October 27, 2023

# Fixed-Income and FX Weekly

- **Mixed balance in local assets**. This week, Mbonos' curve registered a steepening bias with losses of 16bps at the long-end. The 10-year benchmark ended at 10.11% (+16bps w/w). In addition, the MXN appreciated 0.7% w/w closing at 18.11 per dollar

- **Next week will bring crucial information for the markets, highlighting the Fed's decision and the US employment figures.** During the week, investors were cautious about the uncertainty caused by the war in Israel. In addition, markets digested the ECB monetary policy decision and some economic figures that reflect a resilient US economy, supporting a scenario of higher-for-longer rates. This caused volatility in Treasuries, keeping the long-end at levels close to 5.00%. In the domestic market, Mbonos recorded relevant losses, mainly in the long-end, with all of the nodes above 10.00%. With this, our recommendation of a 2s10s steepener on TIIE-IRS extended its gain by closing at -101bps (entry: -114bps; target: -60bps). Next week, the focus will be on the Fed's monetary policy decision and the tone of Jerome Powell's comments. Although no changes are expected, market participants will be looking for clues as to how long interest rates will remain elevated. In addition, the central banks of Brazil, Colombia, the Czech Republic, Japan, Malaysia, Norway, and the United Kingdom will publish their decisions. Other drivers that could influence the performance of financial assets are: (1) The conflict in the Middle East, with the latent risk of an escalation to other countries, which would impact crude-oil prices and growth; and (2) the update of the US Treasury's issuance program for 4Q23. In economic data, the agenda in the US includes a plethora of releases highlighting labor market figures (ADP and BLS), consumer confidence, factory orders and PMIs, the latter will also be released in China. In the Eurozone, 3Q23 GDP, inflation, consumer confidence and unemployment rate will be published. In Mexico, preliminary 3Q23 GDP, gross fixed investment, IMEF indicators, private consumption, the public finance report and Banxico's expectations survey will be released. On the corporate front, 163 S&P500 constituents will release their quarterly figures. Investors will be attentive to the guidance update in a backdrop of high financing costs and uncertainty as to whether a soft landing will be able to materialize in the US

## Fixed-Income

- **Supply** – On Monday, the MoF will auction 1-, 3-, 6-, and 12-month Cetes, the 10-year Mbono (May'33), the 3-year Udibono (Dec'26), and 2-, 5-, and 10-year Bondes F

- **Demand** – Foreigners' holdings in Mbonos totaled MXN 1.337 trillion (US$ 76.1 billion), a market share equal to 31.5%, as of October 17th. Short positions in Mbono May'33 ended at MXN 20 million from MXN 2.6 billion last week

- **Technicals** – The spread between 10-year Mbonos and Treasuries moved to 527bps from 503bps the previous week, with the 12-month mean at 523bps

## Foreign Exchange

- **Market positioning and flows** – Since the beginning of the war in Israel, net long MXN positions have fallen 41% to US$ 1.05 billion. Mutual funds' flows to EM marked bigger sales of US$ 4.1 billion from US$ 2.9 billion a week ago due to an increased in bond sales concentrated in Asia and Europe

- **Technicals** – The spot hovered between 18.00 and 18.42 per dollar with a lower weekly range vs the last four week of 75 cents. The next relevant levels are: 18.00, 17.93 y 17.83 (resistances) y 18.24, 18.30 y 18.40 (supports)

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**Recommendations**
**Fixed-Income**
- While the market widely expects the Fed to maintain rates unchanged, the tone of Powell's comments will be key to confirming expectations that rates will remain high for longer to bring inflation back to the target. We see room for the 10-year yield to break through the 5.00% figure again, and Mbonos yields will remain high due to the migration of flows towards safe assets and the high correlation with Treasuries, especially in the long part of the curve. We expect the 10-year Mbono to trade between 10.00% and 10.35%

**FX**
- With the scenario of higher-for-longer rates and geopolitical uncertainty, we will continue to see a preference for safe-haven assets, particularly the USD. In this context, the Mexican peso will remain exposed to flows migration, although it should be resilient given its attractive carry and solid macroeconomics fundamentals

Document for distribution among the general public

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# Fixed–Income Dynamics

**Mbonos performance**

| Maturity date | YTM Oct/27/2023 | Weekly change (bps) | YTD (bps) |
|---|---|---|---|
| Dec'23 | 11.57 | +2 | +75 |
| Sep'24 | 11.49 | -1 | +140 |
| Dec'24 | 11.19 | -4 | +132 |
| Mar'25 | 10.86 | -4 | +93 |
| Mar'26 | 10.66 | -5 | +143 |
| Sep'26 | 10.55 | -4 | +115 |
| Mar'27 | 10.26 | -1 | +107 |
| Jun'27 | 10.27 | -1 | +119 |
| Mar'29 | 10.14 | +1 | +77 |
| May'29 | 10.06 | +9 | +99 |
| May'31 | 10.13 | +12 | +112 |
| May'33 | 10.11 | +16 | +109 |
| Nov'34 | 10.08 | +16 | +103 |
| Nov'36 | 10.05 | +14 | +101 |
| Nov'38 | 10.09 | +15 | +101 |
| Nov'42 | 10.10 | +17 | +99 |
| Nov'47 | 10.04 | +18 | +97 |
| Jul'53 | 10.04 | +17 | +99 |

Source: PiP, Banorte

**IRS (28-day TIIE) performance**

| Maturity date | YTM Oct/27/2023 | Weekly change (bps) | YTD (bps) |
|---|---|---|---|
| 3-month (3x1) | 11.54 | +1 | +64 |
| 6-month (6x1) | 11.54 | +1 | +50 |
| 9-month (9x1) | 11.50 | -1 | +43 |
| 1-year (13x1) | 11.37 | -4 | +46 |
| 2-year (26x1) | 10.61 | -6 | +74 |
| 3-year (39x1) | 10.11 | -5 | +93 |
| 4-year (52x1) | 9.82 | -5 | +92 |
| 5-year (65x1) | 9.69 | -3 | +87 |
| 7-year (91x1) | 9.59 | -1 | +85 |
| 10-year (130x1) | 9.59 | -1 | +86 |
| 20-year (260x1) | 9.65 | -1 | +80 |

Source: PiP, Banorte

**CPI-Linked bonds (Udibonos) performance**

| Maturity date | YTM Oct/27/2023 | Weekly change (bps) | YTD (bps) |
|---|---|---|---|
| Nov'23 | 6.56 | +40 | +48 |
| Dec'25 | 6.40 | +14 | +163 |
| Dic'26 | 6.37 | +13 | +171 |
| Nov'28 | 5.53 | +14 | +122 |
| Nov'31 | 5.30 | +10 | +113 |
| Nov'35 | 4.96 | +14 | +75 |
| Nov'40 | 4.96 | +7 | +77 |
| Nov'43 | 5.00 | +13 | +50 |
| Nov'46 | 4.95 | +11 | +77 |
| Nov'50 | 4.97 | +9 | +73 |

Source: PiP, Banorte

**Cetes performance**

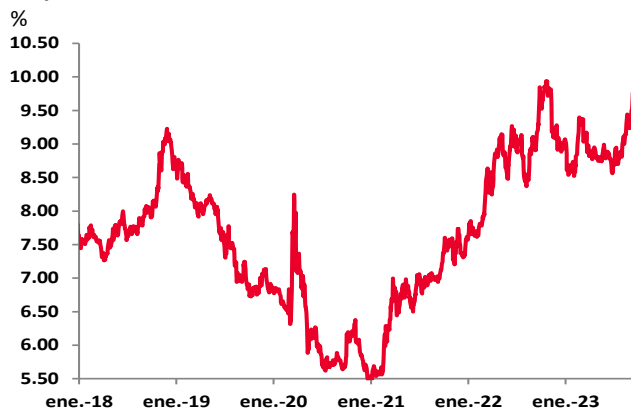| Maturity date | YTM Oct/27/2023 | Weekly change (bps) | YTD (bps) |
|---|---|---|---|
| Cetes 28 | 11.28 | +1 | +119 |
| Cetes 91 | 11.42 | +2 | +76 |
| Cetes 182 | 11.61 | +3 | +74 |
| Cetes 364 | 11.80 | +10 | +83 |
| Cetes 728 | 11.73 | +5 | +92 |

Source: PiP, Banorte

**Mbonos curve at different closing dates**

%
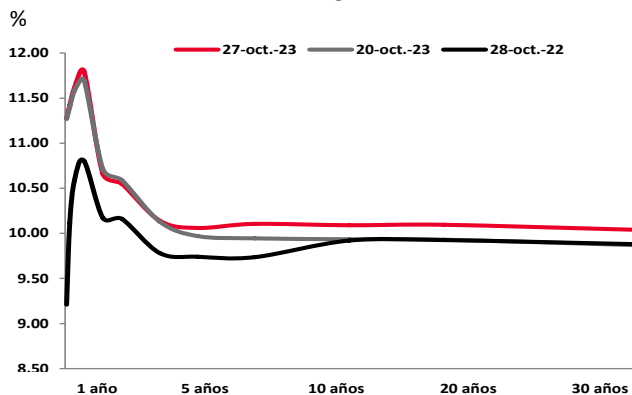


Source: PiP, Banorte

**10-year Mbono benchmark**

%



Source: PiP, Banorte

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# Fixed–Income Dynamics (continued)

