

## Fixed-Income and FX Weekly

- **Negative balance in local assets.** This week, Mbonos' curve registered losses of 11bps, on average, concentrated at the long-end. The 10-year benchmark ended at 9.95% (+19bps w/w). In addition, the MXN depreciated 0.8% w/w closing at 18.24 per dollar
- **Market performance will be defined by the evolution of the Middle East conflict, the ECB monetary policy decision and the US 3Q23 GDP.** In the week, the price action of the financial asset classes was mainly determined by fears of an escalation in the Middle East conflict and a scenario of higher-for-longer interest rates. On the first topic, high-level diplomatic efforts continued in several fronts to contain the risk of a regional war. On the second, investors were very attentive to comments from Fed members and digested mixed economic data. Some central bankers signaled patience in assessing the monetary stance but agreed that it should remain tight. Specifically, Jerome Powell, in a hawkish tone, commented that the evidence indicates that the monetary stance is not very restrictive at this time and left the door open for an additional Fed funds rate hike. The sell-off extended the steepening in Treasuries and fears of an eventual impact on economic growth. The 2-year UST closed at 5.07% (+2pbs w/w) while the 30-year UST reached fresh 16-year highs of 5.14%, closing at 5.08% (+33pbs). The inverted yield curve was adjusted with the 2s10s spread narrowing to -16bps, a level not seen since September 2022. Meanwhile, the Mbonos' curve followed the same steepening pattern, derived from its high correlation with Treasuries. Our 2s10s TIIE-IRS steepener recommendation closed at -107bps (entry: -114bps; target: -60bps). Next week, the dynamics of financial assets will be determined by developments in the Israel-Hamas conflict, the ECB monetary policy decision and the release of 3Q23 GDP in the US, among other data. It is worth mentioning that there will be no speeches from Fed members due to the period of silence prior to the November 1<sup>st</sup> meeting. In addition, the US economic agenda also includes the PCE deflator, PMI indicators, trade balance, new home sales and U. of Michigan consumer sentiment, among the most relevant. In the Eurozone, consumer sentiment, PMIs and the IFO survey in Germany will also be released. In Brazil, current account and inflation will be published. In Mexico, inflation for the first half of October (Banorte: 0.32% 2w/2w), IGAE, unemployment rate and trade balance will also be released

### Fixed-Income

- **Supply** – On Tuesday, the MoF will auction 1-, 3-, 6-, and 24-month Cetes, the 5-year Mbono (Mar'29), the 30-year Udibono (Nov'50), and 1-, 3-, and 7-year Bondes F
- **Demand** – Foreigners' holdings in Mbonos totaled MXN 1.352 trillion (US\$ 77.0 billion), a market share equal to 31.9%, as of October 10<sup>th</sup>. Short positions in Mbono May'33 ended at MXN 2.7 billion from MXN 3.0 billion last week
- **Technicals** – The spread between 10-year Mbonos and Treasuries moved to 503bps from 515bps the previous week, with the 12-month mean at 524bps

### Foreign Exchange

- **Market positioning and flows** – Net long MXN positions have fallen 56% during the second half of the year to US\$ 1.24 billion. Mutual funds' flows to EM marked lower sales of US\$ 2.9 billion from US\$ 3.2 billion a week ago due to a decreased in bond sales
- **Technicals** – The spot respected the support of 18.50 per dollar, trading between 17.87 and 18.47. The MXN ATM implied volatility curve closed with a pattern known as backwardation, signaling more volatility in the near-term than further out in the future



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#### Recommendations

##### Fixed-Income

- We expect the drivers behind the bond sell-off to prevail in the coming months. In this way, we expect a yield on 10-year Treasury of 4.95% at the end of the year and an average of 5.10% in the 4Q23, reaching up to 5.86% according with to our analysis of previous restrictive cycles and our expectation of an additional hike by the Fed before the end of 2023
- Next week, we expect the 10-year Mbono to trade between 9.85% and 10.20%

##### FX

- The preference for safe-haven assets could continue given the risk of an escalation in the Middle East conflict. As a result, the dollar and the Swiss franc could show a resilient performance. Meanwhile, the Mexican peso will continue to be influenced by international dynamics. We expect a weekly trading range between USD/MXN 18.00 and 18.50

# Fixed-Income Dynamics

## Mbonos performance

Maturity date	YTM Oct/20/2023	Weekly change (bps)	YTD (bps)
Dec'23	11.55	-2	+73
Sep'24	11.50	+2	+141
Dec'24	11.23	+8	+136
Mar'25	10.90	+19	+97
Mar'26	10.71	+9	+148
Sep'26	10.59	+7	+119
Mar'27	10.27	-1	+108
Jun'27	10.28	+1	+120
Mar'29	10.13	+13	+76
May'29	9.97	+13	+90
May'31	10.02	+18	+100
May'33	9.95	+19	+93
Nov'34	9.92	+20	+87
Nov'36	9.91	+19	+87
Nov'38	9.94	+17	+85
Nov'42	9.93	+15	+82
Nov'47	9.86	+14	+79
Jul'53	9.87	+15	+82

Source: PIP, Banorte

## IRS (28-day TIIE) performance

Maturity date	YTM Oct/20/2023	Weekly change (bps)	YTD (bps)
3-month (3x1)	11.53	+0	+63
6-month (6x1)	11.53	+1	+49
9-month (9x1)	11.51	+4	+44
1-year (13x1)	11.41	+7	+50
2-year (26x1)	10.67	+8	+81
3-year (39x1)	10.16	+13	+98
4-year (52x1)	9.87	+16	+97
5-year (65x1)	9.71	+17	+90
7-year (91x1)	9.60	+18	+86
10-year (130x1)	9.60	+17	+87
20-year (260x1)	9.66	+19	+81

Source: PIP, Banorte

## CPI-Linked bonds (Udibonos) performance

Maturity date	YTM Oct/20/2023	Weekly change (bps)	YTD (bps)
Nov'23	6.16	+15	+8
Dec'25	6.26	+10	+150
Dic'26	6.24	+13	+158
Nov'28	5.40	-5	+109
Nov'31	5.20	+1	+103
Nov'35	4.82	0	+61
Nov'40	4.89	+5	+70
Nov'43	4.87	+4	+37
Nov'46	4.85	+2	+66
Nov'50	4.87	+4	+64

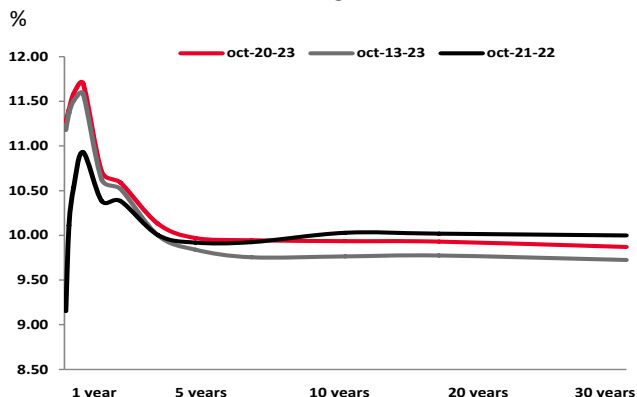
Source: PIP, Banorte

## Cetes performance

Maturity date	YTM Oct/20/2023	Weekly change (bps)	YTD (bps)
Cetes 28	11.27	+9	+118
Cetes 91	11.40	+3	+74
Cetes 182	11.58	+8	+71
Cetes 364	11.70	+11	+73
Cetes 728	11.68	+13	+87

Source: PIP, Banorte

## Mbonos curve at different closing dates



Source: PIP, Banorte

## 10-year Mbono benchmark



Source: PIP, Banorte

## Fixed-Income Dynamics (continued)

USD UMS and US Treasuries performance

USD UMS and US Treasuries performance											
UMS					UST				Spreads		CDS
Term	Maturity date	YTM Oct/19/2023	Weekly change (bps)	YTD (bps)	YTM Oct/19/2023	Weekly change (bps)	YTD (bps)	Actual (bps)	Weekly change (bps)	12m Average (bps)	bps
2Y	Jan'26	5.47	+24	+99	5.16	+9	+73	31	+15	13	55
3Y	Mar'27	5.56	+23	+76	5.02	+17	+79	54	+6	39	76
5Y	Feb'28	5.94	+19	+115	4.96	+26	+95	98	-7	99	131
7Y	Apr'30	6.29	+21	+95	5.01	+29	+104	128	-8	132	172
10Y	May'33	6.62	+27	+106	4.99	+29	+112	163	-2	169	206
20Y	Mar'44	7.28	+30	+90	5.34	+29	+120	194	+1	203	--
30Y	May'53	7.43	+26	+104	5.11	+26	+115	232	+1	235	--

