevailed in services, supported by a favorable seasonality. Nevertheless, the sequential print could well turn negative after also considering a better result in the previous month. For June, signals are more negative. Specifically, we identify several headwinds, including: (1) Higher inflationary pressures; (2) an increase in contagions (albeit with mobility relatively stable); and (3) a potentially adverse effect from the absence of social programs' payments due to the electoral ban, among others. Consistent with this, both of IMEF's PMIs declined –with manufacturing back in contraction–, on top of a moderation in other sentiment indicators.

Monthly GDP-proxy and the Timely Indicator of Economic Activity (TIEA)

% y/y sa



Source: INEGI

Weekly international reserves report. Last week, net international reserves decreased by US$356 million, closing at US$198.4 billion (please refer to the following table). This was mainly explained by a negative valuation effect in institutional assets. Year-to-date, the central bank's international reserves have fallen by US$4.0 billion.

Banxico's foreign reserve accumulation details

US$, million

	2021	Jul 8, 2022	Jul 8, 2022	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	202,399	198,413	-356	-3,986
(B) Gross international reserve	207,745	203,446	-801	-4,299
Pemex	--	--	0	350
Federal government	--	--	-337	571
Market operations	--	--	0	0
Other	--	--	-464	-5,220
(C) Short-term government's liabilities	5,346	5,033	-445	-312

Source: Banco de México

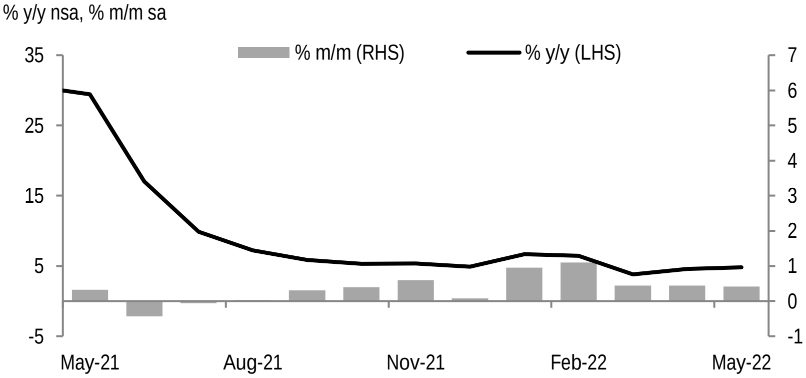
Retail sales supported by campaigns and fundamentals in May. We estimate +4.8% y/y, which would be its tenth consecutive month up sequentially, at +0.4% m/m. This would be supported by strong fundamentals and an additional boost from sales because of Mother's Day and discounts in the *Hot Sale* campaign (from May 23 to 31). Although the former is captured in the seasonal adjustment method, we believe the latter could skew figures to the upside. Anecdotally, we saw more interest and promotion relative to recent years, which may have helped sales. In this sense, mobility data was also stronger, in turn also because of low COVID-19 cases. On the last point, we recall that the most recent wave started to be increasingly clearer until the first days of June.

Available data so far is mostly positive. Among them, non-oil consumer goods imports grew 27.6% y/y, quite vigorous and accelerating in its monthly advance, stringing nine periods higher. Nevertheless, we are cautious on this as data is distorted by higher inflation. However, vehicle sales improved both in absolute terms (91,215 units) and its annual rate (+6.5%). Gasoline sales were similar at +24.5% y/y, high not seen since April last year. On the other hand, ANTAD's same store and total sales grew further at 3.4% and 5.5%, respectively, with a more challenging base effect.

On fundamentals, news were also favorable. Remittances in pesos surpassed 100 billion a month for the first time ever, the average real wage increased 3% y/y despite high inflation –at 7.7% y/y, up at the margin relative to April– and consumer credit strengthened. A potentially negative factor is that social program payments were not disbursed because of the electoral ban (with payments already made in advance during the first months of the year). Meanwhile, jobs were lost in both the formal and informal sectors.

Broadly speaking, domestic demand has surprised positively in 1H22, supporting our GDP call for this year at 2.1%, above consensus. Despite of this, downside risks have been on the rise. Our main concern remains inflation, especially in food items; in turn, this has started to show up in confidence levels. Second, a deceleration in manufacturing activity, as suggested by IMEF's PMIs for June, which could have a more significant effect on job creation and total payrolls. Hence, it will be important to watch their evolution in the short-term.

Retail sales
% y/y nsa, % m/m sa



Source: INEGI, Banorte

Inflation in the 1st half of July still under pressure because of food items, but with some signs of relief in other sectors. We expect headline inflation at 0.38% 2w/2w, relatively close to the 0.31% five-year average. This would be relatively benign, especially when compared to recent fortnights. The period's dynamics would be characterized by additional pressures in food items, both processed and fresh. More positively, there are tentative signs of some relief in services and other goods, while energy would be more mixed. In this sense, we anticipate the core at +0.29% (contribution: +22bps), with the non-core up 0.63% (+16bps). If our forecasts are correct, annual inflation will climb from 7.99% on average in June to 8.10%. Both the core and non-core would accelerate at the margin. The first would come in at 7.50% (previous: 7.49%), with the latter at 9.90% (previous: 9.47%)

In bi-weekly terms, core goods would advance 0.3% (+14bps), once again driven by processed foods (0.5%; +11bps). In particular, we expect previously announced increases by some producers (*e.g.* Coca-Cola Femsa, beer companies), as well as other built-up cost pressures to continue passing through to final prices. 'Other goods' would be more modest (0.2%; +3bps), still aided by summer discounts on clothing as well as other sales (*e.g.* Amazon's Prime Day, *Julio Regalado*, etc.). Services would increase 0.2% (+8bps), with a more modest push across the board. Housing is expected to moderate slightly (0.1%; +2bps), while 'other services' would climb 0.3% (+6pb). Within the latter, tourism-related categories are seen as relatively low despite the seasonal pattern which tends to push them higher. Meanwhile, previous declines in energy (especially LP gas) could help to slightly contain categories such as 'dining away from home'.

In the non-core, energy prices are expected to be mixed, up 0.1% (+1bp). Electricity should remain on the upside (+0.4%; +1bp), while LP gas would halt its declining trend at +0.4% (+1bp), impacted by higher prices abroad and the slight depreciation of the MXN. More positively though, we estimate that gasolines will tick lower, with low-grade at -0.1% (-1bp). This would be driven by the steep decline in international references, albeit smoothed by a moderation in the subsidies to the excise tax. Agricultural prices are estimated at +1.2% (+14bps), with pressures in both fresh fruits and vegetables (1.6%; +8bps) and meat and egg (0.9%; +6bps). Within the former, we see additional pressures on potatoes and onions, but mild declines in tomatoes and avocadoes. In the latter, eggs seem to have gathered upward momentum, with chicken still on the rise. Lastly, government tariffs would moderate to 0.1% (+1bp).

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 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 Olivos 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.

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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.

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