Wider divergences will influence economic and market dynamics

3Q23 Outlook

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3Q23 Outlook – Wider divergences will influence economic and market dynamics

The world is entering the second half of the year in an environment characterized by at least three factors that will shape the behavior of the global economy and financial markets. The first is the latent risk of recession in different regions, with asymmetric hazards due to a wide array of initial conditions. These include the differentiated characteristics of economic policies and goals, as well as the cyclical position of main trading partners, to name a few. The United States has been more resilient, still with a solid labor market underpinning private consumption's high dynamism. Even with the view of a moderation in economic activity between the end of this year and the beginning of 2024, the US will probably cope better with this situation. The latter contrasts with several other countries, some of them in Europe that will likely contract (*e.g.* Germany and the United Kingdom), along with others that will slow down faster (*e.g.* China) after failing to recover as much as previously expected.

The second driver will be an increasing divergence in monetary policies between advanced and emerging economies. Among the former, we expect the Fed to continue raising its benchmark interest rate –at least twice this year, each by 25bps–, similarly to the ECB and BoE. On the contrary, some central banks in emerging economies, such as Chile and Brazil, are close to start easing their currently tight monetary stances.

The third element to consider is geopolitical risk, which influences the decision-making process of a plethora of economic agents. Heightened tensions between the US and China (despite recent efforts to reduce them), the conflict in Ukraine, and the setbacks in the path towards more globalization, among others, have generated rearrangements on many fronts. One of the most important ones has been changes in foreign trade dynamics (*e.g.* nearshoring), and the sources and destinations of foreign direct investments. Lastly, even with a long way to go before the 2024 elections in the United States and Mexico, the races have already started.

In Mexico, the economy has been stronger-than-anticipated by most market participants. We remain relatively more optimistic, making only slight adjustments to our views for 2023 and 2024. These imply more GDP growth this year, revising our estimate upwards from 2.0% to 2.7%. Meanwhile, we cut it from 2.3% to 1.8% in 2024. On prices, we expect headline inflation to end the year at 4.5% y/y. In terms of monetary policy, it is our take that the central bank still faces a complex scenario. In this respect, we reiterate our call that Banxico will leave its reference rate unchanged at 11.25%, with the easing cycle starting until the first meeting of 2024.

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Winners of the 2023 award for best Mexico economic forecasters, granted by *Focus Economics*

Document for distribution among the general public

Mexico's main macroeconomic and financial forecasts
End of period

	1Q23	2Q23	3Q23	4Q23	2021	2022	2023	2024
GDP (% y/y)	3.7	3.1	2.6	1.3	4.7	3.0	2.7	1.8
Inflation (% y/y)	6.9	5.1	4.2	4.5	7.4	7.8	4.5	4.1
USD/MXN	18.05	17.12	16.80	17.90	20.53	19.50	17.90	19.20
Banxico's reference rate (%)	11.25	11.25	11.25	11.25	5.50	10.50	11.25	8.25
28-day TIIE (%)	11.52	11.50	11.48	11.45	5.72	10.77	11.45	8.50
Mexbol (points)	53,904	53,526	--	59,000	53,272	48,464	59,000	67,000

Source: Banorte. Underlined data represents our forecasts

Mexico

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The economy has remained strong so far this year, with services as the main driver behind this dynamism. However, industry has also provided some support, contributing to the solid performance. Thus, we anticipate an expansion of around 0.5% q/q (3.1% y/y) in 2Q23. In this backdrop, we revise our full-year GDP forecast to the upside, from 2.0% to 2.7% y/y, above consensus at 2.3%. This change is supported by several factors, including: (1) Stronger fundamentals for domestic consumption –notably employment, and as a result, banking credit; (2) resilience in US economic activity, highlighting modest advances in industry, but with a still solid labor market –which also favors remittances to Mexico; (3) nearshoring efforts, benefitting private investment; and (4) our call that the global slowdown –especially in our northern neighbor– will take longer to materialize. Taking the latter into account, along with a more challenging base effect, we expect GDP to grow 1.8% in 2024 (previous: 2.3%). However, it would remain supported by the arithmetic effect of the leap-year, as well as higher government spending prior to the presidential election.

Inflation has extended its favorable performance, with the non-core accounting for much of the decline. In addition, some positive signs are starting to emerge for the core, with goods already exhibiting a clearer downward trend. Considering this, we adjusted our year-end forecast to 4.5% y/y (previous: 4.8%), with the core at 5.3% (previous: 5.6%). Our base case scenario contemplates some challenges, including persistent pressures in services –impacted by wage increases and a tight labor market– and with risks of significant increases in agriculture and livestock due to the *El Niño* phenomenon. Given the implications from this, along our view of additional Fed hikes (see following section), and a more hawkish tone from Banxico's Board members, we believe the reference rate will stay unchanged at 11.25% for the rest of 2023. After this, we expect cumulative easing of 300bps in 2024, starting in February, taking the reference rate towards 8.25% by December.

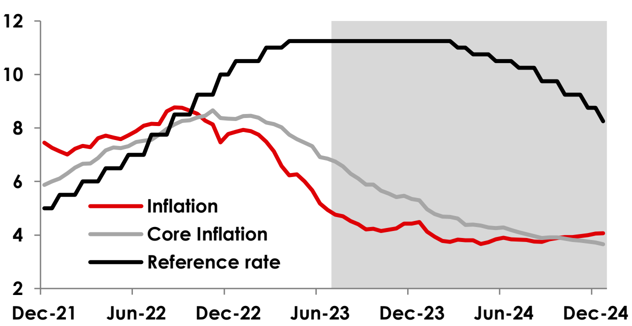
The political agenda during the quarter includes the start of Congress' fall legislative period (September 1st), as well as political parties' presidential candidate selection processes –with results slated to be announced in early September. In addition, the MoF will have to present the *2024 Budget* by the 9th of the same month at the latest.

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

% y/y	1Q23	2Q23	3Q23	4Q23	2023
GDP	**3.7**	**3.1**	**2.6**	**1.3**	**2.7**
Private consumption	4.8	4.2	4.3	2.2	3.9
Investment	9.5	7.2	6.8	1.1	6.1
Government spending	0.7	0.5	0.4	0.6	0.6
Exports	-1.4	0.4	1.3	1.2	0.4
Imports	9.6	5.7	2.3	-0.1	4.2
% q/q					
GDP	**1.0**	**0.5**	**0.3**	**-0.2**	--

* Note: Underlined figures represent our forecasts. Source: Banorte

Inflation and reference rate
% y/y; %



Source: INEGI, Banxico, Banorte

United States

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Available indicators suggest that the economy maintained a solid pace in 2Q23, close to 1.7% q/q annualized. The question is whether this pace can be sustained in the second half of the year. However, and as we have highlighted for many months, what does seem clear is that a recession is not the most likely scenario. Recently, consensus has been aligning with this vision. So far, household spending remains resilient due to the strength of the labor market and the recovery of consumer confidence. Investment will likely contract further, but 2Q23 would be the first quarter in two years in which the residential sector is poised to contribute positively to GDP. Finally, despite the global slowdown, net exports probably added momentum to GDP growth. The latter could fade because of a potentially deeper global slowdown, partly driven by more aggressive hiking cycles in developed economies.