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 Udibono (Nov'50), and 1-, 3-, and 7-year Bondes F
- **We expect strong appetite for Cetes and Bondes F.** We foresee Cetes rates to remain high as Banco de México keeps the reference rate unchanged at 11.25% for longer given the risks of higher energy prices amid concerns about a potential conflagration in the Middle East involving other countries such as Iran and the United States. We consider that the demand for floating rate bonds, known as Bondes F, will remain strong as they are an appropriate and defensive investment strategy in the current backdrop. The main holders of these securities are the Mutual funds with 43% of the total amount outstanding. Episodes of volatility have been observed in the markets, mainly in the bond market with the MOVE index increasing to 134 points above the 12-month average. In this sense, the 5-year Mbono lost 13bps w/w, trading at 10.13%. Despite the adjustment, the bond is perceived as overvalued with the greatest room in the 5-year zone to widen losses according to duration-adjusted yield analysis. With this, we expect moderate demand around 2.0x. In real rates, we anticipate a low appetite for the longer-term CPI-linked bond (Udibono) given a less attractive valuation compared to the shorter-term ones. The 30-year breakeven stands at 4.77% from 4.67% last week, while the 3-year reading moved to 4.09% from 4.15% a week ago

### Auction specifics (October 24, 2023)

Security	Maturity	Coupon rate, %	To be auctioned <sup>1</sup>	Previous yield <sup>2</sup>
<b>Cetes</b>				
1m	Nov-23-23	--	8,500	10.95
3m	Jan-25-24	--	7,500	11.40
6m	Apr-18-24	--	16,700	11.70
24m	Sep-04-25	--	10,800	11.45
<b>Bondes F</b>				
1Y	Aug-15-24	--	6,000	0.12
3Y	Jun-04-26	--	2,200	0.19
7Y	Oct-04-29	--	850	0.25
<b>Bono M</b>				
5Y	Mar-01-29	8.50	12,000	10.14
<b>Udibono</b>				
30Y	Nov-03-50	4.00	UDIS 900	4.69

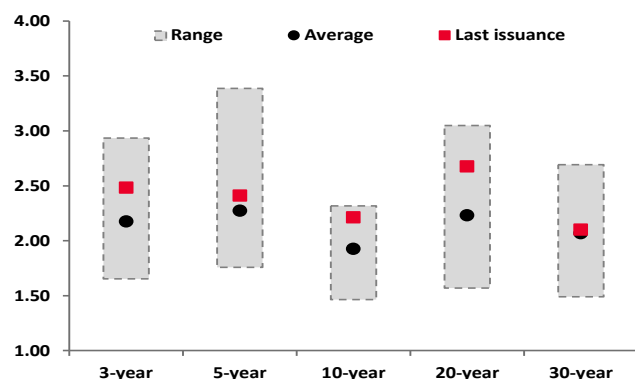
Source: Banxico, Banorte

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

Times



Source: Bloomberg, Banorte

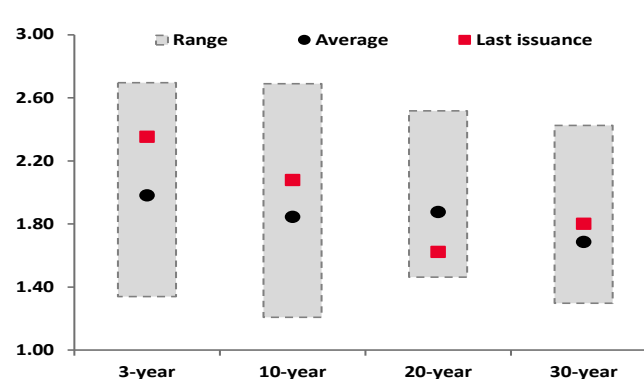
### 4Q23 Government Securities Auction Calendar\*

Date	Cetes	Bonos M	Udibonos	Bondes F
Oct-03	1, 3, 6, and 12M	20Y (Nov'42)	3Y (Dec'26)	2, 5, and 10Y
Oct-10	1, 3, 6, and 24M	3Y (Sep'26)	20Y (Nov'43)	1, and 3Y
Oct-17	1, 3, 6, and 12M	30Y (Jul'53)	10Y (Nov'31)	2, and 5Y
Oct-24	1, 3, 6, and 24M	5Y (Mar'29)	30Y (Nov'50)	1, 3, and 7Y
Oct-30	1, 3, 6, and 12M	10Y (May'33)	3Y (Dec'26)	2, 5, and 10Y
Nov-07	1, 3, 6, and 24M	3Y (Sep'26)	20Y (Nov'43)	1, and 3Y
Nov-14	1, 3, 6, and 12M	20Y (Nov'42)	10Y (Nov'31)	2, and 5Y
Nov-21	1, 3, 6, and 24M	5Y (Mar'29)	30Y (Nov'50)	1, 3, and 7Y
Nov-28	1, 3, 6, and 12M	30Y (Jul'53)	3Y (Dec'26)	2, 5, and 10Y
Dec-05	1, 3, 6, and 24M	3Y (Sep'26)	20Y (Nov'43)	1, and 3Y
Dec-11	1, 3, 6, and 12M	10Y (May'33)	10Y (Nov'31)	2, and 5Y
Dec-19	1, 3, 6, and 24M	5Y (Mar'29)	30Y (Nov'50)	1, 3, and 7Y
Dec-26	1, 3, 6, and 12M	20Y (Nov'42)	3Y (Dec'26)	2, 5, and 10Y

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

Times

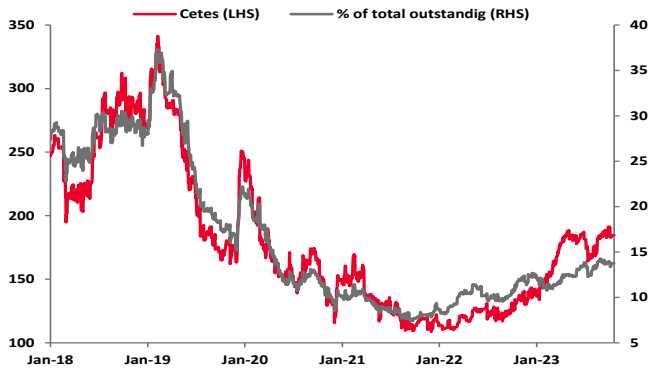


Source: Bloomberg, Banorte

# Fixed-Income Demand

## Cetes held by foreigners

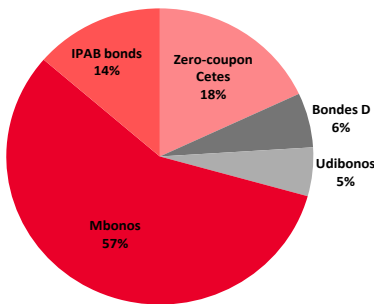
MXN billion, %



Source: Banxico, Banorte

## Government issuance by type of instrument

Total amount of US\$ 424 billion, % of total



Source: Banxico, Banorte

## Government bond holdings by type of investor

US\$ billion and %, data as of Oct/10/2023

	Cetes	Bondes D	Udibonos*	Bonos M
<b>Total amount outstanding</b>	76	25	177	242
<b>Foreign investors</b>	14%	3%	4%	32%
<b>Pension funds</b>	11%	3%	54%	23%
<b>Mutual funds</b>	16%	43%	5%	3%
<b>Insurance companies</b>	5%	1%	19%	3%
<b>Banks</b>	11%	20%	2%	15%
<b>Others</b>	43%	31%	17%	24%

Source: Banxico, Banorte

## Foreign investors holdings of government bonds

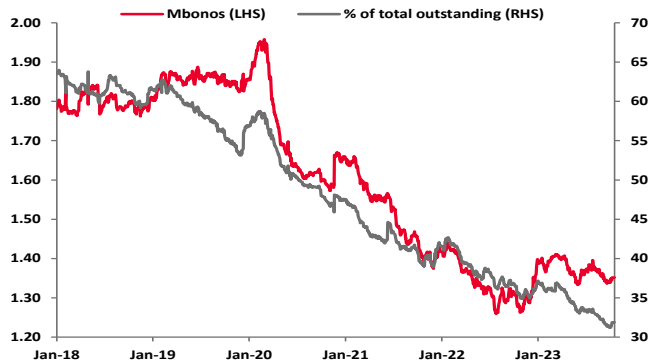
US\$ billion, data as of Oct/10/2023

	Cetes	Bondes D	Udibonos*	Bonos M
<b>Actual</b>	10.5	0.6	7.5	77.0
<b>Previous Week</b>	10.9	0.4	0.9	76.3
<b>Difference</b>	-0.4	0.3	6.6	0.6
<b>Dec/30/2023</b>	8.0	1.9	1.0	79.6
<b>Difference</b>	2.5	-1.3	6.5	-2.7

