

# Risk aversion on a possible paradigm shift in monetary policy

**4Q23 Outlook**



October 13, 2023

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The final stretch of the year is concluding with a more complex outlook, both on the economic and geopolitical fronts. This has induced a significant volatility spike and risk aversion in financial markets that could well prevail during the rest of the quarter.

Decision makers are still assimilating a possible paradigm shift in monetary policy characterized by 'higher-for-longer' interest rates. This can be understood in at least two ways. First, that the majority of central banks will maintain a restrictive stance, or even hike rates further (*e.g.* for the Fed, we still estimate a final 25bps hike in 4Q23). Second, that terminal rates will end above the levels seen in previous cycles when monetary easing finally arrives (*i.e.*, central banks cutting interest rates). Related to the latter, that the equilibrium, long-term real interest rate in various countries, known in the economic jargon as  $r^*$ , could be structurally higher.

A global recession, which was the main concern of investors at the start of this year, has not materialized despite some sectors that have decelerated or contracted. In this respect, lingering doubts remain about the lagged effect between the moment in which interest rates are high, and when they finally impact economic activity. In some regions, 'stagflation' risks are the most pressing (*i.e.* low growth, or even recession, coupled with persistently high inflation). In others, such as China, the debate has heated up about a combination of low growth and inflation (or even deflation), which also adds challenges to the efficient allocation of resources. In most emerging markets, questions abound about the potential impact from dollar strength, high oil prices and interest rates, on policy plans, external accounts, and the financial health of governments, corporates, and consumers. To this we must add uncertainty about the US political and fiscal scenario, along with a series of strikes in different sectors in said country –such as in the auto industry–, higher leverage of economic agents, and doubts about banks' financial strength. In geopolitical issues, we must consider US – China tensions, the conflict in Ukraine, the escalation of long-standing problems in the Middle East, and structural changes faced by globalization in an already complicated outlook on several fronts (*e.g.* North Korea, Taiwan, among others).

Despite of these global economic headwinds, Mexico has maintained its resilience on the back of a strong boost from private consumption and investment. With this, GDP growth could be 3.3% this year. On the other hand, nearshoring will stay as a favorable lever for medium-term expectations. On monetary policy, we reiterate our view that Banxico will not cut the reference rate this year, currently at 11.25%. Little by little, analysts' consensus and markets have aligned to this view. Finally, the discussion and approval of the [2024 Economic Package](#) in Congress, as well as the start of pre-campaigns ahead of next year's presidential election, will also be highly relevant.

#### Mexico's main macroeconomic and financial forecasts

End of period

	1Q23	2Q23	3Q23	4Q23	2021	2022	2023	2024
GDP (% y/y)	3.8	3.6	<u>3.3</u>	<u>2.8</u>	5.8	3.9	<u>3.3</u>	<u>2.4</u>
Inflation (% y/y)	6.9	5.1	4.5	<u>5.0</u>	7.4	7.8	<u>5.0</u>	4.6
USD/MXN	18.05	17.12	17.42	<u>17.90</u>	20.53	19.50	<u>17.90</u>	<u>19.20</u>
Banxico's reference rate (%)	11.25	11.25	11.25	<u>11.25</u>	5.50	10.50	<u>11.25</u>	9.25
28-day TIIE (%)	11.52	11.50	11.50	<u>11.45</u>	5.72	10.77	<u>11.45</u>	<u>9.50</u>
Mexbol (points)	53,904	53,526	50,875	<u>53,000</u>	53,272	48,464	<u>53,000</u>	<u>60,200</u>

\* Underlined figures represent our forecasts  
Source: Banorte



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#1 OVERALL FORECASTER - MEXICO

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## Mexico

**Higher GDP growth in 2023 and 2024...** The economy has surprised to the upside this year, with [services'](#) strength accompanied by momentum in construction within [industry](#). Following the latest figures, we shift to a more constructive view as we now expect GDP to climb 0.8% and 0.4% q/q in 3Q23 and 4Q23, in the same order (see table below on the left). The main pillars include: (1) Resilience in consumption fundamentals –especially [employment](#), [remittances](#), and [credit](#); (2) the acceleration in non-residential investment –due to government spending and nearshoring; and (3) circumstantial factors, such as the appreciation of the MXN and tailwinds from the US economy. We also revise up our 2024 estimate, from 1.8% to 2.4%. Several of the factors outlined above would spill over into next year, contributing to higher inertial growth. In addition, we incorporate a [stronger fiscal boost](#). However, we expect relevant divergences between quarters, with notable strength in the first half, and a deceleration in the second. Importantly, we see two consecutive quarters of sequential contractions. This would be explained by: (1) A greater US slowdown; (2) anticipated payments of social programs at the beginning of the year due to the electoral ban, along with higher government spending in the first half; and (3) the lagged effects of a restrictive monetary policy, especially on private investment.

**...with additional challenges for monetary policy.** On the other hand, risks for inflation have increased. We highlight renewed pressures in energy (see *Commodities* section) and the complex outlook for agricultural items due to adverse weather conditions –exacerbated by the *El Niño* phenomenon. As a result, [we revised our 2023 year-end estimate](#), with the headline at 5.0% (previous: 4.5%), despite a more modest forecast of the core at 5.1% (previous: 5.3%). With adverse conditions set to extend and further economic strength with a positive output gap, we now expect 2024 to close higher, at 4.6%. As a result of these and other factors, [the chances for rate cuts from Banxico are seemingly more limited](#). As such, the first reduction would materialize until May (-25bps), with the rate reaching 9.25% in December (previous: 8.25%).

**Relevant political agenda in the quarter.** Focus will be on the approval of the *2024 Budget Proposal* and discussions of several legislative initiatives. Among them, potential amendments to the Federal Labor Law (e.g. length of daily working hours, year-end bonus payments, etc.). The presidential pre-campaigns will also begin. We will be watching the IMF's announcement about the [Flexible Credit Line](#), as well as possible updates from rating agencies about the country's credit outlook.



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### GDP: Aggregate Demand

% y/y nsa; % q/q sa

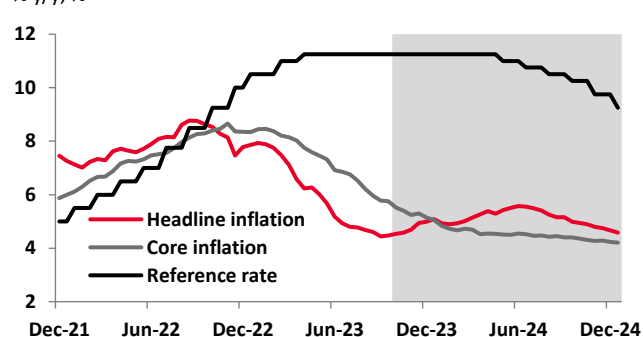
% y/y	1Q23	2Q23	3Q23	4Q23	2023	2024
<b>GDP</b>	<b>3.8</b>	<b>3.6</b>	<b>3.3</b>	<b>2.8</b>	<b>3.3</b>	<b>2.4</b>
Private consumption	4.8	4.3	4.4	3.5	4.3	3.1
Investment	15.2	21.0	25.7	17.2	19.8	6.2
Government spending	1.3	1.6	0.9	1.3	1.3	1.8
Exports	0.0	-6.1	-5.6	-5.7	-4.4	-2.7
Imports	8.6	7.5	5.1	5.6	6.6	1.1
<b>% q/q</b>						
<b>GDP</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.4</b>	--	--

\* Underlined figures represent our forecasts

Source: Banorte

### Inflation and reference rate

% y/y; %



Source: INEGI, Banxico, Banorte

## United States

**Available indicators suggest that the economy accelerated in 3Q23...** We estimate GDP growth at 3.6% q/q saar in the period, driven by consumption, net exports, and inventory changes. This is much higher than what we and consensus estimated just a few months ago. The economy has not stopped giving positive surprises. Recession fears (which we never contemplated as our base case) are behind us and everything points to a 'soft landing'. Despite the Fed's hiking cycle, the labor market has remained very solid, closing the quarter with an unemployment rate at 3.8%, consistent with full employment. Inflation kept rising from the low of 3.0% in June, standing at 3.7% y/y in September.

