

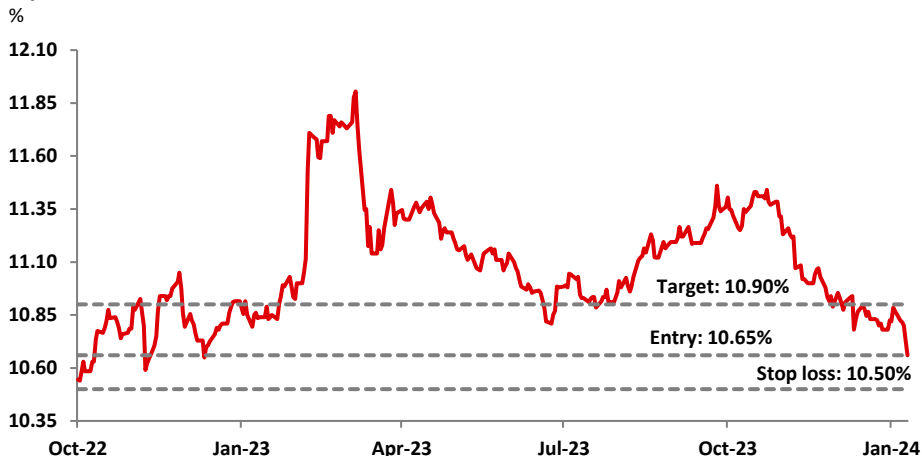
Fixed-Income & FX Strategy

W e e k l y

Fixed-Income and FX Weekly

- Will Fed members try to temper market optimism?** Despite strong employment numbers (released earlier in the month) and a higher-than-expected December inflation report in the US, markets remain optimistic about the onset of rate cuts and a 'soft landing' scenario for the economy. The negative surprise in inflation pressured rates, although this dynamic was very short-lived and reversed sharply after weaker-than-expected PPI data. Hence, the market expects the first rate cut in March, with a probability of 80% vs 70% the previous week. In addition, it anticipates an adjustment in the year of -168bps vs -138bps the previous week. In Banorte, our base case is a first rate cut in May and a total reduction of 150bps for the year. Following inflation, Fed members emphasized that it was premature to think about cuts in March and reiterated that the Fed has more work to do to ensure inflation is on a path consistent with the 2% target. We foresee the likelihood that in subsequent speeches, central bankers will attempt to moderate market expectations. In this sense, we would expect pressures on rates and if they materialize, the dollar could find a floor at current levels or recover part of the losses recorded in recent months. As we have mentioned on other occasions, local rates remain highly correlated with US securities and are sensitive to financial and monetary conditions in the US, so we would expect a negative bias in the short term. We consider that Mbonos look overvalued after the 100bps rally in the last two-month period, mainly mid-term (5- to 10-year) bonds, which are trading 2σ below their 90-day average and maintain a spread vs. Treasuries below the 12-month average. The Mexican peso started the year with a solid performance against its EM peers, which are trading in negative territory. We continue to see a resilient peso supported by an attractive carry, solid macroeconomic fundamentals, and growing nearshoring flows
- Recommendations** – We maintain our 2/10 steepener in TIIE-IRS initiated on October 13th at -114bps (current: -113bps, target: -60bps, stop loss: -140bps) given our view of a correction in the structure of the curve and despite the negative carry and roll-down of -5.6bps per month. Meanwhile, and tactically, we suggest a payer position in 1-year TIIE-IRS (13x1) with an entry level of 10.65%, target of 10.90%, stop loss of 10.50% and positive carry-roll down of 16bps per month given the excessive optimism of the market on cuts for 2024 in Mexico (-225bps vs Banorte: -200bps) and the US (-168bps vs Banorte: -150bps). Also, we suggest tactical longs in the 3-year Udibono due to the collapse in the breakeven
- Weekly ranges** – We expect that the 10-year Mbono (May'33) to trade between 8.90% and 9.15%, and for MXN between 16.70 and 17.10 per dollar

1-year TIIE-IRS



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Fixed-Income

- **Positive balance in sovereign bonds** – The Mbonos' curve averaged gains of 20bps in the week, with the belly (5 to 10 years) benefiting the most with a rally of up to 26bps. The 10-year benchmark (May'33) gained 18bps, returning to trading below 9.00%. Meanwhile, the Treasuries' curve marked a bull steepening with a 22bps rally at the short-end. The 10-year note closed at 3.94% (-11bps)
- **Supply** – On Tuesday, the MoF will auction 1-, 3-, 6-, and 24-month Cetes, the 5-year Mbono (Mar'29), the 30-year CPI-linked bond (Nov'50) –known as Udibono–, and 1-, and 3-year Bondes F
- **Demand** – Foreigners' holdings in Mbonos totaled US\$ 82.6 billion (MXN 1.401 trillion) by the end of 2023, virtually unchanged vs 2022 and equivalent to 33.4% of the total amount outstanding. However, their exposure to Cetes rose 42% y/y to US\$ 11.8 billion (MXN 199 billion), equivalent to 13.4% of the total amount outstanding. Meanwhile, Pension funds' holdings in Udibonos increased 20.8% y/y to US\$ 100.4 billion (MXN 1.704 trillion), that is 55.1% of the total amount outstanding
- **Technicals** – The spread between 10-year Mbonos and Treasuries moved to 502bps from 509bps the previous week, with the 12-month mean at 517bps, following a better performance in local bonds. Moreover, the inverted yield curve extended its correction with the 2s/10s spread moving to -57bps from -82bps by the end of the year

Foreign Exchange

- **We see the MXN as resilient supported by an attractive carry.** The Mexican peso traded below the psychological 17.00 per dollar, except for a brief moment after the US inflation report. The MXN closed Friday at 16.87 per dollar (+0.1% w/w), driven by solid market conviction of an early Fed pivot following the positive surprise in US PPI
- **The dollar swung between losses and gains.** The DXY and BBDXY closed virtually unchanged. In the G10, GBP (+0.3%) was the strongest and AUD (-0.4%) was at the opposite end. In EM, trading was capped by RUB (+2.8%) and CLP (-2.1%). The Chilean peso weakened due to bets that the central bank will speed up the pace of rate cuts after a bigger than expected negative inflation surprise
- **Market positioning in MXN** – As of January 9th, the MXN position registered a higher net long of US\$ 2.64 billion from US\$ 2.58 billion by the end of the year. Speculators continue to bet in favor of the Mexican peso after it ended 2023 as the second strongest currency with an appreciation of 14.9% and has remained in that position during January with an advance of 0.6%
- **Market positioning in USD** – The IMM USD net short position increased to 5-month highs of US\$ 11.64 billion from US\$ 9.10 billion a week ago and US\$ 7.63 billion by the end of the previous year. This position clearly shows aggressive market bets that the Fed will make its first 25bps cut in March. In detail, the weekly adjustment was the result of purchases in most currencies, led by CAD (+973 million), GBP (+682 million) and AUD (+612 million)
- **Flows** – Our EPFR aggregate recorded bigger negative flows of US\$ 909 million from US\$ 383 million the previous week. Bond market flows turn negative to US\$ 487 million from an inflow of US\$ 381 million because of significant sales in Asia. However, equities outflows decreased 45% to US\$ 423 million. In Mexico, a negative flow of US\$ 67 million was recorded because of sales in both bonds and equities of US\$ 25 million and US\$ 42 million, respectively
- **Technicals** – The spot traded between 16.79 and 17.07 per dollar with a weekly range of 28 cents, like the average of the last 4 weeks. In addition, the 1-month implied volatility fell to lows not seen since July of 9.81%. The next relevant technical levels are: 16.80, 16.70 and 16.63 (resistances) and 17.00, 17.10 and 17.20 (supports)

Fixed-Income Dynamics

Fixed-income securities performance

Security	YTM (%)	Weekly change (bps)	Δ last 4 weeks (bps)	YTD (bps)	12m Max (%)	12m Min (%)	12m Average (%)
Overnight TIIE funding rate							
1-day	11.22	-2	-2	-23	0.00	11.62	10.78
28-days ¹	11.33	0	2	2	11.45	10.48	11.17
91-days ¹	11.44	0	2	2	11.34	10.54	11.18
182-days ¹	11.61	0	2	2	11.45	10.64	11.29
Cetes							
28-days	11.20	-3	-13	-4	11.49	10.45	11.14
91-days	11.31	-3	4	7	11.61	10.75	11.35
182-days	11.34	-4	4	1	12.06	10.90	11.49
364-days	11.12	-7	-4	-2	12.13	10.88	11.47
728-days	10.87	-9	-4	-4	12.14	10.50	11.15
Mbonos							
Sep'24	11.00	-1	17	3	11.57	10.03	10.99
Dec'24	10.72	-13	0	6	11.31	9.57	10.66
Mar'25	9.80	-28	-20	-9	11.24	9.56	10.34
Mar'26	9.53	-31	-30	-23	10.92	8.85	9.85
Sep'26	9.41	-28	-21	-8	10.78	9.22	9.90
Mar'27	9.26	-26	-15	-13	10.53	8.58	9.50
Jun'27	9.20	-25	-17	-6	10.49	8.49	9.43
Mar'29	9.01	-25	-15	-6	10.32	9.07	9.64
May'29	8.90	-23	-16	-4	10.24	8.43	9.14
May'31	8.94	-21	-12	0	10.26	8.45	9.13
May'33	8.96	-18	-8	3	10.24	8.52	9.13
Nov'34	9.02	-13	-4	7	10.21	8.49	9.11
Nov'36	9.00	-10	-3	8	10.20	8.53	9.11
Nov'38	9.06	-13	-1	2	10.25	8.66	9.23
Nov'42	9.11	-12	3	3	10.25	8.71	9.26
Nov'47	9.07	-15	0	0	10.17	8.69	9.22
Jul'53	9.09	-15	-1	2	10.17	8.66	9.23
TIIE-IRS							
3-month (3x1)	11.44	-4	-3	-2	11.62	10.89	11.47
6-month (6x1)	11.26	-5	-8	-2	11.78	11.04	11.47
9-month (9x1)	11.02	-12	-14	-7	11.92	11.02	11.38
1-year (13x1)	10.65	-22	-22	-13	11.91	10.65	11.15
2-year (26x1)	9.55	-32	-31	-15	10.90	9.49	10.06
3-year (39x1)	8.93	-34	-24	-15	10.31	8.64	9.37
4-year (52x1)	8.61	-33	-18	-12	10.02	8.26	9.01
5-year (65x1)	8.45	-31	-15	-11	9.87	8.10	8.82
7-year (91x1)	8.37	-28	-11	-8	9.78	7.98	8.69
10-year (130x1)	8.40	-26	-9	-5	9.78	7.97	8.67
20-year (3x1)	8.45	-25	-9	-5	9.85	8.05	8.76
30-year (390x1)	8.44	-22	-12	-1	9.84	8.07	8.76
Udibonos							
Dec'25	5.90	-13	-2	-9	6.45	4.46	5.67
Dec'26	5.57	-11	13	-5	6.42	4.36	5.44
Nov'28	4.42	-23	-4	-6	5.62	4.02	4.69
Nov'31	4.44	-24	-3	-3	5.39	3.94	4.58
Nov'35	4.33	-16	0	-4	5.06	3.96	4.45
Nov'40	4.26	-17	-8	-6	5.04	3.96	4.48
Nov'43	4.25	-18	-8	-8	5.06	4.30	4.60
Nov'46	4.20	-14	-3	5	5.04	3.91	4.46
Nov'50	4.24	-13	-3	2	5.03	3.97	4.48