Source: Banxico, Banorte

## Mbonos held by foreigners

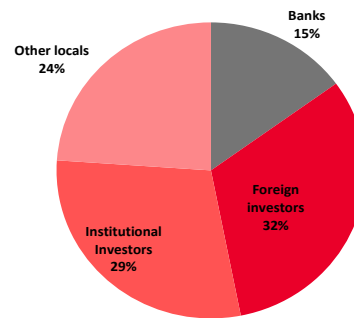
MXN trillion, %



Source: Banxico, Banorte

## Mbonos holdings by type of investor

Total amount of US\$ 242 billion, % of total



Source: Banxico, Banorte

## Mbonos holdings by type of investor

US\$ billions and %, data as of Oct/10/2023

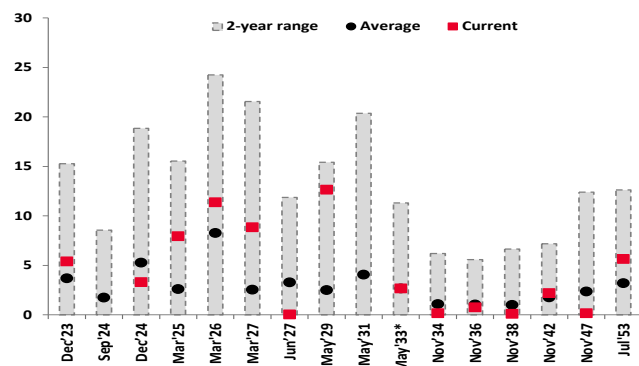
Maturity	Amount Outstanding	Local Banks	Foreign investors	Pensión and Mutual	Others
<b>Dec'23</b>	9.4	27%	7%	17%	49%
<b>Sep'24</b>	15.9	19%	15%	13%	53%
<b>Dec'24</b>	12.8	17%	26%	8%	49%
<b>Mar'25</b>	9.4	27%	15%	16%	42%
<b>Mar'26</b>	25.0	37%	26%	15%	23%
<b>Sep'26</b>	4.9	12%	30%	11%	46%
<b>Mar'27</b>	20.3	28%	17%	16%	40%
<b>Jun'27</b>	19.3	16%	36%	29%	19%
<b>Mar'29</b>	2.3	37%	11%	23%	29%
<b>May'29</b>	15.4	4%	53%	22%	21%
<b>May'31</b>	23.8	5%	43%	34%	18%
<b>May'33</b>	12.6	5%	38%	32%	25%
<b>Nov'34</b>	5.3	1%	50%	35%	13%
<b>Nov'36</b>	4.0	1%	29%	40%	30%
<b>Nov'38</b>	11.9	2%	40%	42%	16%
<b>Nov'42</b>	17.0	2%	42%	41%	15%
<b>Nov'47</b>	14.3	0%	37%	44%	18%
<b>Jul'53</b>	9.2	0%	35%	45%	20%
<b>Total</b>	<b>223.6</b>	<b>14%</b>	<b>32%</b>	<b>26%</b>	<b>28%</b>

Source: Banxico, Banorte

## Fixed-Income Demand – Primary dealers

Market makers' short positions on Mbonos

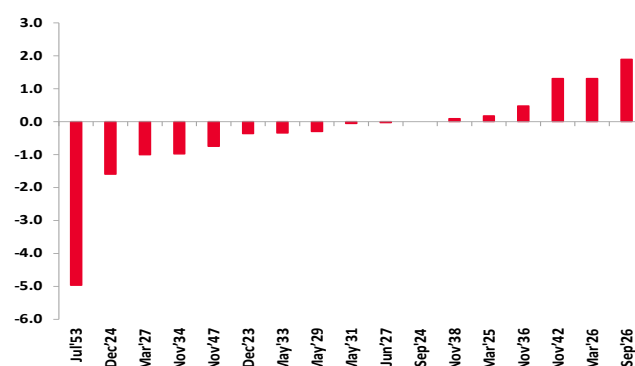
MXN billion



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

Weekly change in market makers' short positions on Mbonos

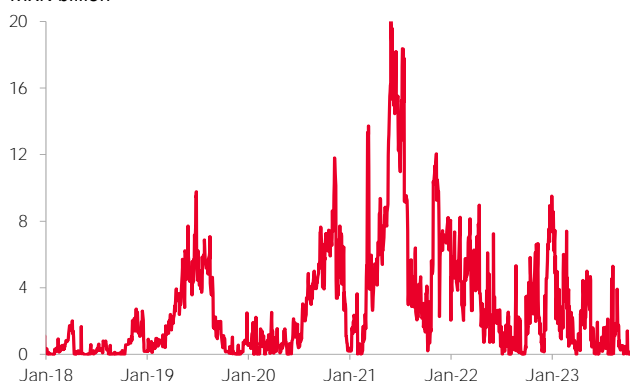
MXN billion



Source: Banxico, Banorte

Market makers' short positions on Mbono May'31

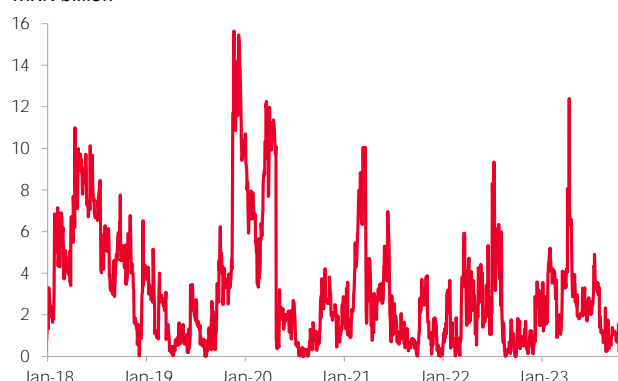
MXN billion



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 Oct/19/2023	Oct/19/2023	Previous Week	Previous Month	Previous Year	6-month MAX	6-month MIN
Dec'23	9,415	294	314	339	294	356	0
Sep'24	15,589	0	0	7	144	177	0
Dec'24	12,507	180	267	93	298	325	1
Mar'25	8,415	433	423	185	11	848	24
Mar'26	24,738	620	549	814	371	1,323	99
Sep'26	5,700	336	233	241	0	1,178	0
Mar'27	20,287	482	537	366	50	1,176	0
Jun'27	19,204	1	3	5	23	594	0
Mar'29	2,327	196	125	45	0	196	0
May'29	15,808	690	706	528	15	841	43
May'31	23,677	0	3	9	131	290	0
May'33	12,499	145	164	617	0	617	3
Nov'34	5,188	9	62	22	27	336	0
Nov'36	4,036	41	15	9	3	304	0
Nov'38	11,860	5	0	0	30	150	0
Nov'42	16,917	119	48	28	25	315	0
Nov'47	14,191	9	50	62	27	279	7
Jul'53	9,758	307	578	36	274	584	0
<b>Total</b>	<b>232,114</b>	<b>3,561</b>	<b>3,499</b>	<b>3,369</b>	<b>1,450</b>		

Source: Banxico, Banorte



## Fixed-Income Technicals

- **The carry at the short-end registered a mixed balance.** Spreads between Cetes and implied forward rates stood at: 1-month at +81bps from +87bps, 3-month at -1bp from -6bps, 6-month at -11bps from -25bps, and 1-year at -19bps from -24bps
- **The market recalibrated its expectations amid higher geopolitical risks and higher interest rates.** Crude-oil prices extended their gains, with the European benchmark trading above 90 dollars per barrel, as geopolitical tensions ratcheted higher in the Middle East. With this, the fight against inflation could be made more difficult by forcing central banks to keep reference rates high for longer. In Mexico, the probability that the first 25bps rate cut will be in May 2024 decreased, delaying the start of the accommodation cycle until the second half of the year. In this way, the market anticipates a rate at the end of next year higher of 10.00% from 9.90% last week, above our estimate of 9.25%. In the United States, the debate continues over whether the Fed will increase Fed funds one last time before the end of the year, although bets remain below 50%