For 3Q23 we estimate a moderation to 0.6%. Consumption will keep growing on the back of solid employment and wage gains. However, doubts prevail about the strong divergence between spending on goods relative to services, resulting in weakness in manufacturing (on the supply side). Lower gasoline prices (see *Commodities* section), the agreement to suspend the debt ceiling, and stock market gains would also help. On the other hand, we anticipate that housing starts will support investment amid low inventories and the reluctance of homeowners to sell given high mortgage rates. Some items, such as machinery and equipment, will extend their decline on muted growth prospects. Also, we estimate less exports due to the slowdown in several regions and geopolitical tensions affecting trade.

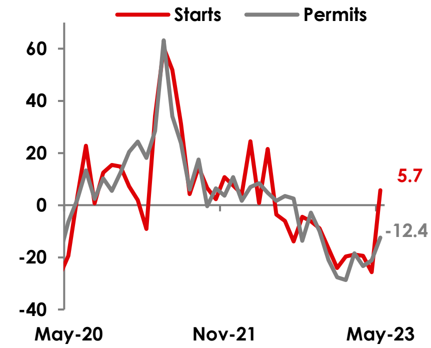
Inflation will probably maintain its downward trend, but at a more gradual pace while staying above the central bank's target throughout the second half. We estimate inflation at 4.2% y/y by September and at 4.1% at the end of the year. With this, the full-year 2023 average would stand at 4.5%. Given a scenario in which inflation remains high, the labor market is still very tight, and the Fed maintains a *hawkish* bias, the tightening cycle is likely not over. We estimate a 25bps rate hike in July and another of the same magnitude in September. In this context, the terminal range of the *Fed funds* rate would be 5.50% to 5.75%, accumulating +550bps since hikes began in March 2022.

US: Banorte Estimates

	1Q23	2Q23	3Q23	4Q23	2022	2023*
GDP (% q/q annualized rate)*	2.0	1.7	0.6	0.2	2.1	1.7
Private Consumption	4.2	2.0	1.6	0.5	2.7	2.2
Fixed Investment	-0.5	-1.6	-3.9	-4.7	-0.2	-2.7
Exports	7.8	3.6	0.0	-3.6	7.1	4.2
Imports	2.0	-1.6	-6.2	-6.6	7.8	-2.9
CPI (% y/y, average)	5.8	4.0	3.9	4.1	8.0	4.5
Unemployment rate (%, eop)	3.5	3.6	4.0	4.1	3.5	4.1
Non-farm payrolls (thousands)	937	732	550	300	4,793	2,519

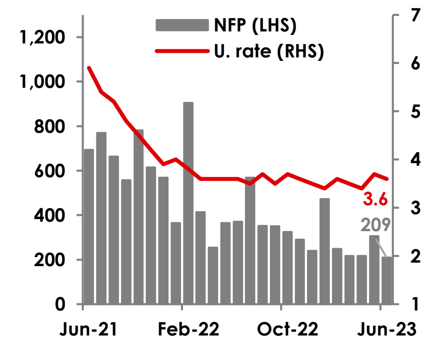
* All GDP estimates are % q/q saar, except for full-year 2022 and 2023, which are % y/y. eop: end of period.
Source: Banorte

Housing starts and building permits
% y/y



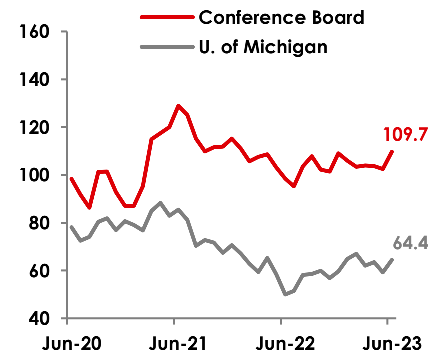
Source: Banorte with data from US Census Bureau

Non-farm payrolls & unemployment rate
Thousands and %, respectively



Source: Banorte with data from BLS

Consumer confidence
Indexes



Source: Banorte with data from Conference Board and University of Michigan

Global

The second half of the year is shaping up to be one of greater divergences between countries and regions. In our opinion, the most prominent will be the growing differences in monetary policy between developed and emerging countries. Faced with a more resilient economy and/or upward inflation surprises, most of the countries in the first group have signaled that they will be more aggressive than anticipated in their hiking cycles and have not yet reached the terminal rate. In contrast, several countries in the second group have already reached the peak, with some central bankers signaling –and markets betting – when, and by what magnitude, the cuts could materialize. By region, the strongest conviction for cuts remains in Latam, followed by Europe, and Asia. China has even implemented some monetary stimulus measures, which could gather steam in coming months.

This situation can be explained mainly by: (1) The earlier start of restrictive policies in emerging markets, with more cumulative rate hikes so far; (2) inflation trends, including more pronounced declines in goods' prices –especially in commodities such as food and energy, with more weight in their consumption baskets– than in services; (3) economic strength; and (4) more stable financial conditions. On the first we highlight Latam, with higher rate increases in Brazil (+1,175bps), Colombia (+1,150bps), Chile (+1,075bps), Peru (+750bps), and Mexico (+725bps), while developed countries (Fed, BoE, BoC, ECB) have increased between 400-500bps. Regarding the second, inflation is still above target in most cases. As for the economy, they have been more resilient than expected (broadly speaking), albeit with more evident signs of a deeper slowdown going forward in some countries, particularly those with greater exposure to China, which has not recovered as strongly as forecasted. The PBoC has already cut rates and could do so again in 4Q23, along with the announcement of lower reserve requirements.