USD UMS and US Treasuries performance

| | UMS | | | | UST | | | Spreads | | | CDS |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Term | Maturity date | YTM Oct/26/2023 | Weekly change (bps) | YTD (bps) | YTM Oct/26/2023 | Weekly change (bps) | YTD (bps) | Actual (bps) | Weekly change (bps) | 12m Average (bps) | bps |
| 2Y | Jan'26 | 5.31 | -16 | +83 | 5.04 | -12 | +61 | 27 | -4 | 13 | 56 |
| 3Y | Mar'27 | 5.46 | -9 | +67 | 4.88 | -14 | +65 | 59 | +5 | 38 | 76 |
| 5Y | Feb'28 | 5.84 | -10 | +105 | 4.80 | -16 | +79 | 104 | +6 | 99 | 131 |
| 7Y | Apr'30 | 6.22 | -7 | +88 | 4.87 | -14 | +90 | 135 | +7 | 132 | 171 |
| 10Y | May'33 | 6.58 | -4 | +102 | 4.84 | -15 | +97 | 174 | +10 | 168 | 206 |
| 20Y | Mar'44 | 7.20 | -8 | +82 | 5.19 | -15 | +104 | 201 | +8 | 202 | -- |
| 30Y | May'53 | 7.38 | -5 | +99 | 4.99 | -12 | +102 | 240 | +7 | 234 | -- |

Source: Bloomberg, Banorte

## 5Y USD UMS
%



Source: Bloomberg, Banorte

## 10Y USD UMS
%



Source: Bloomberg, Banorte

## 5Y UMS-UST Spread
Basis points



Source: Bloomberg, Banorte

## 10Y UMS-UST Spread
Basis points



Source: Bloomberg, Banorte

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# Fixed–Income Supply

- **Mexico's weekly auction.** On Monday, the MoF will auction 1-, 3-, 6-, and 12-month Cetes, the 10-year Mbono (May'33), the 3-year CPI-linked bond (Dec'26) −known as Udibono−, and 2-, 5-, and 10-year Bondes F

- **Real rates of Cetes at record levels.** The market will be attentive to monetary policy decisions in developed economies, although no changes are expected in the Fed and BoE rates. We believe that like the ECB, both banks will leave the door open for further hikes if necessary, confirming expectations that rates will remain high for longer. In this context, we believe that demand for Cetes will keep robust given the high nominal rates and the sustained slowdown in inflation. With this, the real implicit rates of the Cetes of 1, 3, 6 and 12 months are at record levels of 6.85%, 7.01%, 7.19% in the same order. For the 10-year Mbono, we expect moderate demand due to the risks of additional pressures despite the recent rebound to highs not seen since 2008 financial crisis of 10.24%. Faced with the risks of an escalation of the war in Israel, investors will continue to recalibrate their portfolios, increasing their demand for safe-haven assets. Furthermore, the correlation of the 10-year Mbono with its North American pair is significantly high, and the latter could reach more stressed levels due to a potential greater issuance of debt by the Treasury and figures that continue to show a resilient economy in the United States. We anticipate good appetite for the 3-year CPI-linked bond (Udibono) given a more attractive relative valuation. The 3-year breakeven is 69bps below its 12-month average at 3.93%

**Auction specifics (October 30, 2023)**

| Security | Maturity | Coupon rate, % | To be auctioned[1] | Previous yield[2] |
|---|---|---|---|---|
| **Cetes** | | | | |
| 1m | Nov-30-23 | -- | 8,500 | 11.26 |
| 3m | Feb-01-24 | -- | 7,500 | 11.43 |
| 6m | May-02-24 | -- | 16,200 | 11.62 |
| 12m | Oct-17-24 | -- | 14,200 | 11.75 |
| **Bondes F** | | | | |
| 2Y | Oct-09-25 | -- | 5,800 | 0.17 |
| 5Y | Jan-27-28 | -- | 1,400 | 0.23 |
| 10Y | Oct-21-32 | -- | 800 | 0.29 |
| **Bono M** | | | | |
| 10Y | May-26-33 | 7.50 | 15,000 | 9.68 |
| **Udibono** | | | | |
| 3Y | Dec-03-26 | 3.00 | UDIS 700 | 6.31 |

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
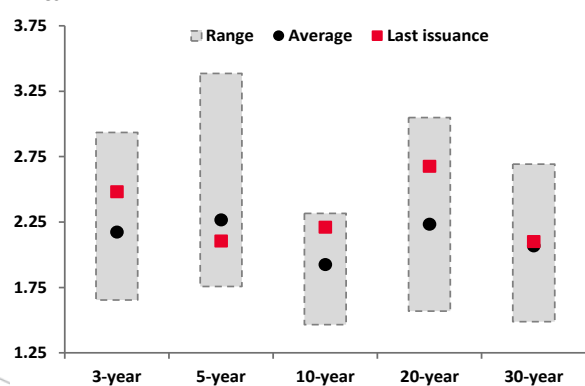
**4Q23 Government Securities Auction Calendar***

| 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

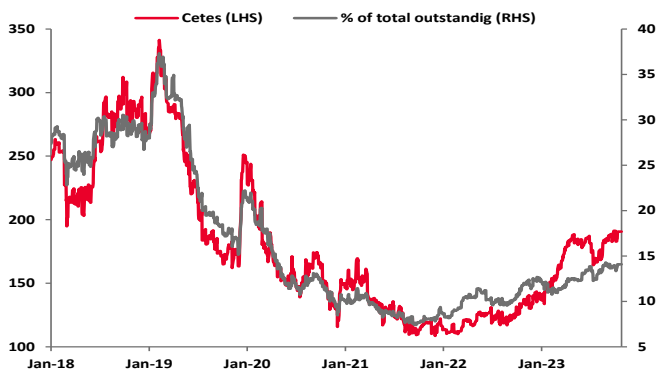**Mbonos' bid-to-cover ratios for primary auction in last 2 years**
Times



Source: Bloomberg, Banorte

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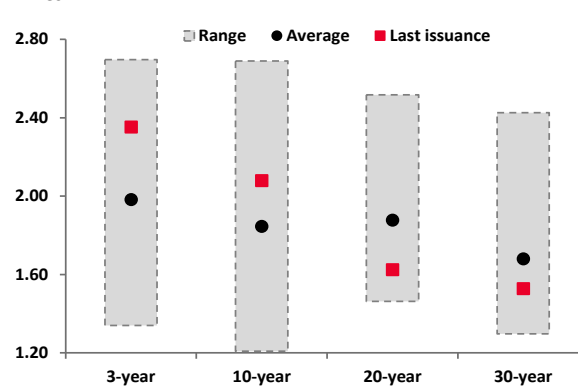


Source: Bloomberg, Banorte

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# Fixed–Income Demand

## Cetes held by foreigners
MXN billion, %



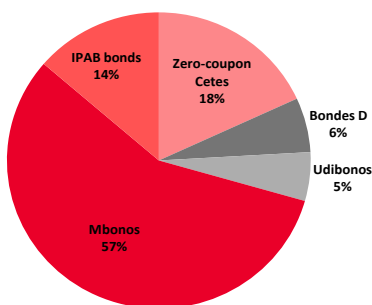Source: Banxico, Banorte

## Mbonos held by foreigners
MXN trillion, %



Source: Banxico, Banorte

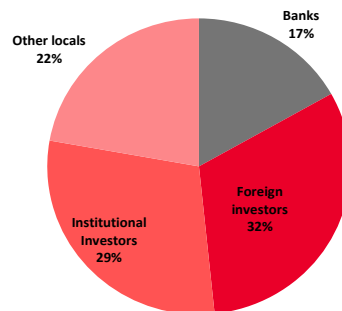## Government issuance by type of instrument
Total amount of US$ 425 billion, % of total
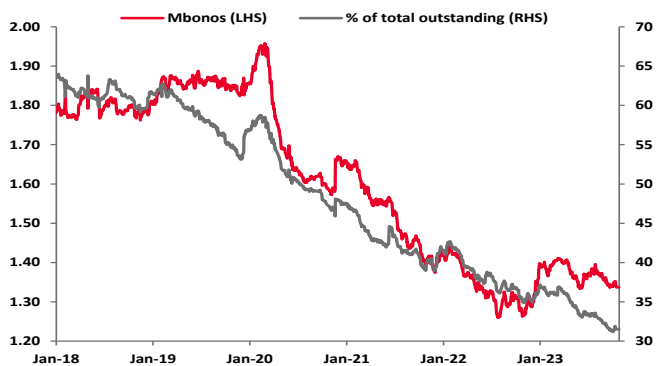


Source: Banxico, Banorte

## Mbonos holdings by type of investor
Total amount of US$ 242 billion, % of total



Source: Banxico, Banorte

## Government bond holdings by type of investor
US$ billion and %, data as of Oct/17/2023

|  | Cetes | Bondes D | Udibonos* | Bonos M |
|---|---|---|---|---|
| Total amount outstanding | 77 | 25 | 178 | 242 |
| Foreign investors | 14% | 0% | 4% | 31% |
| Pension funds | 11% | 3% | 54% | 23% |
| Mutual funds | 16% | 44% | 5% | 3% |
| Insurance companies | 5% | 1% | 19% | 3% |
| Banks | 10% | 20% | 2% | 17% |
| Others | 44% | 31% | 17% | 22% |