Source: Bloomberg, PiP, Banxico, Banorte

1: Compounded in advance Overnight TIIE Funding rate for "n" days

Fixed-Income Dynamics (continued)

USD UMS and US Treasuries performance

USD UMS and US Treasuries performance											
UMS					UST				Spreads		CDS
Term	Maturity date	YTM Jan/12/2024	Weekly change (bps)	YTD (bps)	YTM Jan/12/2024	Weekly change (bps)	YTD (bps)	Actual (bps)	Weekly change (bps)	12m Average (bps)	bps
2Y	Jan'26	4.54	-10	+7	4.14	-24	-29	41	+15	17	29
3Y	Mar'27	4.47	-11	-33	3.92	-24	-30	54	+13	31	45
5Y	May'29	4.93	-14	+14	3.84	-17	-17	109	+3	100	89
7Y	Apr'30	5.06	-10	-27	3.90	-14	-7	117	+4	128	128
10Y	May'33	5.41	-10	-15	3.95	-9	+8	146	-1	166	162
20Y	Mar'44	6.07	-6	-30	4.31	-4	+17	176	-1	195	--
30Y	May'54	6.34	-9	-5	4.20	0	+24	214	-9	230	--

Source: Bloomberg, Banorte

5Y USD UMS



Source: Bloomberg, Banorte

10Y USD UMS



Source: Bloomberg, Banorte

5Y UMS-UST Spread



Source: Bloomberg, Banorte

10Y UMS-UST Spread



Source: Bloomberg, Banorte

Fixed-Income Supply

- **Mexico's weekly auction.** On Tuesday, the MoF will auction 1-, 3-, 6-, and 24-month Cetes, the 5-year Mbono (Mar'29), the 30-year CPI-linked bond (Nov'50) –known as Udibono–, and 1-, and 3-year Bondes F
- **Clear preference for Cetes vs. mid-term Mbonos and long-term Udibonos.** We expect investors to continue increasing their exposure in Cetes due to the very attractive rates that do not yet reflect the expectation of cuts by Banxico. The Cetes of 28-, 91-, 182-, 364-, and 728-day trades at 11.20%, 11.31%, 11.34%, 11.12%, and 10.68%, in the same order. In our opinion, the central bank will cut rates by 25bps to 11.00% in March and will end the year with a rate of 9.25% (-200bps). Mbonos look overvalued after the 100bps rally in the last two months of the year; however, the belly of the curve (5- to 10-years) shows the greatest room for a correction. In particular, the yield of the Mbono Mar'29 moved from 10.16% in October to 8.94% at the end of 2023 and is now trading at 9.01%, remaining 2σ below its 90-day average. In this context, we expect a poor demand below 2.0x for the 5-year benchmark. In real rates, we also anticipate a poor demand for the 30-year Udibono (Nov'50) like the average of the last four auctions of 1.6x given an unattractive relative valuation. The breakeven of this term stands at 4.65%, that is, 10bps above its 12-month average

Auction specifics (January 16, 2024)

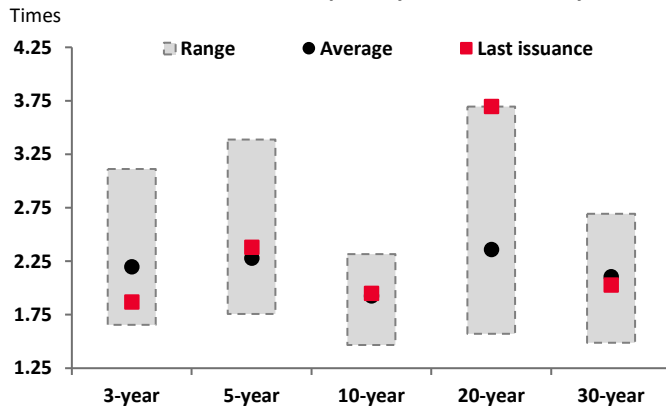
Security	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	Feb-15-24	--	10,000	11.28
3m	Abr-18-24	--	10,000	11.37
6m	Jul-11-24	--	11,100	11.37
24m	Dec-24-25	--	18,200	10.96
Bondes F				
1Y	Jan-16-25	--	8,000	0.11
3Y	Jan-14-27	--	3,500	0.20
Bono M				
5Y	Mar-01-29	8.50	13,500	9.26
Udibono				
30Y	Nov-03-50	4.00	UDIS 1,150	4.35

Source: Banxico, Banorte

1. Except for Udibonos, which are expressed in UDI million, everything else is expressed in MXN million. The amount of Cetes is announced a week prior to the day of the auction.

2. Yield-to-maturity reported for Cetes, Mbonos and Udibonos

Mbonos' bid-to-cover ratios for primary auction in last 2 years



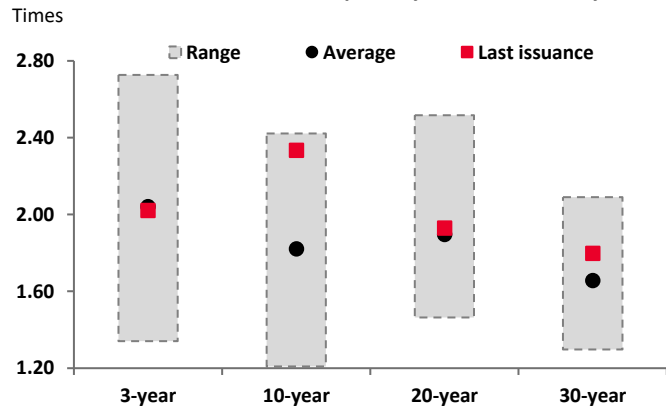
Source: Bloomberg, Banorte

1Q24 Government Securities Auction Calendar*

Date	Cetes	Bonos M	Udibonos	Bondes F
2-Jan	1, 3, 6, and 24M	3Y (Sep'26)	20Y (Nov'43)	1, 3, and 7Y
9-Jan	1, 3, 6, and 12M	30Y (Jul'53)	10Y (Nov'31)	2, 5, and 10Y
16-Jan	1, 3, 6, and 24M	5Y (Mar'29)	30Y (Nov'50)	1, and 3Y
23-Jan	1, 3, 6, and 12M	10Y (Nov'34)	3Y (Dec'26)	2, and 5Y
30-Jan	1, 3, 6, and 24M	3Y (Sep'26)	20Y (Nov'43)	1, 3, and 7Y
6-Feb	1, 3, 6, and 12M	20Y (Nov'42)	10Y (Nov'31)	2, 5, and 10Y
13-Feb	1, 3, 6, and 24M	5Y (Mar'29)	30Y (Nov'50)	1, and 3Y
20-Feb	1, 3, 6, and 12M	30Y (Jul'53)	3Y (Dec'26)	2, and 5Y
27-Feb	1, 3, 6, and 24M	3Y (Sep'26)	20Y (Nov'43)	1, 3, and 7Y
5-Mar	1, 3, 6, and 12M	10Y (Nov'34)	10Y (Nov'31)	2, 5, and 10Y
12-Mar	1, 3, 6, and 24M	5Y (Mar'29)	30Y (Nov'50)	1, and 3Y
19-Mar	1, 3, 6, and 12M	20Y (Nov'42)	3Y (Dec'26)	2, and 5Y
25-Mar	1, 3, 6, and 24M	3Y (Sep'26)	20Y (Nov'43)	1, 3, and 7Y

Source: SHCP *Ministry of Finance *In case an instrument is auctioned by the syndicated method, the current instrument will be replaced by the new issuance

Udibonos' bid-to-cover ratios for primary auction in last 2 years



Source: Bloomberg, Banorte

Fixed-Income Demand

Government and IPAB securities holdings by type of investor

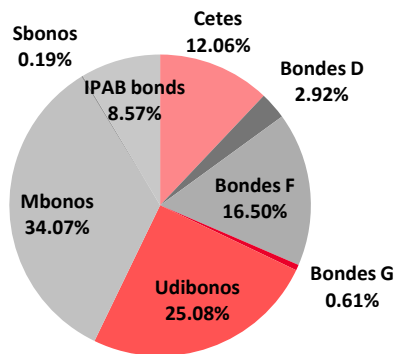
US\$ billion, *UDIS million, data as of 12/29/2023

Securities	Total amount outstanding	Foreign investors	Pension funds	Mutual funds	Insurance companies	Local banks	Repos with Banxico	Guarantees received by Banxico	Securities held by Banxico	Other domestic residents
Cetes	87.61	11.76	13.11	12.39	4.34	9.45	2.74	3.60	-	30.23
Bondefes D	21.24	1.63	1.33	7.28	0.21	4.29	0.82	0.35	-	5.33
Bondefes F	119.87	0.01	7.25	64.21	2.05	13.20	4.93	0.15	-	28.07
Bondefes G	4.42	-	0.14	1.86	0.34	0.06	1.46	-	-	0.56
Udibonos	182.23	8.85	100.41	7.30	35.16	3.49	0.35	0.07	-	26.60
Mbonos	247.54	82.57	59.44	6.63	7.37	36.52	10.47	1.48	0.88	42.18
Sbonos	1.36	0.59	0.42	0.01	0.03	0.03	-	-	-	0.28
Total	664.26	105.40	182.10	99.68	49.50	67.04	20.77	5.64	0.88	133.25
Udibonos*	387,742.81	18,822.44	213,646.42	15,535.42	74,821.41	7,415.41	754.90	153.86	-	56,592.96
IPAB bonds	62.28	0.16	0.69	18.16	0.10	12.40	6.83	2.30	-	21.64