In this context, we estimate two more hikes of 25bps from the ECB. For the BoE, we cannot rule out up to 100bps more. This trend has increased further lingering fears about a global deceleration, not necessarily in 2023, but in 2024. In emerging markets, the magnitude and timing of rate cuts will be key and will depend on global and idiosyncratic factors. The challenge will remain in balancing the primary goal of reducing inflation with the least possible economic impact. However, we should add: (1) Volatility in capital flows due to companies' relocation, but, above all, lower liquidity led by the Fed's 'quantitative tightening'; (2) the impact that lower 'carry' could have on currency performance, in turn with possible effects on the fiscal front, inflation expectations, and even on administered prices; and (3) the need to safeguard financial stability. The task will not be easy, and we could even see 'unorthodox' measures on the regulatory side and in financial markets to find the best balance for the fulfillment of multiple objectives.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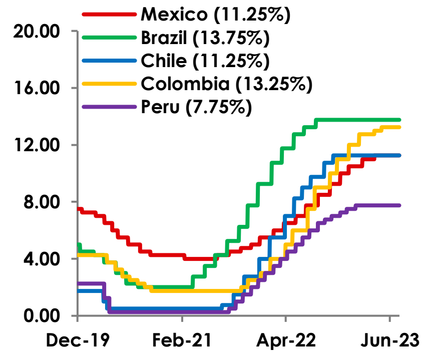
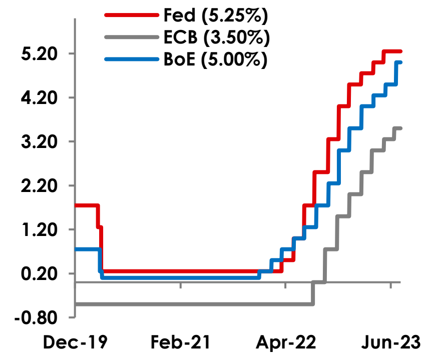
Latam reference rates
%



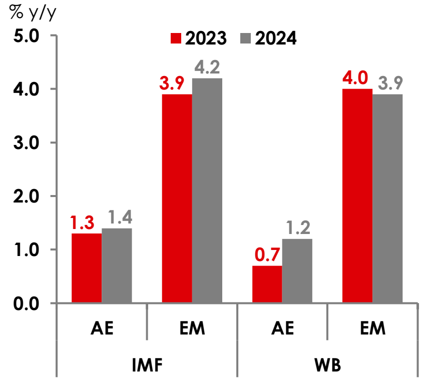
Source: Banorte with data from Banxico, BCB, BCCh, BanRep, and BCRP

Fed, ECB y BoE reference rates
%



Source: Banorte with data from Federal Reserve, European Central Bank and Bank of England

GDP growth forecasts*
% y/y



* Note: AE= Advanced Economies: EM= Emerging Markets. Source: Banorte with data from the IMF and World Bank

Fixed Income (Sovereign Debt)

Mbonos outperformed Treasuries in 2Q23. US Treasury yields were guided by the Fed's hawkish stance, with losses at the short-end of up to 80bps. Meanwhile, the belly and long-end adjusted by +50bps and +25bps, respectively. As a result, the yield curve inverted further as the 2s/10s spread ended at -106bps, very close to the four-decade low seen before the US banking crisis (-108bps). In Mexico, the end of the hiking cycle and positive inflation surprises provided a breather for local currency fixed-income securities. Short-term Mbonos lost 15bps; however, those above 10 years gained 20bps on average. In TIIE-IRS, the latter maturities fell by 30bps. Given this discrepancy, spreads between Mbonos and Treasuries compressed sharply. For example, the 10-year spread closed at 483bps, its lowest level since April 2021 (see first chart on the right).

We cut our preference for nominal vs real rates. Considering our monetary policy outlook, we expect the bear flattening bias in US Treasuries to reach its peak in coming months. In addition, we continue to believe that the market's view about Banxico's easing cycle remains very aggressive, even after its recent moderation to -43bps of cumulative cuts by the end of 2023 from -75bps back in June. In this sense, we foresee higher short-term rates. This framework favors paying 3- to 12-month TIIE-IRS, although only for tactical purposes as gains could be constrained because of the downtrend in short-term inflation prints. Historically, mid-term Mbonos have benefited the most relative to long-term tenors when Banxico keeps the rate unchanged at restrictive levels. For example, in the three months after the end of the 2018 hiking cycle, 5- and 7-year Mbonos rallied 90bps, while 10- and 30-year bonds gained only 65bps. Replicating the same exercise this time around, the former has had few changes, while the latter advanced around 20bps. However, due to the sharp inversion of the yield curve, low spreads, uncertainty about interest rate cuts, and the strong correlation with US Treasuries, we are skeptical about the belly. Lastly, we cut our preference for nominal vs. real rates, with breakevens declining sharply for all maturities (see second chart, right). In more detail, it is our take that 3-year Udibonos look attractive if the breakeven falls below 4.00% (current: 4.12%). Historically, said level has triggered strong buying interest.

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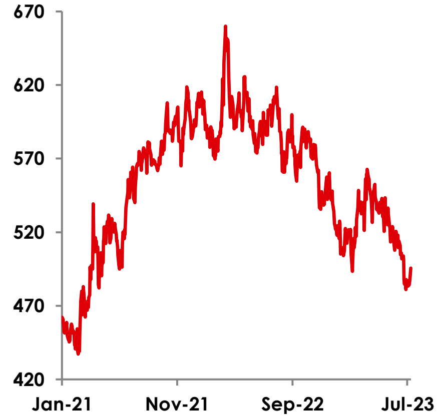
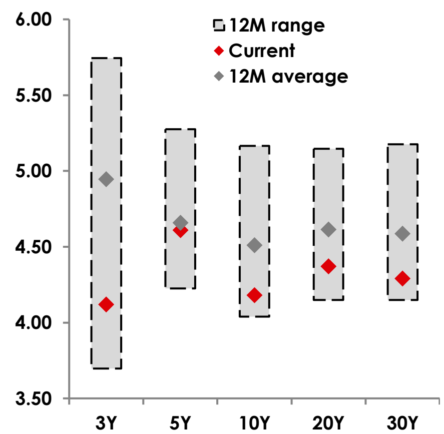
10-year spread between Mbonos and UST
Basis points



Source: Banorte, PiP

Breakeven inflation*
%



* Implicit market inflation using Fisher Equation with Mbonos and Udibonos. Source: Banorte, PiP