Source: Banxico, Banorte

## Foreign investors holdings of government bonds
US$ billion, data as of Oct/17/2023

|  | Cetes | Bondes D | Udibonos* | Bonos M |
|---|---|---|---|---|
| Actual | 10.9 | 0.1 | 7.4 | 76.1 |
| Previous Week | 10.5 | 0.6 | 1.0 | 77.0 |
| Difference | 0.3 | -0.5 | 6.4 | -0.8 |
| Dec/30/2023 | 8.0 | 1.9 | 1.0 | 79.6 |
| Difference | 2.9 | -1.8 | 6.4 | -3.5 |

Source: Banxico, Banorte

## Mbonos holdings by typ of investor
US$ billions and %, data as Oct/12/2023

| Maturity | Amount Outstanding | Local Banks | Foreign investors | Pensión and Mutual | Others |
|---|---|---|---|---|---|
| Dec'23 | 9.6 | 23% | 7% | 18% | 52% |
| Sep'24 | 15.9 | 27% | 15% | 9% | 49% |
| Dec'24 | 12.6 | 28% | 27% | 8% | 37% |
| Mar'25 | 7.7 | 43% | 18% | 20% | 19% |
| Mar'26 | 25.1 | 42% | 25% | 15% | 18% |
| Sep'26 | 5.7 | 17% | 24% | 15% | 43% |
| Mar'27 | 20.6 | 23% | 16% | 16% | 45% |
| Jun'27 | 19.6 | 19% | 36% | 30% | 15% |
| Mar'29 | 2.3 | 37% | 12% | 22% | 29% |
| May'29 | 15.6 | 4% | 53% | 22% | 21% |
| May'31 | 24.1 | 6% | 44% | 34% | 17% |
| May'33 | 12.8 | 4% | 38% | 33% | 25% |
| Nov'34 | 5.3 | 1% | 50% | 36% | 13% |
| Nov'36 | 4.1 | 0% | 29% | 40% | 30% |
| Nov'38 | 12.1 | 1% | 41% | 41% | 16% |
| Nov'42 | 17.2 | 1% | 42% | 42% | 15% |
| Nov'47 | 14.5 | 0% | 38% | 44% | 18% |
| Jul'53 | 9.7 | 0% | 36% | 44% | 19% |
| Total | 224.8 | 16% | 32% | 26% | 26% |

Source: Banxico, Banorte

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# Fixed–Income Demand – Primary dealers

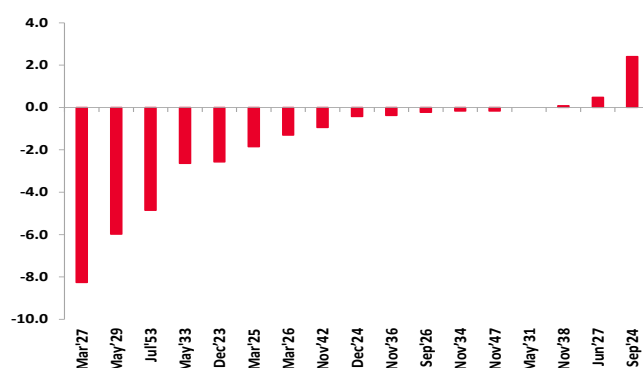**Market makers' short positions on Mbonos**
MXN billion
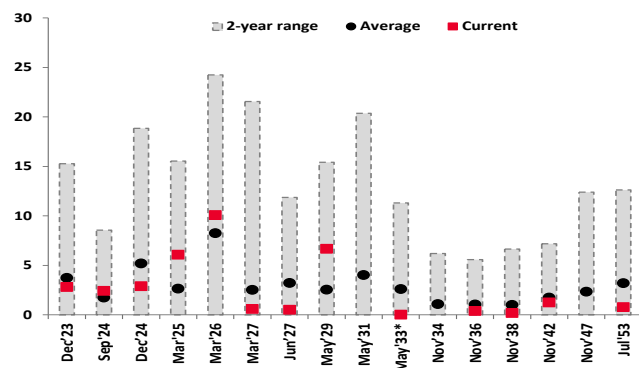


Source: Banxico, Banorte *May'33 issued in December 2022

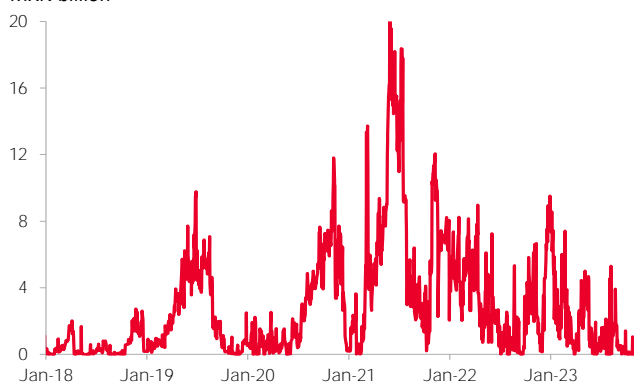**Weekly change in market makers' short positions on Mbonos**
MXN billion



Source: Banxico, Banorte

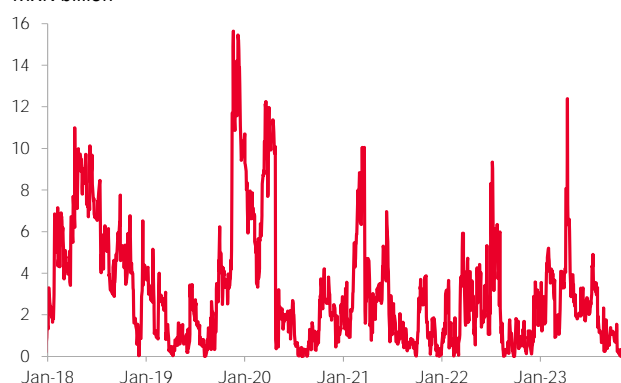**Market makers' short positions on Mbono May'31**
MXN billion



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/26/2023 | Oct/26/2023 | Previous Week | Previous Month | Previous Year | 6-month MAX | 6-month MIN |
|---|---|---|---|---|---|---|---|
| Dec'23 | 9,319 | 154 | 295 | 323 | 154 | 358 | 0 |
| Sep'24 | 14,913 | 132 | 0 | 5 | 167 | 178 | 0 |
| Dec'24 | 12,543 | 158 | 181 | 62 | 434 | 326 | 1 |
| Mar'25 | 8,353 | 333 | 435 | 250 | 26 | 853 | 24 |
| Mar'26 | 24,784 | 552 | 623 | 894 | 346 | 1,329 | 99 |
| Sep'26 | 5,715 | 325 | 338 | 229 | 0 | 1,183 | 0 |
| Mar'27 | 19,930 | 32 | 485 | 385 | 33 | 1,182 | 0 |
| Jun'27 | 19,322 | 28 | 1 | 7 | 168 | 597 | 0 |
| Mar'29 | 2,959 | 158 | 197 | 84 | 0 | 395 | 0 |
| May'29 | 15,890 | 365 | 693 | 611 | 38 | 845 | 60 |
| May'31 | 23,229 | 0 | 0 | 0 | 336 | 291 | 0 |
| May'33 | 12,825 | 1 | 146 | 123 | 0 | 619 | 1 |
| Nov'34 | 5,204 | 0 | 9 | 34 | 50 | 338 | 0 |
| Nov'36 | 4,034 | 21 | 41 | 2 | 0 | 305 | 0 |
| Nov'38 | 11,706 | 10 | 5 | 2 | 37 | 151 | 0 |
| Nov'42 | 17,021 | 68 | 120 | 32 | 40 | 316 | 0 |
| Nov'47 | 14,249 | 0 | 9 | 67 | 51 | 270 | 0 |
| Jul'53 | 10,069 | 43 | 309 | 65 | 332 | 587 | 0 |
| **Total** | **232,065** | **2,337** | **3,578** | **3,111** | **1,880** | | |

Source: Banxico, Banorte

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# 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 +68bps from +81bps, 3-month at +7bps from -1bp, 6-month at -5bps from -11bps, and 1-year at -8bps from -19bps

- **Banxico's decision will be on November 9th and market expectations remain anchored that the rate will remain at 11.25% at least until the end of 1Q24.** The market assesses the moment when Banxico will begin the cycle of interest rate cuts. Currently, the curve is princing-in the first adjustment of -25bps in May, that its, three months earlier than anticipated last week (August). With this, the benchmark rate would be 10.15% at the end of 2024, well above our estimate of 9.25%. In the United States, no changes in interest rates are expected on November 1st and bets on an additional hike before the end of the year remain low at 21%. However, we maintain our estimate of a final 25bps hike in December as price pressures persist, with the Fed's latest favorite inflation figure surprising to the upside. The PCE deflator for September advanced 0.4% m/m vs. estimate of 0.3%

**Spread between Cetes and Implied Forward Rates**
Basis points

| Tenor | Actual Oct/27/2023 | Previous Week | Mes previo | Promedio 6m | Max 6m | Min 6m |
|---|---|---|---|---|---|---|
| 1 month | 68 | 81 | 87 | 17 | 489 | -222 |
| 3 months | 7 | -1 | 16 | -49 | 32 | -150 |
| 6 months | -5 | -11 | -7 | -64 | 10 | -125 |
| 12 months | -8 | -19 | -20 | -65 | -7 | -98 |

