Uncertainty about the global recovery after the banking crisis

2Q23 Outlook

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2Q23 Outlook – Uncertainty about the global recovery after the banking crisis

Recession risks remain latent in several regions despite the positive effects from China's reopening. This is due to: (1) A very restrictive monetary policy and its delayed effect on economic activity; (2) the liquidity and solvency problems faced by some regional banks in the US and Europe, which could limit the supply of credit going forward; and (3) a geopolitical outlook that has deteriorated due to increased tensions between Washington and Beijing, as well as the conflict in Ukraine, North Korea's war narrative, among many others.

Amid this highly complex scenario, the US economy –our largest trading partner, to which 82% of our exports go, and for which Mexico has a high economic dependence of 56%– continues to show resilience. The labor market is still in good shape, and consumption remains as an important driver of growth, to such an extent that we have revised upwards our 2023 GDP forecast for this country from 0.8% to 1.7%. A similar adjustment has been made by the International Monetary Fund and other institutions. However, it is important to recognize that some high-frequency indicators have started to slow down. Coupled with the factors exposed in the previous paragraph, this supports the view of a relevant economic deceleration towards the end of the year and into the beginning of 1Q24.

In 2Q23, most central banks are expected to reach the terminal rate of their hiking cycles. In the case of the Fed, we anticipate two more rate increases of 25bps each, in the May and June meetings, followed by a pause for the remainder of 2023. This would go hand in hand with the hawkish rhetoric from many of its members, who do not see significant contagion in the banking system. In our view, a similar situation will materialize for many of the monetary authorities around the world. For Banxico, we could see a final rate hike of 25bps to 11.50% in May given the remaining challenges for core inflation, as well as the relative monetary stance with the US. After that, we also expect the central bank to stay put until the end of the year.

The Mexican economy could weather many of the global risks well. In fact, it has experienced positive effects from last year's inertial growth, which has been reflected in a solid 1Q23. We believe that private consumption, higher government spending and investment (especially in infrastructure), relatively strong external demand dynamics, and some positive spillovers from nearshoring will help GDP to grow 2.0% this year, which we have revised upwards from our previous estimate of 1.5%.


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Mexico's main macroeconomic and financial forecasts
End of period

	1Q23	2Q23	3Q23	4Q23	2021	2022	2023	2024
GDP (% y/y)	3.7	2.7	1.7	0.3	4.7	3.1	2.0	2.3
Inflation (% y/y)	6.9	5.6	4.7	4.8	7.4	7.8	4.8	3.7
USD/MXN	18.05	17.62	18.97	18.70	20.53	19.50	18.70	19.40
Banxico's reference rate (%)	11.25	11.50	11.50	11.50	5.50	10.50	11.50	9.00
28-day TIIE (%)	11.52	11.75	11.73	11.70	5.72	10.77	11.70	9.25
Mexbol (points)	53,904	--	--	59,000	53,272	48,464	59,000	--

Source: Banorte. Underlined data represents our forecasts

Mexico

The economy started the year vigorously, following through with the favorable trend seen at the end of 2022. Strength has centered in consumption and services, in turn supported by fundamentals –noting historically low unemployment rates, and wage increases. In addition, industry has stayed resilient. As such, we revise higher our 1Q23 GDP forecast to 1.0% q/q (3.7% y/y). For the remainder of the year, several of these tailwinds would continue, with the main drivers being: (1) Greater US economic strength; (2) solid fundamentals in a context of a gradual decline in inflation; (3) an acceleration in government spending, noting priority projects; and (4) a relevant spillover from nearshoring. Hence, we increase our estimate for full-year GDP to 2.0% from 1.5%. This implies modest growth in 2Q23 and increasing challenges for the second half, recognizing a more difficult base effect after 7 consecutive quarters to the upside, as well as adverse effects on net exports due to MXN appreciation. We incorporate a relevant step down in the last quarter of the year, likely persisting into 1Q24. Despite of the latter, a healthy recovery would be seen in full-year 2024 at 2.3%, boosted by: (1) The acceleration in government spending ahead of the presidential election; (2) nearshoring; (3) lower interest rates –with central bank cuts– and an additional moderation in price pressures (see next paragraph); and (4) a positive arithmetic effect from the leap year.


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Inflation has exhibited favorable dynamics at the non-core level, helped by energy and agricultural goods. This has been a relief after a complex start of the year for the core. Nevertheless, risks persist, particularly for the latter, with signs of labor cost pressures (as suggested by Banxico) and in energy (rising after OPEC+'s decision, although apparently only setting a new floor). We reiterate our year-end forecast at 4.8%. Moreover, the downward path would continue in 2024, reaching 3.7% on high interest rates. For Banxico, we believe an additional 25bps hike will be announced in May for a terminal rate of 11.50% in this cycle. This level would be kept for the rest of this year and until the end of 1Q24, where rate cuts are more likely. We anticipate total easing of 250bps in 2024, with the rate reaching 9.00% by the end of December.

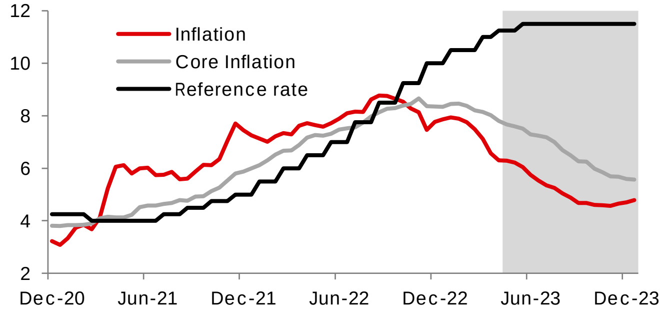
Elections in the State of Mexico (gubernatorial) and Coahuila (gubernatorial and local congress) stand out this quarter. We will keep following the discussions on electoral and administrative reforms. Visibility about USMCA is limited, although ongoing negotiations are taking place between interested parties.

GDP: Demand
% y/y nsa; % q/q sa

% y/y	1Q23	2Q23	3Q23	4Q23	2023
GDP	3.7	2.7	1.7	0.3	2.0
Private consumption	4.1	2.9	2.4	1.2	2.6
Investment	6.7	4.9	4.3	-0.2	3.9
Government spending	0.2	0.6	0.4	0.6	0.4
Exports	2.2	1.6	1.3	0.9	1.5
Imports	8.5	3.7	1.4	-0.2	3.2
% q/q					
GDP	1.0	0.2	0.0	-0.4	--

Source: Banorte

Inflation and reference rate
% y/y; %



Source: INEGI, Banxico, Banorte

United States

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Until now, the accumulated evidence suggests that US GDP in 1Q23 was stronger than expected. Despite the Fed's hiking cycle and banking sector problems in March, the labor market remains very solid, consumer confidence is relatively high, commodity prices have eased, and external demand is showing greater dynamism than estimated. In this context, we expect GDP to have grown 2.2% q/q saar in the first three months of the year (Bloomberg consensus: +1.4%). We have also revised sharply our full-year GDP estimate, from 0.8% to 1.7%, despite lingering risks. The biggest unknown is whether recent banking issues will impact credit conditions and supply. In our view, these problems have been limited in scope and with an effective and quick response from the authorities to contain their potential contagion. In this context, the *Chicago Fed's Financial Conditions Index* remains negative (see first chart to the right), signaling a relatively lax stance when compared to its own history. Although it has risen from February's recent low: (1) It is still below October's high, before the Fed slowed its hiking pace (Dec); and (2) slightly more than 50% of the increase since that moment has been driven by 'risk' factors associated with higher volatility, which could decline due to greater calm recently.