Banorte interest rate forecast
%

Security	2019	2020	2021	2022	2023				2024			
					1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Banxico's reference rate												
End of period	7.25	4.25	5.50	10.50	11.25	11.25	11.25	11.25	10.75	10.25	9.25	8.25
Average	8.05	5.44	4.38	7.65	10.79	11.25	11.25	11.25	11.00	10.50	9.75	8.75
28-day Cetes												
End of period	7.30	4.25	5.51	10.09	11.31	11.27	11.31	11.29	10.79	10.29	9.33	8.33
Average	7.87	5.33	4.44	7.72	10.93	11.28	11.31	11.30	11.04	10.54	9.83	8.83
28-day TIIE												
End of period	7.56	4.48	5.72	10.77	11.52	11.50	11.48	11.45	10.95	10.50	9.50	8.50
Average	8.31	5.69	4.63	7.93	11.09	11.52	11.48	11.45	11.20	10.72	10.00	9.00
10-year Mexican bond (Mbono)												
End of period	6.85	5.54	7.57	9.08	8.85	8.67	8.95	8.90	8.95	9.15	8.85	8.65
Average	7.61	6.25	6.81	8.80	8.92	8.81	8.81	8.93	8.93	9.05	9.00	8.75
10-year US Treasury												
End of period	1.92	0.91	1.51	3.87	3.47	3.84	4.05	3.80	3.95	3.95	3.75	3.65
Average	2.14	0.88	1.44	2.95	3.65	3.59	3.95	3.93	3.88	3.95	3.85	3.70
10-year Spread Mex-US												
End of period	493	463	606	521	538	483	490	510	500	520	510	500
Average	547	534	538	585	527	522	487	500	505	510	515	505

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

Foreign Exchange

Divergent monetary policies will set the tone. The FX market dynamics remain highly influenced by monetary policy and recession risks. In 2Q23, the USD (based on the BBDXY) gained 0.2%. Inside, the MXN was the strongest currency (5.4%). Despite this and the Fed's hawkish tone that has led the market to totally dilute calls for cuts in 2H23, speculators are still betting that the environment of high rates will be short-lived. We are more skeptical, which would result in a stronger-than-expected USD. We do not rule out that differentiation in currency performance widens more amid even greater divergence in policy stances between developed and emerging markets. Some of the latter have already started easing cycles after driving rates to very high levels in an earlier and timelier manner.

Limited room for EUR gains. The ECB's tone remains hawkish due to persistently high inflation. The market anticipates two more hikes, which would take the deposit rate to 4.00%. If this materializes, the spread between this rate relative to Fed funds rate could remain unchanged at -175bps, which would be neutral for EUR. However, we see more room for negative economic surprises in the Eurozone relative to the US, which would be unfavorable for flows into the region. Considering both factors, we cut our EUR/USD estimate to 1.05 (previous: 1.10) at the end of 2023.

The carry trade will keep supporting the MXN, even with Banxico already at the terminal rate. Following the peso's strong rally (+14.3% vs 2022), the market is questioning whether the currency is overvalued. While this is a possibility, past periods of under- or over-valuation –which have been quite long historically– have not been significant in influencing short-term adjustments. In our view, the carry trade will keep underpinning the MXN's resiliency to bouts of volatility. In addition, its correlation to the USD (BBDXY) has been increasing. With the latter in mind, we believe the main risk to the peso is a negative shock in the US (*e.g.*, recession and/or financial instability). However, our base case is that it will remain resilient. Considering the accumulated performance so far and other forecast changes, we adjust our USD/MXN estimates. On the negative side, we now see a compression of the rate spread with the Fed, from 600bps in 2022 to 550bps. However, we believe it will be more than compensated by: (1) Higher Mexican GDP growth; and (2) more attractiveness relative to regional peers as carry in other Latam currencies will likely decline even more, with the BRL, CLP, and COP initiating rate cuts earlier and more aggressively than Banxico. All in all, for 2H23 we estimate a range between USD/MXN 16.30 and 18.20, with a lower year-end level at 17.90 (previous 18.70). For 2024 with a scenario of accelerated cuts by Banxico and a lower spread with the Fed, we estimate it by year-end at 19.20 per dollar (previous 19.40).

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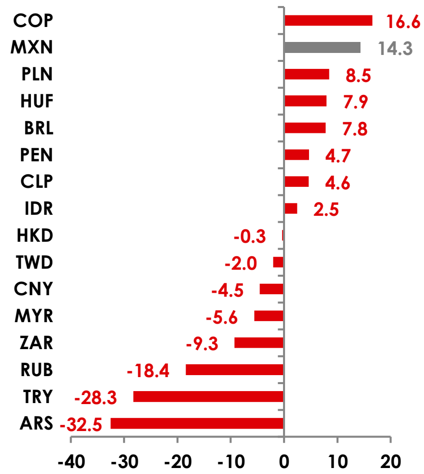
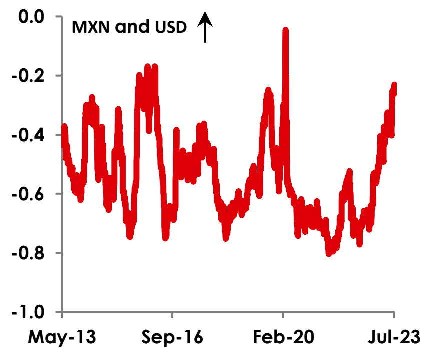
EM currency performance
%, YTD as of July 10, 2023



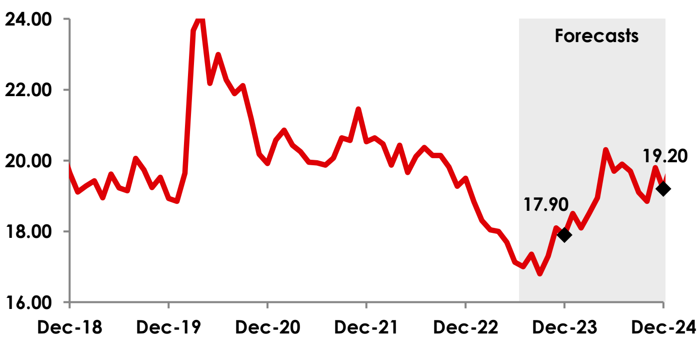
Source: Banorte with data from Bloomberg

MXN and BBDXY: Moving correlation
90-day



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
1Q23	18.05			
2Q23	17.12			
3Q23		18.97	**16.80**	17.05
4Q23		18.70	**17.90**	17.77
1Q24		19.35	**18.50**	18.37
2Q24		20.55	**19.70**	19.65
3Q24		19.65	**19.10**	19.57
4Q24		19.40	**19.20**	19.28

Source: Bloomberg, Banorte *Underlined numbers indicate forecasts

Stock market indices

Risk appetite will continue despite the restrictive tone that still prevails in developed economies. The first half of the year concluded with widespread gains among the sample of 30 major stock indices that we track, averaging 12.6% in USD. In the US, both the S&P500 and Nasdaq reached all-time highs in June, supported by strong momentum in tech. Mexico stood out again, mainly driven by positive expectations about nearshoring, now in third place in year-to-date USD returns at 25.7% (just 10.4% in local currency due to MXN gains). Despite high interest rates, economic activity has surprised to the upside, while inflation pressures are gradually easing. Corporate earnings' resiliency has favored appetite for risk assets and a recovery in valuations, a situation that we expect will continue. In coming months, stock markets will remain highly influenced by the evolution of monetary policy. In emerging economies, market bets that interest rates will begin to decline could encourage investors to pay higher multiples; in developed economies, the focus will be on earnings given prevailing concerns on growth. Specifically, we believe the market is already discounting that an eventual US recession would be shallow and brief, consistent with a so-called 'soft-landing', which is in line with our view. Bearing this in mind, appetite for growth stocks will remain high, supported by the boom and increased interest in technology and artificial intelligence companies; in addition, by the expected recovery in profitability thanks to operating efficiency strategies that have already been implemented. 2Q23 corporate reports in the US will be of special interest. We believe they could surprise positively as Bloomberg consensus expects a 9.0% drop in S&P500 earnings.