Source: PiP, Bloomberg, Banorte

**Cumulative implied moves in Banxico's repo rate**
Basis points
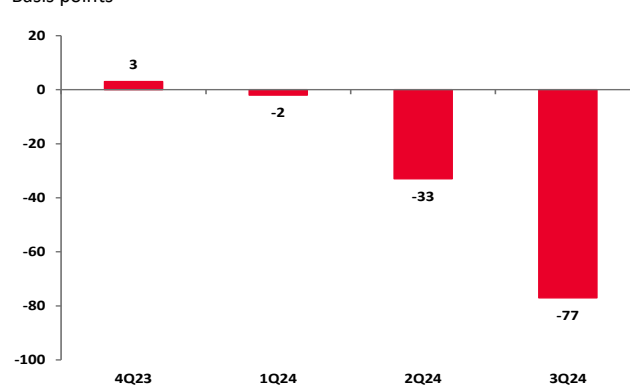


Source: Bloomberg, Banorte

- **More defensive behavior in Treasuries increased the local risk premium.** During the week we observed a mixed and volatile performance in sovereign bonds, with geopolitical risks present in investors' minds. As a result, the 10-year spread between Mbonos and Treasuries closed on Friday at 527bps vs 503bps the previous week, while the average of the last twelve months stands at 523bps

- **The 3-month correlation between Mexican and US 10-year bonds remains strong.** The reading closed Friday at +65% vs +62% the previous week. The high correlation with Treasuries implies a risk of further pressure on local bonds
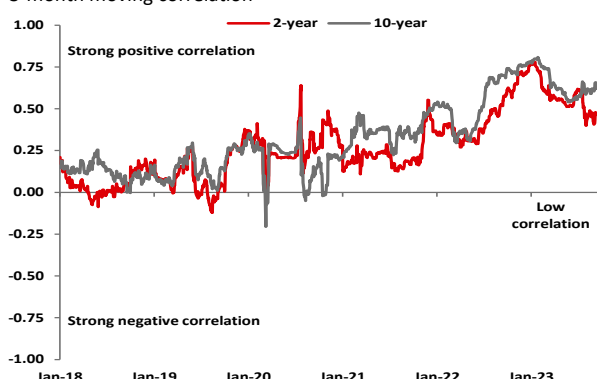
**10-year Mbono and 10-year UST spread**
Basis points



Source: PiP, Banorte

**Mexico and US 2- and 10-year bonds correlation**
3-month moving correlation



Source: Bloomberg, Banorte

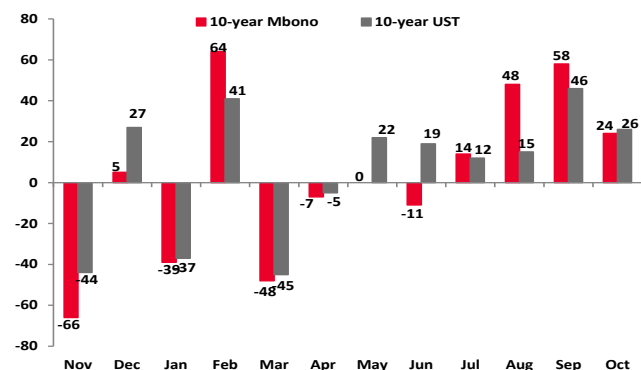# Fixed–Income Technicals (continued)

**Selected Spreads**

Basis points

| Tenor | Oct/27/2023 | Previous Week | Previous Month | Previous Year | 12m Max | 12m Min | 12m Average |
|---|---|---|---|---|---|---|---|
| Mbono 2s10s | -56 | -77 (+21bps) | -64 (+8bps) | -52 (-4bps) | -47 | -199 | -141 |
| Mbono 10s30s | -7 | -8 (+1bp) | 0 (-7bps) | 15 (-22bps) | 35 | -15 | 10 |
| TIIE-Mbono 2-year | -5 | -4 (-1bp) | 9 (-14bps) | -5 (0bps) | 25 | -57 | -25 |
| TIIE-Mbono 10-year | -52 | -35 (-17bps) | -40 (-12bps) | -48 (-4bps) | -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
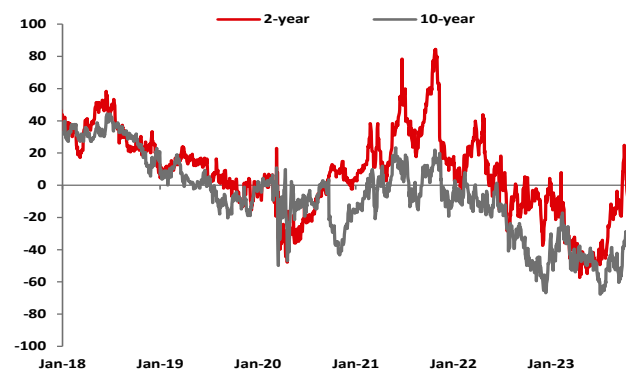


Source: PiP, Bloomberg, Banorte

**Breakeven inflation using Mbonos & Udibonos**

Implicit market inflation using Fisher Equation (%)

| Date | Oct/27/2023 | Previous week | Previous month | Previous year | 12m Max | 12m Min | 12m Average |
|---|---|---|---|---|---|---|---|
| 3Y | 3.93 | 4.09 (-16bps) | 3.97 (-4bps) | 5.24 (-131bps) | 5.74 | 3.70 | 4.62 |
| 5Y | 4.37 | 4.49 (-12bps) | 4.52 (-15bps) | 4.88 (-51bps) | 5.19 | 4.22 | 4.55 |
| 10Y | 4.56 | 4.51 (+5bps) | 4.48 (+8bps) | 4.87 (-31bps) | 4.92 | 4.04 | 4.40 |
| 20Y | 4.86 | 4.83 (+3bps) | 4.85 (+1bp) | 5.06 (-20bps) | 5.08 | 4.15 | 4.56 |
| 30Y | 4.83 | 4.77 (+6bps) | 4.74 (+9bps) | 5.04 (-21bps) | 5.05 | 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

- **We expect interest rates to remain at stressed levels in both the US and Mexico.** Another week of high volatility in the fixed-income market ended, with the MOVE index remaining at elevated levels of 130 points, well above the 5-year average of 83 points. Treasuries hovered between gains and losses amid fears of a conflagration in the Middle East, figures that demonstrate a resilient economy in the United States and bets that favor that the Federal Reserve has already ended its cycle of rate increases. The expectations embedded in the swaps linked to monetary policy meetings suggest that the first rate cut will occur until the second half of 2024 with room for a -75bps adjustment in the year. In this context, the yield on 10-year Treasuries hovered between 4.80% and 5.02%, closing the week at 4.83% (-8bps). The inverted yield curve continues reversing course, with the 2s10s spread narrowing to -17bps from -48bps in September. Elsewhere, European bonds recorded a marginal respite after the ECB kept interest rates unchanged for the first time in more than a year, although it left the door open to another interest-rate hike in case inflation fails to ease quickly enough

- Locally, Mbono's performance deteriorated with longer duration yields rebounding to levels not seen since the 2008 financial crisis. The 10-year benchmark reached as high as 10.24%, closing at 10.11% (+16bps). Given a Treasuries' defensive performance, the risk premium increased to 527bps from 503bps last week. For its part, the TIIE-IRS curve also steepened with the 10-year reference (1x130) reaching 15-year highs of 9.78%. In real rates, the Udibonos averaged losses of 14bps, concentrated at the short-end of the curve, assimilating a positive surprise in the inflation report

- Next week, the performance of rates will be driven by monetary policy decisions in developed economies, the employment report in the United States, the Treasury's financing needs for 4Q23 and inflation data in different regions. While the market widely expects the Federal Reserve to maintain the Fed funds range at 5.25%-5.50%, the tone of Powell's comments will be relevant to confirming expectations that rates will remain high for a period long enough to bring inflation back to the 2.00% target. Last quarter, the Treasury surprised with an increase in debt issuance and left the door open for more adjustments in the same direction going forward. With this, the announcement of marketable borrowing estimates for 4Q23 will be very relevant. In July, Treasury expected to borrow US$852 billion, so a higher amount would trigger additional pressures on interest rates. In this sense, we see room for the 10-year yield to break through the 5.00% figure again, reflecting the strength of the US economy. Locally, we expect Mbonos yields to remain high near to +2σ from their 90-day average due to the migration of flows towards safe assets and the high correlation with Treasuries, especially in the long part of the curve. Although the sale of bonds from emerging economies has been concentrated in Asia with outflows of US$ 3.92 billion after the start of the war in Israel, Mexican securities have accumulated more moderate sales of US$ 372 million in October vs. US$ 228 million in September. Under the current situation, we maintain our recommendation of a 2s10s steepener in TIIE-IRS that closed at -101bps (entry: -114bps; target: -60bps). Additionally, we expect the 10-year Mbono to trade between 10.00% and 10.35%. Finally, it is worth noting that the market will be closed on Thursday, November 2nd, to commemorate the Day of the Dead so the weekly auction of government securities will take place on Monday

# FX dynamics

- **The Mexican peso reversed part of the previous week's decline.** During the week we saw more contained trading in the FX market, although there are still latent geopolitical risks that could impact growth and influence central banks' decisions. In addition, investors digested economic data showing a resilient US economy. In this context, the Mexican peso traded between gains and losses. On Friday, the MXN closed at 18.11 per dollar with an appreciation of 0.7% w/w

- **Better performance of the dollar vs advanced economies' currencies.** The DXY and BBDXY indices posted changes of +0.4% and +0.2% w/w, in the same order. In G10 currencies, trading was capped by AUD (+0.3%) and SEK (-1.5%). In emerging markets, COP (+2.8%) led gains and TRY (-0.7%) was the weakest