Source: Banxico, Banorte

Government issuance by type of instrument

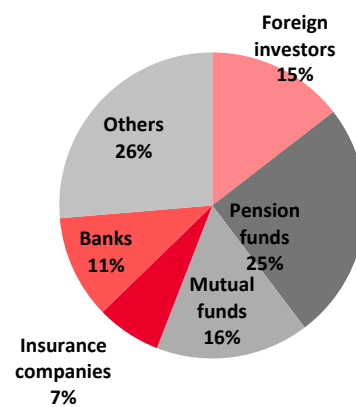
Total amount of US\$ 727 billion (including IPAB bonds), % of total



Source: Banxico, Banorte

Mbonos holdings by type of investor

Total amount of US\$ 727 billion (including IPAB bonds), % of total

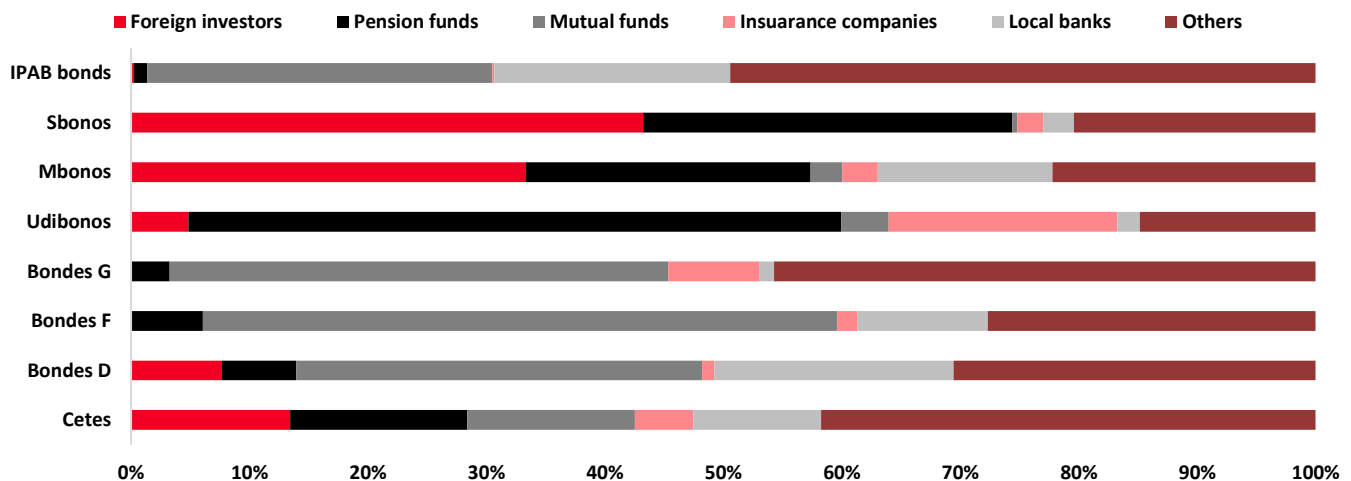


Source: Banxico, Banorte

Note: "Others" includes repos, guarantee and securities held by Banxico, as well as other domestic residents

Government securities holdings by type of investor

Total amount of US\$ 727 billion (including IPAB bonds), % of total



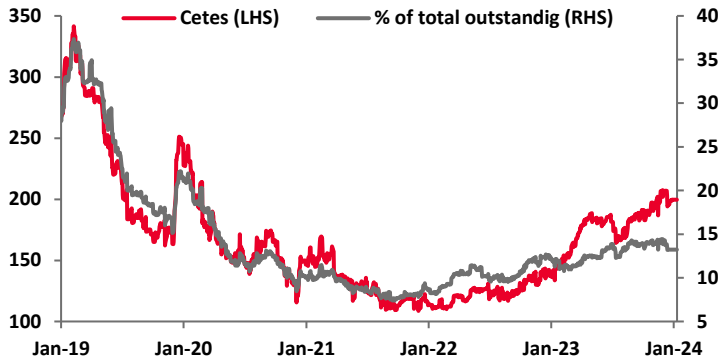
Source: Banxico, Banorte

Note: "Others" includes repos, guarantee and securities held by Banxico, as well as other domestic residents

Fixed-Income Demand (continued)

Cetes held by foreigners

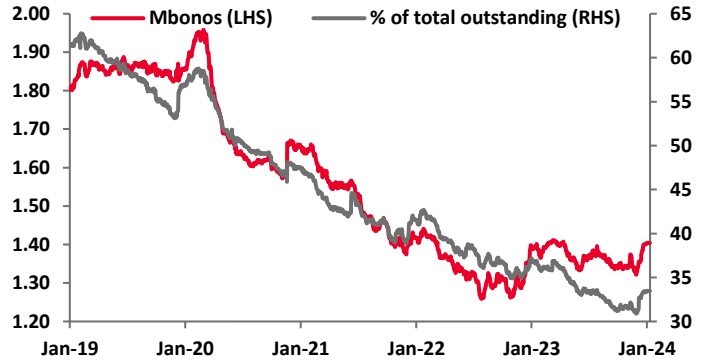
MXN billion, %



Source: Banxico, Banorte

Mbonos held by foreigners

MXN trillion, %



Source: Banxico, Banorte

Holdings of main investors by type of security

Data as of Dec/29/2023

	Foreign investors		Pension funds		Mutual funds	
	Δ last 4 weeks (%)	YTD (%)	Δ last 4 weeks (%)	YTD (%)	Δ last 4 weeks (%)	YTD (%)
Cetes	-1.15	42.19	27.25	16.52	-4.73	27.55
Bondes F	-4.01	-47.53	19.46	7.09	4.07	46.10
Udibonos	4.94	12.03	1.59	20.82	1.96	80.88
Mbonos	5.17	0.23	-1.32	20.38	2.29	9.81

Source: Banxico, Banorte

Mbonos holdings by type of investor

US\$ billions and %, data as Dec/28/2023

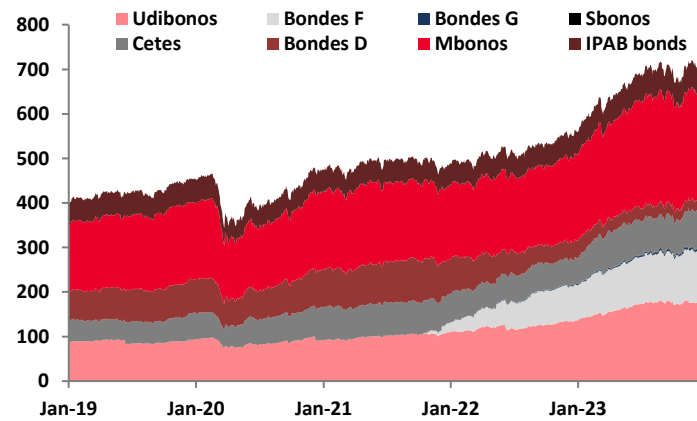
Maturity	Amount Outstanding	Local Banks	Foreign investors	Pension and Mutual funds	Others
Sep'24	16.1	18%	15%	12%	55%
Dec'24	13.3	24%	24%	8%	43%
Mar'25	8.9	31%	16%	17%	36%
Mar'26	26.8	32%	29%	13%	26%
Sep'26	7.8	28%	22%	11%	39%
Mar'27	21.4	32%	19%	15%	34%
Jun'27	20.8	6%	33%	29%	32%
Mar'29	4.7	28%	27%	24%	21%
May'29	16.3	3%	52%	22%	22%
May'31	25.0	4%	46%	33%	17%
May'33	16.2	7%	40%	30%	23%
Nov'34	5.8	0%	53%	34%	13%
Nov'36	4.4	2%	26%	42%	29%
Nov'38	12.8	1%	42%	41%	16%
Nov'42	19.1	2%	40%	45%	14%
Nov'47	15.3	0%	37%	45%	18%
Jul'53	11.7	0%	38%	44%	17%
Total	234.7	13%	34%	27%	27%

Source: Banxico, Banorte

Notas: "Institutional investors" include pension funds, mutual funds, and insurance companies. "Others" includes repos, guarantee and securities held by Banxico, as well as other domestic residents