S&P500 benchmark level. Given a stronger US economy and earnings resilience, we raise our year-end 2023 estimate to 4,550pts from 4,350pts. We now consider a P/E fwd of 19.0x (previous: 18.3x), with appetite for tech supporting a multiple re-rating, albeit below its current level of 19.8x. We assume a 2.8% y/y decline in 2023 earnings, improving relative to our previous estimate of -3.5%. For 2024, we see a 10.7% y/y recovery. Both are somewhat more conservative than Bloomberg's estimates at -2.6% and +11.1% y/y, respectively. By year-end 2024, we set a reference level of 5,100pts.

Mexbol benchmark level. In our view, Mexico's improved GDP growth outlook, coupled with lower expected inflation, supports a more benign backdrop for earnings. This has prompted us to increase our 2023 EBITDA growth estimate for Mexbol constituents from 2.8% to 5.0% y/y. Despite of the latter, we keep our benchmark level unchanged at 59,000pts given the risks from: (1) MXN strength, which may limit the appeal to go long for foreign investors; (2) a possible increase in volatility due to the potential revision in the methodology to calculate the Mexbol sample, which could be applied in the September rebalancing and would affect the cumulative weight of the 5 largest companies, limiting it to a maximum of 45% (vs. 60% currently); and (3) investors' relative preference for fixed income, considering that the Fed will keep increasing interest rates. Our reference level implies a FV/EBITDA multiple of 6.3x, above 6.0x currently. A lower interest rate environment in 2024 may support higher valuations. Regarding specific companies, we reaffirm Ac, Chdraui, Femsa, Gcc, Oma, and Volar as our top-picks. In our view, their prospects remain very solid overall.

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S&P500 forecast for 2023
Pts

P/E Fwd	S&P500	Potential Return (%)
19.3x	4,633	4.4
19.0x	**4,573**	**3.0**
18.7x	4,513	1.7

Source: Bloomberg, Banorte

S&P500 forecast for 2024
Pts

P/E Fwd	S&P500	Potential Return (%)
19.3x	5,143	15.9
19.0x	**5,076**	**14.3**
18.7x	5,009	12.8

Source: Bloomberg, Banorte

Mexbol forecast for 2023
Pts

FV/EBITDA	Mexbol	Potential Return (%)
6.5x	61,797	14.1
6.3x	**59,218**	**9.4**
6.1x	56,640	4.6

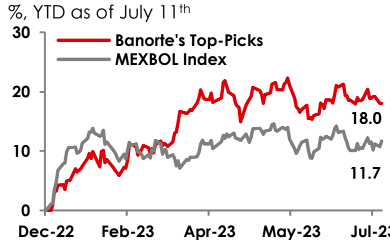
Source: Bloomberg, Banorte

Mexbol forecast for 2024
Pts

FV/EBITDA	Mexbol	Potential Return (%)
6.7x	69,833	29.0
6.5x	**67,086**	**23.9**
6.3x	64,339	18.8

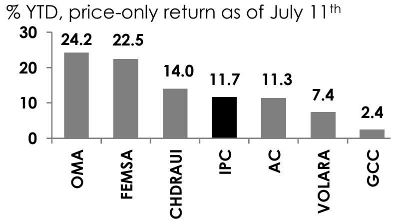
Source: Bloomberg, Banorte

Top-picks vs Mexbol*
%, YTD as of July 11th



* Note: Price-only returns. Top-picks assume an equally-weighted portfolio
Source: Bloomberg

Top-picks performance*
% YTD, price-only return as of July 11th



*Note: (1) Gcc: Included in our top-picks on April 17, 2023. Since then, it has gained +2.4% vs. -1.2% of the Mexbol Index
(2) Volar: Included in our top-picks on April17,2023. Since then, it has gained +7.4% vs. -1.2% of the Mexbol Index
Source: Bloomberg

Commodities

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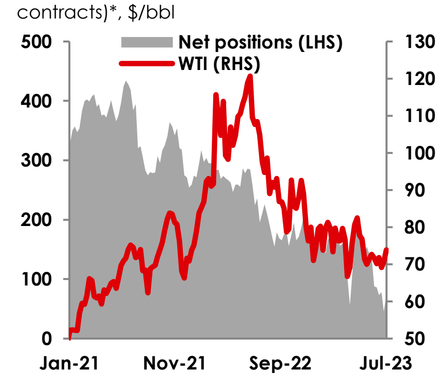
Commodities extended losses. The GSCI and BCOM indices fell 5.8% and 3.8% q/q, respectively. Within, losses were concentrated in industrial metals due to growing fears of lower economic activity, especially in China. Secondly, and to a lesser extent, in grains and energy.

Dynamics will remain driven by the evolution of the economy. 2Q23 began with a boost to crude-oil prices following OPEC+'s voluntary 1.66 Mbbl/d output cut. However, China's slow recovery, a potential US recession, and robust exports from Russia and Iraq, completely diluted the rally. As a result, Brent and WTI lost 6.1% and 6.6% q/q, respectively. Net long positioning kept declining, particularly for WTI as it reached lows not seen since 2015 (see first chart on the right). Given this juncture, Saudi Arabia unilaterally cut an extra 1 Mbbl/d starting in July, extending it at least until August. Russia joined with a 500 Kbbl/d reduction in exports. In our view, fundamentals –particularly supply– and US services' strength could help lift prices. In addition, energy agencies (OPEC, IEA, and EIA) are forecasting a market deficit for the third quarter. However, dynamics will stay overshadowed by growth concerns –especially in China, despite potential stimulus measures– and higher US interest rates. We will also be on the lookout for possible purchases to refill the Strategic Petroleum Reserve (SPR). Considering these factors, we lower our estimated trading range for Brent to 65-90 $/bbl (previous: 70-100) in the second half of the year and to 65-85 $/bbl in 3Q23. Higher gasoline prices are expected because of the US driving season amid low inventories (futures in backwardation). However, the reincorporation of some refineries currently under maintenance and Biden's well-known stance will be factors that will favor stability.