**...but it would only advance 0.5% in the fourth quarter.** Consumption will moderate its pace due to: (1) The resumption of student loan payments; (2) the decline in the savings rate; (3) gasoline prices that have rose to their highest so far this year; (4) financing costs that have increased sharply, impacting mortgage payments, among others; (5) lower banking credit to households, contracting in annual terms since last July; (6) the deterioration in consumer confidence; and (6) the possibility that the labor market starts weakening. Regarding the first factor, total student loan debt was close to US\$1.765 trillion as of 2Q23. According to some studies, payments over the course of the next twelve months could represent about 2.5% of total discretionary spending. On the fourth, the interest rate on 30-year fixed-rate mortgages has risen to 7.95% (national average) according to *Bankrate.com*, the highest since the beginning of the millennium. On the latter, we expect the unemployment rate to close this year at 4.0%. For its part, fixed investment will moderate. But as in 3Q23, residential investment would contribute positively to GDP.

**Inflation will remain high and above the Fed's target.** We expect pressures to continue due to higher energy prices, adverse weather that would affect food prices, and the impact of the auto sector strike on new and used cars. We estimate inflation at the end of 4Q23 at 4.4% y/y, still well above the Fed's target. In this backdrop, we reiterate our view of a 25bps hike in 4Q23, most likely in December rather than in November, due to the conflict between Israel and Hamas, with the terminal rate reaching 5.75% (upper bound). After the *hawkish* tone of Fed members and the latest *dot plot* adjustments, we expect a prolonged period of high rates, with the first cut until July 2024. We see the *Fed funds* rate closing next year at 4.75%.

**Temporary government shutdown.** After the removal of Kevin McCarthy as the Speaker of the House of Representatives, we believe it is likely that a temporary shutdown will materialize once the 45-day extension period approved by Congress (through a financing program) ends. We anticipate heated discussions that will hardly be able to end with the approval of the 2024 budget before the deadline, which is on November 17<sup>th</sup>.

### US: Banorte Estimates

	1Q23	2Q23	3Q23	4Q23	2023*	2024*
<b>GDP (% q/q annualized rate)*</b>	2.0	2.1	<u>3.6</u>	<u>0.5</u>	<u>2.2</u>	<u>1.1</u>
Private Consumption	3.8	0.8	<u>3.6</u>	<u>0.9</u>	<u>2.1</u>	<u>1.4</u>
Fixed Investment	3.1	5.2	<u>2.0</u>	<u>-2.8</u>	<u>0.2</u>	<u>-1.9</u>
Exports	6.8	-9.3	<u>-6.4</u>	<u>-6.2</u>	<u>0.4</u>	<u>-6.0</u>
Imports	1.3	-7.6	<u>-4.9</u>	<u>-5.1</u>	<u>-3.2</u>	<u>-4.9</u>
<b>CPI (% y/y, average)</b>	5.8	4.0	3.5	<u>4.0</u>	<u>4.3</u>	<u>2.9</u>
<b>Unemployment rate (% eop)</b>	3.5	3.6	3.8	<u>4.0</u>	<u>4.0</u>	<u>4.3</u>
<b>Non-farm payrolls (thousands)</b>	937	603	799	<u>400</u>	<u>2,739</u>	<u>1,450</u>

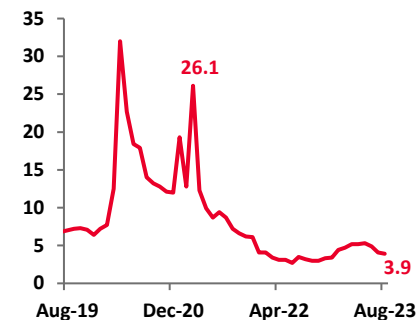
\* All GDP estimates are % q/q saar except for full-year 2023 and 2024, which are % y/y. eop: end of period. \*\*Underlined figures represent our forecasts  
Source: Banorte



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### Savings rate

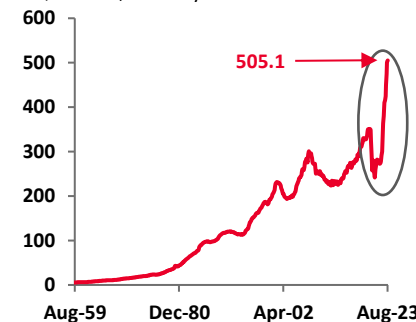
% of disposable personal income



Source: Banorte with data from Bloomberg

### Personal interest payments

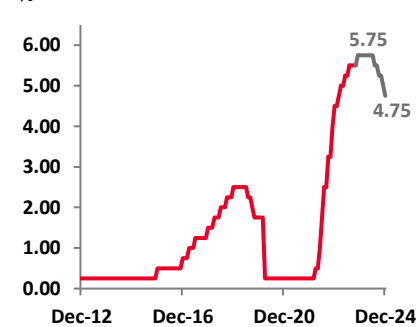
US\$ billions, monthly



Source: Banorte with data from FRED

### Banorte: Fed funds rate forecasts

%



\*The grey line corresponds to our estimates

Source: Banorte



## Global

**The global economy remains resilient, but with increasing risks ahead.** The International Monetary Fund updated its estimates, prognosticating global growth at 3.0% and 2.9% in 2023 and 2024, in the same order. Changes relative to their previous projections were minimal, but with differences in terms of its composition. The US looks solid, although with signs of a possible slowdown. However, the Eurozone, and China, face more challenges. In this respect, we will try to answer two key questions: (1) Is China at an inflection point, and will the recovery accelerate? and (2) Is Europe facing 'stagflation' risks?

**Complex situation in China...** Faced with a much slower-than-expected recovery, authorities have announced a series of stimulus measures. Some on monetary policy, and others on the fiscal front (focused on the real estate sector). After a long period of negative surprises following the disappointing rebound when the economy reopened, some of the recent data has turned out better than anticipated, especially on domestic demand. This has built up speculation of a potential acceleration. For the third quarter, consensus estimates a GDP advance of 1.0% q/q from +0.8% previously. The projection for the entire year is 5.0%, in line with authorities' target. In our view, risks remain very high, and the probability of a stronger recovery is very slim. The crisis in the real estate sector is far from being solved and could even deteriorate further. Talks abound about the possibility that *Evergrande Group*, the largest developer in the country, could collapse uncontrollably. Unemployment among the youth is very high (21.3% as of June) and housing prices continue to fall. This has eroded confidence, which remains very low since 2022. In this context, it seems that authorities are preparing new stimulus measures, financed with sovereign debt for infrastructure and/or consumption. However, this would imply a higher fiscal deficit, adding to the fragility of public finances. Indeed, Chinese authorities are facing a conundrum.