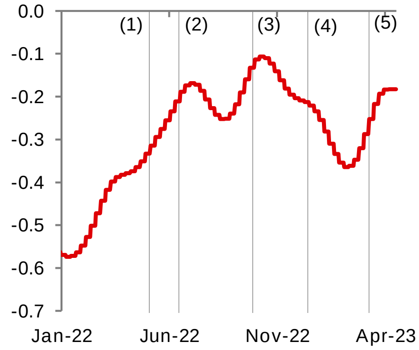
The few signals available for 2Q23 show less dynamism at the margin, albeit still growing. Consumption has moderated –not only in spending on goods, but also on services– despite our call that full employment conditions will be sustained. Investment will continue to fall, and net exports would have a slightly negative contribution. With this, the period's GDP would advance 1.0%. Moreover, we see a more pronounced slowdown in the second half. On the other hand, inflation has maintained its downward trend, closing 1Q23 at 5.0% y/y. The performance has been favored mainly by lower goods' prices, with services limiting a more rapid decline (second chart, right). Despite of this, we expect the gradual decline in annual inflation to continue (see table below), with an average of 4.2% in 2Q23 and 4.3% for the whole year. With this scenario, we believe the end of the hiking cycle is near. However, strong growth and the limited impact of bank collapses will allow for two more hikes. We recalibrate our Fed view towards two +25bps hikes, in May and June (previous: only +25bps in May). With this, the terminal rate range would stand at 5.25%-5.50% (previously 5.00%-5.25%). As reiterated previously, we still do not see enough room for rate cuts during the rest of the year.

US: Banorte Estimates

	1Q23	2Q23	3Q23	4Q23	2022*	2023*
GDP (% q/q annualized rate)*	2.2	1.0	0.3	0.5	2.1	1.7
Private Consumption	4.1	0.5	1.6	0.5	2.7	1.9
Fixed Investment	-3.9	-3.4	-3.9	-3.8	-0.2	-3.8
Exports	-3.9	-3.2	-2.4	-3.6	7.1	-0.4
Imports	-5.1	-6.6	-6.2	-6.6	7.4	-5.5
CPI (% y/y, average)	5.8	4.2	3.9	3.5	8.0	4.3
Unemployment rate (%, eop)	3.5	3.9	4.1	4.2	3.5	4.2
Non-farm payrolls (thousands)	1,034	450	300	200	4,793	1,984

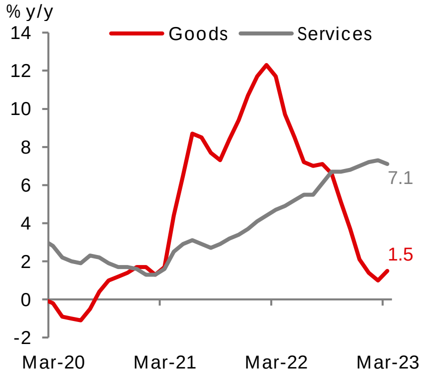
* All GDP estimates are % q/q saar, except for full-year 2022 and 2023, which are % y/y. eop: end of period.
Source: Banorte

Chicago Fed NFC Index*
Standard deviations



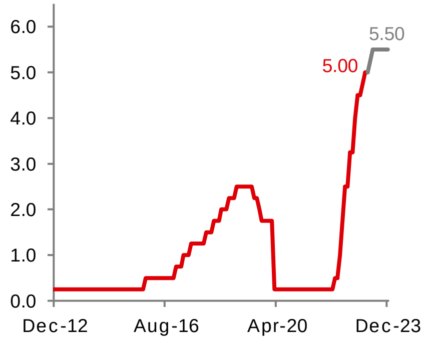
* Note: (1) First hike of the cycle; (2) First 75bps hike; (3) BBDXY high; (4) Fed reduces pace to +50bps; (5) SVB collapse. Source: Banorte with data from Chicago Fed and Bloomberg

Core inflation: goods and services
% y/y



Source: Banorte with data from BLS

Banorte: Fed funds rate forecast
%



* Note: Based on the upper bound
Source: Banorte with data from Bloomberg

Global

Markets are still debating whether the global economy will enter a recession due to central banks' restrictive monetary policy. The recent banking crisis in the US and Europe has added fuel to the fire as it has heightened risks that it will indeed occur because of an upcoming credit crunch. Although it is likely that credit conditions will be more restrictive than in the absence of these events, we believe that the global economy is in a position healthy enough to withstand these headwinds, with authorities' rapid responses helping to avoid a recession. Despite the foregoing, we should not ignore the risks and see a slowdown on the back of: (1) Rate hikes continuing in various regions; (2) high indebtedness in most economies, limiting the ability of fiscal policy to respond to new shocks; (3) a more prolonged war between Russia and Ukraine; and (4) growing geopolitical tensions, such as the crisis in the relationship between China and the US. In this backdrop, the International Monetary Fund estimates global growth of 2.8% in 2023, down from 3.4% in 2022.

To some extent, these risks are offset by China's reactivation after the elimination of its zero-COVID strategy. However, some indicators still show weakness in some sectors and less dynamism in various regions. In this environment, the economy grew 4.5% y/y in 1Q23, above consensus at 4.0%. Among the signs of a global economic slowdown, we highlight what is happening in the diesel market. According to sources such as *OilChem* and the *American Trucking Association*, fuel demand for heavy machinery –including everything from commercial truck fleets to construction equipment– is weakening in many of the world's largest economies. This is considered an early sign of industry weakness and lower consumption. Much of the decline in demand can be linked to road transportation, as it is responsible for around 60% of diesel consumption in China, and more than 70% in the US.

On the other hand, geopolitical tensions are still generating high uncertainty. So far, the war between Russia and Ukraine has stopped pressuring commodity prices, which seem to be reacting more to fears of an upcoming recession. However, we do not rule out a new spike due to: (1) Russia's threats to use nuclear weapons; (2) the counteroffensive that Ukraine is planning for the coming weeks; and (3) greater economic sanctions on Russia by the G-7. Moreover, we remain attentive to North Korea's long-range missile tests.

Finally, the crisis in the relationship between the US and China, far from being resolved, has been intensifying. This is due to the tariffs in place between them and US restrictions on exports of goods considered strategic for national security. We have also been watching more Chinese threats to Taiwan, tensions after the US shot down a Chinese spy balloon, and increased closeness of the Asian country to Russia. This could have important consequences apart from those already seen in their trade relationship. On a more favorable note, we believe it reaffirms our view that these problems are of a structural nature and a paradigm change in international trade that could be capitalized by Mexico via nearshoring efforts.