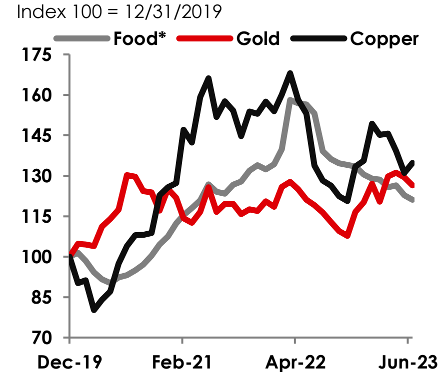
Industrial metals closed 2Q23 lower. Copper fell 7.5% and completely erased its 1Q23 gain in the face of a hesitant Chinese recovery. Tensions with the US could also be a headwind going forward. Given that we do not expect a strong rebound in China's growth, our view for the sector is unfavorable, albeit limited by low inventories. In precious metals, gold fell 2.5% q/q as its carry disadvantage widened after the Fed signaled an extension of the tightening cycle. Considering our call of two more rate hikes in the US, it could trade in a range between 1,800 and 1,970 $/oz t (previous: 1,800 to 2,050). Finally, we expect higher grain prices due to weather conditions (*e.g.* high temperatures, droughts, and excessive rains due to the effects of *El Niño*), as well as geopolitical tensions (*e.g.* grain corridor in Ukraine).

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

Commodities performance
Index 100 = 12/31/2019



* Note: FAO food price index
Source: Banorte, Bloomberg

Commodities price performance and market consensus forecasts

Commodity	Unit	Spot*	Performance (%)			Market consensus forecasts					
			2020	2021	2022	3Q23	4Q23	1Q24	2Q24	2023	2024
WTI	$/bbl	73.13	-20.54	55.01	6.71	75.50	79.50	79.00	80.00	78.00	80.00
Brent	$/bbl	77.69	-21.52	50.15	10.45	80.00	85.00	85.00	84.46	81.00	84.00
Natural Gas (H. Hub)	$/MMBtu	2.65	15.99	46.91	19.97	2.84	3.26	3.50	3.53	2.86	3.72
Gasoline (RBOB)	$/gal	2.58	-0.17	0.58	0.10	2.59	2.52	2.65	2.82	2.56	2.59
Gold	$/t oz	1,926	25.12	-3.64	-0.28	1,950	2,000	2,000	2,017	1,940	1,970
Silver	$/t oz	23.14	47.89	-11.72	2.77	23.31	23.86	24.08	24.50	23.70	24.00
Copper	$/mt	8,373	25.79	25.17	-13.87	8,500	8,500	8,598	8,700	8,664	8,818
Corn	¢/bu	571	24.82	22.57	14.37	570	600	640	573	610	565
Wheat	¢/bu	636	14.63	20.34	2.76	648	638	660	661	666	676

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

Corporate Debt

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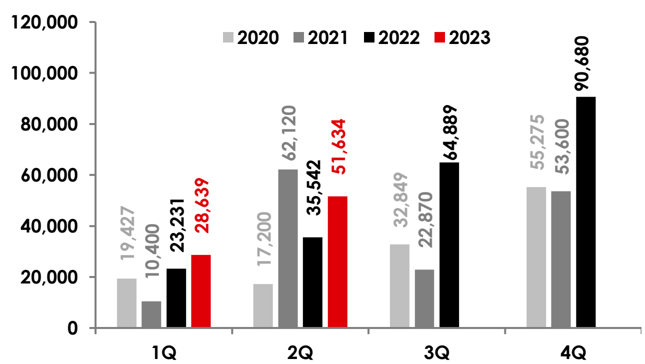
Throughout the first half of 2023, market placements added up to MXN 80.3 billion (+36.6 y/y) on the back of a dynamic performance in March and June, which accounted for 71.8% of the period's total issuances. The preference for high quality, unsecured bonds was clear. Of the amount sold: (1) 92.1% had the highest local-scale credit ratings ('AAA'); (2) 95% was through unsecured bonds; (3) floating rates (TIIE-28 and O/N TIIE) represented 51.6%, followed by fixed rate notes at 48.4%; and (4) 54.4% have a green (V), sustainable (X), or sustainability-linked (L) bond label.

Given the ongoing possibility of Banxico's first reference rate cut before the end of the year (not our base-case scenario), we believe the preference between floating or fixed rate bonds will remain relatively balanced during the rest of 2023. We also see appetite prevailing, with activity levels as in previous years –higher dynamism in the second half– and a modest return of liquidity towards debt from other sectors and/or issuers on higher GDP growth estimates when compared to the outlook at the start of the year. On top of this, we have a robust pipeline for July and August, with well-known issuers such as CFE, Banobras, Bladex, Scotiabank, Fibra Educa, Fibra Danhos, Betterware de Mexico, BeGrand, and TIP Mexico, among others. Issuers will bring forward their financing needs for the rest of 2023 and 2024. Ordered by credit rating, spreads have been slightly below pre-pandemic levels. However, we believe samples below 'AAA' and 'AA+' could see some spread widening in the second half, mainly driven by more modest demand in this year's auctions, along with growing concerns about a global recession in 2024.

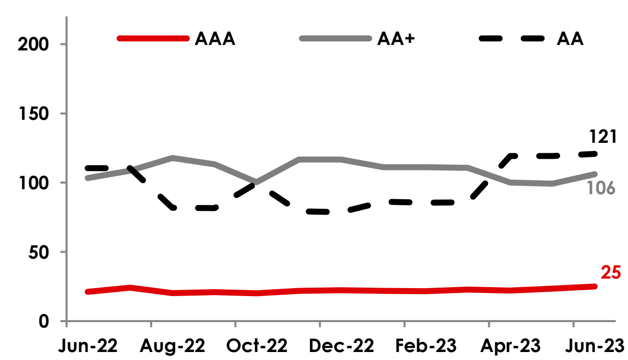
Bondholders' participation could increase due to stronger dynamism in Mexico's economic growth. However, investors will remain squarely focused on companies' profitability margins, issuers' financial health, as well as the economic sectors in which they operate, selecting the adequate mix of corporate debt securities in their investment portfolios. Historically, the second half of the year shows a larger share of placements, with around 60% of the year's amount. Nonetheless, and beyond its typical seasonality, we believe issuers will be more interested on fulfilling their upcoming maturities and refinancing needs well in advance given next year's general election amid high economic uncertainty. All in all, we reiterate our estimate of full-year 2023 issuances at MXN 185 billion (-13.7% y/y).