Government securities issuance

USD Billions

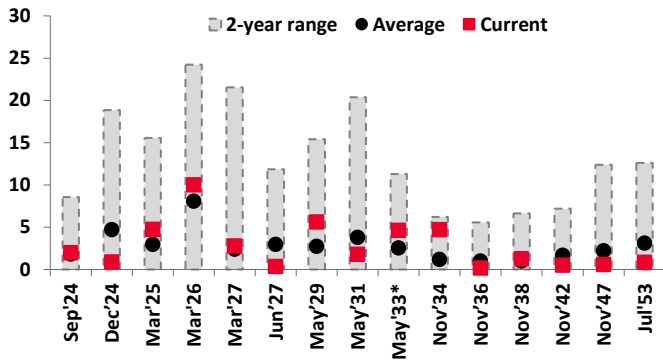


Fuente: Banxico, Banorte

Fixed-Income Demand – Primary dealers

Market makers' short positions on Mbonos

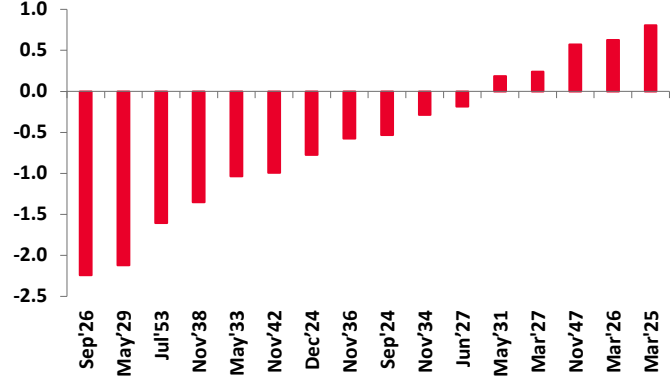
MXN billion



Source: Banxico, Banorte *May'33 issued in December 2022

Weekly change in market makers' short positions on Mbonos

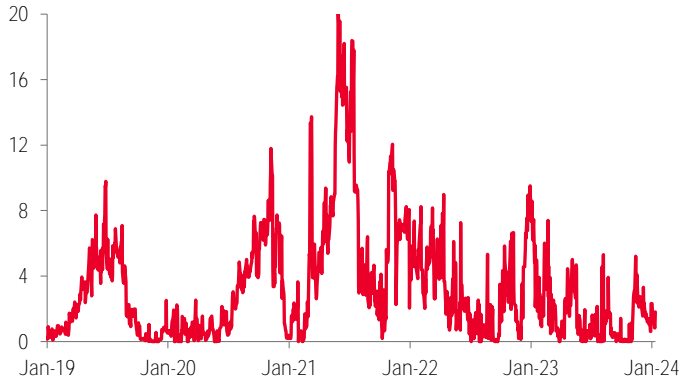
MXN billion



Source: Banxico, Banorte

Market makers' short positions on Mbono May'31

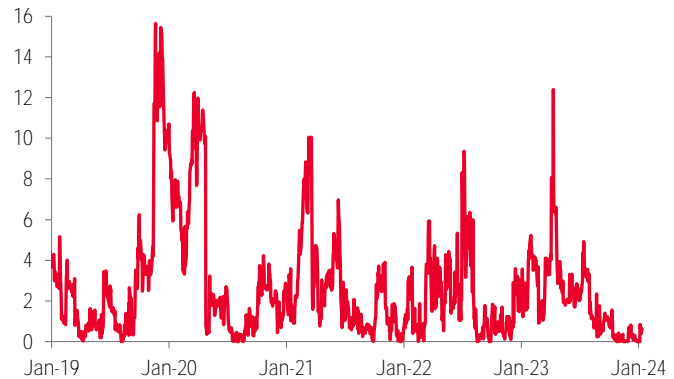
MXN billion



Source: Banxico, Banorte

Market makers' short positions on Mbono Nov'47

MXN billion



Source: Banxico, Banorte

Market makers' position on Mbonos

US\$ million

Maturity date	Total amount outstanding as of Jan/11/2024	Jan/11/2024	Previous Week	Previous Month	Previous Year	6m Max	6m Min
Sep'24	16,057	118	149	147	151	250	0
Dec'24	13,407	52	97	145	308	352	8
Mar'25	8,928	280	232	386	84	919	63
Mar'26	26,723	592	555	389	265	1,416	107
Sep'26	8,794	203	335	78	0	1,276	0
Mar'27	21,621	164	150	17	225	1,274	8
Jun'27	20,825	20	31	6	223	643	0
Mar'29	4,706	13	8	43	0	426	0
May'29	17,073	332	457	287	176	911	90
May'31	25,155	107	96	106	214	314	0
May'33	16,509	274	335	212	0	668	1
Nov'34	5,889	278	294	119	126	364	0
Nov'36	4,337	9	43	2	52	329	0
Nov'38	12,686	74	154	16	43	303	0
Nov'42	19,044	30	89	59	21	235	0
Nov'47	15,400	34	0	12	92	291	0
Jul'53	12,672	50	145	107	192	633	16
Total	249,826	2,577	3,026	2,024	1,980		

Source: Banxico, Banorte

Fixed-Income Technicals

Spread between Cetes and Implied Forward Rates

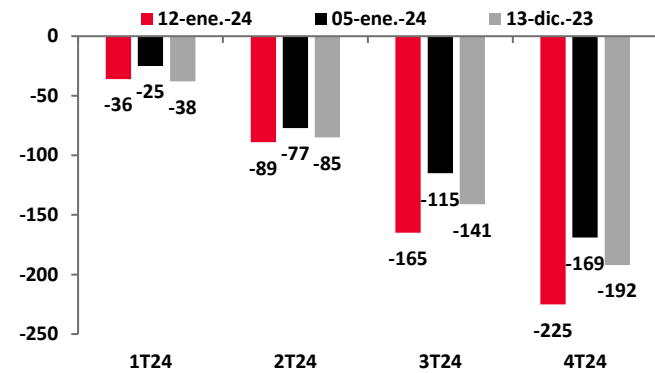
Basis points

Tenor	Actual Jan/12/2024	Weekly change	Δ last 4 weeks	6m average	6m Max	6m Min
1 month	65	99	116	66	243	-35
3 months	27	27	25	4	118	-95
6 months	21	13	9	-16	54	-99
12 months	29	7	8	-26	34	-92

Source: PiP, Bloomberg, Banorte

Cumulative implied moves in Banxico's repo rate

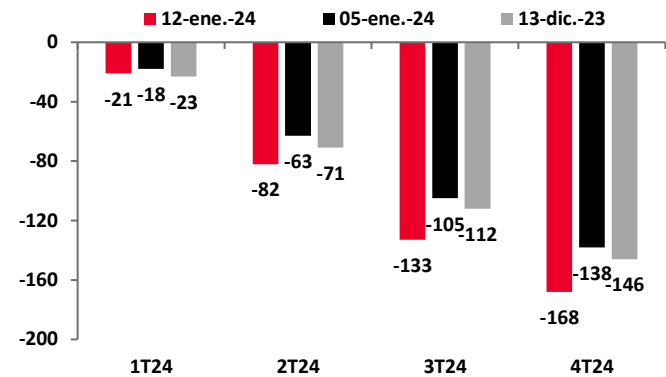
Basis points



Source: Bloomberg, Banorte

Cumulative implied moves in Fed funds

Basis points



Source: Bloomberg, Banorte

Spreads between Mbonos and UST

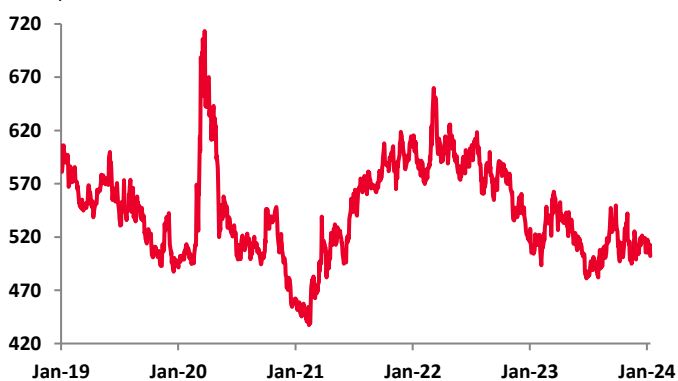
Basis points

Spread	Actual	Weekly change	Δ last 4 weeks	Previous year	12m Max	12m Min	12m Average
2 year	538	545	533	542	672	497	569
5 year	518	525	519	504	597	489	536
10 year	502	509	519	510	563	481	517
20 year	482	487	493	499	548	464	500
30 year	491	503	513	514	562	477	514

Source: Bloomberg, PiP, Banorte

10-year Mbono and 10-year UST spread

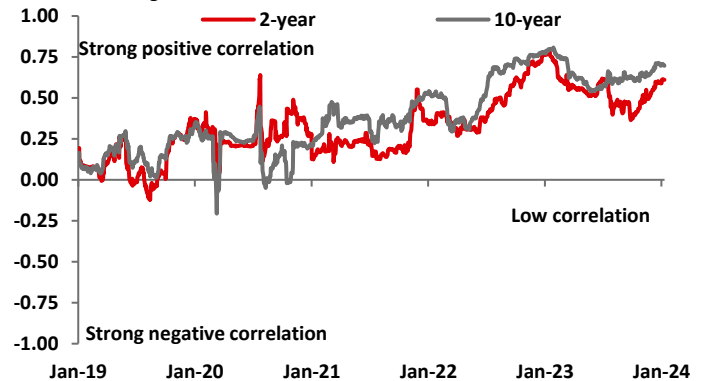
Basis points



Source: PiP, Banorte

Mexico and US 2- and 10-year bonds correlation

3-month moving correlation



Source: Bloomberg, Banorte

Fixed-Income Technicals (continued)

Selected spreads

Basis points

Security	Spread	Weekly change	Δ last 4 weeks	YTD	12m Max	12m Min	12m Average
Mbonos							
2/5	-52	5	14	17	-31	-134	-87
2/10	-57	13	21	26	-40	-197	-116
2/30	-44	16	29	25	-25	-192	-106
5/10	-4	7	7	8	8	-78	-29
10/30	13	4	7	-1	35	-15	10
TIIE IRS							
3m/2Y	-189	-29	-29	-14	-56	-203	-141
2/5	-110	1	16	4	-90	-162	-125
2/10	-115	6	22	10	-97	-198	-139
2/30	-111	11	20	15	-88	-178	-130
5/10	-5	5	6	6	-1	-46	-14
10/30	4	4	-3	5	23	-4	9
TIIE IRS – Mbonos							
2 year	2	-2	-2	8	25	-57	-23
5 year	-56	-6	1	-5	-32	-100	-61
10 year	-56	-8	-1	-8	-17	-68	-47
20 year	-66	-13	-12	-8	-8	-75	-51
30 year	-65	-7	-11	-2	-4	-78	-48
TIIE IRS – SOFR							
2 year	557	-9	-3	-7	637	485	554
5 year	490	-15	-6	-13	546	432	498
10 year	485	-16	-11	-13	545	442	500
20 year	484	-19	-19	-17	571	467	513
30 year	498	-17	-25	-15	599	487	535

Source: Bloomberg, PiP, Banorte

Breakeven inflation using Mbonos & Udibonos

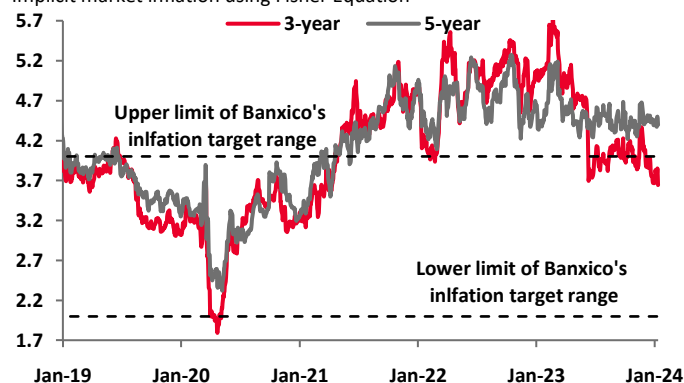
Implicit market inflation using Fisher Equation (%)

Date	Jan/12/2024	Previous week	Previous month	Previous year	12m Max	12m Min	12m Average
3Y	3.64	3.80 (-16bps)	3.96 (-32bps)	4.98 (-134bps)	5.74	3.64	4.41
5Y	4.40	4.41 (-1bp)	4.51 (-11bps)	4.39 (+1bp)	5.19	4.22	4.52
10Y	4.33	4.26 (+7bps)	4.38 (-5bps)	4.38 (-5bps)	4.85	4.04	4.35
20Y	4.66	4.59 (+7bps)	4.55 (+11bps)	4.56 (+10bps)	5.08	4.15	4.55
30Y	4.65	4.66 (-1bp)	4.63 (+2bps)	4.56 (+9bps)	5.01	4.15	4.55