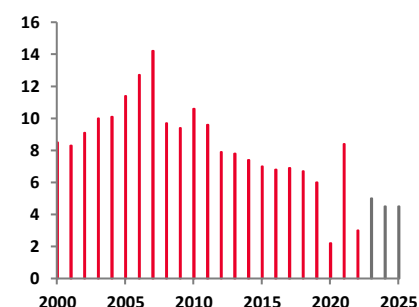
**...as in the Eurozone, although inflationary pressures are easing.** In September, core inflation advanced at its slowest pace in a year (4.5% y/y). The headline index stood at 4.3%, a two-year low, due to lower energy prices and a considerable drop in services. Although these levels remain well above the ECB's 2.0% target, there are signs that pressures could be beginning to ease. For its part, economic activity is slowing down. Credit advanced at its slowest pace in eight years in August, while consumer confidence has fallen for five straight months. Meanwhile, PMI indicators have lost *momentum*, with the manufacturing sector as the most affected. This is largely explained by Germany's weakness, probably contracting in full-year 2023. With this, the consensus expects GDP growth for the region of only +0.1% q/q in both the third and fourth quarters, such as in 1H23. The forecast for the entire year is just 0.5% and for 2024 it is 0.8%. Consensus sees a scenario of low growth, but not recession, which we share. For its part, the risk of a new inflation rebound persists due to the recent increase in energy prices. Although there is no clear-cut definition, if the latter materializes, the scenario would be consistent with stagflation. In this sense, we believe that the probability that the ECB has already reached the terminal rate at the current level of the deposit rate of 4.0% is very high.

**Geopolitical risks have increased, which could mean a new negative impact to growth in both cases.** The war in Ukraine continues, tensions between the US and China have deepened despite attempts to reduce tensions, and in recent days the conflict between Israel and Hamas has been added. All these mean risks for global growth and possible inflationary pressures because of commodities. That would add challenges to the still incomplete job of central banks to return inflation to their targets. Likewise, it may mean more trade rearrangements, and the search for safe-haven assets.



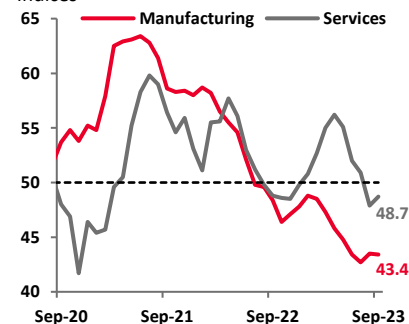
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**China: GDP\***  
% y/y



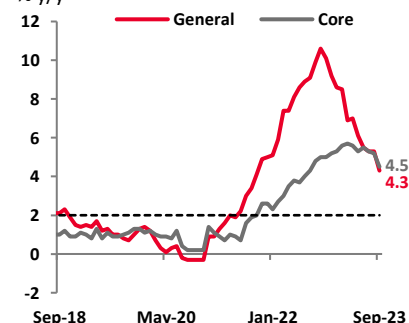
\*Note: The years from 2023 to 2025 correspond to the Bloomberg estimates. Source: Banorte with data from Bloomberg

**Eurozone: PMIs\***  
Indices



\*Note: The dotted line denotes the neutral level of the 50pts. Source: Banorte with data from Bloomberg

**Eurozone: CPI**  
% y/y



\*Note: The dotted line denotes the target of the ECB at 2.0%. Source: Banorte with data from Bloomberg

## Fixed Income (Sovereign Debt)

**The drivers behind the sell-off will prevail in coming months.** The fixed-income market ended the quarter with a massive sell-off focused on long-term bonds. The adjustment was led by US Treasuries, affected by: (1) The risk of a higher long-run neutral real interest rate – known as  $r^*$ , currently at 0.5% based on the dot plot, and at 0.6% as of 2Q23 according to a New York Fed model, with a post-pandemic high of 1.3%; (2) more issuance of Treasury debt to finance a growing fiscal deficit; (3) the Fed's quantitative tightening; (4) the need for higher compensation for duration risk in long-term debt (first chart, right); (5) lower demand and holdings by major purchasers (e.g. China); and (6) positioning, with increased shorts for speculative and hedging purposes. In recent days, losses have worsened, with 10- and 30-year benchmark yields reaching new highs of the last 16 years as they surpassed 4.80% and 5.00%, respectively. In Mexico, long-term Mbonos lost 114bps q/q and the 10-year yield reached 10.11%, a level not seen since 2008 amid the Global Financial Crisis.

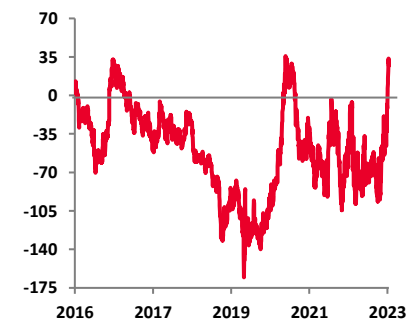
**We prefer floating rates and recommend a 2/10 steepener in TIIE-IRS.** [Our strategy of paying TIIE-IRS at the front-end of the curve was a winner](#) as the market diluted bets about rate cuts this year. However, we did not anticipate the strong rebound in yields at the long-end. In the current backdrop, we believe that floating rate bonds, known as Bondes F, remain appropriate and defensive. Despite the sharp cheapening of long-term Mbonos that could entice some investors to increase portfolio duration, the risks of higher rates persist. In this context, the correlation with US Treasuries remains high and spreads vs these securities are below their 5-year averages. Meanwhile, we perceive short-term Mbonos as undervalued, highlighting the 3-year benchmark (Sep'26) based on an analysis of the duration-adjusted yield. Furthermore, we see some room for a downward correction at the short-end of the TIIE-IRS curve. Embedded expectations are consistent with a reference rate of 9.75% by the end of 2024 (+50bps vs Banorte). All in all, relative value strategies are attractive given elevated volatilities. Specifically, we recommend a 2/10 steepener in TIIE-IRS with an entry level of -114bps, target of -60bps, and stop loss of -140bps, despite a negative carry and roll-down of -5.6bps per month. On real rates, short-term Udibonos maintain an attractive valuation, especially after the long-end became more expensive and [our upward revision in inflation forecasts](#). The 3-year breakeven is at 4.10%, well below the 20- and 30-year readings of 4.65% and 4.62%, in the same order.