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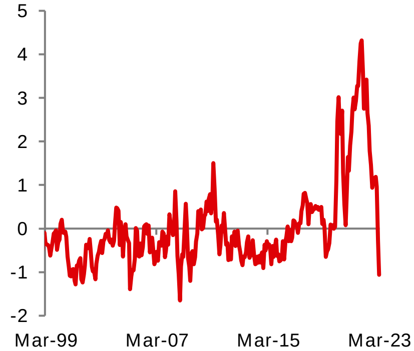
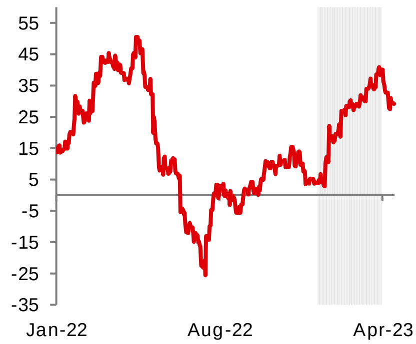
Global Supply Chain Pressure Index*
Standard deviations



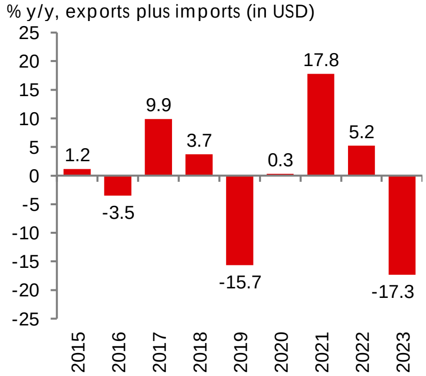
* Note: The index integrates several metrics such as the Baltic Dry Index, Harpex Index and BLS freight prices with the aim of providing a more comprehensive picture of potential disruptions affecting global supply chains. Values greater than zero indicate pressures greater than the historical average. Source: Banorte with data from Bloomberg and the New York Fed

Citi Economic Surprise Index
%



Source: Banorte with data from Bloomberg

US trade with China*
% y/y, exports plus imports (in USD)



*Note: 2023 only for the January-February period
Source: Banorte with data from Bloomberg

Fixed Income (Sovereign Debt)

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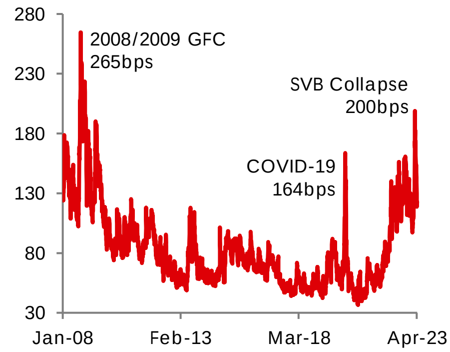
Less inverted yield curves after the banking crisis. In 1Q23, volatility in fixed income surged due to financial market turmoil. The MOVE Index –a measure of the normalized, 1-month implied volatility on UST bond options throughout the curve– even surpassed the levels seen during the COVID-19 stress episode (see chart on the right). Sovereign bonds, mainly short-term maturities, rallied in this backdrop of higher risk aversion. As a result, UST and Mbonos' yield curves sharply reduced their inverted shape. For example, the 2s10s spread on Treasuries closed March at -56bps after reaching a four-decade low of -108bps just a few days before Silicon Valley Bank's failure.

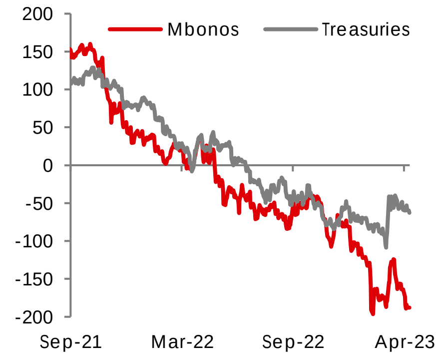
We expect renewed pressures in short-term rates, ruling out cuts for the remainder of 2023. Concerns about financial contagion exacerbated fears of a global recession, so the market priced-in strong cuts in 2H23 from the Federal Reserve and Banxico. However, this scenario has been losing steam lately. Currently, the curve is pricing-in accumulated cuts of -57bps from -106bps for the former, and of -63bps from -117bps for the latter. Considering our growth, inflation, and monetary policy forecasts, it is our take that short-term securities will see additional upward pressures until said scenario dilutes completely. Hence, nominal yield curves will invert once again. This call favors paying TIIE-IRS swaps in the front-end of the curve and flatteners. For example, the 1-year node (13x1) trades at 11.39% after reaching all-time highs of 11.90% before the banking crisis. However, high volatility keeps hindering the possibility of opening directional trades, especially as we approach the end of restrictive cycles and, eventually, interest rate cuts. On the other hand, the belly of the Mbonos' curve (5- to 7-year maturities) shows a less attractive relative valuation after gaining about 20bps q/q, while long-term securities closed virtually unchanged. Based on our view of a more inverted yield curve, we believe that the Nov'38 and Nov'42 tenors will benefit from lower long-term inflation expectations following Banxico's largest cumulative tightening in recent history (+750bps by May). We see a similar situation for the Nov'47 and Dec'53 nodes, albeit with less conviction. Lastly, we reaffirm our preference for nominal vs real rates, as we foresee that headline inflation will keep moderating. Furthermore, inflation breakevens remain quite high, mainly in short-term maturities. For example, the 3-year reading stands at 5.08%, well above Banxico's inflation target.

MOVE Index
Points



Source: Banorte, Bloomberg

2s/10s spread on Treasuries and Mbonos
Bps



Source: Banorte, PiP, Bloomberg

Banorte interest rate forecast
%

Security	2019	2020	2021	2022	2022				2023			
					1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Banxico's reference rate												
End of period	7.25	4.25	5.50	10.50	6.50	7.75	9.25	10.50	11.25	11.50	11.50	11.50
Average	8.05	5.44	4.38	7.65	6.00	6.85	8.19	9.77	10.79	11.42	11.50	11.50
28-day Cetes												
End of period	7.30	4.25	5.51	10.09	6.47	7.70	9.30	10.09	11.31	11.58	11.56	11.54
Average	7.87	5.33	4.44	7.72	5.95	6.99	8.31	9.61	10.93	11.50	11.56	11.54
28-day TIIE												
End of period	7.56	4.48	5.72	10.77	6.72	8.03	9.54	10.77	11.52	11.75	11.73	11.70
Average	8.31	5.69	4.63	7.93	6.36	7.09	8.50	10.05	11.09	11.67	11.73	11.70
10-year Mexican bond (Mbono)												
End of period	6.85	5.54	7.57	9.08	8.24	9.02	9.65	9.08	8.85	9.00	9.05	8.95
Average	7.61	6.25	6.81	8.80	7.96	8.89	8.95	9.37	8.92	8.93	9.03	9.00
10-year US Treasury												
End of period	1.92	0.91	1.51	3.87	2.34	3.01	3.83	3.87	3.47	3.70	3.70	3.60
Average	2.14	0.88	1.44	2.95	1.95	2.92	3.10	3.82	3.65	3.59	3.70	3.65
10-year Spread Mex-US												
End of period	493	463	606	521	590	601	582	521	538	530	535	535
Average	547	534	538	585	601	597	585	555	527	534	533	535

Source: Bloomberg and PiP for observed data, Banorte for rate forecasts. Underlined numbers indicate forecasts

Foreign Exchange

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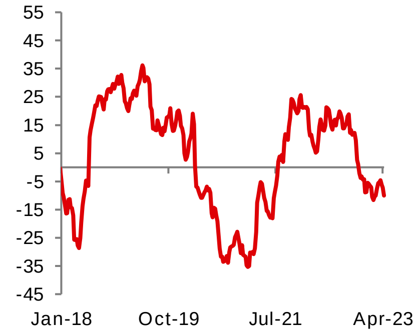
The market is betting on additional USD losses... The FX market narrative changed dramatically in March with the banking crisis, inducing higher currency volatility. After some initial USD strength, the view about aggressive Fed funds rate cuts weakened the currency. So far, the DXY and BBDXY indices have accumulated -1.7% and -1.8%, respectively, vs. year-end 2022. The downfall has continued despite the partial dilution of rate cut bets as markets have recognized that authorities could contain banking risks with liquidity and regulatory measures. This is confirmed by speculative positioning in futures, with USD net shorts increasing to $10.01 billion. In our view, the USD could slow the downtrend seen since March –and even rebound– if the market prices-in a higher Fed terminal rate and stronger GDP growth. However, dynamics by currency could be differentiated as this would induce more risk appetite.