### Spread between Cetes and Implied Forward Rates

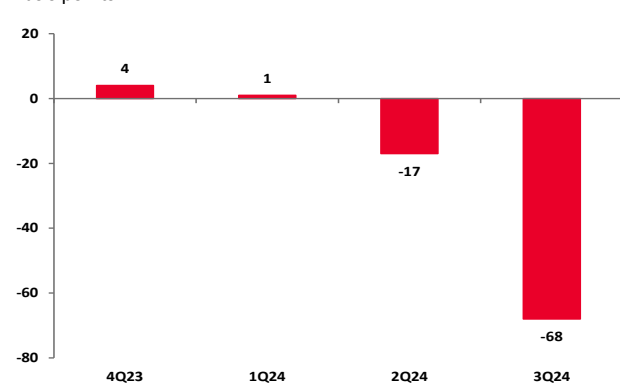
Basis points

Tenor	Actual Oct/20/2023	Previous Week	Mes previo	Promedio 6m	Max 6m	Min 6m
1 month	81	87	57	16	489	-222
3 months	-1	-6	7	-51	32	-150
6 months	-11	-25	-7	-67	10	-125
12 months	-19	-24	-27	-67	-19	-98

Source: PIP, Bloomberg, Banorte

### Cumulative implied moves in Banxico's repo rate

Basis points



Source: Bloomberg, Banorte

- **Lower volatility in local bonds contributed to a reduction in the risk premium.** Sovereign bonds are highly sensitive to geopolitical risks due to fears of an escalation in the Middle East conflict. As a result, the 10-year spread between Mbonos and Treasuries closed on Friday at 503bps vs 515bps the previous week, while the average of the last twelve months stands at 524bps
- **The 3-month correlation between Mexican and US 10-year bonds increased at the margin.** The reading closed Friday at +62% vs +61% the previous week. We see that the high correlation with Treasuries will continue to determine the performance of local bonds

### 10-year Mbono and 10-year UST spread

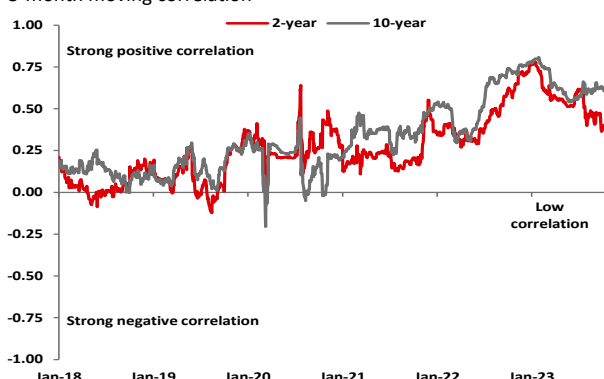
Basis points



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

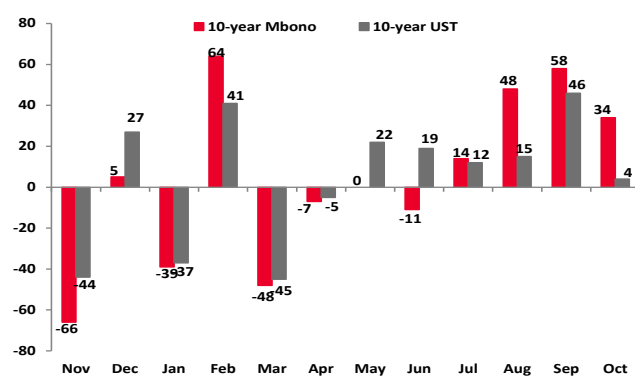
Basis points

Tenor	Oct/20/2023	Previous Week	Previous Month	Previous Year	12m Max	12m Min	12m Average
Mbono 2s10s	-77	-87 (+10bps)	-109 (+32bps)	-54 (-23bps)	-47	-199	-141
Mbono 10s30s	-8	-3 (-5bps)	5 (-13bps)	7 (-15bps)	35	-15	10
TIIE-Mbono 2-year	-4	-4 (0bps)	-45 (+41bps)	-21 (+17bps)	25	-91	-48
TIIE-Mbono 10-year	-35	-32 (-3bps)	-55 (+20bps)	-50 (+15bps)	-17	-68	-46

Source: Bloomberg, PiP, Banorte

### Mexican and US rates performance, last 12 months

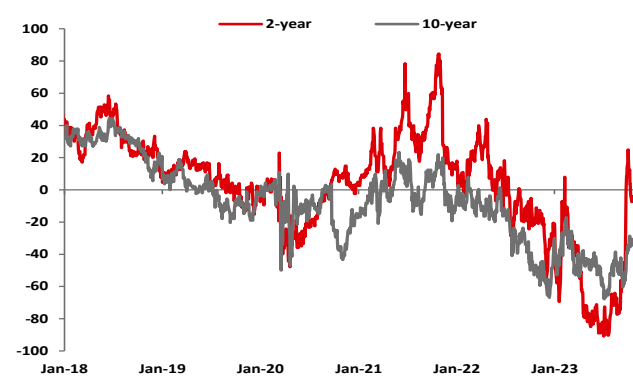
Basis points



Source: PiP, Bloomberg, Banorte

### 2- and 10-year TIIE-IRS and Mbono spreads

Basis points



Source: PiP, Bloomberg, Banorte

### Breakeven inflation using Mbonos & Udibonos

Implicit market inflation using Fisher Equation (%)

Date	Oct/20/2023	Previous week	Previous month	Previous year	12m Max	12m Min	12m Average
3Y	4.09	4.15 (-6bps)	4.05 (+4bps)	5.41 (-132bps)	5.74	3.70	4.64
5Y	4.49	4.32 (+17bps)	4.35 (+14bps)	5.14 (-65bps)	5.24	4.22	4.56
10Y	4.51	4.34 (+17bps)	4.42 (+9bps)	5.13 (-62bps)	5.15	4.04	4.41
20Y	4.83	4.72 (+11bps)	4.81 (+2bps)	5.14 (-31bps)	5.14	4.15	4.57
30Y	4.77	4.67 (+10bps)	4.77 (0bps)	5.15 (-38bps)	5.18	4.15	4.54

Source: PiP, Banorte

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

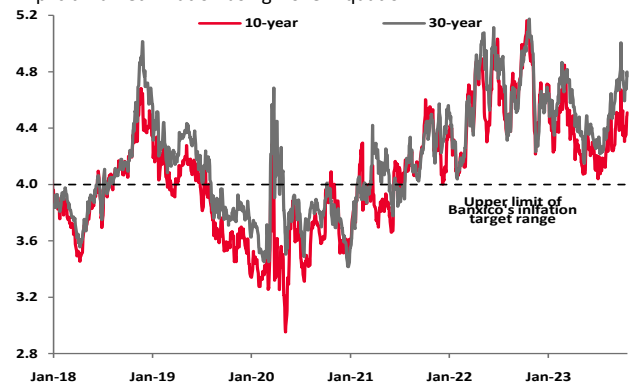
Implicit market inflation using Fisher Equation



Source: PiP, Banorte

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

Implicit market inflation using Fisher Equation



Source: PiP, Banorte

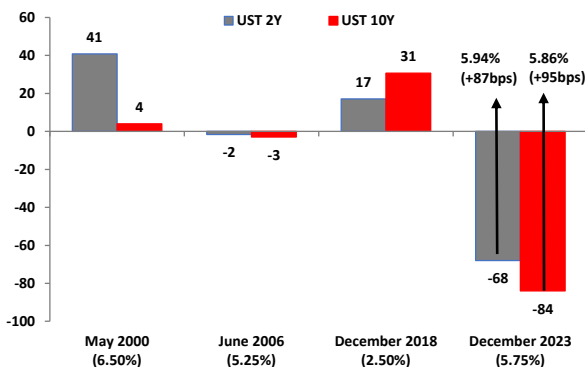


## Fixed – Income trade recommendations

- **The sell-off in the fixed-income market was paused as geopolitical tensions ratcheted higher in the Middle East.** During the week, all eyes were on diplomatic efforts to avoid a conflagration in the Middle East after the Hamas attack on Israel on October 7<sup>th</sup>. With this, risk aversion predominated in the financial markets along with new outbreaks of volatility. On Friday, long-term interest rates stopped the sell-off of the previous days. The 10-year and 30-year rates in the United States reached new 16-year highs and even surpassed the 5.00% figure. With this, the yield curve registered a strong steepening, reducing the 2s/10s spread to -16bps from -45bps the previous week, being its lowest level since September 2022. At the local level, the yields of the longer-term Mbonos temporarily surpassed 10.00%, accumulating losses of 17bps, on average
- In parallel, the market assimilated Jerome Powell's comments, pointing out that there is evidence that monetary policy is not too tight right now. However, he also indicated that yield rise could mean less need to hike, at the margin. Additionally, he elaborated on the reasons behind the rise in long-term rates, including: (1) The resilience of the economy; (2) the increased focus on fiscal policy; (3) the high correlation between bonds and stocks, reducing the attractiveness of the former as a hedge; (3) the reduction in the Fed's balance sheet; and (5) the greater term premium, ruling out that the adjustment derives from higher inflation expectations or strong changes in short-term monetary policy
- As we mentioned in the [previous edition](#), we expect the drivers behind the bond sell-off to prevail in the coming months. We see room for rates to reach even higher levels with the 10-year Treasury, which closed the week at 4.91% (+30bps), could even reach levels of up to 5.86% according to our analysis of previous restrictive cycles and our expectation of an additional hike by the Fed before the end of the year. In this way, we expect a level at the end of the year of 4.95% and an average in the 4Q23 of 5.10%