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### 10-year Treasury term premium

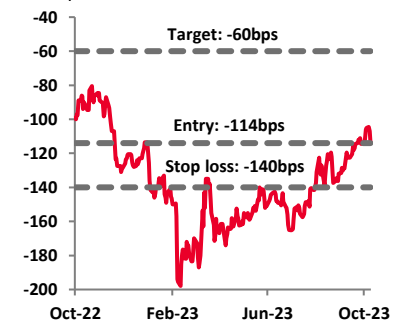
Basis points



Source: Banorte, New York Fed

### 2s/10s spread in TIIE-IRS

Basis points



Source: Banorte, Bloomberg

### Banorte: Interest rate forecasts

%

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	<u>11.25</u>	<u>11.25</u>	<u>10.75</u>	<u>10.25</u>	<u>9.25</u>
Average	8.05	5.44	4.38	7.65	10.79	11.25	11.25	<u>11.25</u>	<u>11.25</u>	<u>11.00</u>	<u>10.50</u>	<u>9.75</u>
28-day Cetes												
End of period	7.30	4.25	5.51	10.09	11.31	11.27	11.18	<u>11.29</u>	<u>11.29</u>	<u>10.79</u>	<u>10.33</u>	<u>9.33</u>
Average	7.87	5.33	4.44	7.72	10.93	11.28	11.21	<u>11.30</u>	<u>11.29</u>	<u>11.04</u>	<u>10.58</u>	<u>9.83</u>
28-day TIIE												
End of period	7.56	4.48	5.72	10.77	11.52	11.50	11.50	<u>11.45</u>	<u>11.45</u>	<u>11.00</u>	<u>10.50</u>	<u>9.50</u>
Average	8.31	5.69	4.63	7.93	11.09	11.52	11.50	<u>11.45</u>	<u>11.45</u>	<u>11.22</u>	<u>10.75</u>	<u>10.00</u>
10-year Mexican bond (Mbono)												
End of period	6.85	5.54	7.57	9.08	8.85	8.67	9.87	<u>10.25</u>	<u>10.20</u>	<u>10.25</u>	<u>9.85</u>	<u>9.80</u>
Average	7.61	6.25	6.81	8.80	8.92	8.81	9.21	<u>10.18</u>	<u>10.23</u>	<u>10.23</u>	<u>10.05</u>	<u>9.83</u>
10-year US Treasury												
End of period	1.92	0.91	1.51	3.87	3.47	3.84	4.57	<u>4.95</u>	<u>4.80</u>	<u>4.60</u>	<u>4.25</u>	<u>4.20</u>
Average	2.14	0.88	1.44	2.95	3.65	3.59	4.14	<u>5.10</u>	<u>4.88</u>	<u>4.70</u>	<u>4.43</u>	<u>4.23</u>
10-year Spread Mex-US												
End of period	493	463	606	521	538	483	530	<u>530</u>	<u>540</u>	<u>565</u>	<u>560</u>	<u>560</u>
Average	547	534	538	585	527	522	507	<u>508</u>	<u>535</u>	<u>553</u>	<u>563</u>	<u>560</u>

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

## Foreign Exchange

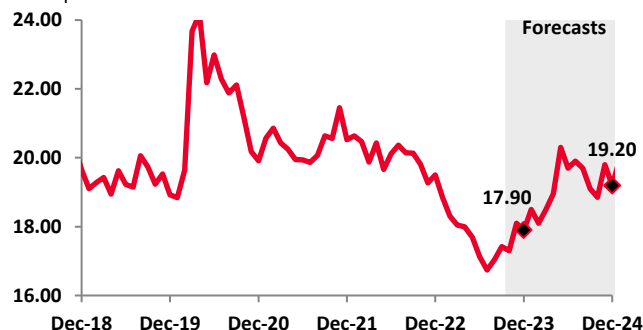
**The interest rate scenario will continue supporting the USD.** The steepening of sovereign bond yield curves, led by Treasuries amid US 'exceptionalism', triggered higher flows into the USD and diluted net short positions in the IMM. In this environment, the DXY and BBDXY gained 3.2% and 2.7% q/q, respectively. We expect the USD to remain strong due to: (1) The Fed's 'higher-for-longer' signal for interest rates; (2) a US 'soft landing' vs possible 'stagflation' in Europe, a slow Chinese recovery –with financial stability risks–, and easing cycles in some emerging economies; and (3) higher demand for safe-haven assets due to geopolitical risks. The MXN also recorded high volatility, oscillating very close to its strongest level year-to-date just before the [Foreign Exchange Commission](#) announced the end of the non-deliverable FX forwards program. Speculation remains as to whether a reserve accumulation mechanism will be announced, with the sale of USD/MXN put options as an alternative. In our view, this will not happen soon. First, it is necessary to evaluate the conditions under which the [IMF's Flexible Credit Line](#) could be renewed, with an announcement expected for November and probably for a lower amount. There is also no rush considering that Mexico has healthy international reserves (see second chart, right). In our view, it is more feasible that such mechanism could be approved until 2H24.

**The EUR will remain weak.** In 3Q23, the ECB signaled that it had reached its terminal rate at 4.00% despite very high inflation. Although the central bank reaffirmed that it would keep rates high for as long as necessary, the main risk for the region is that of 'stagflation'. The fear of a sizable shock to the economy from higher rates limits the room for additional hikes, contrasting with a 'soft landing' scenario in the US. To the latter we must add the impact of higher energy prices on external accounts. We reiterate our unfavorable view for the euro, estimating EUR/USD at 1.05 by 2023. In addition, we set the 2024 close at 1.08 with a range between 1.04-1.09, close to current levels in forwards.

**The pace of carry compression will determine MXN dynamism in 2024.** MXN lost 1.7% q/q against the dollar, resilient vs its peers. As we expected, an important element for its relative outperformance was the start of aggressive rate cuts in Brazil, Chile, and Colombia. With the US still strong, we believe the main risk for the peso is that a 'soft landing' does not materialize, or that volatility spikes because of financial stability issues driven by high interest rates. Our base case remains that the MXN will be resilient. Among its favorable fundamentals, we note: (1) Higher GDP growth in Mexico, mainly in 1H24; (2) a delayed start relative to market expectations of Banxico's rate cuts, until May 2024; and (3) nearshoring flows. On the contrary, the spread vs. the *Fed funds* rate would decline from 550bps in 2023 to 450bps at the end of 2024. All in all, we reiterate our USD/MXN forecasts of 17.90 at year-end 2023 and 19.20 in 2024, expecting a trading range next year between 17.90 and 20.50.

### USD/MXN

Pesos per dollar



Source: Bloomberg, Banorte

### USD/MXN forecast

Pesos per dollar

Period	End of period	Forecast	Average
1Q23	18.05		
2Q23	17.12		
3Q23	17.42		
4Q23		<u>17.90</u>	<u>17.77</u>
1Q24		<u>18.50</u>	<u>18.37</u>
2Q24		<u>19.70</u>	<u>19.65</u>
3Q24		<u>19.10</u>	<u>19.57</u>
4Q24		<u>19.20</u>	<u>19.28</u>

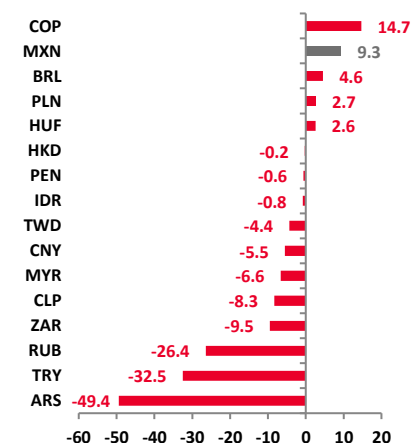
\*Underlined numbers indicate forecasts. Source: Bloomberg, Banorte