...and in EUR, we see room for a correction. In the latest ECB decision, the tone of the statement was hawkish as inflation remains elevated, even in the face of nervousness about Credit Suisse's situation. As the turbulence faded, the market has incorporated three +25bps hikes for the rest of 2023, which would bring the deposit rate to 3.75% and the spread vs. the Fed to -175bps from -200bps. Also, EUR net longs (US$22.27 billion) are at the highest this year, so we see room for profit-taking as the market adjusts its expectations. We reiterate our year-end 2023 EUR/USD estimate at 1.10, slightly below forwards at 1.11.

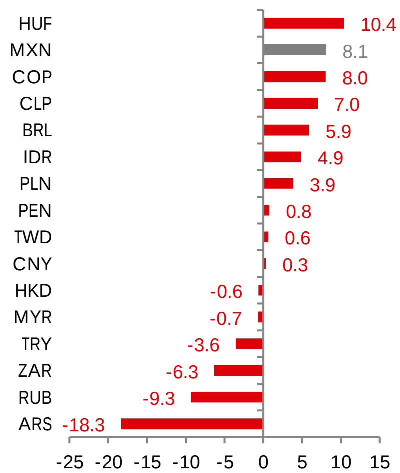
MXN: Between lower carry and higher GDP growth. The peso has retained its strength, both in absolute terms and relative to peers. So far this year, it accumulates a +8.1% gain against the USD, only behind HUF among EM currencies. In our view, the main reason behind this remains a very attractive carry, going through the recent bout of volatility relatively unscathed. Our view of a 600bps spread vs. its current level of 625bps (based on reference rates in the US and Mexico) would imply a weakening bias for the MXN, at least at the margin. More favorably though, the prospect of stronger GDP growth in both the US and Mexico could eventually be reflected in higher inflows from exports, remittances, tourism, and investment –the latter in the context of persistent interest in nearshoring efforts. After mixed adjustments to our economic outlook, we reiterate our 2023 year-end USD/MXN estimate of 18.70 per dollar. Nevertheless, we see a narrower range, estimated between 17.50 and 19.00 (previous: 17.50 to 19.50). Lastly, it is our take that risks appear broadly balanced due to some idiosyncratic factors, especially the eventual resolution of current USMCA disputes.

Net positioning in USD futures
Billion dollars. Positive: net long in USD



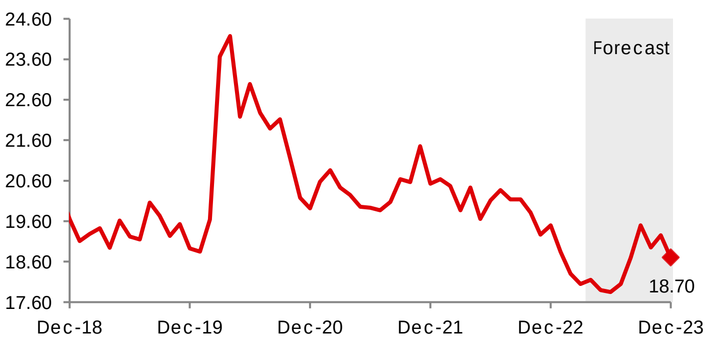
Source: Banorte with data from Bloomberg

EM currency performance
%, YTD*



* Note: As of April 18, 2023
Source: Banorte with data from Bloomberg

USD/MXN
Pesos per dollar



Source: Bloomberg, Banorte

USD/MXN forecast
Pesos per dollar

Period	End of period	Previous forecast	Forecast	Period average
1Q22	19.87			
2Q22	20.12			
3Q22	20.14			
4Q22	19.50			
1Q23	18.05			
2Q23		17.85	17.62	17.82
3Q23		19.50	18.97	18.43
4Q23		18.70	18.70	18.70

Source: Bloomberg, Banorte *Underlined numbers indicate

Stock market indices

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Volatility will continue, but risks appear balanced. During 1Q23, risk appetite drove average gains of 7.3% in USD among main stock indexes, with virtually widespread gains by region (except Brazil and Colombia). Mexico stood out as top-performer: 20.3% in USD and 11.2% in local currency terms. Despite of the above, concerns about the health of the global financial system, as well as its potential impact on economic growth, have resulted in a new bout of risk asset volatility as they face the possibility of a recession, particularly in developed countries. However, major risks seem to be balancing out, in our view. This, in a backdrop in which: (1) Systemic contagion from the banking crisis might well be contained because of authorities' swift responses; (2) central banks' tightening cycle is about to end; and (3) price pressures keep easing. With all this, we reaffirm our conviction about benchmark index levels for year-end 2023, both for the Mexbol Index, and the S&P500. In any case, we will be looking at the 1Q23 earnings season to glance at possible outcomes that the recent financial turbulence could have on credit conditions, along with the impact that higher-for-longer interest rates might have on earnings. Although prospects of lower rates towards 2024 could support higher valuations, volatility should continue until: (1) Risks for economic growth diminish; and (2) there is greater certainty about the start of central banks' easing cycles.

S&P500 benchmark level. For 2023 we maintain our estimate at 4,350pts. We assume a P/E fwd of 18.3x (below the current level of 18.8x), 3.5% y/y earnings contraction in 2023 and +10.0% recovery in 2024. We prefer to be conservative relative to consensus (Bloomberg's consensus estimates at -2.3% and +11.7%, respectively), given prevailing growth challenges.

Mexico has been resilient and will continue to excel. Mexico has stood out against peers. We expect additional resilience, supported by: (1) Our improved GDP growth outlook, outperforming vs. the US for the second year in a row; (2) stronger investor confidence, translating into higher investments on strategies increasingly leveraged by the benefits of nearshoring; (3) a recovery in companies' profitability on the back of a less adverse cost backdrop; (4) valuation levels that remain very attractive vs. peers; and (5) the end of Banxico's restrictive cycle.

Mexbol benchmark level. We reiterate our 2023 Mexbol forecast of 59,000pts, which considers a FV/EBITDA ratio of 6.5x –above its current level of 6.3x–, EBITDA growth of 2.8% (vs. 4.8% previously) and net debt decreasing by 2.6% y/y (vs. +0.7% previously). The main difference to our previous estimate is the impact that MXN strength would have on USD-based operations. We believe there is some upside bias due to Mexico's better growth outlook and a scenario of lower interest rates towards 2024. Going to specific companies, we reaffirm Ac, Chdraui, Femsa, and Oma in our top-picks (see charts to the right). We also add Gcc and Volar given a solid expectation of improved profitability, while replacing Asur and Lab, taking profits in the former and anticipating a slower recovery in the latter.

S&P500 forecast for 2023
Pts

P/E Fwd	S&P500	Potential Return (%)
18.8x	4,452	7.2
18.5x	4,393	5.7
18.3x	4,333	4.3
18.0x	4,274	2.9
17.8x	4,215	1.4

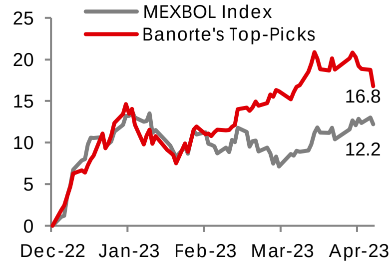
Source: Bloomberg, Banorte

Mexbol forecast for 2023
Pts

FV/EBITDA	Mexbol	Potential Return (%)
6.9x	64,042	17.8
6.7x	61,546	13.2
6.5x	59,050	8.6
6.3x	56,554	4.0
6.1x	54,058	-0.6

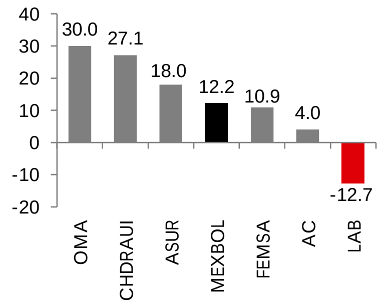
Source: Bloomberg, Banorte

Top-picks: YTD vs Mexbol
%, price-only return



Source: Bloomberg.
Note: Assuming an equal-weighted portfolio

Top-picks YTD performance*
%, price-only return as of April 18th



* Note: (1) Asur: Since it has been in our top-picks (Jul-09-21), it gained +43.8% vs. +9.3% of the Mexbol index
(2) Lab: Since it has been in our top-picks (Jan-18-23), it lost -15.4% vs. +2.2% of the Mexbol index
Source: Bloomberg.