### Spread between Treasuries and Fed funds (upper range) at the end of tightening cycle

Basis points



Source: Bloomberg, Banorte

- Under the current situation, our recommendation for a 2s10s steepener in TIIE-IRS has advanced, moving to -107bps from the entry level of -114bps. For next week, eyes will be on the evolution of the conflict in the Middle East, the ECB decision, and the plethora of economic figures, highlighting the Fed's favorite inflation metric, the PCE deflator. A negative surprise would strengthen our scenario of higher-for-longer rates. Lastly, we expect the 10-year Mbono to trade between 9.85% and 10.20%

## FX dynamics

- **The Mexican peso weakened on higher demand for safe-haven assets.** Geopolitical tensions encouraged the migration of flows, which put further pressure on the FX market. In addition, investors remain concerned about the effects of higher crude-oil prices on central bank decisions. In this context, the Mexican peso is resuming its role as a hedging currency. On Friday, the MXN closed at 18.24 per dollar with a depreciation of 0.8% w/w
- **Despite the uncertainty, the USD traded with a slight negative bias.** The DXY and BBDXY indices recorded changes of -0.5% and -0.1% w/w, in the same order. In G10 currencies, trading was capped by CHF (+1.1%) and NZD (-1.1%). In emerging markets, PLN (+2.5%) led gains and IDR (-1.2%) was the weakest

### Foreign Exchange market levels and historical return

		Close at Oct/20/2023	Daily Change (%) <sup>1</sup>	Weekly change (%) <sup>1</sup>	Monthly change (%) <sup>1</sup>	YTD <sup>1</sup> (%)
<b>Emerging Markets</b>						
Brazil	USD/BRL	5.03	0.6	0.9	-3.1	4.9
Chile	USD/CLP	941.83	-0.2	-0.2	-6.3	-9.6
Colombia	USD/COP	4,225.28	0.1	0.3	-7.3	14.8
Peru	USD/PEN	3.88	-0.1	-0.5	-4.0	-1.9
Hungary	USD/HUF	360.69	0.3	2.5	-0.1	3.5
Malaysia	USD/MYR	4.77	0.0	-0.8	-1.7	-7.6
<b>Mexico</b>	<b>USD/MXN</b>	<b>18.24</b>	<b>0.5</b>	<b>-0.8</b>	<b>-6.3</b>	<b>6.9</b>
Poland	USD/PLN	4.21	-0.1	2.5	2.7	3.9
Russia	USD/RUB	95.70	1.1	2.1	0.5	-22.5
South Africa	USD/ZAR	19.01	0.1	0.0	-0.9	-10.4
<b>Developed Markets</b>						
Canada	USD/CAD	1.37	0.0	-0.4	-1.8	-1.2
Great Britain	GBP/USD	1.22	0.2	0.2	-1.5	0.7
Japan	USD/JPY	149.86	0.0	-0.2	-1.0	-12.5
Eurozone	EUR/USD	1.0594	0.1	0.8	-0.6	-1.0
Norway	USD/NOK	11.07	-0.6	-1.1	-2.5	-11.4
Denmark	USD/DKK	7.04	0.1	0.7	-0.7	-1.4
Switzerland	USD/CHF	0.89	-0.1	1.1	0.7	3.6
New Zealand	NZD/USD	0.58	-0.4	-1.0	-1.7	-8.2
Sweden	USD/SEK	10.98	-0.2	0.5	1.5	-5.0
Australia	AUD/USD	0.63	-0.2	0.3	-2.1	-7.3

Source: Bloomberg, Banorte

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

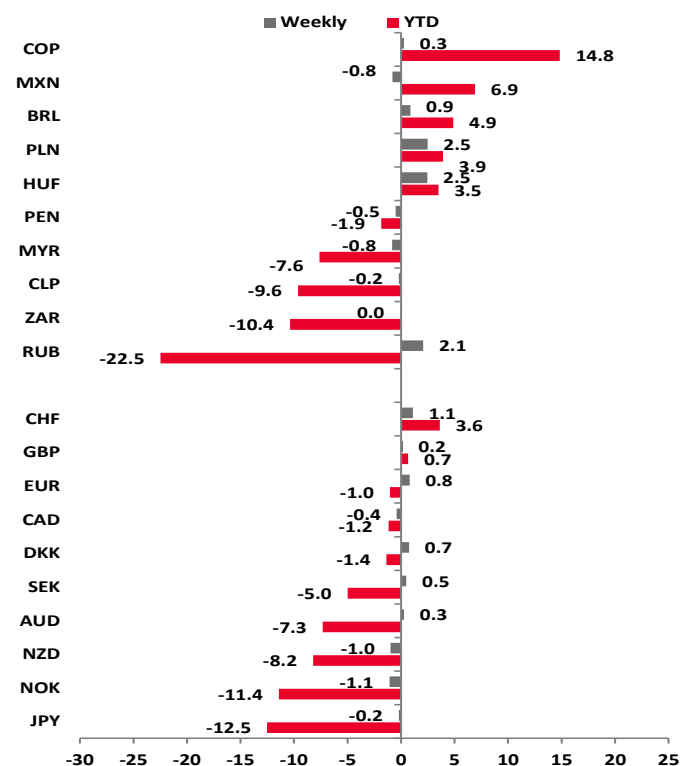
### USD/MXN

Last 12 months



### FX performance

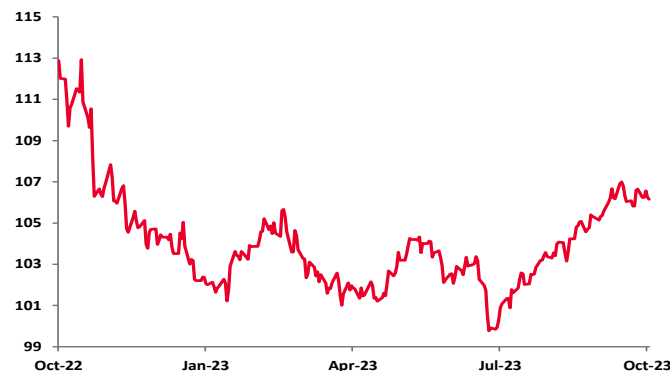
Against USD, %



Source: Bloomberg, Banorte

### DXY

Points

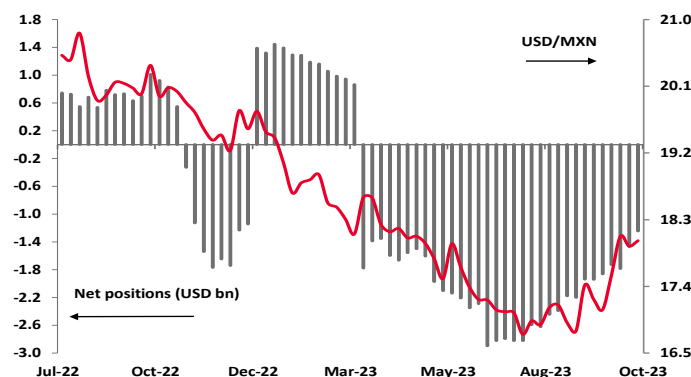


## FX positioning and flows

- **Net long MXN positions have fallen 56% during the second half of the year.** As of October 17<sup>th</sup>, the MXN position recorded a lower net long of US\$ 1.24 billion from US\$ 1.47 billion last week, reaching a fresh 7-month low. So far this year, speculators have fluctuated between net short positions of US\$ 1.45 billion in January and net long positions of US\$ 2.89 billion in June. In the coming weeks, sales could increase if other countries join Israel's war
- **More demand for safe-haven assets driven an increase in net long USD positioning.** The IMM USD position was net long US\$9.49 billion from US\$9.17 billion a week ago. It is worth remembering that during 2021 and 2022, the largest net long positioning in USD was approximately US\$25.6 billion, so there is room for speculators to continue betting in favor of the dollar, especially given the deepening crisis in the Middle East. Meanwhile, the weekly adjustment was the result of sales in most currencies, led by GBP (-314 million), and MXN (-226 million). The only currency bought was EUR (+883 million) after recording net long positions at 1-year lows of US\$10.01 billion. In addition, bets on a weakening of the GBP increased, fully diluting long positions
- **Sales decreased in EM while Mexico recorded 4 consecutive months with outflows.** Our EPFR aggregate recorded lower negative flows of US\$ 2.9 billion from US\$ 3.2 billion the previous week. Bond market sales decreased 32% to US\$ 1.0 billion, with Latam posting the biggest adjustment. In contrast, equities outflows increased 8% to US\$ 1.9 billion. In Mexico, a negative flow of US\$ 86 million was recorded because of sales in both bonds and equities of US\$ 41 million and US\$ 45 million, respectively