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### EM currency performance

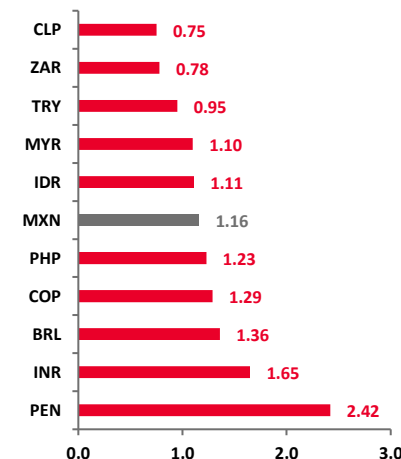
%, YTD as of October 11, 2023



Source: Banorte with data from Bloomberg

### International reserve / ARA\* metric

Ratio of 1.0x and 1.5x considered adequate



\* Assessing Reserve Adequacy

Source: IMF

## Stock market indices

**Caution towards risk assets will prevail due to high interest rates and their possible impact on growth.** Stock market gains in 1H23 were eroded during the third quarter, mainly on the adjustment of expectations about the continuity of restrictive monetary conditions from different central banks. Recently, uncertainty for companies and market volatility has picked up. In our view, investors' preference for fixed-income assets will continue to limit appetite for equities during 4Q23. An improvement could materialize to the extent that: (1) Greater clarity emerges about the terminal level of interest rates; (2) inflationary pressures do not reignite after recent oil price increases; and (3) earnings resilience can be confirmed despite lingering risks. On the latter, the 3Q23 earnings season is about to begin. It will be crucial to glimpse: (1) Companies' strategies to maintain growth and protect investments in the face of an economic slowdown in 2024; and (2) whether the recovery in the profitability of operations is sustainable. In the US, the key question is whether the quarter could be an inflection point for growth. *Bloomberg's* consensus anticipates a contraction of only 1.1% in S&P500 company earnings, albeit with ample differences among sectors. Examples include the automotive industry amid the strike that began on September 15<sup>th</sup> at the 'Big Three', as well as concerns about the strength of the banking sector. In our view, tech- and artificial intelligence-related companies will stand out again, although rotation to Value firms should be favored.

**S&P500 benchmark level.** Despite the resilience in earnings generation, expectations of a scenario with tight monetary conditions for longer has convinced us to revise downwards our 2023 estimate to 4,450pts from 4,550pts. We now consider a P/E fwd multiple of 18.5x vs. 19.0x previously (below its current level of 19.8x). We reiterate our call of a 2.8% y/y decline in 2023 earnings (vs. *Bloomberg's* estimate of -2.6%e). Although downside risks have increased for 2024, the view that interest rates may start declining, despite being more gradual, could help valuations to recover. In this sense, assuming 10.5% earnings growth (vs. consensus of +11.8%e), and a P/E fwd multiple of 18.8x, we adjust our reference level to 5,000pts vs. 5,100pts before.

**Mexbol benchmark level.** An even higher GDP growth outlook for Mexico supports our EBITDA estimate for Mexbol constituents of 4.9% y/y in 2023. Nevertheless, [higher rates for longer](#) and some idiosyncratic risks have obliged us adopt a more cautious stance on valuations. We observed a relevant adjustment in index multiples vs. our previous report, from a FV/EBITDA of 6.0x to the current level of 5.4x. Specifically, we highlight unexpected news about changes in [airport groups' tariff regulations](#), encouraging significant profit-taking. As a result, we cut our 2023 estimate from 59,000pts to 53,000pts, considering a FV/EBITDA multiple of 5.8x (vs. 6.3x previously). Looking into 2024, expectations that interest rates will start their decline would help for a multiple re-rating. On the other hand, risks related to higher neutral rates, and of an economic slowdown, should be limiting factors. In this backdrop, our forecast for the Mexbol Index by year-end 2024 is at 60,200pts. We assume EBITDA growth of 6.4% y/y, net debt higher by around 4.0%, and a FV/EBITDA multiple of 6.0x. Lastly, going to specific companies, we reaffirm [Ac](#), [Cemex](#), [Femsa](#), and [Gcc](#) as our top-picks given that their prospects remain very solid. Finally, after the recent exit of [Oma](#) and [Volar](#) from our selection, we add [Amx](#) as it is a Value firm with a very appealing valuation, in our view.



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### S&P500 forecast for 2023

Pts

P/E Fwd	S&P500	Potential Return (%)
19.0x	4,565	5.0
<b>18.5x</b>	<b>4,445</b>	<b>2.2</b>
18.0x	4,325	-0.6

Source: Bloomberg, Banorte

### S&P500 forecast for 2024

Pts

P/E Fwd	S&P500	Potential Return (%)
19.3x	5,134	18.0
<b>18.8x</b>	<b>5,000</b>	<b>15.0</b>
18.3x	4,867	11.9

Source: Bloomberg, Banorte

### Mexbol forecast for 2023

Pts

FV/EBITDA	Mexbol	Potential Return (%)
6.2x	58,120	16.8
<b>5.8x</b>	<b>52,961</b>	<b>6.5</b>
5.4x	47,802	-3.9

Source: Bloomberg, Banorte

### Mexbol forecast for 2024

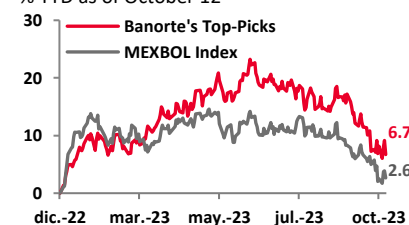
Pts

FV/EBITDA	Mexbol	Potential Return (%)
6.4x	65,664	32.0
<b>6.0x</b>	<b>60,175</b>	<b>21.0</b>
5.6x	54,687	9.9

Source: Bloomberg, Banorte

### Top-picks vs Mexbol\*

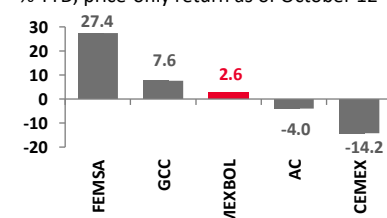
% YTD as of October 12<sup>th</sup>



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

### Top-picks performance\*

% YTD, price-only return as of October 12<sup>th</sup>



\* Note: (1) GCC: Included in top-picks on April 17, 2023. Since then, it has gained +7.6% vs. -9.2% of the Mexbol Index  
(2) Cemex: Included in top-picks on August 3, 2023. Since then, it has lost -14.2% vs. -6.9% of the Mexbol Index  
Source: Bloomberg



## Commodities

**Commodities diluted part of the losses seen in 1H23 during the third quarter.** The GSCI and BCOM indices advanced 12.8% and 3.2% q/q, respectively. In greater detail, gains were concentrated in the energy sector because of higher crude-oil prices, which ended close to 100 \$/bbl.