Source: PiP, Banorte

3- and 5-year breakeven inflation using Mbonos & Udibonos

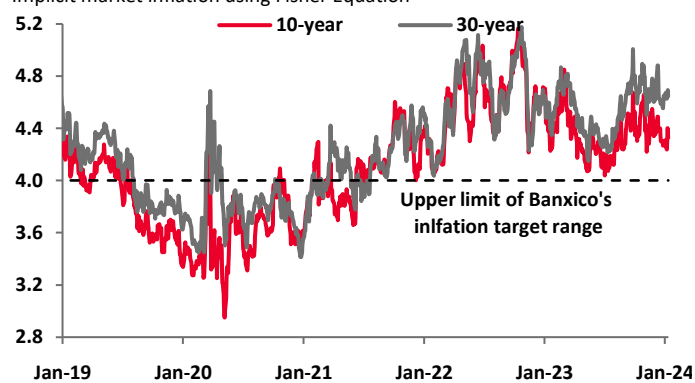
Implicit market inflation using Fisher Equation



Source: PiP, Banorte

10- and 30-year breakeven inflation using Mbonos & Udibonos

Implicit market inflation using Fisher Equation



Source: PiP, Banorte

FX dynamics

Foreign Exchange market levels and historical return

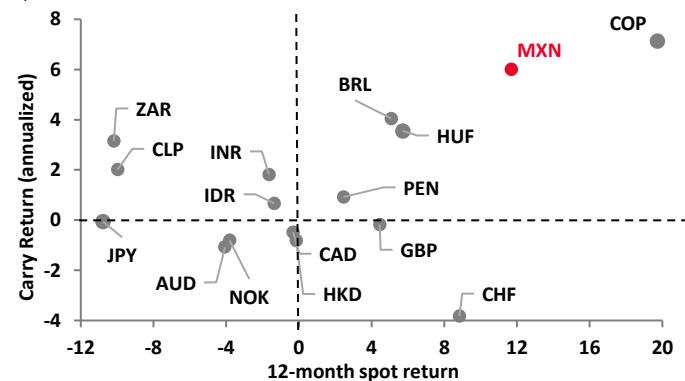
		Close at Jan/12/2024	Daily Change (%) ¹	Weekly change (%) ¹	Monthly change (%) ¹	YTD ¹ (%)
Emerging Markets						
Brazil	USD/BRL	4.85	0.3	0.4	1.3	0.1
Chile	USD/CLP	909.23	0.2	-2.1	-3.6	-3.3
Colombia	USD/COP	3,912.53	0.3	-0.9	2.2	-1.5
Peru	USD/PEN	3.70	0.2	0.6	2.6	0.2
Hungary	USD/HUF	346.21	-0.2	-0.2	0.7	0.3
Malaysia	USD/MYR	4.65	-0.1	0.2	1.3	-1.2
Mexico	USD/MXN	16.87	0.3	0.1	2.2	0.6
Poland	USD/PLN	3.98	-0.3	-0.1	-0.6	-1.1
Russia	USD/RUB	88.39	0.4	2.9	2.0	1.2
South Africa	USD/ZAR	18.65	-0.1	0.2	0.2	-1.6
Developed Markets						
Canada	USD/CAD	1.34	-0.1	-0.4	0.8	-1.2
Great Britain	GBP/USD	1.28	-0.1	0.3	1.1	0.2
Japan	USD/JPY	144.88	0.3	-0.2	-1.4	-2.7
Eurozone	EUR/USD	1.0951	-0.2	0.1	0.7	-0.8
Norway	USD/NOK	10.28	0.3	0.2	4.9	-1.1
Denmark	USD/DKK	6.81	-0.2	0.1	0.7	-0.8
Switzerland	USD/CHF	0.85	0.0	-0.3	2.3	-1.3
New Zealand	NZD/USD	0.62	0.1	0.0	1.1	-1.2
Sweden	USD/SEK	10.28	-0.2	-0.3	0.5	-2.0
Australia	AUD/USD	0.67	0.0	-0.4	0.4	-1.8

Source: Bloomberg, Banorte

1. Positive (negative) changes mean appreciation (depreciation) of the corresponding currency against the USD.

Performance of selected currencies

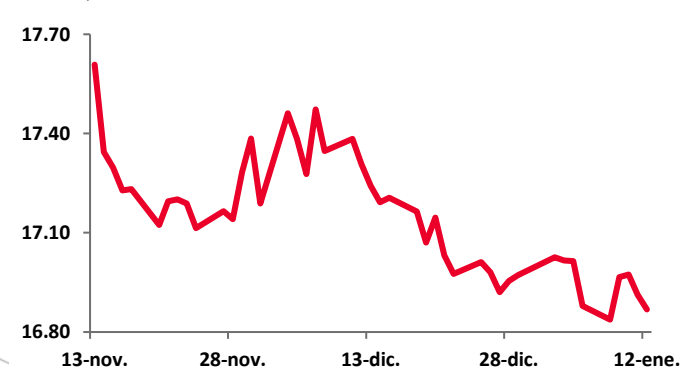
%, annualized rate based in 3M forwards



Source: Bloomberg, Banorte

USD/MXN

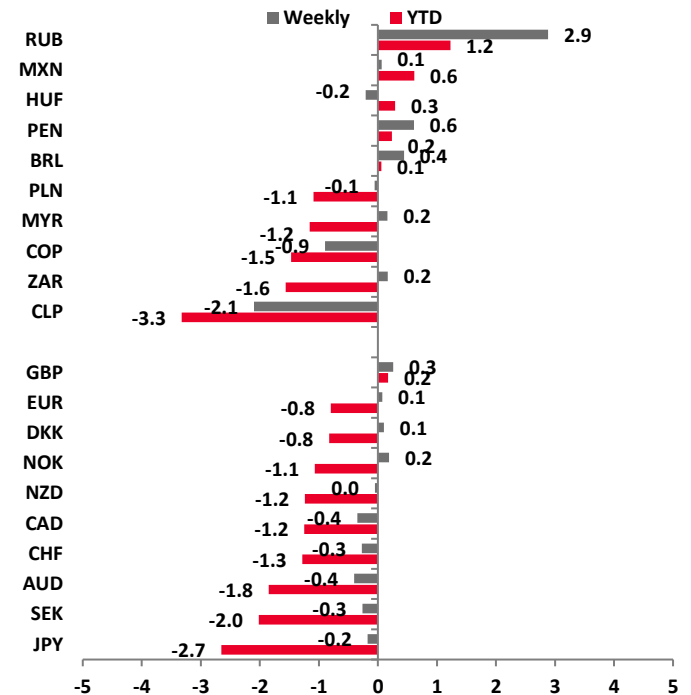
Last 60 days



Source: Bloomberg, Banorte

FX performance

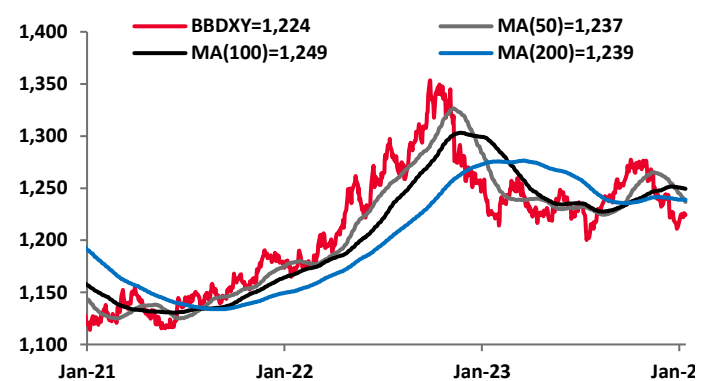
Against USD, %



Source: Bloomberg, Banorte

BBDXY

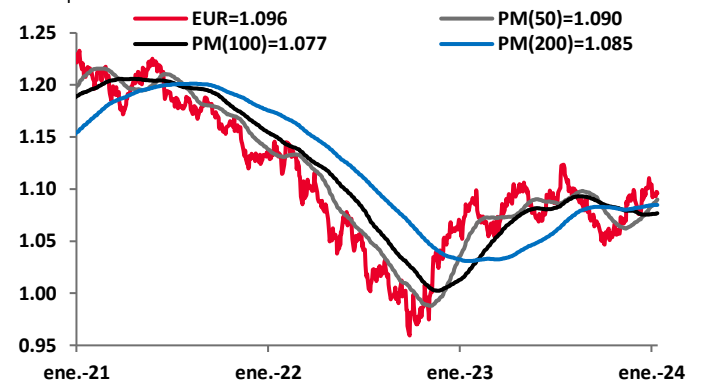
Points



Source: Bloomberg, Banorte

Euro

Dólar per euro

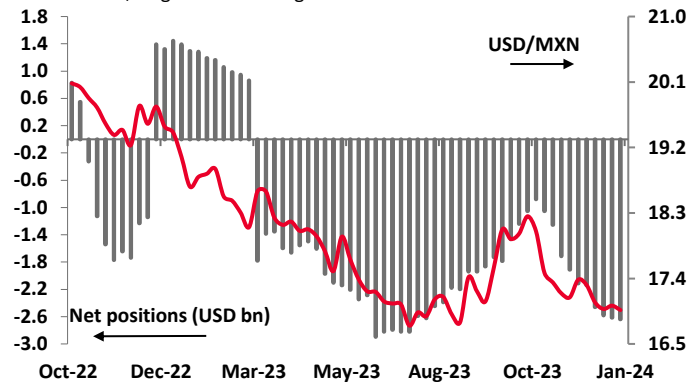


Source: Bloomberg, Banorte

FX positioning and flows

IMM positioning in USD/MXN futures

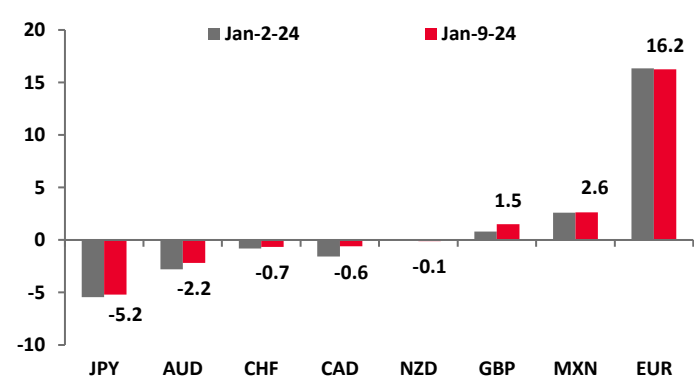
Billion dollars, Negative = net long in MXN