**Foreign Exchange market levels and historical return**

| | | Close at Oct/27/2023 | Daily Change (%)[1] | Weekly change (%)[1] | Monthly change (%)[1] | YTD[1] (%) |
|---|---|---|---|---|---|---|
| **Emerging Markets** | | | | | | |
| Brazil | USD/BRL | 5.01 | -0.5 | 0.4 | 0.6 | 5.3 |
| Chile | USD/CLP | 933.18 | 0.0 | 0.9 | -2.4 | -8.8 |
| Colombia | USD/COP | 4,108.29 | 0.5 | 2.8 | -0.4 | 18.1 |
| Peru | USD/PEN | 3.86 | 0.3 | 0.6 | -1.2 | -1.3 |
| Hungary | USD/HUF | 363.16 | -0.2 | -0.7 | 2.9 | 2.8 |
| Malaysia | USD/MYR | 4.78 | 0.2 | -0.2 | -1.5 | -7.8 |
| **Mexico** | **USD/MXN** | **18.11** | **0.2** | **0.7** | **-2.5** | **7.6** |
| Poland | USD/PLN | 4.23 | -0.3 | -0.4 | 4.4 | 3.5 |
| Russia | USD/RUB | 94.33 | -0.7 | 1.5 | 2.9 | -21.4 |
| South Africa | USD/ZAR | 18.84 | 0.7 | 0.9 | 2.0 | -9.6 |
| **Developed Markets** | | | | | | |
| Canada | USD/CAD | 1.39 | -0.3 | -1.1 | -2.7 | -2.3 |
| Great Britain | GBP/USD | 1.21 | -0.1 | -0.3 | -0.1 | 0.3 |
| Japan | USD/JPY | 149.66 | 0.5 | 0.1 | 0.0 | -12.4 |
| Eurozone | EUR/USD | 1.0565 | 0.0 | -0.3 | 0.6 | -1.3 |
| Norway | USD/NOK | 11.18 | 0.2 | -1.0 | -3.8 | -12.3 |
| Denmark | USD/DKK | 7.06 | 0.0 | -0.3 | 0.5 | -1.7 |
| Switzerland | USD/CHF | 0.90 | -0.4 | -1.1 | 2.1 | 2.5 |
| New Zealand | NZD/USD | 0.58 | -0.2 | -0.3 | -1.9 | -8.5 |
| Sweden | USD/SEK | 11.15 | 0.2 | -1.5 | -0.7 | -6.4 |
| Australia | AUD/USD | 0.63 | 0.2 | 0.3 | -0.3 | -7.0 |

Source: Bloomberg, Banorte
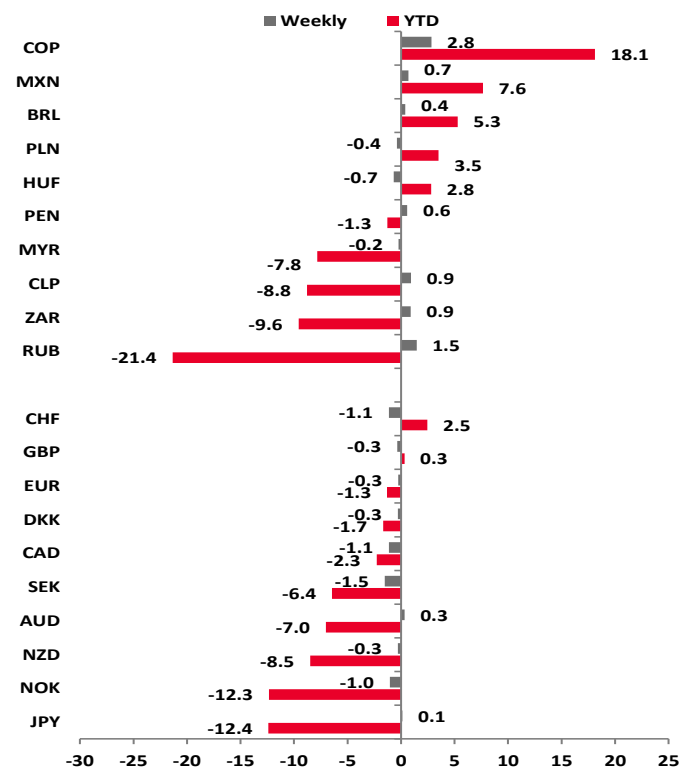1. Positive (negative) changes mean appreciation (depreciation) of the corresponding currency against the USD.

**FX performance**
Against USD, %



Source: Bloomberg, Banorte

**USD/MXN**
Last 12 months



Source: Bloomberg, Banorte

**DXY**
Points



Source: Bloomberg, Banorte

# FX positioning and flows

- **Net long MXN positions fell for third week in a row.** As of October 24th, the MXN position recorded a lower net long of US$ 1.05 billion from US$ 1.24 billion last week, reaching a fresh 7-month low. Since the beginning of the war in Israel, speculators have drastically reduced its bets on additional strengthening of the MXN, collapsing their net long positions by 41%

- **Renew tensions in the Middle East boosted the appetite for USD.** The IMM USD position was net long US$ 9.78 billion, reaching levels not seen in one year, from US$ 9.49 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 if the conflict in Middle East worsens. Meanwhile, the weekly adjustment was the result of sales, led by GBP, while EUR, JPY, and CHF were bought. Ahead of the BoE decision next Thursday, speculators increased their bets that the pound will extend its depreciation channel that began in July, now trading at 7-month lows. Thus, net short positions increased 45% w/w to US$ 1.87 billion

- **Sales increased in EM while Mexico recorded 13 consecutive weeks with outflows.** Our EPFR aggregate recorded bigger negative flows of US$ 4.1 billion from US$ 2.9 billion the previous week. Bond market sales rose 78% to US$ 1.8 billion, with Asia and Europe posting the biggest adjustments. In the same direction, equities outflows increased 24% to US$ 2.3 billion. In Mexico, a negative flow of US$ 182 million was recorded because of sales in both bonds and equities of US$ 97 million and US$ 85 million, respectively

**IMM positioning in USD/MXN futures**
Billion dollars, Negative = net long in MXN



Source: CME, Banorte

**IMM positioning by currency***
Billion dollars
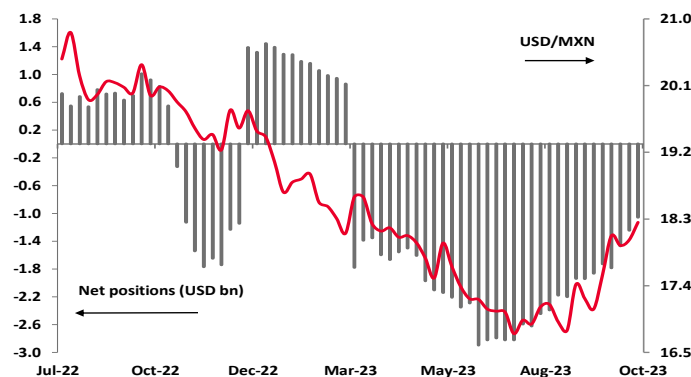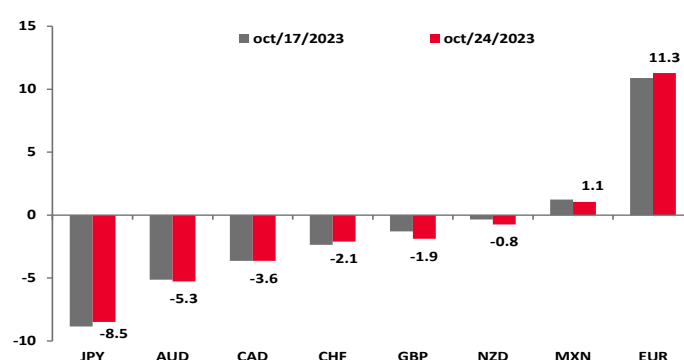


* Positive: Net long in the corresponding currency
Source: CME, Banorte

**Foreign portfolio flows into Mexico**
Accumulated during the last 12M, million dollars



Source: EPFR Global, Banorte

**Net foreign portfolio flows by region***
Weekly, million dollars
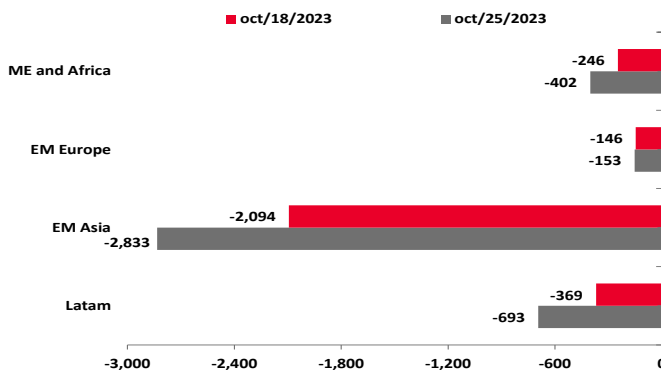


Source: EPFR Global, Banorte * Including only mutual funds' investments

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# FX technicals

- **The Mexican peso could press technical supports if the Fed is too hawkish.** Recent adjustments in institutional portfolio risk positions weighed on the FX market. The Mexican peso's trading was more restrained than in previous weeks, however, it continues to trade within the depreciation channel we previously identified. The MXN was more resilient after approaching the 18.50 per dollar support. The weekly trading range was 42 cents, lower than the four-week average of 75 cents. The main short-term resistances are located at 18.00, 17.93 and 17.83 with supports at 18.24, 18.30 and 18.40. Next week, the dynamics of the FX market will be defined by the Fed's monetary policy decision and Jerome Powell's tone. The BoE's decision and a plethora of economic figures will also have an influence, albeit to a lesser extent, as well as geopolitical risks