**We expect even tighter balances in the energy market towards the end of 2023.** Crude-oil futures posted their biggest quarterly gain since the beginning of the war in Ukraine, with WTI and Brent up 28.5% and 27.3%, in the same order. The drivers that triggered the rally will remain in 4Q23, such as: (1) [Saudi Arabia's voluntary cut of 1 Mbbbl/d](#); (2) the 300 Kbbbl/d decline in Russian exports; (3) US commercial inventories at year-to-date lows; and (4) the US limited room to maneuver to add fresh supply with its Strategic Petroleum Reserves (SPR), which are at lows since 1983. In this regard, OPEC forecasts a 3 Mbbbl/d deficit for 4Q23. If this materializes, it would be the largest deficit in more than a decade. Thus, net long positioning in crude-oil futures is likely to remain high compared to the levels seen at the beginning of the year. In fact, for WTI it ended the quarter at 16-month highs (see first chart on the right). On the geopolitical front, the latest tensions in the Middle East could pressure prices further, mainly if retaliation is taken against Iran after its apparent involvement in Hamas's surprise attack against Israel. It is worth noting that Saudi Arabia left the door open to future adjustments in its crude-oil policy. If they do this, we think it could be tightened or extended if prices fall below 80 \$/bbl – [levels that triggered production cuts in July](#). This could happen because of expectations of higher interest rates for longer, inducing heightened market concerns about the potential for demand destruction. In addition, the swap curve still does not fully price-in the Fed's hike in 4Q23, which is already embedded in our baseline scenario. Considering these factors, we maintain our estimated trading range for Brent between 80 and 100 \$/bbl for the remainder of the year, while we expect prices between 65 and 95 \$/bbl in 2024. In gasoline, prices will remain high due to crude-oil pressures and insufficient inventories. The EIA estimates 3.20 \$/gal in the PADD3 at the end of the year (+18% vs. 2022).

**A more adverse outlook for gold.** Industrial metals closed the quarter mostly higher, driven by zinc (+10.9%) and aluminum (+9.1%) despite losses in copper (-0.5%). For the sector, we expect range-bound dynamics supported by a 'soft landing' baseline scenario, albeit with downside risks from a possible economic slowdown in 2024. In precious metals, gold lost 3.7% as it incorporated an outlook of higher interest rates for longer, thus widening its carry disadvantage. Considering our estimated monetary policy path, we anticipate a trading range between 1,700 and 1,890 \$/troy ounce for the remainder of the year. Finally, we see higher grain prices due to adverse weather conditions (e.g. high temperatures, droughts and floods, due to effects of *El Niño* phenomenon), along with uncertainty in Ukraine.



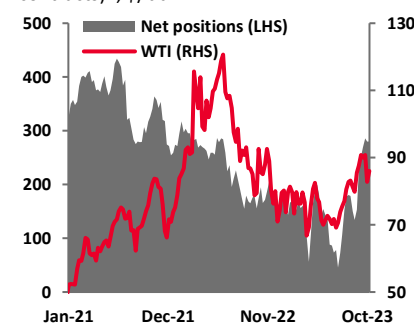
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### Managed money positioning in WTI futures

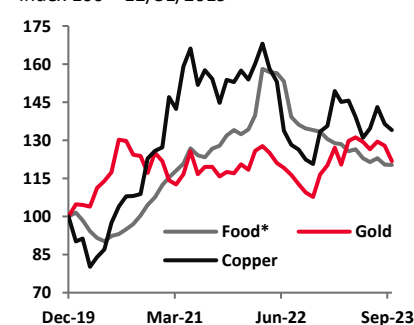
Thousand 'lots' (combined interest from two contracts)\*, \$/bbl



\* 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	4Q23	1Q24	2Q24	3Q24	2023	2024
WTI	\$/bbl	83.27	-20.54	55.01	6.71	81.00	83.70	82.00	84.00	79.00	82.00
Brent	\$/bbl	85.82	-21.52	50.15	10.45	86.50	86.00	86.00	87.50	83.00	84.00
Natural Gas (H. Hub)	\$/MMBtu	3.39	15.99	46.91	19.97	3.10	3.35	3.10	3.30	2.99	3.50
Gasoline (RBOB)	\$/gal	2.20	-0.17	0.58	0.10	2.59	2.65	2.94	2.93	2.67	2.80
Gold	\$/t oz	1,875	25.12	-3.64	-0.28	1,955	1,991	2,009	2,015	1,926	1,948
Silver	\$/t oz	22.03	47.89	-11.72	2.77	23.88	23.90	24.20	24.00	23.51	24.00
Copper	\$/mt	8,023	25.79	25.17	-13.87	8,400	8,500	8,500	8,783	8,588	8,809
Corn	c/bu	488	24.82	22.57	14.37	475	490	480	460	555	480
Wheat	c/bu	556	14.63	20.34	2.76	625	630	641	610	662	617

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

## Corporate Debt

**Accumulated market placements in the first nine months of 2023 stood at MXN 127.69 billion (+3.3% y/y).** Dynamism was observed in March, June, and July, with 60.5% of the amount issued in these nine months. Appetite for high quality, unsecured, and ESG-themed bonds was clear. In addition, there was a greater balance in the shares between floating- vs. fixed-rate bonds. Of the amount placed: (1) 87.6% had the highest credit rating on a national scale ('AAA'); (2) 88.6% was in unsecured bonds; (3) the participation of floating rates (TIIE-28 and ON-TIIE) was 49.4%, followed by fixed rate notes at 43.6%; and (4) 57.1% were labelled as sustainability bonds.



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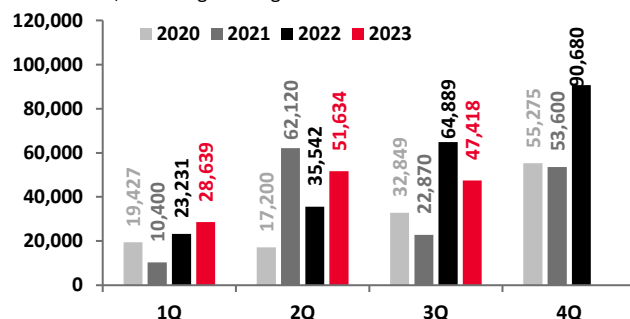
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**We expect the balance between floating- vs. fixed-rate bonds to be maintained for the remainder of the year and in early 2024.** Two forces in opposite directions are worth noting. On one hand, the sharp upward adjustments in sovereign, fixed-rate bond yields. On the other, the expected delay in the start of Banxico's easing cycle until May 2024, albeit with the market pricing-in a rate close to 9.75% by the end of that year, above our forecast of 9.25%. Appetite would prevail, with activity levels close to those seen in previous years, in which greater dynamism is typically observed during the second half of the year because of a seasonal effect. We also anticipate that the gradual return of liquidity to debt from other sectors and/or issuers will continue, supported by expectations of higher GDP growth in 2023 compared to forecasts at the beginning of the year.

**Issuers will anticipate their funding needs for the remainder of the year and 2024.** Spreads by credit rating have been slightly below the levels observed before the pandemic. However, we have recently seen a greater adjustment in floating rates relative to fixed rates. Beyond the abovementioned seasonality, we believe companies will be more interested in bringing forward their offerings ahead of the electoral year, both for their upcoming maturities, and refinancings. For this reason, we expect an increase in bond supply and a slight reduction in auctions' demand, maintaining the same path in spreads. In any case, we reiterate our full-year issuance forecast for 2023 at around MXN 185 billion (-13.7% y/y).