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Commodities

Commodities lower at the start of the year. The GSCI and BCOM indices fell 5.9% and 6.5% q/q, respectively. Losses were concentrated in energy amid concerns of an economic slowdown. Secondly, and to a lesser extent, in industrial metals and grains.

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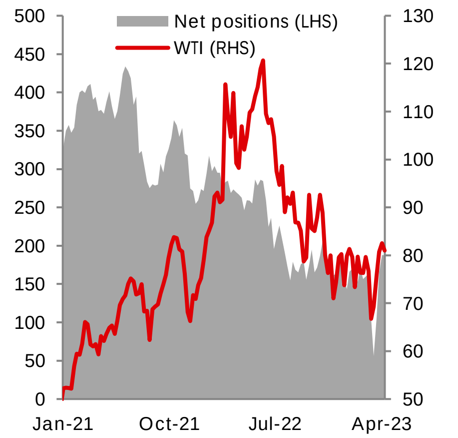
Bullish bias for crude-oil despite losses in 1Q23. Crude-oil futures remained relatively stable during the first two months of the year. Expectations pointed to a weak price trend due to an environment of high interest rates, a global slowdown, and a modest Chinese economic recovery. This was reflected in a sustained decline in net long positioning, particularly for WTI (see chart to the right). The scenario was further weakened by the turmoil in banking as they heightened fears about lower consumption. This triggered: (1) A 15% collapse in Brent and WTI to 15-month lows of 72.9 and 66.7 $/bbl, respectively; and (2) net long positions that reached a 7-year low. However, at this juncture, OPEC+ surprised in early April with a voluntary global production cut of 1.66 Mbbl/d, supporting prices and significantly modifying speculators' expectations. The International Energy Agency incorporated this news in its estimates, anticipating higher prices for the year and a 2 Mbbl/d deficit in 2H23. In this context, we adjust upward our Brent's trading range to 80-110 $/bbl for the rest of 2023 (previous: 70-100 $/bbl) and 80-95 $/bbl for 2Q23, without ruling out upward breaks because of OPEC+'s stance. Regarding natural gas, the EIA lowered the Henry Hub price for 2Q23 to 2.65 $/MMbtu (-0.1 $/MMbtu vs. the previous report) as inventories remain above the 5-year average. Conversely, they adjusted upwards the average price of PADD3 gasoline to 3.2 $/gal (+0.2 $/gal).

Managed money positioning in WTI futures
Thousand 'lots' (combined interest from two contracts)*, $/bbl



* Note: Each 'lot' consist of 1,000 barrels of WTI crude-oil
Source: Banorte with data from Bloomberg, CFTC and ICE

Industrial metals closed 1Q23 mixed. Copper (+7.4% q/q) and aluminum (+1.5% q/q) advanced due to China's reopening, while nickel (-20.7% q/q) plunged to 5-month lows due to liquidity issues. We anticipate positive dynamics for this sector in the face of stronger economic performance. In precious metals, the balance was positive. Gold gained (+7.9% q/q) due to its status as a barometer of financial stress. It has even broken the 2,000 $/t oz resistance during the last few days. Our view for the metal is that it will trade sideways, with the possibility of profit-taking on our monetary policy path and better expectations for economic activity. With this, we expect a trading range between 1,800 and 2,050 $/oz t. Lastly, we see grains modestly extending losses given stable inventories and because the "El Niño" effect could well benefit plantations in North America. Nevertheless, risks of disruptions persist due to lingering uncertainty about the Ukrainian grain corridor.

Commodities price performance and market consensus forecasts

Commodity	Unit	Spot*	Performance (%)			Market consensus forecasts					
			2020	2021	2022	2Q23	3Q23	4Q23	1Q24	2023	2024
WTI	$/bbl	80.79	-20.54	55.01	6.71	79.50	80.59	83.50	85.00	80.38	82.00
Brent	$/bbl	84.70	-21.52	50.15	10.45	85.00	86.00	90.00	90.00	86.35	86.25
Natural Gas (H. Hub)	$/MMBtu	2.38	15.99	46.91	19.97	2.97	3.30	3.50	3.47	3.01	3.66
Gasoline (RBOB)	$/gal	2.74	-0.17	0.58	0.10	2.86	2.72	2.68	2.86	2.70	2.85
Gold	$/t oz	2,005	25.12	-3.64	-0.28	1,894	1,946	1,967	1,942	1,900	1,853
Silver	$/t oz	25.19	47.89	-11.72	2.77	22.79	23.00	23.00	23.60	22.94	23.40
Copper	$/mt	8,965	25.79	25.17	-13.87	8,825	8,820	8,867	8,909	8,799	9,000
Corn	¢/bu	677	24.82	22.57	14.37	658	640	650	643	640	620
Wheat	¢/bu	697	14.63	20.34	2.76	710	713	707	740	712	725

Source: Bloomberg *Last closing price; RBOB (Reformulated gasoline blendstock for oxygenate blending)

Corporate Debt

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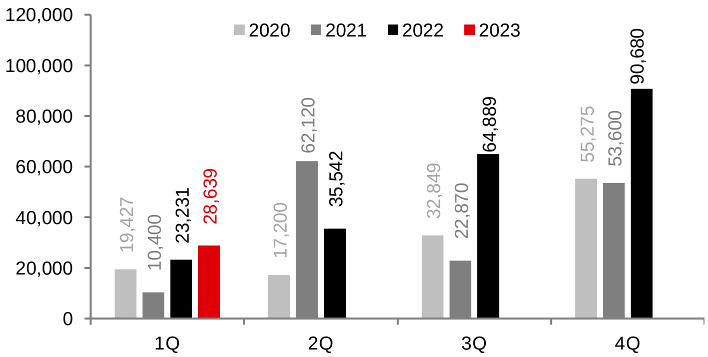
Market placements throughout 1Q23 added up to MXN 28.6 billion (+23.3% y/y) on the back of a dynamic performance in March, which accounted for 98.6% of the period's issuances. The preference for high quality, unsecured, fixed-rate bonds was clear. Of the amount sold: (1) 96.9% had the highest local-scale credit ratings ('AAA'); (2) all was placed through unsecured bonds; and (3) fixed-rate notes represented 79.7%, followed by floating-rate notes (TIIE-28 and O/N TIIE) at 20.3%.