Long-term issued amount by quarter*
MXN Million



* Note: Banking bonds not included. Source: Banorte with information from BMV, BIVA and PiP

Spread Evolution – Unsecured TIIE-28
Bps



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

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Nowcasting Mexico's Economic Activity. 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 that the IGAE is 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 10 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.

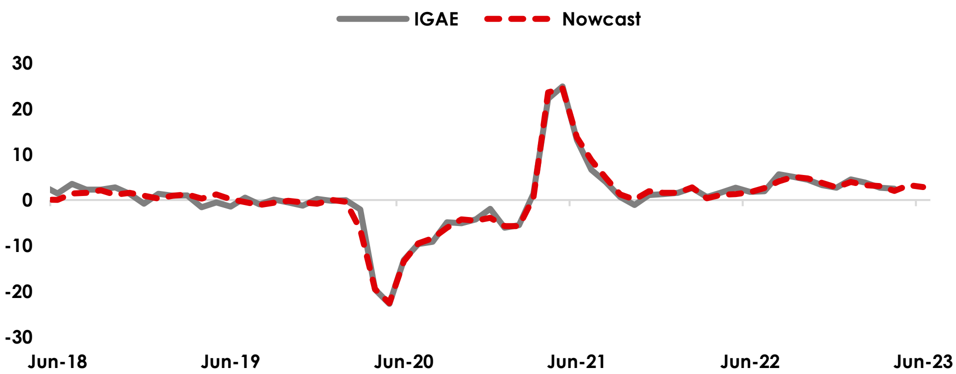
The model is estimated using MIDAS regressions, which allows us to use high frequency data. To preserve parsimony, we also use factor analysis techniques to summarize the information from 300 daily financial and transactional series.

Recent data shows that the Mexican economy has maintained a strong performance given the upward trend in household spending. Higher real wages coupled with strong gains in the labor market and the recent downward trend in inflation has translated into better dynamics for the Mexico's economic outlook.

In this regard, our model forecasts:

- A **3.63% y/y nsa expansion** in **May's** economic activity; and
- A **2.87% y/y nsa growth** in **June's** ouptut

IGAE vs Nowcast Banorte
% y/y



Source: Banorte

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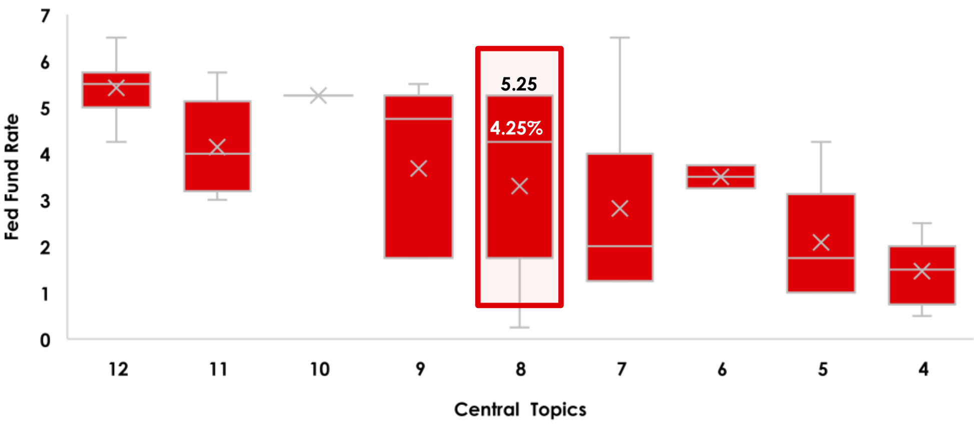
Fed's topics classification using NLP and ML techniques. We developed a model using natural language processing (NLP) techniques that classifies and interprets the FOMC statements. In addition, the model developed allows us to confirm whether the communication made by the Central Bank is coherent with the monetary policy implemented (refer to: Welcome to the Machine (Learning): An NLP framework for analyzing the Fed's monetary policy statements).

Loss of coherence between monetary policy announcements and rate forecasting. Following the monetary policy announcement from June 14, our model classified the semantics of the statement with the central topic congruent with a terminal rate of 5.25% (Topic 8; refer to the chart below). This topic has been the dominant one since the Fed began to tighten policy in March 2022. In this context, semantics of the statement were identical to those of May, so the model continues to exhibit strength in the classification of the statements.

Nevertheless, on June 14, the Fed also released its summary of economic projections. The dot-plot showed that 12 FOMC members would be willing to raise the target level for the federal funds rate by at least 50bps in the remainder of 2023. We highlight that, by design, our model only analyzes the semantics of the statements and does not take into consideration the dot-plot projections. This implies that the Fed's written communication within the statements continues to allude to a 5.25% terminal rate. Therefore, we can conclude that the coherence between the language used in previous monetary policy announcements and the current tightening cycle has been lost.

We expect two 25bps increases in July and September's meeting. Although our model correctly anticipated the Fed's previous rate hikes, the dot-plot strongly indicates that most FOMC members consider increasing the target rate range by 50bps in the remainder of the year. Therefore, we believe that the Fed will increase the target range by 25bps at the next two meeting (July 26 and September 20).

Range of Fed Funds Rate by Topic
Central Topics



Source: Banorte, Federal Reserve

Quantitative Analysis

Hawk-o-meter – Interpreting the hawkish/dovish bias in the FOMC members. In order to classify and have an objective interpretation around 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 bias of each one.

Increasing hawkish bias among voting members. Following the monetary policy announcement from June 14, our classification model identified that 7 of 8 voting members (88%) who had active communication at the time of publication increased their hawkish bias in the last month (refer to the charts below). Therefore, the model confirms that FOMC members' speeches have been consistent with their monetary policy decisions during recent committee meetings. It is noteworthy that FOMC members' speeches have shown greater coherence relative to the monetary policy statements, given that the two additional hikes anticipated in the dot-plot are in line with the more hawkish bias that they have denoted in their public comments.