### IMM positioning in USD/MXN futures

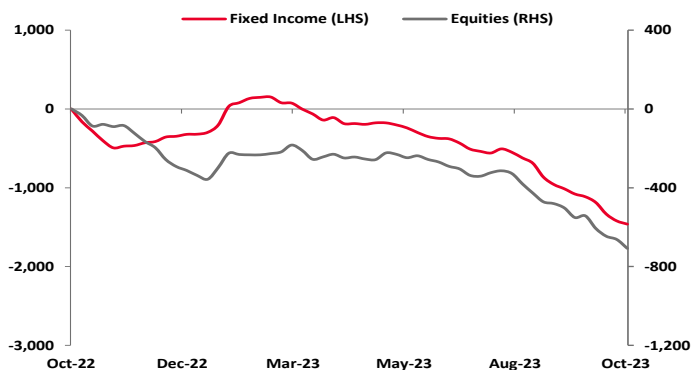
Billion dollars, Negative = net long in MXN



Source: CME, Banorte

### Foreign portfolio flows into Mexico

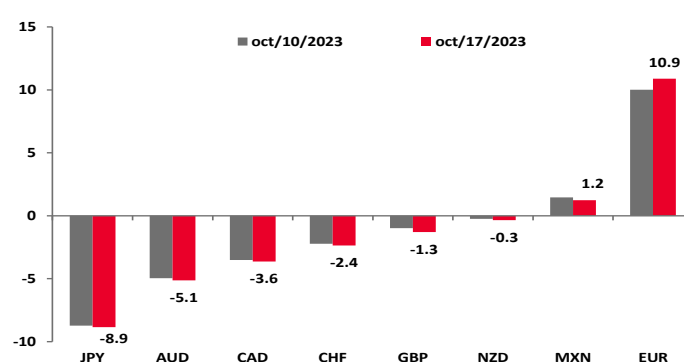
Accumulated during the last 12M, million dollars



Source: EPFR Global, Banorte

### IMM positioning by currency\*

Billion dollars

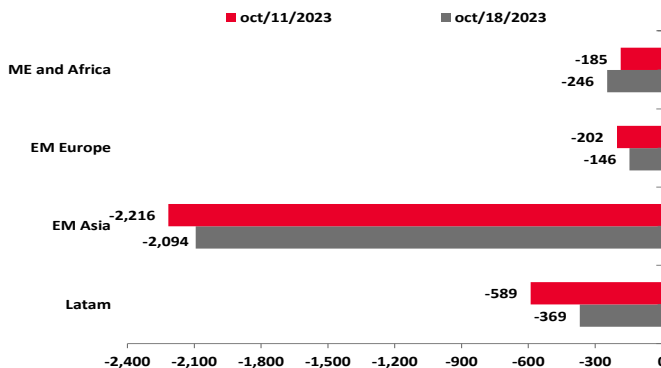


\* Positive: Net long in the corresponding currency

Source: CME, Banorte

### Net foreign portfolio flows by region\*

Weekly, million dollars



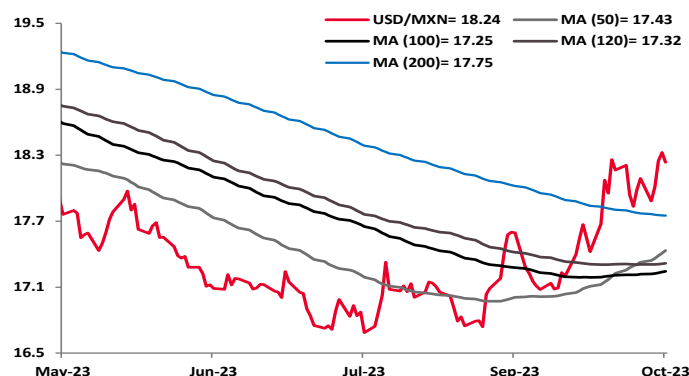
Source: EPFR Global, Banorte \* Including only mutual funds' investments

## FX technicals

- The Mexican peso will continue immersed in the depreciation channel.** Investors were cautious about the risks of an escalation of the conflict in the Middle East. Moreover, markets continue to debate the monetary stance after data showing a resilient US economy. This triggered a weakening of the Mexican peso and a break of the psychological level of 18.00 per dollar and other short-term technical supports. The weekly trading range was 59 cents, lower than the four-week average of 67 cents. The main short-term resistances are located at 18.10, 17.95 and 17.74 with supports at 18.50, 18.62 and 18.75. The FX market will remain very attentive to the evolution of the war in Israel next week. The ECB monetary policy decision, as well as the release of the PCE deflator in the US and some inflation reports in other latitudes, including Mexico, will also have an influence

### USD/MXN – Moving averages

Last 120 trading days



Source: Bloomberg, Banorte

### USD/MXN – Fibonacci retracement

Last 12 months



Source: Bloomberg, Banorte

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

	Actual (%)	Previous week	6m Min	6m Max	6m Average
EUR	55	46	1	65	30
CAD	25	22	7	63	32
ZAR	85	78	4	85	46
BRL	80	80	19	82	58
HUF	61	62	4	70	48
RUB	26	16	-34	53	12

\* Positive: appreciation of MXN and corresponding currency

Source: Bloomberg, Banorte

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

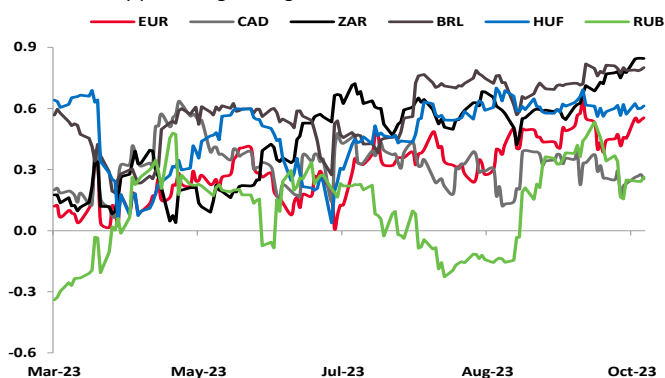
	Actual (%)	Previous week	6m Min	6m Max	6m Average
VIX	54	48	14	89	44
SPX	57	52	5	71	39
GSCI	-14	-7	-22	49	21
Oro	0	34	-57	51	9

\* Positive: appreciation of MXN and corresponding asset except VIX

Source: Bloomberg, Banorte

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

Based on daily percentage changes

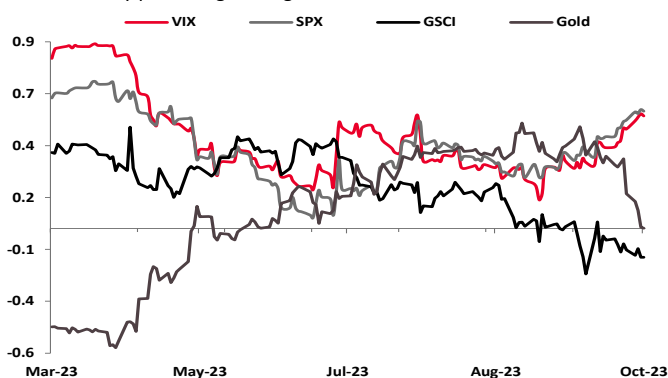


\* Positive: appreciation of MXN and corresponding currency

Source: Bloomberg, Banorte

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

Based on daily percentage changes



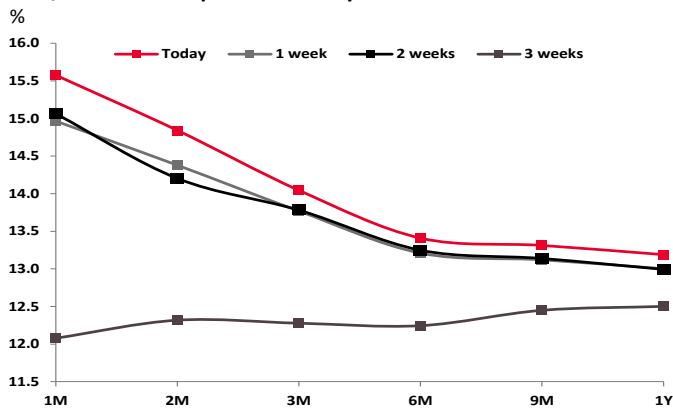
\* Positive: appreciation of MXN and corresponding asset except VIX