Given increasing expectations that the peak of hiking cycles is near, we expect fixed-rate bonds to dominate again in the quarter's issuances. Notwithstanding, a gradual pickup and interest in floating rates may begin by the end of 2Q23. Also, we expect appetite to prevail, with activity close to previous years and a modest return of liquidity towards debt from other sectors or issuers. On top of this, we have a robust pipeline of well-known issuers for April and May such as CFE, FEFA, NAFIN, Molymet, Genomma Lab, and AB&C Leasing, among others, bringing forward their financing requirements for the rest of 2023 and 2024. In our view, investors will keep favoring high quality, unsecured notes, focused on issuers and sectors considered as 'safe havens' (*e.g.* Food, Beverages, Consumer Discretionary), privileged due to fears of an eventual global recession. In spreads, samples ordered by rating have been slightly below levels prior to the pandemic. However, the year-on-year comparison in the 'AAA' sample resulted in a 3bps increase, mainly impacted by lower demand in the most recent auctions. We expect the trend from the last few months to continue, with more modest curve adjustments, but staying on the same direction.

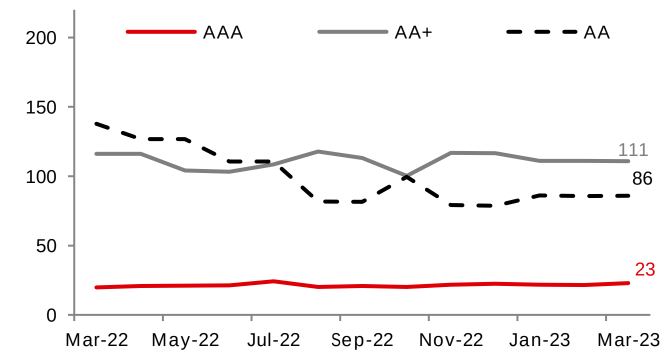
For the rest of the year, we foresee a more cautious approach from bondholders, exacerbated by the recent uncertainty derived from the banking crisis, as well as its possible impact on the global economy. Companies are still cautious about prospects for economic activity –although we foresee stronger dynamism– and profit margins due to high inflation. Therefore, investors will closely watch corporate issuers' financial health for their portfolio selection processes regarding corporate debt assets. Analyzing this situation, this year's upcoming maturities, and the dynamic performance of the last months of 2022 –a record in monthly placements during November– as issuers covered with great anticipation their 2023 refinancings, we reiterate our issued amount projection close to MXN 185 billion for full-year 2023 (-13.7% y/y).

Long-term issued amount by quarter
MXN Million



Source: Banorte with information from BMV, BIVA and PiP

Spread Evolution – Unsecured TIIE-28
Bps



Source: Banorte / BMV / PiP, as of March 2023

Quantitative Analysis

Nowcasting Mexico's Economic Activity.

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Previously, we presented a Nowcast model of IGAE's growth using high-frequency financial and transactional data, as well as incorporating a wide range of macroeconomic information as it becomes available.

One of the most relevant economic indicators in Mexico is the IGAE (Global Economic Activity Indicator), given that it allows to monitor Mexico's growth dynamics. However, despite IGAE being a good monthly GDP-proxy –since it covers around 95% of Mexico's GDP in one month– it has a 56-day lag.

Our nowcast model has a high accuracy forecasting IGAE's growth just 13 days after the end of the month. Our model also gives us a fair estimate of IGAE's economic growth just one day after the end of each month. With this approach, we aim to read the real-time flow of information and evaluate its effects on current economic conditions.

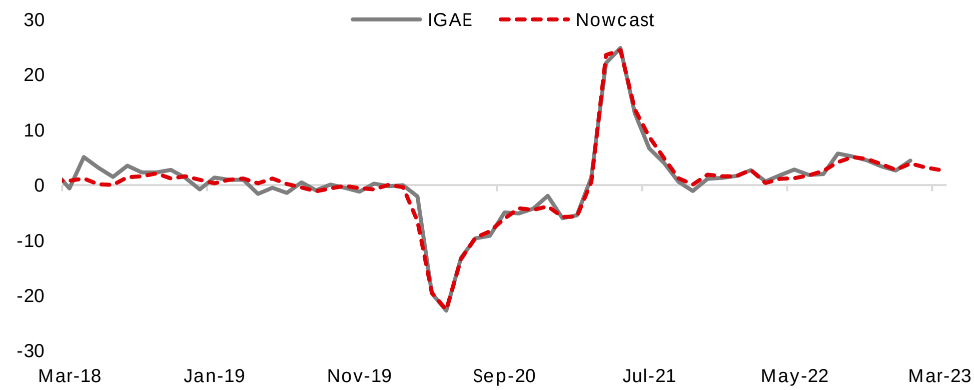
The model is estimated using MIDAS regressions, which allows us to use high frequency data. To preserve parsimony, we also use factor analysis techniques to summarize the information from 300 daily financial and transactional series.

Recent data shows that the Mexican economy has marginally moderated its pace of growth. High interest rates, inflationary pressures, and lower growth dynamics in real wages, coupled with subdued external demand, has translated into slower growth dynamics for Mexico's economic outlook.

In this regard, our model forecasts:

- A 3.23% yoy nsa expansion in February's economic activity; and
- A 2.78% yoy nsa growth in March's output

IGAE vs Nowcast Banorte
% y/y



Source: Banorte

Quantitative Analysis

Fed's topics classification using NLP and ML techniques. We developed a model using natural language processing (NLP) techniques that classifies and interprets FOMC statements. In addition, the model developed allows us to confirm whether central bank communications are consistent with the monetary policy implemented (refer to: Welcome to the Machine (Learning): An NLP framework for analyzing the Fed's monetary policy statements).

Our model estimates a terminal rate between 4.25% and 5.25% (upper bound of the range). Despite that March's monetary policy announcement was perceived more dovish with regards to February's communiqué, the model classified the statement with the central topic that anticipates the terminal rate between 4.25% and 5.25% (Topic 8; refer to the chart below). In addition, since June 2022, the model classified all the Fed's monetary policy statements with the same topic. In this regard, our model allowed us to anticipate, from the beginning of the restrictive cycle in the US (March 16, 2022), a terminal rate within the above-mentioned range.

However, we also highlight that in March's statement, the probability of this topic being the dominant one dropped substantially, which increases the probability that the Fed will reach its terminal rate in May with a 25pbs hike and will likely maintain the 5.25% rate throughout the year. This is consistent with the current debate whether there will be one or two more rate hikes (as we expect).

Changes in the Fed's monetary policy. Looking ahead, the above-mentioned framework will allow us to identify any rate cut in the Fed's reference range through the classification of the monetary policy announcements.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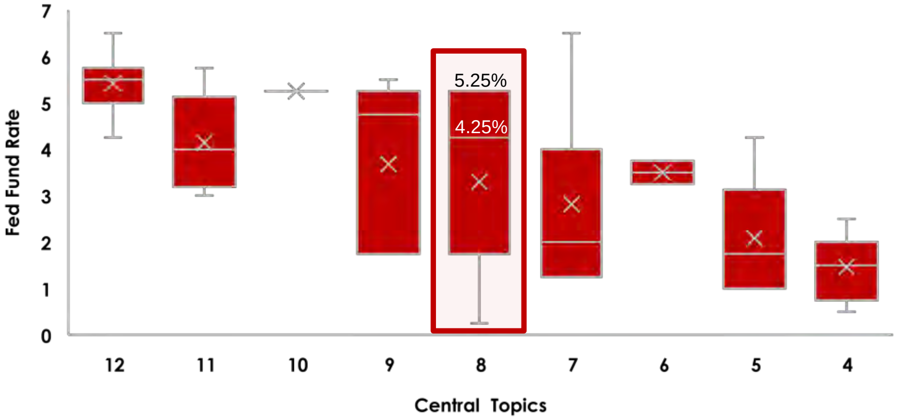
Range of Fed Funds Rate by Topic
Central Topics



Source: Banorte, Federal Reserve, Bloomberg

Quantitative Analysis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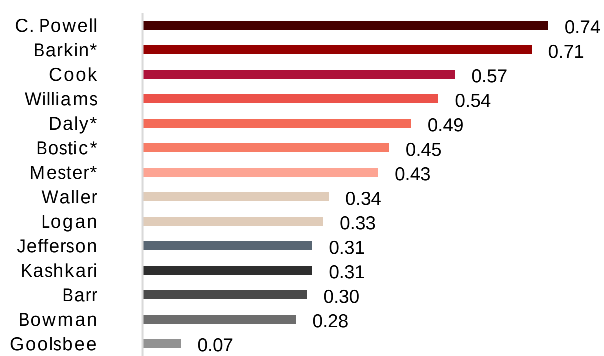
Hawk-o-meter **–** Interpreting the hawkish/dovish bias in the FOMC members. To classify and have an objective interpretation about the speeches of the voting and alternate members of the Federal Open Market Committee (FOMC), an analytical tool was built based on natural language processing (NLP) and machine learning (ML) techniques (refer to: "Hawk-o-meter: An AI approach to FOMC speeches"). The classification of the speeches helps to identify the hawkish or dovish tone of each member.