We expect a 25bp increase in the Fed's reference rate at the July's meeting. The increasingly restrictive tone in most of voting members and the updated dot-plot projections at the last conference, confirms the intention that most members would be willing to increase the reference rate range by 50bp in the remainder of 2023. As a result, we believe that the Fed will raise the target range by 25bp at the following two meetings (July 26 and September 20).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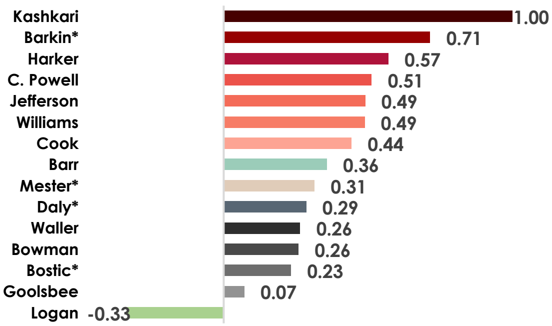
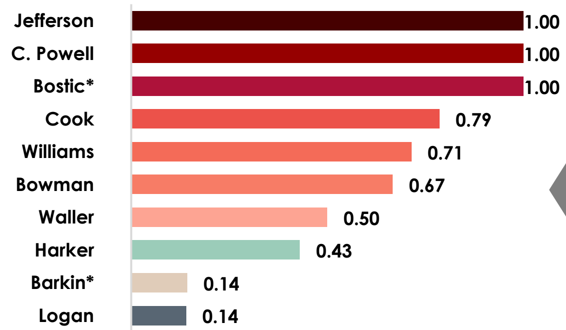
Hawk-o-meter – Jan'23 to May'23
Speeches tone



Source: Banorte, Federal Reserve

Hawk-o-meter – Jun'23 to Jul'23
Speeches tone



Speeches analyzed as of July 7

88%

Of the Committee members who had active communication were more **hawkish**

Quantitative Analysis

Nowcasting Model for Mexico's Private Consumption.

Despite the constraints posed by monetary policy and less favorable external conditions, private consumption has maintained a robust pace of growth in 2Q23. The deliberate choice to maintain the interest rate at 11.25% has successfully curtailed inflationary pressures, while preserving better growth prospects of the Mexican economy.

Throughout the second quarter, there was a significant surge in formal employment, with a 3.9% y/y rise in the number of formal workers. In addition, the downward trend in inflation contributed to an upturn in real wages, which experienced a significant 5.3% y/y increase, marking the most significant growth since 2020. These findings imply that Mexican househodls have experienced an improvement in their purchasing power throughout this quarter.

We also highlight that national holidays such as Mother's Day or the *Hot Sale* (a popular retail event in Mexico) have significantly boosted domestic consumption, particularly in the retail sector. In April, retail trade experienced a 2.2% m/m sa growth, and this positive trend is expected to continue throughout the remainder of the quarter. These encouraging outcomes have also translated to the auto sector, where vehicle sales reported a remarkable 20% y/y nsa growth in 2Q23.

Another relevant factor is the ratio of credit card transactions to the total, which reached 41.6% in 2Q23, representing a 1.5% y/y increase compared to the same period of the previous year. This indicates that a significant portion of domestic consumption continues to rely on credit usage.

The appreciation of the Mexican currency has also contributed to the overall growth of private consumption. In April, imported goods consumption grew at 7.7% y/y (nsa) and 2.8% m/m (sa). It is expected that this upward trajectory persisted at least until May, given the significant growth in non-oil imports (19.9% y/y).

Taking all of the above-mentioned factors into account, Banorte's Nowcasting for Private Consumption predicts a 3.9% and a 2.8% y/y growth for May and June, respectively. This implies a quarterly growth of 3.1% (y/y nsa). These forecast indicate that in 2Q23, private consumption exhibited notable resilience despite the restrictive shocks faced by the Mexican economy during this period.

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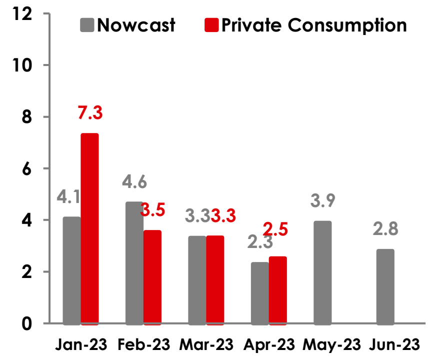
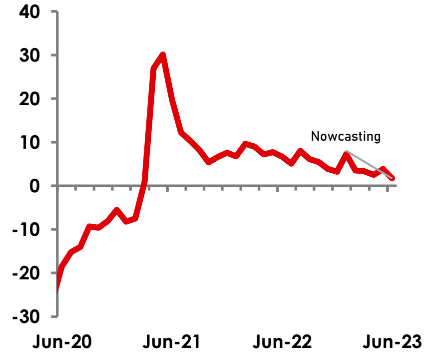
Nowcast model vs. official statistics
% y/y



Source: Banorte with data from INEGI.

Mexico´s Private Consumption
% y/y



Source: Banorte, with data from INEGI.

Recent research notes

Mexico

- *June inflation – Inflation keeps moderating due to the non-core,* July 7, 2023, <pdf>
- *Banxico minutes –Premature to talk about cuts,* July 6, 2023, <pdf>
- *Fitch affirms Mexico 'BBB-' sovereign rating, maintaining a stable outlook,* June 16, 2023, <pdf>
- *1Q23 GDP – Dynamism affirmed, but also coupled with signs of a moderation ahead,* May 26, 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>
- *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>

Quantitative Research

- *Fed's monetary policy: We expect a 25bps hike in July's meeting,* June 14, 2023, <pdf>
- *Hawk-o-meter: An AI approach to FOMC speeches,* April 17, 2023, <pdf>

Fixed-Income, FX, and Commodities

- *Fixed-Income and FX Weekly,* July 10, 2023, <pdf>
- *3Q23 Auction Calendar: Less issuance in inflation-linked bonds (Udibonos),* June 29, 2023, <pdf>
- *Profit-taking: Tactical long in 2-year Mbono Dec'24,* June 22, 2023, <pdf>
- *Pension Funds Outlook – May 2023,* June 22, 2023, <pdf>
- *OPEC+: Saudi Arabia's pledged to cut an extra 1 Mbbl/d for July,* June 5, 2023, <pdf>
- *MoF's Financing Plan 2023: The local market will stay as the main funding source,* December 15, 2022, <pdf>
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- *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, 2023, <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

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- *Flash: Alsea expands Starbucks operations to Paraguay,* April 21, 2023, <pdf>
- *Flash AC: Announces 2023 investment plan,* April 3, 2023, <pdf>
- *Flash ALSEA Day: Driving digital transformation, while leveraging organic expansion,* April 4, 2023, <pdf>

Corporate Debt

- *PEMEX – New fields development results in higher production,* May 4, 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
Long positions in Mbono Dec'24	P	16-Jun-23	22-Jun-23
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-linkded 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-linkded 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-linkded 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
5y10y TIIE-IRS steepener	28bps	43bps	18bps	31bps	P[2]	15-Feb-17	15-Mar-17
5y10y 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

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

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, Juan Carlos Mercado Garduño, Daniel Sebastián Sosa Aguilar, Jazmín Daniela Cuautencos Mora and Andrea Muñoz Sánchez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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