Source: Bloomberg, Banorte

## FX technicals (continued)

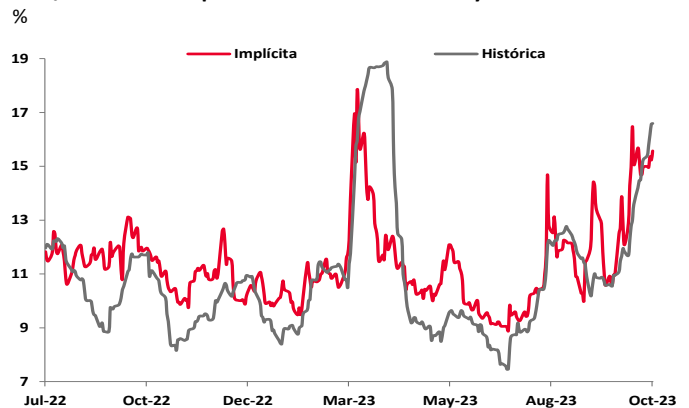
- The MXN ATM implied volatility curve closed the week with a pattern known as backwardation for the third consecutive week.** The curve reflects that market participants anticipate more volatility in the near-term than further out in the future. Thus, the 1-month reading rose 0.6 vegas to 15.6% well above the average of the last 12 months of 11.3%. Meanwhile, the 1-year reading rose to 13.2% (+0.2 vegas). In this way, the front-end of the curve remains above the 1-year reading since the beginning of October. On the other hand, the 1- and 3-month risk reversals decreased to 3.36 vols and 3.63 vols, respectively, from 3.63 vols and 3.72 vols the previous week. However, they remain at high levels in historical terms

USD/MXN – ATM options volatility curve



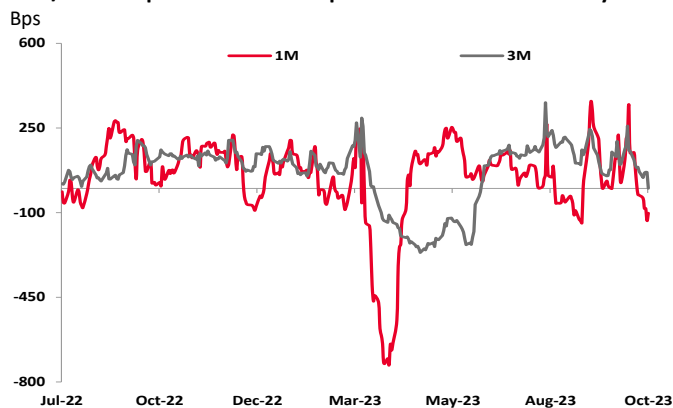
Source: Bloomberg, Banorte

USD/MXN – 1M implied and historical volatility



Source: Bloomberg, Banorte

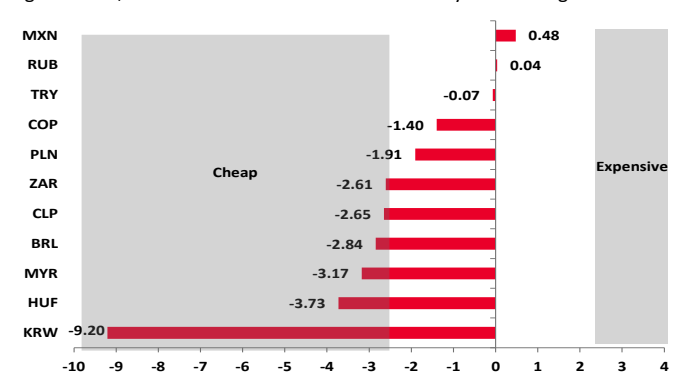
USD/MXN – Spread between implicit and historical volatility



Source: Bloomberg, Banorte

Emerging markets one-month ATM options volatility

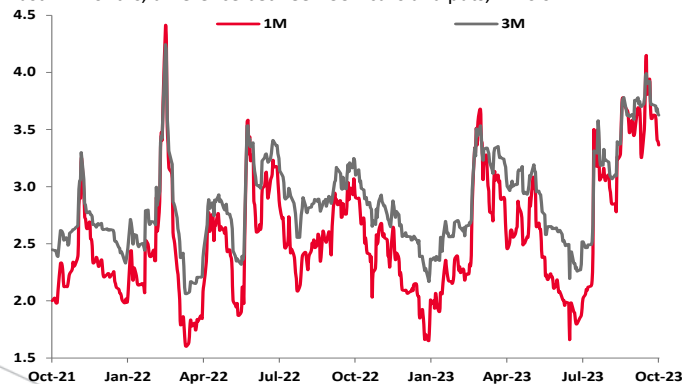
Against USD, in standard deviations relative to last year's average



Source: Bloomberg, Banorte

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

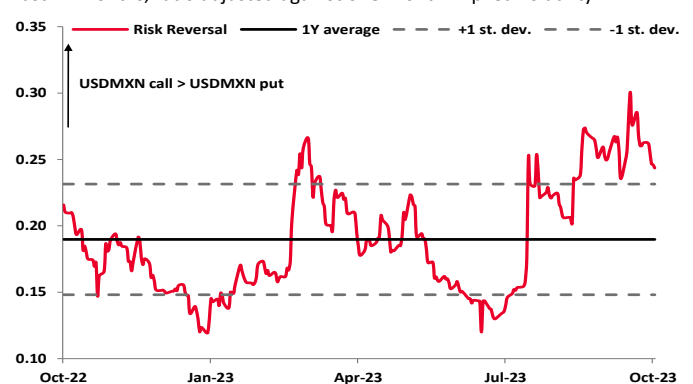
Last 24 months, difference between USD calls and puts, in vols



Source: Bloomberg, Banorte

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

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



Source: Bloomberg, Banorte

## FX trade recommendations

- **Demand for safe-haven assets will remain high in light of geopolitical risks.** The FX market dynamics in the week were mainly driven by risk-off mood. Concerns about the Middle East conflict escalating into a regional war and the sell-off in Treasuries exacerbated the migration of flows into safe-haven assets. This was reflected in higher implied volatility in currencies and demand to hedge against a further strengthening of the USD. Investors were also very attentive to the tone of Fed members' remarks and the release of economic data. Against this backdrop, the dollar swung between gains and losses. The DXY and BBDXY indices closed the week with adjustments of -0.5% and -0.1%, in the same order. It is worth mentioning that the correlation between the BBDXY index and crude-oil (WTI) remains high
- In advanced economy currencies, trading was capped by CHF (+1.1%) and NZD (-1.1%). The Swiss franc has stood out since the start of the war in Israel as a safe-haven asset, accumulating an appreciation of 2.0% and so far, this month registering a gain of 2.6%. EM currencies have seen a mixed performance, with PLN (+2.5%) leading the gains. In contrast, the Mexican peso was the fourth weakest. The local currency started the week with an appreciation bias, trading below the psychological level of 18.00 per dollar; however, this dynamic was reversed on Wednesday, taking it to its weakest intraday level of 18.47. On Friday, the MXN closed at 18.24 per dollar, equivalent to a 0.8% w/w depreciation after breaching relevant technical supports. The trading range of 59 cents was lower than the 4-week average of 67 cents, but we still consider it high according to the observed throughout the year. 1-month implied volatility rose to a high of 15.6% (vs. a close of 15.0% the previous week) impacting carry trades
- Next week, we see demand for safe-haven assets likely to continue ahead of geopolitical uncertainty in the Middle East. Investors will also be attentive to the tone of the ECB monetary policy statement and Christine Lagarde's message in a backdrop of higher energy prices and increasing risks of 'stagflation'. The FX market could also react to the release of the PCE deflator, the Fed's favorite inflation metric. A higher-than-expected reading could strengthen the dollar and influence the market's pricing on the Fed's next actions. Locally, the inflation report will be relevant for the peso's performance. We anticipate that volatility in the MXN will continue with the risk of pressuring other short-term supports. We estimate a weekly trading range between USD/MXN 18.00 and 18.50