Source: CME, Banorte

IMM positioning by currency*

Billion dollars

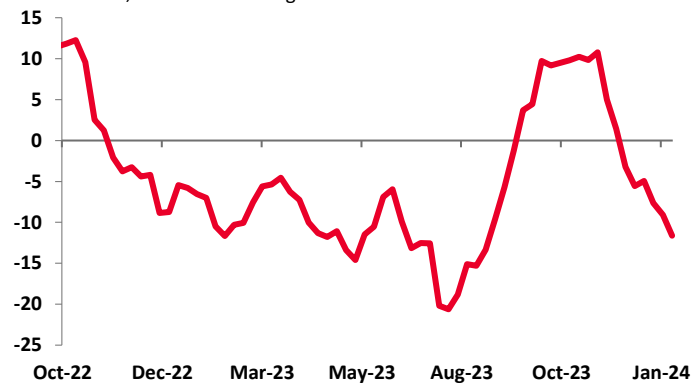


* Positive: Net long in the corresponding currency

Source: CME, Banorte

IMM positioning in USD futures*

Billion dollars, Positive = net long in USD

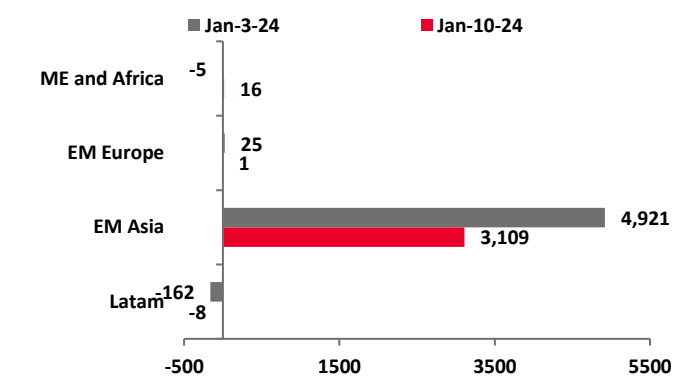


* Respect to EUR, AUD, GBP, NZD, MXN, CAD, JPY y CHF

Source: CME, Banorte

Net foreign portfolio flows by region (Only ETF's investments)

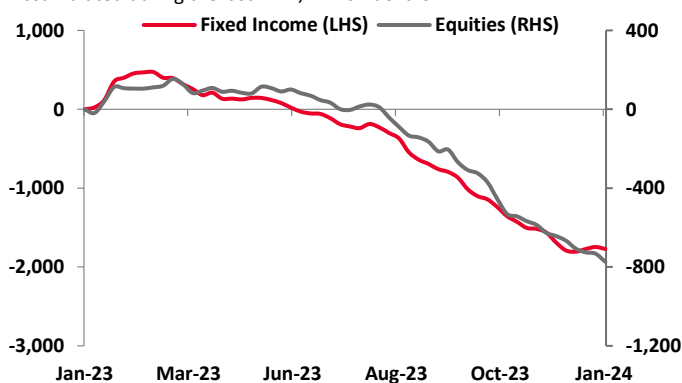
Billion dollars



Source: EPFR Global, Banorte

Foreign portfolio flows into Mexico (excluding ETF's investments)

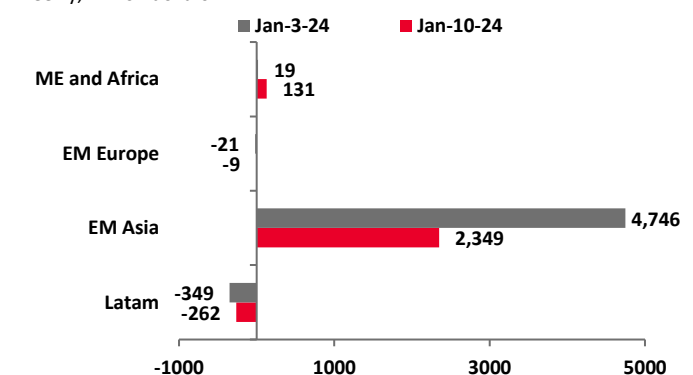
Accumulated during the last 12M, million dollars



Source: EPFR Global, Banorte

Net foreign portfolio flows by region (Including ETF's investments)

Weekly, million dollars

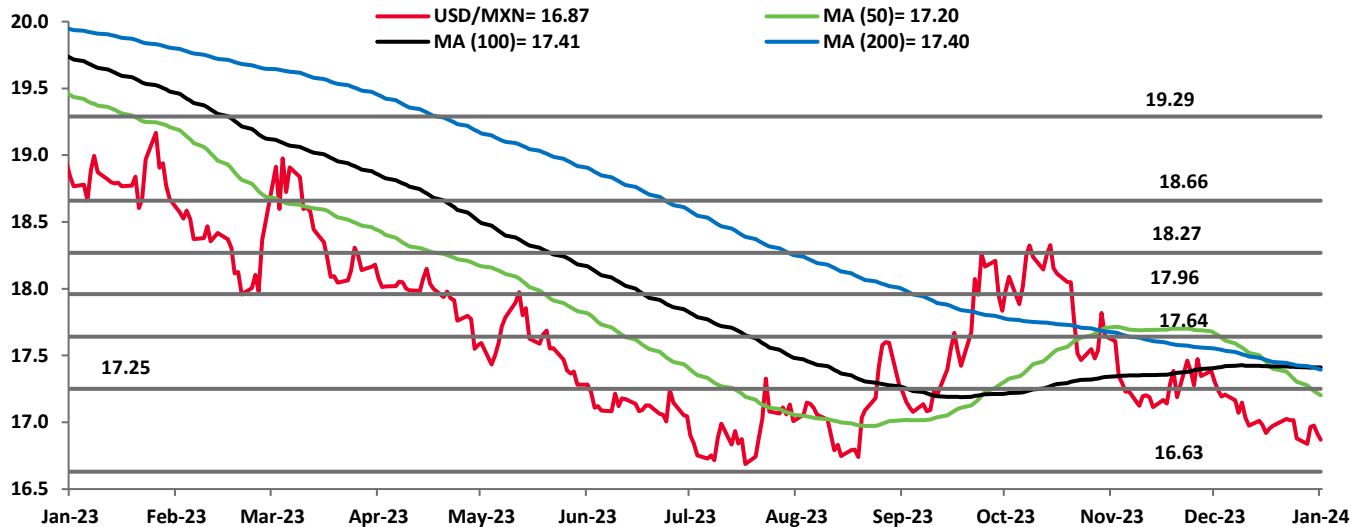


Source: EPFR Global, Banorte

FX technicals

USD/MXN – Moving averages and Fibonacci retracement

Last 12 months



Source: Bloomberg, Banorte

USD/MXN – 1-month correlation with other currencies and assets

Based on daily percentages changes

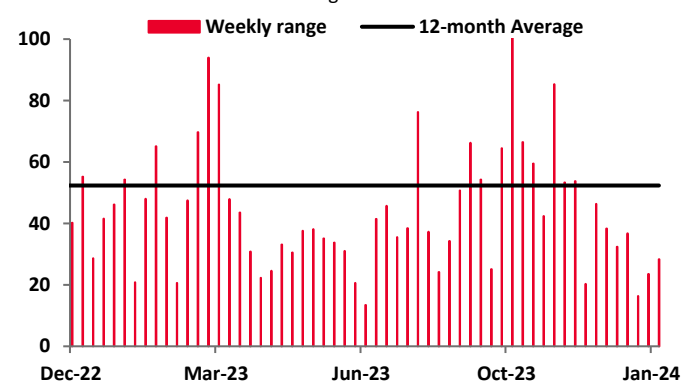
	Actual (%)	Previous week	6m Min	6m Max	6m Average
EUR	54	37	1	65	42
CAD	52	47	12	63	37
ZAR	28	7	2	87	57
BRL	75	49	27	82	65
HUF	54	52	4	70	53
RUB	-10	-12	-23	53	9
VIX	46	53	14	74	44
SPX	36	36	5	68	40
GSCI	0	7	-27	43	5
Oro	51	49	-28	51	24