Our model helps to identify the bias of each voting member. The model was trained with 981 FOMC speeches (January 2013 to September 2022) and these were classified into 25 central topics. Subsequently, we analyzed the semantic of the best terms that describe each preponderant topic and constructed an index that takes values between -1 and 1, where positive values correspond to hawkish speeches and negative values to dovish speeches.

The model continues identifying a hawkish bias among all voting members. The hawk-o-meter allows to measure the coherence between FOMC members' speeches and their vote in monetary policy decisions. The index showed that the speeches of all committee members had a restrictive tone from March 2022 to April 2023 (refer to the bottom charts).

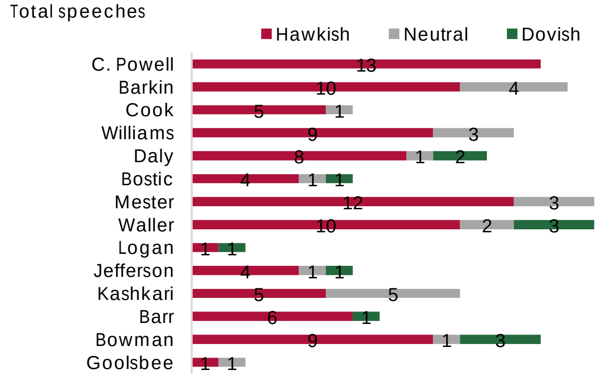
Our model confirms that FOMC members' speeches have been consistent with their monetary policy decisions during recent committee meetings and that the current tightening cycle will most likely continue in May. We highlight that, in this document, we also incorporated in our hawk-o-meter the speeches of Philip N. Jefferson, Lisa D. Cook, Michael S. Barr, Laurie K. Logan, Thomas I. Barkin, Mary C. Daly, and Austan D. Goolsbee.

Hawk-o-meter **– Mar'22 to Apr'23**
Speeches tone



Source: Banorte, Federal Reserve
Note: C. Powell's speeches are in his role as Fed Chairman
* Speeches analyzed as of April 14

Speeches Classification **– Mar'22 to Apr'23**
Total speeches



Source: Banorte, Federal Reserve

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Nowcasting Model for Mexico's Private Consumption.

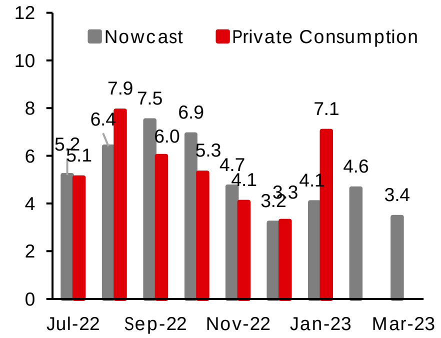
The Mexican economy showed stronger-than-anticipated growth during the early part of the year. However, overall growth decelerated from 4Q22. In this regard, private consumption increased 1.6% m/m sa in January, while the Global Economic Indicator (IGAE) posted 0.6% growth.

In 1Q23, recent data indicates this path will continue in February and March. For example, energy consumption in Mexico posted a notable expansion with gasoline, diesel, and jet fuel demand increasing by 8.1%, 27.1%, and 15.1%, yoy, respectively (nsa). Higher-than-expected growth was mainly explained by the lack of a new COVID-19 wave, which allowed for an orderly resumption of school and work activities and a surge in tourism. In addition, hotel expenditure posted a 21.3% rise in occupied rooms during the first two months of the year. We also highlight that credit card transactions maintained an upward trend, which could be an insight that domestic demand remains strong.

Taking into account the information outlined above, Banorte's nowcasting for private consumption projects a 4.6% and a 3.4% yoy expansion in February and March (nsa), which represents a 2.3% q/q increase in 1Q23 (sa).

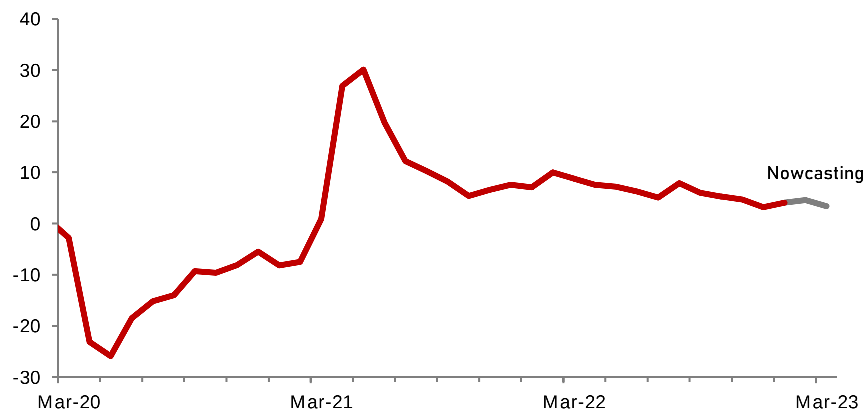
A mix of multivariate and univariate models were used to obtain these estimates. Univariate models, including Dynamic Optimized Theta and ARIMA models, were employed, as well as multivariate models, such as SARIMAX and Dynamic Factors. The models were specified to give priority to the use of variables that are both theoretically and empirically connected to national and imported consumption.

Nowcast model vs. official statistics
Rates %, y/y



Source: Banorte with data from INEGI

Mexico´s Private Consumption
%y/y



Source: Banorte, with data from INEGI.