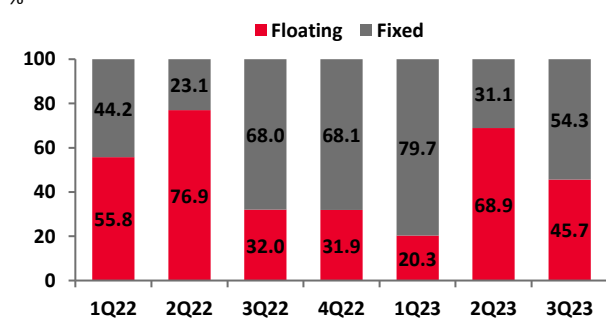
### Long-term bonds issued by quarter

MXN million, excluding banking bonds



Source: Banorte with information from BMV, BIVA and PiP

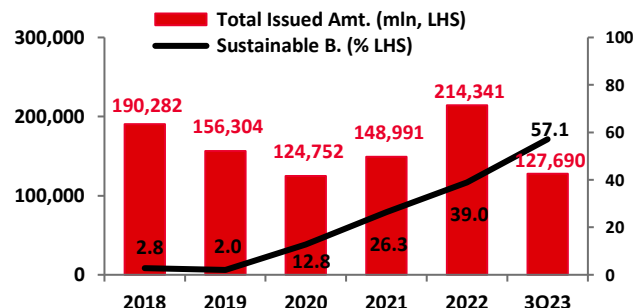
### Long-term issued amount distribution by quarter



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

### ESG bonds evolution

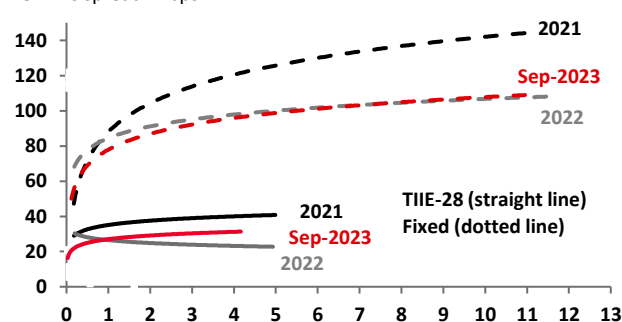
MXN million and %



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

### Spreads Curves—TIIE-28 and Fixed 'AAA-Unsecured'

Term vs spread in bps



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

## PEMEX and CFE

**PEMEX improved crude oil production and benefited from the peso's appreciation in 2Q23.**

The oil company reported an average crude-oil production of 1,882 Kbb/d in 2Q23 (7.1% y/y). In the sequential analysis, production rose 1.6% q/q (+3.0% in condensates, +10.9% in extra-light, -8.6% in light, and +5.6% in heavy). This was driven by the strategy of incorporating new oil fields. However, revenues fell 42.5% y/y, mainly due to lower international prices for the Mexican Crude Oil Basket and lower gasoline sales' prices. Net income was MXN 25.4 billion in 2Q23 (-79.7% y/y). This was due to: (1) Lower sales; and (2) the effects of fixed asset impairments. In turn, this was partially offset by a foreign exchange gain of MXN 105.4 billion (+436.2% y/y) and a 33.6% decline in taxes and duties.



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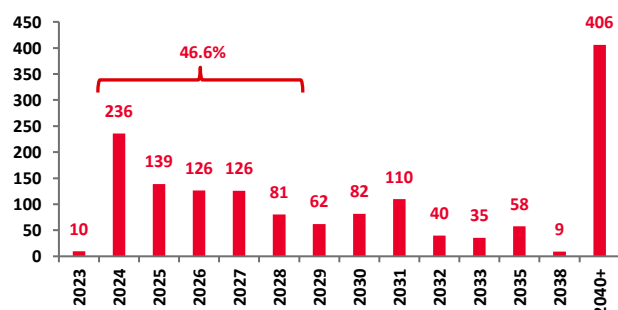
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**Considering the upcoming government support, expectations of an improvement in production, and oil prices, PEMEX would have enough liquidity to refinance most of its 2024 debt maturities.** In the 2024 Budget Proposal, PEMEX's tax burden would decrease, with the royalty paid (DUC, or 'Derecho de Utilidad Compartida' in Spanish) falling from 40% to 35%. In addition, the government pencilled in an MXN 145 billion (US\$ 8.2 billion) contribution to the company. The average production estimate amounts to 1,983 Kbb/d, 26.5% below the company's original Business Plan. With this support and higher cash flow available from royalties (DUC), we estimate the company can cover around 85% of its 2024 maturities, with resources of around MXN 236 billion (US\$ 13.4 billion). Nevertheless, this figure could vary depending on actual production levels, operating performance, and crude-oil prices. PEMEX will publish its 3Q23 results on October 27<sup>th</sup>.

**CFE: Improved revenues and net income in 2Q23 on higher energy sales, cost efficiencies, and exchange rate fluctuations.** In the next 6 years, CFE expects maturities for 49.9% of its total debt. In addition to potential refinancings, we believe it will be important to increase its profitability to meet them comfortably.

### Upcoming Maturities – PEMEX\*

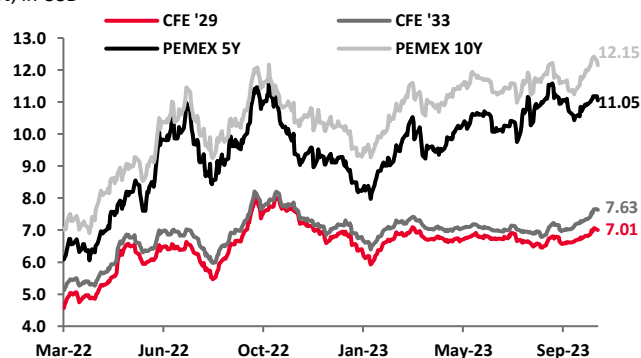
MXN Billion



\* Note: Revolving credit lines with banks not included. Source: Bloomberg

### PEMEX & CFE International bond yields

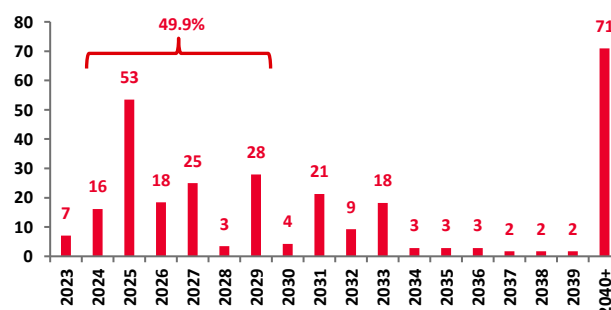
%, in USD



Source: Banorte with information from Bloomberg

### Upcoming Maturities – CFE\*

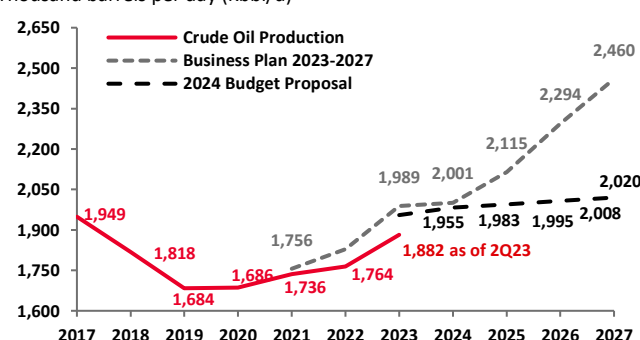
MXN Billion



\* Note: Revolving credit lines with banks not included. Source: Bloomberg

### PEMEX production vs Business Plan and 2024 Budget Proposal

Thousand barrels per day (Kbb/d)