* Positive: appreciation of MXN and corresponding asset except VIX

Source: Bloomberg, Banorte

USD/MXN – Weekly trading range

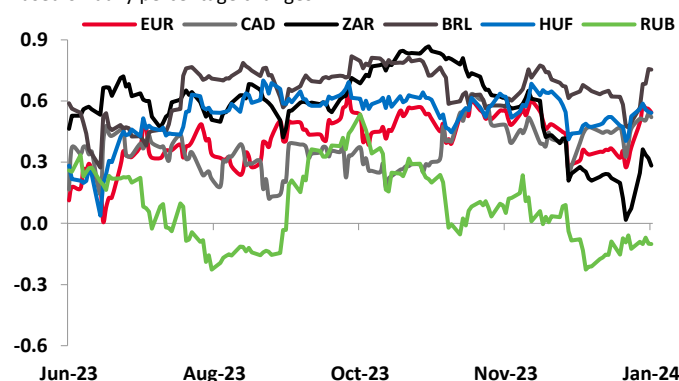
MXN cents with last 12 month average



Source: Bloomberg, Banorte

USD/MXN – 1-month correlation with other currencies*

Based on daily percentage changes

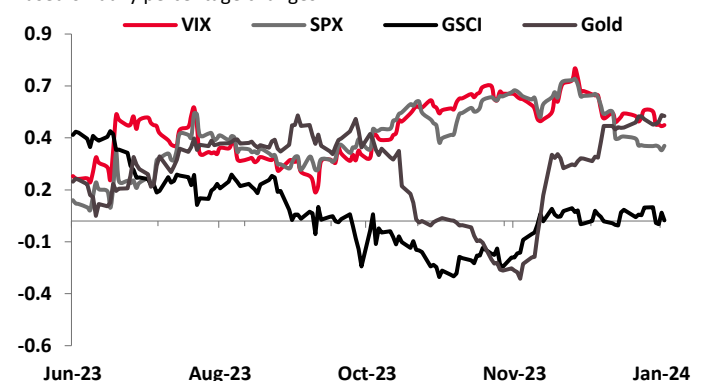


* Positive: appreciation of MXN and corresponding currency

Source: Bloomberg, Banorte

USD/MXN – 1-month correlation with other assets*

Based on daily percentage changes

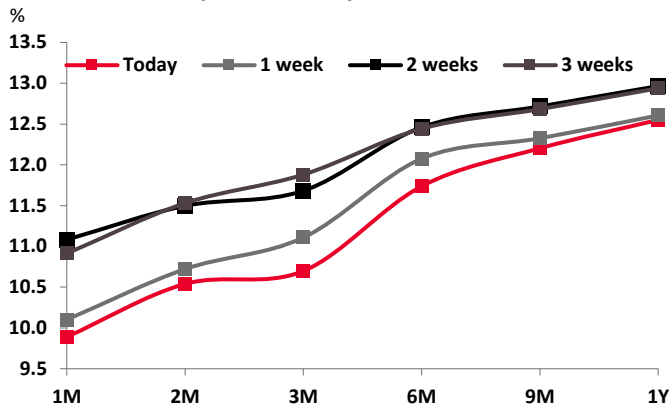


* Positive: appreciation of MXN and corresponding asset except VIX

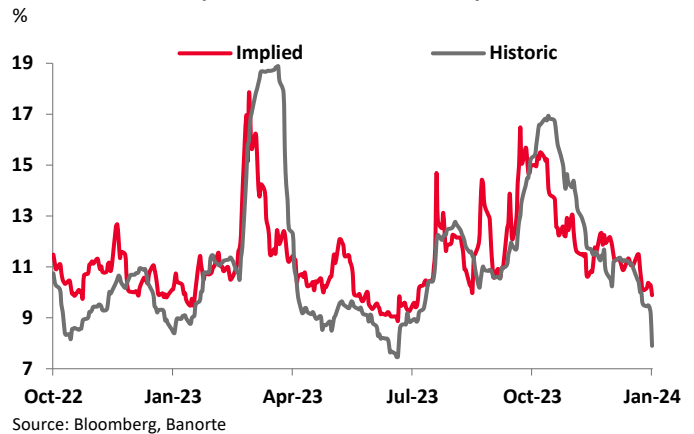
Source: Bloomberg, Banorte

FX technicals (continued)

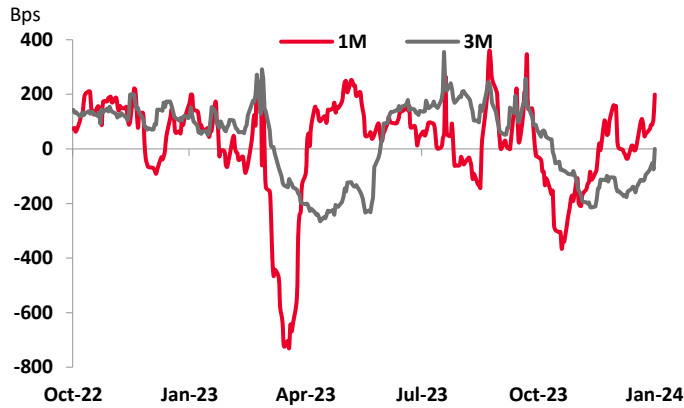
USD/MXN – ATM options volatility curve



USD/MXN – 1M implied and historical volatility

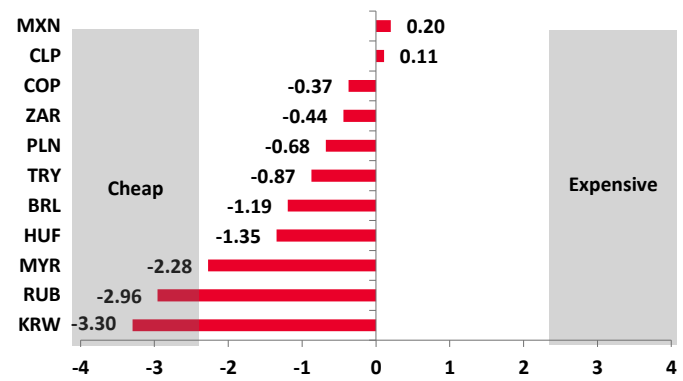


USD/MXN – Spread between implicit and historical volatility



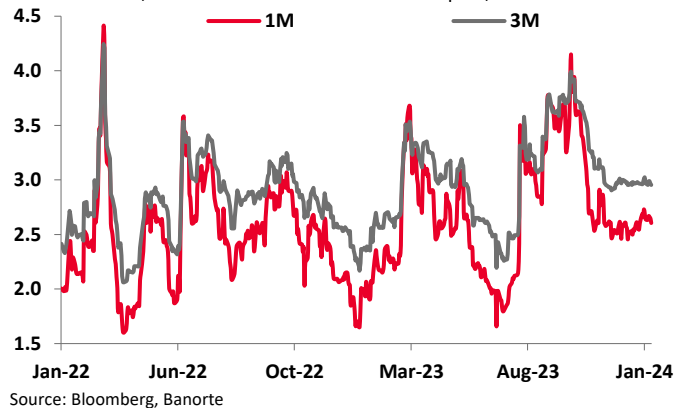
Emerging markets one-month ATM options volatility

Against USD, in standard deviations relative to last year's average



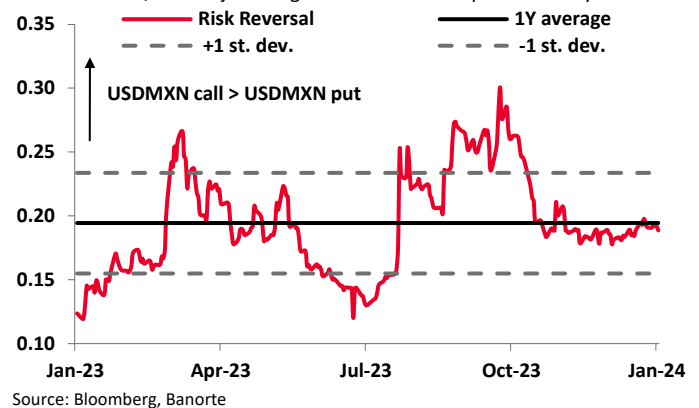
USD/MXN – 1-month and 3-month 25D risk reversals

Last 24 months, difference between USD calls and puts, in vols



USD/MXN – 1-month 25D volatility-adjusted risk reversal

Last 12 months, ratio adjusted against one-month implied volatility



Weekly economic calendar

For the week ending January 19, 2024

	Time		Event	Period	Unit	Banorte	Survey	Previous
Mon 15		US	Markets closed for Martin Luther King Jr. Day					
	04:00	GER	Gross domestic product	2023	% y/y	--	-0.3	1.8
	05:00	EZ	Industrial production*	Nov	% m/m	--	-0.3	-0.7
Tue 16	05:00	EZ	Trade balance*	Nov	EURbn	--	--	10.9
	02:00	GER	Consumer prices	Dec (F)	% y/y	--	3.7	3.7
	05:00	GER	ZEW Survey (Expectations)	Jan	index	--	12.0	12.8
	08:30	US	Empire manufacturing*	Jan	index	-9.0	-5.0	-14.5
	10:00	MX	International reserves	Jan 12	US\$bn	--	--	212.4
	11:00	US	Fed's Waller Speaks on Economic Outlook and Monetary Policy					
	12:30	MX	Government weekly auction: 1-, 3-, 6-, and 24-month Cetes, 5-year Mbono (Mar'29), 30-year Udibono (Nov'50) and 1-, and 3-year Bondes F					
	21:00	CHI	Gross domestic product	4Q23	% y/y	--	5.2	4.9
	21:00	CHI	Industrial production	Dec	% y/y	--	6.8	6.6
	21:00	CHI	Retail sales	Dec	% y/y	--	8.0	10.1
Wed 17	21:00	CHI	Gross fixed investment (YTD)	Dec	% y/y	--	2.9	2.9
	02:00	UK	Consumer prices	Dec	% y/y	--	3.8	3.9
	02:00	UK	Core	Dec	% y/y	--	4.9	5.1
	05:00	EZ	Consumer prices	Dec (F)	% y/y	--	2.9	2.9
	05:00	EZ	Core	Dec (F)	% y/y	--	3.4	3.4
	07:00	BZ	Retail sales	Nov	% y/y	--	1.5	0.2
	07:00	BZ	Retail sales*	Nov	% m/m	--	0.0	-0.3
	08:30	US	Advance retail sales*	Dec	% m/m	0.3	0.4	0.3
	08:30	US	Ex autos & gas*	Dec	% m/m	--	0.3	0.6
	08:30	US	Control group*	Dec	% m/m	0.2	0.2	0.4
	09:00	US	Fed's Barr Speaks at Conference on Cyber Risk					
	09:00	US	Fed's Bowman Speaks About Future of Bank Capital Reform					
	09:15	US	Industrial production*	Dec	% m/m	-0.1	-0.1	0.2
	09:15	US	Manufacturing production*	Dec	% m/m	-0.1	0.0	0.3
	14:00	US	Beige Book					
	15:00	US	Fed's Williams Speaks at NY Fed Event					
Thu 18	04:00	EZ	Current account*	Nov	EURbn	--	--	33.8
	07:00	BZ	Economic activity	Nov	% y/y	--	1.9	1.5
	07:00	BZ	Economic activity*	Nov	% m/m	--	-0.2	-0.1
	07:30	US	Fed's Bostic Speaks on Economic Outlook					
	08:30	US	Housing starts**	Dec	thousands	--	1,425	1,560
	08:30	US	Building permits**	Dec	thousands	--	1,475	1,467
	08:30	US	Initial jobless claims*	Jan 13	thousands	210	205	202
Fri 19	08:30	US	Philadelphia Fed*	Jan	index	-7.0	-7.0	-12.8
	07:00	MX	Retail sales	Nov	% y/y	3.6	3.6	3.4
	07:00	MX	Retail sales*	Nov	% m/m	0.5	--	0.8
	10:00	US	Existing home sales**	Dec	millions	--	3.8	3.8
	10:00	US	U. of Michigan confidence*	Jan (P)	index	71.5	70.0	69.7
	13:00	US	Fed's Barr Speaks About Bank Regulation					
	16:15	US	Fed's Daly Speaks in Fireside Chat					

Source: Bloomberg and Banorte. (P) preliminary data; (R) revised data; (F) final data; * Seasonally adjusted, ** Seasonally adjusted annualized rate