**USD/MXN – Moving averages**
Last 120 trading days
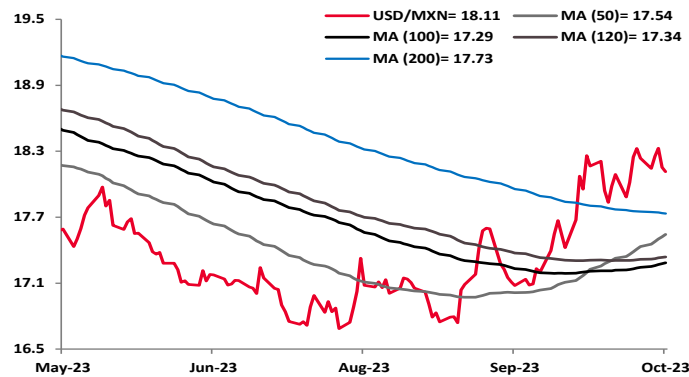


Source: Bloomberg, Banorte

**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 | 53 | 57 | 1 | 65 | 32 |
| CAD | 29 | 28 | 7 | 63 | 33 |
| ZAR | 88 | 83 | 4 | 88 | 48 |
| BRL | 77 | 81 | 19 | 82 | 59 |
| HUF | 62 | 63 | 4 | 70 | 48 |
| RUB | 21 | 32 | -24 | 53 | 14 |

* 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 | 52 | 55 | 14 | 89 | 43 |
| SPX | 41 | 57 | 5 | 71 | 38 |
| GSCI | -23 | -14 | -23 | 49 | 19 |
| Oro | 1 | -1 | -57 | 51 | 11 |

* Positive: appreciation of MXN and corresponding asset except VIX
Source: Bloomberg, Banorte

**USD/MXN – 1-month correlation with other currencies***
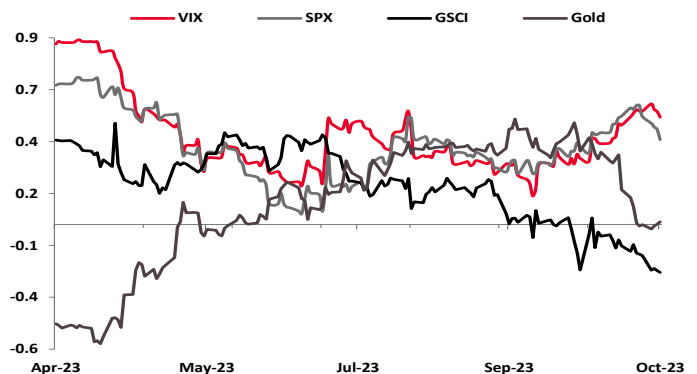Based on daily percentage changes
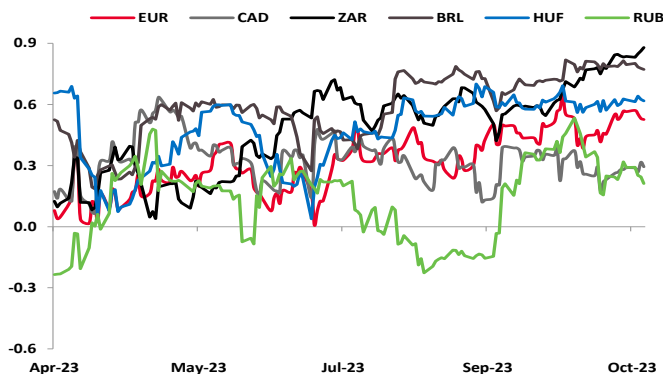


* Positive: appreciation of MXN and corresponding currency
Source: Bloomberg, Banorte

**USD/MXN – 1-month correlation with other assets***
Based on daily percentage changes



* Positive: appreciation of MXN and corresponding asset except VIX
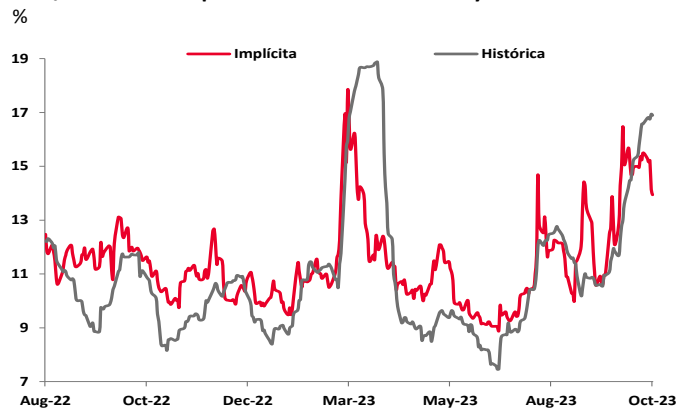Source: Bloomberg, Banorte

# FX technicals (continued)

- **The MXN ATM implied volatility curve closed again with a pattern known as backwardation, signaling more volatility in the near-term than further out in the future.** However, all the curve trades at less stressed levels. The 1-month reading fell to 14.00% from 15.6% the previous week. Meanwhile, the 3-month and 1-year metrics moved to 13.3% (-0.8 vegas) and 12.9% (-0.3 vegas), respectively. With this, the spread between 1-month and 1-year narrowed to 1 vega from 3 vegas at the beginning of October, remaining unusually in positive domain. In addition, the 1-month risk reversals collapsed to 2.70 vols, lows not seen since August, from 3.36 vols the previous week. Moreover, the 3-month reading fell, although with less steam, to 3.28 vols from 3.62 vols

**USD/MXN – ATM options volatility curve**

%
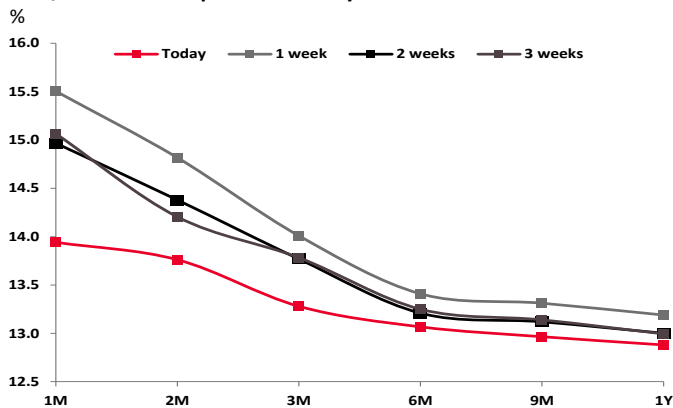


Source: Bloomberg, Banorte

**USD/MXN – 1M implied and historical volatility**

%



Source: Bloomberg, Banorte

**USD/MXN – Spread between implicit and historical volatility**

Bps
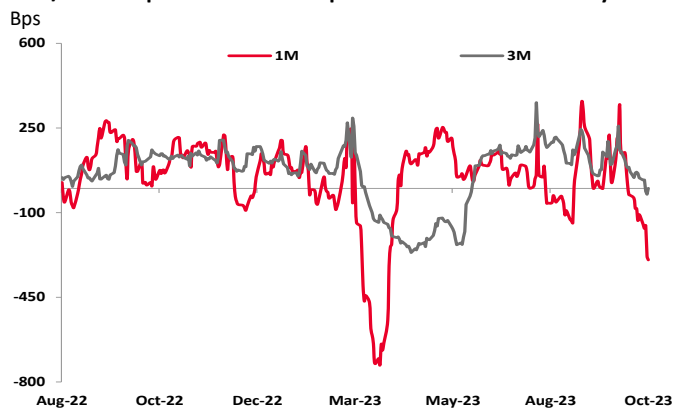


Source: Bloomberg, Banorte

**Emerging markets one-month ATM options volatility**

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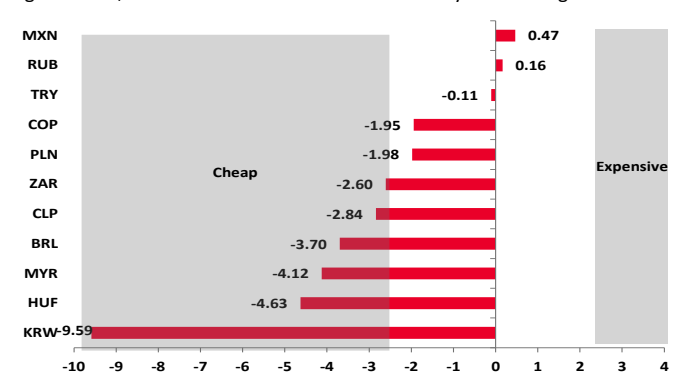


Source: Bloomberg, Banorte
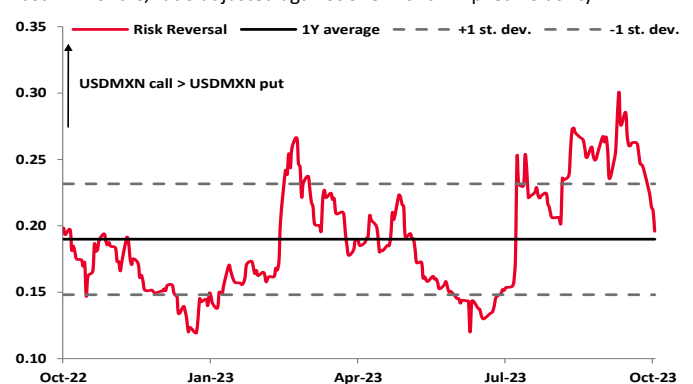
**USD/MXN – 1-month and 3-month 25D risk reversals**