**USD/MXN and Mexico 5Y CDS**

Pesos per dollar and bps, respectively



**USD/MXN Forecast for 2023 and 2024**

Pesos per dollar





# Weekly economic calendar

For the week ending October 27, 2023

	Time		Event	Period	Unit	Banorte	Survey	Previous
Mon 23	08:00	MX	Economic activity indicator (IGAE)	Aug	% y/y	3.5	3.5	3.2
	08:00	MX	Economic activity indicator (IGAE)*	Aug	% m/m	0.3	0.3	0.2
	10:00	EZ	Consumer confidence*	Oct (P)	index	--	-18.4	-17.8
Tue 24	02:00	UK	Unemployment rate*	Aug	%	--	4.3	4.3
	03:30	GER	Manufacturing PMI*	Oct (P)	index	--	40.1	39.6
	03:30	GER	Services PMI*	Oct (P)	index	--	50.0	50.3
	03:30	GER	Composite PMI*	Oct (P)	index	--	46.7	46.4
	04:00	EZ	Manufacturing PMI*	Oct (P)	index	--	43.7	43.4
	04:00	EZ	Services PMI*	Oct (P)	index	--	48.6	48.7
	04:00	EZ	Composite PMI*	Oct (P)	index	--	47.3	47.2
	04:30	UK	Manufacturing PMI*	Oct (P)	index	--	44.7	44.3
	04:30	UK	Services PMI*	Oct (P)	index	--	49.3	49.3
	08:00	MX	Consumer prices	Oct 15	% m/m	0.32	0.31	0.13
	08:00	MX	Core	Oct 15	% m/m	0.19	0.19	0.11
	08:00	MX	Consumer prices	Oct 15	% y/y	4.35	4.34	4.47
	08:00	MX	Core	Oct 15	% y/y	5.49	5.49	5.74
	09:45	US	Manufacturing PMI*	Oct (P)	index	49.4	49.4	49.8
	09:45	US	Services PMI*	Oct (P)	index	--	49.9	50.1
	09:45	US	Composite PMI*	Oct (P)	index	--	50.0	50.2
Wed 25	11:00	MX	International reserves	Oct 20	US\$bn	--	--	204.1
	13:30	MX	Government weekly auction: 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					
	04:00	GER	IFO Survey (business climate)*	Oct	index	--	85.9	85.7
Thu 26	04:00	EZ	Monetary aggregates (M3)*	Sep	EURbn	--	-1.8	-1.3
	10:00	US	New home sales**	Sep	thousands	--	682	675
	07:00	TUR	Monetary policy decision (Central Bank of Turkey)	Oct 26	%	--	35.00	30.00
	08:00	BZ	Consumer prices	Oct	% y/y	--	0.20	0.35
	08:00	BZ	Consumer prices	Oct	% m/m	--	5.03	5.00
	08:00	MX	Unemployment rate	Sep	%	2.93	--	2.96
	08:15	EZ	Monetary policy decision (ECB)	Oct 26	%	4.00	4.00	4.00
	08:30	US	Trade balance*	Sep	US\$bn	--	-85.9	-84.6
	08:30	US	Gross domestic product**	3Q23 (F)	% q/q	4.3	4.3	2.1
	08:30	US	Personal consumption**	3Q23 (F)	% q/q	4.1	3.9	0.8
	08:30	US	Durable goods orders*	Sep (P)	% m/m	--	1.5	0.1
	08:30	US	Ex transportation*	Sep (P)	% m/m	--	0.3	0.4
	08:30	US	Initial jobless claims*	Oct 21	thousands	205	208	198
	08:45	EZ	ECB President Christine Lagarde Holds Press Conference					
	17:00	CL	Monetary policy decision (BCCh)	Oct 26	%	--	8.75	9.50
Fri 27	08:00	MX	Trade balance	Sep	US\$mn	-223.8	-371.9	-1,377.1
	08:30	US	Personal income*	Sep	% m/m	--	0.4	0.4
	08:30	US	Personal spending*	Sep	% m/m	0.6	0.5	0.4
	08:30	US	Real personal spending*	Sep	% m/m	0.3	0.3	0.1
	08:30	US	PCE Deflator*	Sep	% m/m	0.3	0.3	0.4
	08:30	US	Core*	Sep	% m/m	0.2	0.3	0.1
	08:30	US	PCE Deflator	Sep	% y/y	3.4	3.4	3.5
	08:30	US	Core	Sep	% y/y	3.7	3.7	3.9
	10:00	US	U. of Michigan Confidence*	Oct (F)	index	63.0	63.0	63.0

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

For the week ending October 20, 2023

	Time	Event	Period	Unit	Banorte	Actual	Previous
Mon 16	05:00	EZ Trade balance*	Aug	EURbn	--	11.9	3.5
	08:30	US Empire manufacturing*	Oct	index	-4.0	-4.6	1.9
	08:30	US Fed's Harker Speaks on the Economic Outlook					
Tue 17	05:00	GER ZEW Survey (Expectations)	Oct	index	--	-1.1	-11.4
	08:00	US Fed's Williams Moderates Discussion at Economic Club of NY					
	08:30	US Advance retail sales*	Sep	% m/m	0.5	0.7	0.8 (R)
	08:30	US Ex autos & gas*	Sep	% m/m	--	0.6	0.3 (R)
	08:30	US Control group*	Sep	% m/m	0.1	0.6	0.2 (R)
	09:15	US Industrial production*	Sep	% m/m	0.1	0.3	0.0 (R)
	09:15	US Manufacturing production*	Sep	% m/m	0.0	0.4	-0.1
	09:20	US Fed's Bowman Speaks on Innovation in Payments					
	10:45	US Fed's Barkin Speaks on the Economic Outlook					
	11:00	MX International reserves	Oct 13	US\$bn	--	204.1	203.5
	13:30	MX Government weekly auction: 1-, 3-, 6-, and 12-month Cetes; 30-year Mbono (Jul'53), 10-year Udibono (Nov'31) and 2-, and 5-year Bondes F					
	17:00	US Fed's Kashkari Participates in a Moderated Discussion					
	21:00	CHI Gross domestic product	3Q23	% y/y	--	4.9	6.3
	21:00	CHI Industrial production	Sep	% y/y	--	4.5	4.5
	21:00	CHI Retail sales	Sep	% y/y	--	5.5	4.6
Wed 18	21:00	CHI Gross fixed investment (YTD)	Sep	% y/y	--	3.1	3.2
	02:00	UK Consumer prices	Sep	% y/y	--	6.7	6.7
	02:00	UK Core	Sep	% y/y	--	6.1	6.2
	05:00	EZ Consumer prices	Sep (F)	% y/y	--	4.3	4.3
	05:00	EZ Core	Sep (F)	% y/y	--	4.5	4.5
	08:00	BZ Retail sales	Aug	% y/y	--	2.3	2.4
	08:00	BZ Retail sales*	Aug	% m/m	--	-0.2	0.7
	08:30	US Housing starts**	Sep	thousands	--	1,358	1,269 (R)
	08:30	US Building permits**	Sep	thousands	--	1,473	1,541
	12:00	US Fed's Waller Speaks About Economic Outlook in London					
	12:30	US Fed's Williams Participates in Moderated Discussion					
	14:00	US Beige Book					
	15:15	US Fed's Harker Speaks on Workforce Challenges					
	18:55	US Fed's Cook Speaks About the Fed's Mandate					
	SK	Monetary policy decision (Central bank of South Korea)	Oct 9	%	--	3.50	3.50
Thu 19	04:00	EZ Current account*	Aug	EURbn	--	27.7	21.0
	08:00	MX Timely Indicator of Economic Activity*	Sep	% y/y	--	3.0	3.4
	08:00	BZ Economic activity	Aug	% y/y	--	1.3	0.8 (R)
	08:00	BZ Economic activity*	Aug	% m/m	--	-0.8	0.4
	08:30	US Initial jobless claims*	Oct 14	thousands	218	198	211
	08:30	US Philadelphia Fed*	Oct	index	-7.0	-9.0	-13.5
	09:00	US Fed's Jefferson Delivers Welcoming Remarks					
	10:00	US Existing home sales**	Sep	millions	--	3.9	4.0
	12:00	US Fed's Powell Speaks at the Economic Club of New York					
	13:20	US Fed's Goolsbee Participates in Moderated Q&A					
	13:30	US Fed's Barr Speaks About Stress Testing					
	16:00	US Fed's Bostic Speaks at the New School Univeristy Center					
	17:30	US Fed's Harker Speaks on Economic Outlook					
	19:00	US Fed's Logan Speaks in New York					
	21:15	CHI 1-Year Loan Prime Rate	Oct 20	%	--	3.45	3.45
Fri 20	21:15	CHI 5-Year Loan Prime Rate	Oct 20	%	--	4.20	4.20
		MX Limit date for the approval of the Revenue Law in the Lower House					
	08:00	MX Retail sales	Aug	% y/y	4.5	3.2	5.1
	08:00	MX Retail sales*	Aug	% m/m	0.3	-0.4	-0.1
	09:00	US Fed's Harker Speaks on Economic Outlook					
	12:15	US Fed's Mester Speaks at Manhattan Institute for Policy Research					
	16:30	MX Survey of expectations (Citibanamex)					

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 <sup>2</sup>	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% <sup>1</sup>	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 Cuautencos 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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