Recent trade ideas				
Trade idea	P/L	Initial date	End date	
2y10y TIIE-IRS steepener		Oct-13-23		
Long positions in Mbono Dec'24	P	Jun-16-23	Jun-22-23	
Pay TIIE-IRS (26x1), receive 2-year SOFR	L	Aug-18-22	Oct-28-22	
Pay 2-year TIIE-IRS (26x1)	P	Feb-4-22	Mar-4-22	
Tactical longs in Mbono Mar'26	P	May-14-21	Jun-7-21	
Receive 6-month TIIE-IRS (6x1)	P	Dec-17-20	Mar-3-21	
Long positions in Udibono Nov'23	L	Feb-11-21	Feb-26-21	
Long positions in Mbono May'29 & Nov'38	P	Sep-7-20	Sep-18-20	
Long positions in Udibono Dec'25	P	Jul-23-20	Aug-10-20	
Long positions in Udibono Nov'35	P	May-22-20	Jun-12-20	
Long positions in Mbono May'29	P	May-5-20	May-22-20	
Tactical longs in 1- & 2-year TIIE-28 IRS	P	Mar-20-20	Apr-24-20	
Long positions in Udibono Nov'28	P	Jan-31-20	Feb-12-20	
Long positions in Udibono Jun'22	P	Jan-9-20	Jan-22-20	
Long positions in Mbono Nov'47	L	Oct-25-19	Nov-20-19	
Long positions in Mbonos Nov'36 & Nov'42	P	Aug-16-19	Sep-24-19	
Long positions in the short-end of Mbonos curve	P	Jul-19-19	Aug-2-19	
Long positions in Mbonos Nov'42	L	Jul-5-19	Jul-12-19	
Long positions in Mbonos Nov'36 & Nov'38	P	Jun-10-19	Jun-14-19	
Long positions in Mbonos Jun'22 & Dec'23	P	Jan-9-19	Feb-12-19	
Long floating-rate Bondes D	P	Oct-31-18	Jan-3-19	
Long CPI-linkded Udibono Jun'22	L	Aug-7-18	Oct-31-18	
Long floating-rate Bondes D	P	Apr-30-18	Aug-3-18	
Long 20- to 30-year Mbonos	P	Jun-25-18	Jul-9-18	
Short Mbonos	P	Jun-11-18	Jun-25-18	
Long CPI-linkded Udibono Jun'19	P	May-7-18	May-14-18	
Long 7- to 10-year Mbonos	L	Mar-26-18	Apr-23-18	
Long CPI-linkded Udibono Jun'19	P	Mar-20-18	Mar-26-18	
Long 5- to 10-year Mbonos	P	Mar-5-18	Mar-20-18	
Long floating-rate Bondes D	P	Jan-15-18	Mar-12-18	
Long 10-year UMS Nov'28 (USD)	L	Jan-15-18	Feb-2-18	

P = Profit, L = Loss

Short-term tactical trades					
Trade Idea	P/L*	Entry	Exit	Initial Date	End date
Long USD/MXN	P	19.30	19.50	Oct-11-19	Nov-20-19
Long USD/MXN	P	18.89	19.35	Mar-20-19	Mar-27-19
Long USD/MXN	P	18.99	19.28	Jan-15-19	Feb-11-19
Long USD/MXN	P	18.70	19.63	Oct-16-18	Jan-3-19
Short USD/MXN	P	20.00	18.85	Jul-2-18	Jul-24-18
Long USD/MXN	P	19.55	19.95	May-28-18	Jun-4-18
Long USD/MXN	P	18.70	19.40	Apr-23-18	May-14-18
Long USD/MXN	P	18.56	19.20	Nov-27-17	Dec-13-17
Long USD/MXN	L	19.20	18.91	Nov-6-17	Nov-17-17
Long USD/MXN	P	18.58	19.00	Oct-9-17	Oct-23-17
Short USD/MXN	L	17.80	18.24	Sep-4-17	Sep-25-17
Long USD/MXN	P	14.40	14.85	Dec-15-14	Jan-5-15
Long USD/MXN	P	13.62	14.11	Nov-21-14	Dec-3-14
Short EUR/MXN	P	17.20	17.03	Aug-27-14	Sep-4-14

* Total return does not consider carry gain/losses

P = Profit, L = Loss

Track of directional fixed-income trade recommendations								
Trade idea	Entry	Target	Stop-loss	Closed	P/L	Initial date	End date	
Long Udibono Dec'20	3.05%	2.90%	3.15%	3.15%	L	Aug-9-17	Oct-6-17	
5y10y TIE-IRS steepener	28bps	43bps	18bps	31bps	P ²	Feb-15-17	Mar-15-17	
5y10y TIE-IRS steepener	35bps	50bps	25bps	47bps	P	Oct-5-16	Oct-19-16	
Long Mbono Jun'21	5.60%	5.35%	5.80%	5.43%	P	Jul-13-16	Aug-16-16	
Long Udibono Jun'19	1.95%	1.65%	2.10%	2.10%	L	Jul-13-16	Aug-16-16	
Receive 1-year TIE-IRS (13x1)	3.92%	3.67%	4.10%	3.87% ¹	P	Nov-12-15	Feb-8-16	
Long spread 10-year TIE-IRS vs US Libor	436bps	410bps	456bps	410bps	P	Sep-30-15	Oct-23-15	
Receive 9-month TIE-IRS (9x1)	3.85%	3.65%	4.00%	3.65%	P	Sep-3-15	Sep-18-15	
Spread TIE 2/10 yrs (flattening)	230bps	200bps	250bps	200bps	P	Jun-26-15	Jul-29-15	
Long Mbono Dec'24	6.12%	5.89%	6.27%	5.83%	P	Mar-13-15	Mar-19-15	
Relative-value trade, long 10-year Mbono (Dec'24) / flattening of the curve					P	Dec-22-14	Feb-6-15	
Pay 3-month TIE-IRS (3x1)	3.24%	3.32%	3.20%	3.30%	P	Jan-29-15	Jan-29-15	
Pay 9-month TIE-IRS (9x1)	3.28%	3.38%	3.20%	3.38%	P	Jan-29-15	Jan-29-15	
Pay 5-year TIE-IRS (65x1)	5.25%	5.39%	5.14%	5.14%	L	Nov-4-14	Nov-14-14	
Long Udibono Dec'17	0.66%	0.45%	0.82%	0.82%	L	Jul-4-14	Sep-26-14	
Relative-value trade, long Mbonos 5-to-10-year					P	May-5-14	Sep-26-14	
Receive 2-year TIE-IRS (26x1)	3.75%	3.55%	3.90%	3.90%	L	Jul-11-14	Sep-10-14	
Receive 1-year TIE-IRS (13x1)	4.04%	3.85%	4.20%	3.85%	P	Feb-6-14	Apr-10-14	
Long Udibono Jun'16	0.70%	0.45%	0.90%	0.90%	L	Jan-6-14	Feb-4-14	
Long Mbono Jun'16	4.47%	3.90%	4.67%	4.06%	P	Jun-7-13	Nov-21-13	
Receive 6-month TIE-IRS (6x1)	3.83%	3.65%	4.00%	3.81%	P	Oct-10-13	Oct-25-13	
Receive 1-year TIE-IRS (13x1)	3.85%	3.55%	4.00%	3.85%	--	Oct-10-13	Oct-25-13	
Long Udibono Dec'17	1.13%	0.95%	1.28%	1.35%	L	Aug-9-13	Sep-10-13	
Receive 9-month TIE-IRS (9x1)	4.50%	4.32%	4.65%	4.31%	P	Jun-21-13	Jul-12-13	
Spread TIE-Libor (10-year)	390bps	365bps	410bps	412bps	L	Jun-7-13	Jun-11-13	
Receive 1-year TIE-IRS (13x1)	4.22%	4.00%	4.30%	4.30%	L	Apr-19-13	May-31-13	
Long Udibono Jun'22	1.40%	1.20%	1.55%	0.97%	P	Mar-15-13	May-3-13	
Receive 1-year TIE-IRS (13x1)	4.60%	4.45%	4.70%	4.45%	P	Feb-1-13	Mar-7-13	
Long Mbono Nov'42	6.22%	5.97%	6.40%	5.89%	P	Feb-1-13	Mar-7-13	
Long Udibono Dec'13	1.21%	0.80%	1.40%	1.40%	L	Feb-1-13	Apr-15-13	
Receive 1-year TIE-IRS (13x1)	4.87%	4.70%	5.00%	4.69%	P	Jan-11-13	Jan-24-13	
Receive TIE Pay Mbono (10-year)	46bps	35bps	54bps	54bps	L	Oct-19-12	Mar-8-13	
Spread TIE-Libor (10-year)	410bps	385bps	430bps	342bps	P	Sep-21-13	Mar-8-13	
Long Udibono Dec'12	+0.97%	-1.50%	+1.20%	-6.50%	P	May-1-12	Nov-27-12	
Long Udibono Dec'13	+1.06%	0.90%	+1.35%	0.90%	P	May-1-12	Dec-14-12	

1. Carry + roll-down gains of 17bps

2. Closed below target and before the proposed horizon date due to changes in market conditions that have differed from our expectations.

P = Profit, L = Loss

Track of the directional FX trade recommendations								
Trade Idea	Entry	Target	Stop-loss	Closed	P/L*	Initial Date	End date	
Long USD/MXN	18.57	19.50	18.20	18.20	L	Jan-19-18	Apr-2-18	
Long USD/MXN	14.98	15.50	14.60	15.43	P	Mar-20-15	Apr-20-15	
Short EUR/MXN	17.70	n.a.	n.a.	16.90	P	Jan-5-15	Jan-15-15	
Short USD/MXN	13.21	n.a.	n.a.	13.64	L	Sep-10-14	Sep-26-14	
USD/MXN call spread**	12.99	13.30	n.a.	13.02	L	May-6-14	Jun-13-14	
Directional short USD/MXN	13.00	12.70	13.25	13.28	L	Oct-31-13	Nov-8-13	
Limit short USD/MXN	13.25	12.90	13.46	--	--	Oct-11-13	Oct-17-13	
Short EUR/MXN	16.05	15.70	16.40	15.69	P	Apr-29-13	May-9-13	
Long USD/MXN	12.60	12.90	12.40	12.40	L	Mar-11-13	Mar-13-13	
Long USD/MXN	12.60	12.90	12.40	12.85	P	Jan-11-13	Feb-27-13	
Tactical limit short USD/MXN	12.90	12.75	13.05	--	--	Dec-10-12	Dec-17-12	
Short EUR/MXN	16.64	16.10	16.90	16.94	L	Oct-3-12	Oct-30-12	

* Total return does not consider carry gain/losses

** Low strike (long call) at 13.00, high strike (short call) at 13.30 for a premium of 0.718% of notional amount

P = Profit, L = Loss

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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	Reference
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