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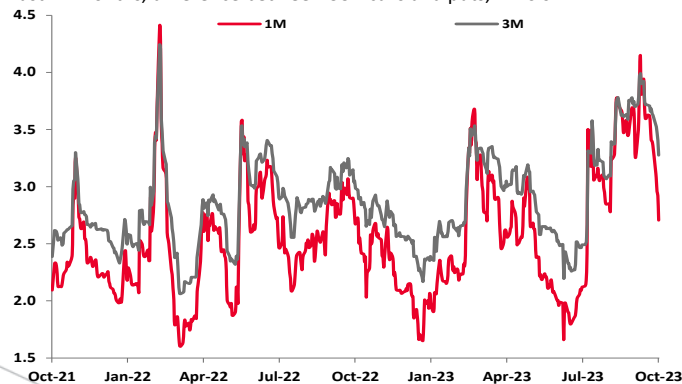


Source: Bloomberg, Banorte

**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

- **Diverging monetary stance and geopolitical risks will continue to be the main catalysts for the FX market in the short term.** The FX market's performance was mainly driven by geopolitical risk in the Middle East and the preference for safe-haven assets. This was compounded by resilient economic figures in the US, divergent monetary stances between advanced and emerging economies, higher indebtedness in China to stimulate the economy and corporate reports with a mixed balance. The ECB kept benchmark rates unchanged in a backdrop of stagflation risks. Christine Lagarde's tone was less hawkish at the margin, although she noted that they are committed to returning inflation to the 2.0% target and that interest rates will remain high for a prolonged period. Based on the above, the EUR showed a subdued reaction. Meanwhile, Chile's central bank surprised with a moderation in the benchmark rate cuts (-50bps vs -75bps of the consensus) to 9.00%. In this context, the dollar fluctuated between gains and losses with the DXY and BBDXY indices recording changes of +0.4% and +0.2%, in the same order

- Most G10 currencies ended the week with a negative bias with SEK (-1.5%) being the weakest. It is worth noting that Sweden's central bank is keeping the door open for an additional 25bps hike in the benchmark rate in November and on multiple occasions has said that the currency is undervalued. However, the market assigns a probability of less than 50%. In EM currencies, trading was capped by COP (+2.8%) and TRY (-0.7%). The market expects Colombia's central bank to keep its benchmark rate unchanged next week at 13.25%. Throughout the week, the Mexican peso showed a mixed performance, at times behaving as a hedge currency and at others favored by risk appetite. Nevertheless, the MXN remained within the depreciation channel. The local currency closed Friday at 18.11 per dollar, representing a 0.7% w/w appreciation. The trading range was 42 cents, significantly lower than the four-week average of 75 cents. Likewise, 1-month implied volatility showed a moderation, closing at 14.0% vs. 15.6% on the previous Friday

- Next week, clues from Jerome Powell on future actions will be crucial in shaping the direction of the USD. We anticipate a strengthening based on our monetary policy path, geopolitical risks that could spur demand for safe-haven assets and favorable technical readings in the dollar indices, following the recent positive exchange between the 100- and 200-day MA. MXN performance will continue to be influenced by international developments in addition to growth in the local economy and an attractive carry. We estimate a trading range between USD/MXN 17.95 and 18.50

**USD/MXN and Mexico 5Y CDS**
Pesos per dollar and bps, respectively



Source: Bloomberg, Banorte

**USD/MXN Forecast for 2023 and 2024**
Pesos per dollar



Source: Banorte

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# Weekly economic calendar

For the week ending November 3, 2023

| | Time | | Event | Period | Unit | Banorte | Survey | Previous |
|---|---|---|---|---|---|---|---|---|
| **Mon 30** | 05:00 | GER | Gross domestic product* | 3Q23 (P) | % q/q | -- | -0.2 | 0.0 |
| | 06:00 | EZ | Consumer confidence* | Oct (F) | index | -- | -- | -17.9 |
| | 06:00 | EZ | Economic confidence* | Oct | index | -- | 93.0 | 93.3 |
| | 09:00 | GER | Consumer prices | Oct (P) | % y/y | -- | 3.3 | 4.3 |
| | 13:30 | MX | Government weekly auction: 1-, 3-, 6-, and 12-month Cetes, 10-year Mbono (May'33), 3-year Udibono (Dec'26) and 2-, 5-, and 10-year Bondes F | | | | | |
| | 14:30 | MX | Public finances (PSBR, year-to-date) | Sep | MXNmn | -- | -- | -672.9 |
| | 21:30 | CHI | Manufacturing PMI* | Oct | index | -- | 50.2 | 50.2 |
| | 21:30 | CHI | Non-manufacturing PMI* | Oct | index | -- | 51.8 | 51.7 |
| | 21:30 | CHI | Composite PMI* | Oct | index | -- | -- | 52.0 |
| | | JN | Monetary policy decision (BoJ) | Oct 31 | % | -- | -0.10 | -0.10 |
| **Tue 31** | 06:00 | EZ | Gross domestic product | 3Q23 (P) | % y/y | -- | 0.2 | 0.5 |
| | 06:00 | EZ | Gross domestic product* | 3Q23 (P) | % q/q | -- | 0.0 | 0.1 |
| | 06:00 | EZ | Consumer prices | Oct (P) | % y/y | -- | 3.1 | |
| | 06:00 | EZ | Core | Oct (P) | % y/y | -- | 4.2 | 4.5 |
| | 08:00 | BZ | Unemployment rate | Sep | % | -- | 7.7 | 7.8 |
| | 08:00 | MX | Gross domestic product | 3Q23 (P) | % y/y | 3.2 | 3.5 | 3.6 |
| | 08:00 | MX | Gross domestic product* | 3Q23 (P) | % q/q | 0.8 | -- | 0.8 |
| | 09:00 | US | S&P/CoreLogic housing prices | Aug | % y/y | -- | -- | 0.1 |
| | 10:00 | US | Consumer confidence* | Oct | index | 100.0 | 100.0 | 103.0 |
| | 11:00 | MX | International reserves | Oct 27 | US$bn | -- | -- | 204.1 |
| | 11:00 | MX | Banking credit | Sep | % y/y | 6.0 | -- | 6.0 |
| | 14:00 | COL | Monetary policy decision (BanRep) | Oct 31 | % | -- | 13.25 | 13.25 |
| | 21:45 | CHI | Manufacturing PMI (Caixin)* | Oct | index | -- | 50.8 | 50.6 |
| **Wed 1** | 05:30 | UK | Manufacturing PMI* | Oct (F) | index | -- | 45.2 | 45.2 |
| | 08:00 | BZ | Industrial production | Sep | % y/y | -- | -- | 0.5 |
| | 08:00 | BZ | Industrial production* | Sep | % m/m | -- | -- | 0.4 |
| | 08:15 | US | ADP employment* | Oct | thousands | 120 | 140 | 89.0 |
| | 09:00 | BZ | Manufacturing PMI* | Oct | index | -- | 49.0 | 49.0 |
| | 09:45 | US | Manufacturing PMI* | Oct (F) | index | 50.0 | 50.0 | 50.0 |
| | 10:00 | US | ISM manufacturing* | Oct | index | 49.2 | 48.6 | 49.0 |
| | 11:00 | MX | Family remittances | Sep | US$bn | 5,454.8 | -- | 5,563.3 |
| | 11:00 | MX | Survey of expectations (Banxico) | | | | | |
| | 14:00 | US | FOMC Rate Decision (Upper Bound) | Nov 1 | % | 5.50 | 5.50 | 5.50 |
| | 14:00 | US | FOMC Rate Decision (Lower Bound) | Nov 1 | % | 5.25 | 5.25 | 5.25 |
| | 14:00 | US | Interest Rate on Excess Reserves (IOER) | Nov 2 | % | 5.40 | 5.40 | 5.40 |
| | 14:00 | MX | PMI manufacturing (IMEF)* | Oct | index | 50.7 | -- | 51.5 |
| | 14:00 | MX | PMI non-manufacturing (IMEF)* | Oct | index | 52.4 | -- | 53.3 |
| | 14:30 | US | Fed Chair Holds Press Conference Following FOMC Meeting | | | | | |
| | 17:30 | BZ | Monetary policy decision (Central bank of Brazil) | Nov 1 | % | 12.35 | -- | 12.75 |
| | | US | Total vehicle sales** | Oct | thousands | -- | 15.3 | 15.7 |
| **Thu 2** | | MX | Markets closed for Day of the Dead | | | | | |
| | 04:55 | GER | Manufacturing PMI* | Oct (F) | index | -- | 40.7 | 40.7 |
| | 05:00 | EZ | Manufacturing PMI* | Oct (F) | index | -- | 43.0 | 43.0 |
| | 08:00 | UK | Monetary policy decision (BoE) | Nov 2 | % | 5.25 | 5.25 | 5.25 |
| | 08:30 | US | Initial jobless claims | Oct 28 | thousands | 210 | 210 | 210 |
| | 10:00 | US | Factory orders* | Sep | % m/m | -- | 1.9 | 1.2 |
| | 10:00 | US | Ex transportation* | Sep | % m/m | -- | -- | 1.4 |
| | 10:00 | US | Durable goods orders* | Sep (F) | % m/m | -- | -- | -- |
| | 10:00 | US | Ex transportation* | Sep (F) | % m/m | -- | -- | -- |
| | 21:45 | CHI | Services PMI (Caixin)* | Oct | index | -- | -- | 50.2 |
| | 21:45 | CHI | Composite PMI (Caixin)* | Oct | index | -- | -- | 50.9 |
| **Fri 3** | 03:00 | GER | Trade balance | Sep | EURbn | -- | 16.3 | 16.5 |
| | 05:30 | UK | Services PMI* | Oct (F) | index | -- | 49.2 | 49.2 |
| | 06:00 | EZ | Unemployment rate* | Sep | % | -- | 6.4 | 6.4 |
| | 08:00 | MX | Gross fixed investment | Aug | % y/y | 29.3 | -- | 29.1 |
| | 08:00 | MX | Gross fixed investment* | Aug | % m/m | 1.9 | -- | 0.5 |
| | 08:00 | MX | Private consumption | Aug | % y/y | 4.2 | -- | 4.0 |
| | 08:00 | MX | Private consumption* | Aug | % m/m | 0.5 | -- | 0.0 |
| | 08:30 | US | Nonfarm payrolls* | Oct | thousands | 145 | 183 | 336 |
| | 08:30 | US | Unemployment Rate* | Oct | % | 3.8 | 3.8 | 3.8 |
| | 09:45 | US | Services PMI* | Oct (F) | index | -- | 50.9 | 50.9 |
| | 09:45 | US | Composite PMI* | Oct (F) | index | -- | -- | 51.0 |
| | 10:00 | US | ISM services* | Oct | index | 53.5 | 53.2 | 53.6 |