Recent research notes

Mexico

- *Banxico minutes – The end of the tightening cycle is very close,* April 13, 2023, <pdf>
- *2024 Preliminary Budget Criteria – Modest revisions, with optimism on economic activity,* April 3, 2023, <pdf>
- *Nearshoring could unleash Mexico's potential,* March 6, 2023, <pdf>
- *4Q22 GDP – Slight upward revision, with full-year 2022 at 3.1%,* February 24, 2023, <pdf>
- *Banxico – Omar Mejía Castelazo is ratified as the next Deputy Governor,* January 18, 2023, <pdf>
- *USMCA – Resolution on auto sector rules of origin is positive for Mexico and Canada,* January 12, 2023, <pdf>
- *December CPI – Headline inflation closes the year at 7.82%, helped by the non-core,* January 9, 2023, <pdf>
- *Minimum Wage – 20% increase in 2023,* December 1, 2022, <pdf>
- *Fitch affirms Mexico 'BBB-' rating, maintaining a stable Outlook,* November 18, 2022, <pdf>
- *The IMF renews Mexico's FCL in its annual revision, keeping the amount unchanged,* November 17, 2022, <pdf>
- *Complementary agreement to the Plan Against Inflation – Actions focused on food ítems,* October 3, 2022, <pdf>
- *Moody's downgrades Mexico to 'Baa2', with the outlook from negative to stable,* July 8, 2022, <pdf>
- *S&P affirms Mexico 'BBB' rating, upgrading the outlook to stable,* July 6, 2022, <pdf>

Global

- *IMF and World Bank Annual Meetings – Higher need for cooperation given risks of a global recession,* October 17, 2022, <pdf>
- *World Economic Forum Davos 2021 – Strategies to address "The Great Reset",* February 2, 2021, <pdf>

Quantitative Research

- *Hawk-o-meter: An AI approach to FOMC speeches,* April 17, 2023, <pdf>
- *Fed's monetary policy: Our NLP model forecast a 5.25% terminal rate,* March 22, 2023, <pdf>

Fixed-Income, FX, and Commodities

- *OPEC+: Unexpected global production cut of 1.66 Mbbl/d,* April 3, 2023, <pdf>
- *Fixed-Income and FX Weekly,* April 3, 2023, <pdf>
- *2Q23 Auction Calendar: Lower amounts at fixed rates,* March 31, 2023, <pdf>
- *Pension Funds Outlook – February 2023,* March 16, 2023, <pdf>
- *MoF's Financing Plan 2023: The local market will stay as the main funding source,* December 15, 2022, <pdf>
- *New 10-year Mbono May'33 syndicated auction results,* December 7, 2023, <pdf>
- *MXN is the third most traded currency in EM,* November 4, 2022, <pdf>
- *Closing Trade Idea: Pay TIIE-IRS (26x1), receive 2-year SOFR,* October 28, 2022, <pdf>
- *Liability Management Transaction,* October 7, 2022, <pdf>
- *3- and 6-year Bondes G syndicated auction results,* July 20, 2022, <pdf>
- *New 30-year Mbono Jul'53 syndicated auction results,* June 29, 2022, <pdf>

- *Profit taking on 2-year TIIE-IRS payer,* March 4, 2022, <pdf>
- *New levels to protect profits in our trade idea of paying 2-year TIIE-IRS,* February 16, 2022, <pdf>
- *MoF - Refinancing operation in the euro market,* February 8, 2022, <pdf>
- *The MoF issued USD bonds and refinanced its external debt,* January 5, 2022, <pdf>
- *Mexico announces global USD bond offering and public offering,* January 4, 2022, <pdf>
- *Collective release of crude oil reserves,* November 23, 2021, <pdf>
- *New Development Bonds indexed to the TIIE funding, Bondes F,* August 18, 2021, <pdf>

Equities

- *GAP, Quarterly Report 1Q23: Solid report reaffirms positive Outlook, April 17,* <pdf>
- *AIRPORTS:* Passenger growth moderates, April 10, 2023, <pdf>
- Flash VOLAR: Demand continues to show strength, April 5, 2023, <pdf>
- Flash AC: Announces 2023 investment plan, March 30, 2023, <pdf>
- Flash: Alsea Day. Driving digital transformation, while leveraging organic expansion, April 4, 2023, <pdf>
- Flash OMA: Dividend proposal with a 2.9% yield, March 30, 2023, <pdf>
- Flash AMX: Will propose shareholder remuneration of up to 4.1% return, March 22, 2023, <pdf>
- Flash LIVEPOL: Approves dividend with a yield of ~2.3%, March 22, 2023, <pdf>
- *Flash WALMEX:* Proposed dividend with an attractive yield of ~3.7%, March 10, 2023, <pdf>
- Flash: Liverpool Day. Strategies remain focused on Omnichannel, March 10, 2023, <pdf>
- *Flash ASUR: Dividend proposal with a 3.6% yield, March 10, 2023,* <pdf>
- *Flash: Lab Day: Strategies focused on core brands and productivity, March 9, 2023,* <pdf>
- *Flash Walmex Day: Driving the Omnichannel strategy with sales floor growth, March 8, 2023,* <pdf>

Corporate Debt

- PEMEX – Gasoline prices put pressure on profitability, February 28, 2023, <pdf>
- MoF announced strategy to support PEMEX, December 6, 2021, <pdf>
- Moody's downgrades PEMEX's ratings; outlook remains negative, July 28, 2021, <pdf>
- PEMEX received an additional fiscal credit of MXN 73.3 billion, February 22, 2020, <pdf>
- Effects of the pandemic in 2020, December 17, 2020, <pdf>
- Credit Ratings Tutorial, December 17, 2020, <pdf>
- Pemex's assets exchange for Federal Government Development Bonds, December 15, 2020, <pdf>

Note: All our publications are available in the following link.

Recent trade ideas

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

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

1. Carry + roll-down gains of 17bps

Short-term tactical trades

Trade Idea	P/L*	Entry	Exit	Initial Date	End date
Long USD/MXN	P	19.30	19.50	11-Oct-19	20-Nov-19
Long USD/MXN	P	18.89	19.35	20-Mar-19	27-Mar-19
Long USD/MXN	P	18.99	19.28	15-Jan-19	11-Feb-19
Long USD/MXN	P	18.70	19.63	16-Oct-18	3-Jan-19
Short USD/MXN	P	20.00	18.85	2-Jul-18	24-Jul-18
Long USD/MXN	P	19.55	19.95	28-May-18	4-Jun-18
Long USD/MXN	P	18.70	19.40	23-Apr-18	14-May-18
Long USD/MXN	P	18.56	19.20	27-Nov-17	13-Dec-17
Long USD/MXN	L	19.20	18.91	6-Nov-17	17-Nov-17
Long USD/MXN	P	18.58	19.00	9-Oct-17	23-Oct-17
Short USD/MXN	L	17.80	18.24	4-Sep-17	25-Sep-17
Long USD/MXN	P	14.40	14.85	15-Dec-14	5-Jan-15
Long USD/MXN	P	13.62	14.11	21-Nov-14	3-Dec-14
Short EUR/MXN	P	17.20	17.03	27-Aug-14	4-Sep-14
Short USD/MXN	L	12.70	13.00	26-Jul-13	21-Aug-13

Source: Banorte

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	19-Jan-18	2-Apr-18
Long USD/MXN	14.98	15.50	14.60	15.43	P	20-Mar-15	20-Apr-15
Short EUR/MXN	17.70	n.a.	n.a.	16.90	P	5-Jan-15	15-Jan-15
Short USD/MXN	13.21	n.a.	n.a.	13.64	L	10-Sep-14	26-Sep-14
USD/MXN call spread**	12.99	13.30	n.a.	13.02	L	6-May-14	13-Jun-14
Directional short USD/MXN	13.00	12.70	13.25	13.28	L	31-Oct-13	8-Nov-13
Limit short USD/MXN	13.25	12.90	13.46	–	–	11-Oct-13	17-Oct-13
Short EUR/MXN	16.05	15.70	16.40	15.69	P	29-Apr-13	9-May-13
Long USD/MXN	12.60	12.90	12.40	12.40	L	11-Mar-13	13-Mar-13
Long USD/MXN	12.60	12.90	12.40	12.85	P	11-Jan-13	27-Feb-13
Tactical limit short USD/MXN	12.90	12.75	13.05	–	–	10-Dec-12	17-Dec-12
Short EUR/MXN	16.64	16.10	16.90	16.94	L	03-Oct-12	30-Oct-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*

Analyst Certification

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Daniel Sebastián Sosa Aguilar 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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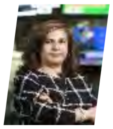

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