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

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For the week ending October 27, 2023

| | Time | | Event | Period | Unit | Banorte | Actual | Previous |
|---|---|---|---|---|---|---|---|---|
| **Mon 23** | 08:00 | MX | Economic activity indicator (IGAE) | Aug | % y/y | 3.5 | **3.7** | 3.2 |
| | 08:00 | MX | Economic activity indicator (IGAE)* | Aug | % m/m | 0.3 | **0.4** | 0.2 |
| | 10:00 | EZ | EUR Consumer Confidence* | Oct (P) | index | -- | **-17.9** | -17.8 |
| **Tue 24** | 02:00 | UK | Unemployment rate* | Aug | % | -- | **--** | 4.3 |
| | 03:30 | GER | Manufacturing PMI* | Oct (P) | index | -- | **40.7** | 39.6 |
| | 03:30 | GER | Services PMI* | Oct (P) | index | -- | **48.0** | 50.3 |
| | 03:30 | GER | Composite PMI* | Oct (P) | index | -- | **45.8** | 46.4 |
| | 04:00 | EZ | Manufacturing PMI* | Oct (P) | index | -- | **43.0** | 43.4 |
| | 04:00 | EZ | Services PMI* | Oct (P) | index | -- | **47.8** | 48.7 |
| | 04:00 | EZ | Composite PMI* | Oct (P) | index | -- | **46.5** | 47.2 |
| | 04:30 | UK | Manufacturing PMI* | Oct (P) | index | -- | **45.2** | 44.3 |
| | 04:30 | UK | Services PMI* | Oct (P) | index | -- | **49.2** | 49.3 |
| | 08:00 | MX | Consumer prices | Oct 15 | % m/m | 0.32 | **0.24** | 0.13 |
| | 08:00 | MX | Core | Oct 15 | % m/m | 0.19 | **0.24** | 0.11 |
| | 08:00 | MX | Consumer prices | Oct 15 | % y/y | 4.35 | **4.27** | 4.47 |
| | 08:00 | MX | Core | Oct 15 | % y/y | 5.49 | **5.54** | 5.74 |
| | 09:45 | US | Manufacturing PMI* | Oct (P) | index | 49.4 | **50.0** | 49.8 |
| | 09:45 | US | Services PMI* | Oct (P) | index | -- | **50.9** | 50.1 |
| | 09:45 | US | Composite PMI* | Oct (P) | index | -- | **51.0** | 50.2 |
| | 11:00 | MX | International reserves | Oct 20 | US$bn | -- | **204.0** | 204.1 |
| | 13:30 | MX | Government weekly auction: 1-, 3-, 6-, and 24-month Cetes; 5-year Mbono (Mar'29); 30-year Udibono (Nov'50) and 1-, 3-, and 7-year Bondes F | | | | | |
| **Wed 25** | 04:00 | GER | IFO Survey (business climate)* | Oct | index | -- | **86.9** | 85.8 |
| | 04:00 | EZ | Monetary aggregates (M3)* | Sep | EURbn | -- | **-1.2** | -1.3 |
| | 10:00 | US | New home sales** | Sep | thousands | -- | **759** | 676 |
| **Thu 26** | 07:00 | TUR | Monetary policy decision (Central Bank of Turkey) | Oct 26 | % | -- | **35.00** | 30.00 |
| | 08:00 | BZ | Consumer prices | Oct | % y/y | -- | **0.21** | 0.35 |
| | 08:00 | BZ | Consumer prices | Oct | % m/m | -- | **5.05** | 5.00 |
| | 08:00 | MX | Unemployment rate | Sep | % | 2.93 | **2.88** | 2.96 |
| | 08:15 | EZ | Monetary policy decision (ECB) | Oct 26 | % | 4.00 | **4.00** | 4.00 |
| | 08:30 | US | Trade balance* | Sep | US$bn | -- | **-85.8** | -84.6 |
| | 08:30 | US | Gross domestic product** | 3Q23 (F) | % q/q | 4.3 | **4.9** | 2.1 |
| | 08:30 | US | Personal consumption** | 3Q23 (F) | % q/q | 4.1 | **4.0** | 0.8 |
| | 08:30 | US | Durable goods orders* | Sep (P) | % m/m | -- | **4.7** | -0.1 (R) |
| | 08:30 | US | Ex transportation* | Sep (P) | % m/m | -- | **0.5** | 0.5 (R) |
| | 08:30 | US | Initial jobless claims* | Oct 21 | thousands | 205 | **210** | 200 (R) |
| | 08:45 | EZ | ECB President Christine Lagarde Holds Press Conference | | | | | |
| | 17:00 | CL | Monetary policy decision (BCCh) | Oct 26 | % | -- | **9.00** | 9.50 |
| **Fri 27** | 08:00 | MX | Trade balance | Sep | US$mn | -223.8 | **-1,481.4** | -1,377.1 |
| | 08:30 | US | Personal income* | Sep | % m/m | -- | **0.3** | 0.4 |
| | 08:30 | US | Personal spending* | Sep | % m/m | 0.6 | **0.7** | 0.4 |
| | 08:30 | US | Real personal spending* | Sep | % m/m | 0.3 | **0.4** | 0.1 |
| | 08:30 | US | PCE Deflator* | Sep | % m/m | 0.3 | **0.4** | 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** | 3.4 (R) |
| | 08:30 | US | Core | Sep | % y/y | 3.7 | **3.7** | 3.8 (R) |
| | 10:00 | US | U. of Michigan Confidence* | Oct (F) | index | 63.0 | **63.8** | 63.0 |

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

**BANORTE**

| 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 TIIE-IRS steepener | 28bps | 43bps | 18bps | 31bps | P[2] | Feb-15-17 | Mar-15-17 |
| 5y10y TIIE-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 TIIE-IRS (13x1) | 3.92% | 3.67% | 4.10% | 3.87%[1] | P | Nov-12-15 | Feb-8-16 |
| Long spread 10-year TIIE-IRS *vs* US Libor | 436bps | 410bps | 456bps | 410bps | P | Sep-30-15 | Oct-23-15 |
| Receive 9-month TIIE-IRS (9x1) | 3.85% | 3.65% | 4.00% | 3.65% | P | Sep-3-15 | Sep-18-15 |
| Spread TIIE 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 TIIE-IRS (3x1) | 3.24% | 3.32% | 3.20% | 3.30% | P | Jan-29-15 | Jan-29-15 |
| Pay 9-month TIIE-IRS (9x1) | 3.28% | 3.38% | 3.20% | 3.38% | P | Jan-29-15 | Jan-29-15 |
| Pay 5-year TIIE-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 TIIE-IRS (26x1) | 3.75% | 3.55% | 3.90% | 3.90% | L | Jul-11-14 | Sep-10-14 |
| Receive 1-year TIIE-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 TIIE-IRS (6x1) | 3.83% | 3.65% | 4.00% | 3.81% | P | Oct-10-13 | Oct-25-13 |
| Receive 1-year TIIE-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 TIIE-IRS (9x1) | 4.50% | 4.32% | 4.65% | 4.31% | P | Jun-21-13 | Jul-12-13 |
| Spread TIIE-Libor (10-year) | 390bps | 365bps | 410bps | 412bps | L | Jun-7-13 | Jun-11-13 |
| Receive 1-year TIIE-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 TIIE-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 TIIE-IRS (13x1) | 4.87% | 4.70% | 5.00% | 4.69% | P | Jan-11-13 | Jan-24-13 |
| Receive TIIE Pay Mbono (10-year) | 46bps | 35bps | 54bps | 54bps | L | Oct-19-12 | Mar-8-13 |
| Spread TIIE-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

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