Source: Banorte with information from PEMEX and MoF

## Quantitative Analysis

### 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.

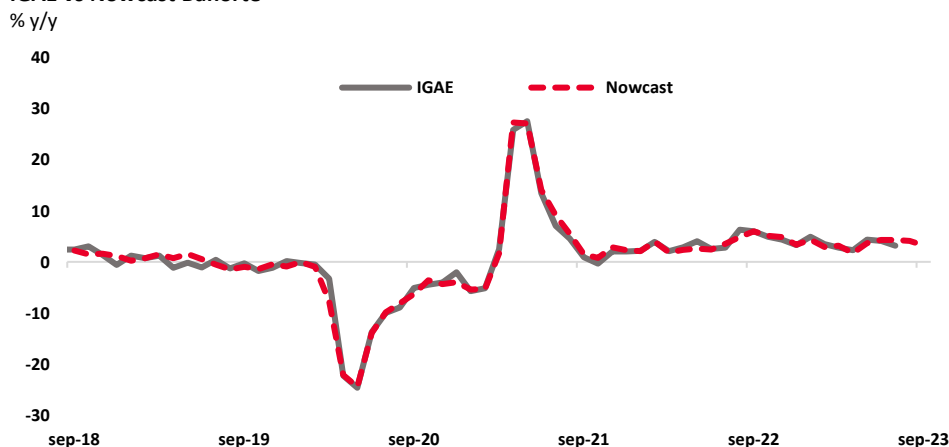
**Recent economic data available for our model hints at a strong performance of the Mexican economy during 3Q23.** Using credit and debit card purchases provided by the central bank, we can infer that Mexican household spending maintained an upward trend during the third quarter of the year. In addition, the momentum in formal employment coupled with strong gains in real wages supported overall growth dynamics for Mexico's economic outlook.

In addition, non-traditional data sources -such as keyword searches in Google Trends- suggest that the dynamism of aggregate supply continued during the third quarter of the year. Particularly strong growth was observed in SMEs income.

In this regard, our model forecasts:

- A **4.08% y/y nsa expansion** in **August's** economic activity; and
- A **3.23% y/y nsa growth** in **September's** output

IGAE vs Nowcast Banorte



Source: Banorte



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## Quantitative Analysis

### Fed's topics classification using NLP and ML techniques.

We previously 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](#)).

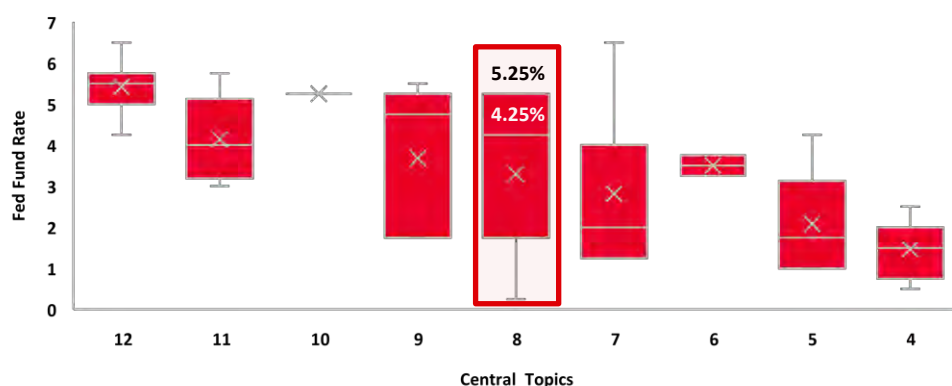
**Loss of coherence between monetary policy announcements and rate forecasting.** Despite that the Fed maintained the target range between 5.25% and 5.5%, our model classified the semantics of the statement with the central topic congruent with a terminal rate of 5.25% (upper range; Topic 8 in the chart). It is worth nothing that this topic has been the dominant one since the Fed began its hiking cycle in March 2022. In this context, the semantics of the statement were identical to previous announcements, so the model continues to exhibit strength in the classification of the statements.

Nevertheless, on September 20<sup>th</sup>, the Fed also released its summary of economic projections. The dot-plot showed that most of the FOMC members would be willing to increase the target range for the federal funds rate by 25bps 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. In this regard, the Fed's written communication within the statements continues to allude to a 5.25% terminal rate, even though most of the committee members maintain the rate projections for this year with an additional hike. 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 a last increase in the remainder of the year.** Even though our model correctly anticipated the Fed's previous increases, and there was no change in the September 20<sup>th</sup> statement from the previous ones, the dot-plot strongly indicates that most FOMC members consider a final increase of 25bps on the target rate range in the remainder of the year. Therefore, and given the recent changes in the geopolitical environment, we believe that the Fed will increase the target range by 25bps at its meeting on December 13<sup>th</sup>.

### Range of Fed Funds Rate by Topic

Central Topics



Source: Banorte



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## 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.

**Neutral bias increased in September.** Our classification model has identified that four voting members are maintaining their hawkish bias in September (Goolsbee, Kashkari, Bowman, and Barr). However, three voting members (Cook, Waller, and Powell) have taken a less restrictive stance in their latest speeches. If we consider that the coherence that existed between the language used in the latest statements and the current tightening monetary cycle has been lost (refer to the essay: Fed's topics classification using NLP and ML techniques), the FOMC members' speeches have been more consistent with their monetary policy decisions. Hence, the neutral tone adopted by some voting members of the committee, including Jerome Powell, suggests that they will be wary when carrying out the latest 25bps increase in the reference rate in this 4Q23.

**We expect a last 25bps increase in the Fed's reference rate in December.** The restrictive tone of the most voting members and the updated dot-plot projections at the last committee meeting confirms the intention that the FOMC would be willing to increase the reference rate range by 25bps in December. Nevertheless, changes in the tone of some voting members, including Jerome Powell, suggests that this hike will be the last and with it the terminal rate will stand between 5.5% and 5.75%.



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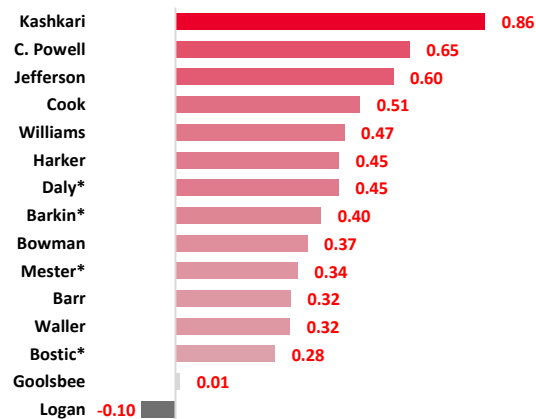
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#### Hawk-o-meter – Jan'23 to Aug'23

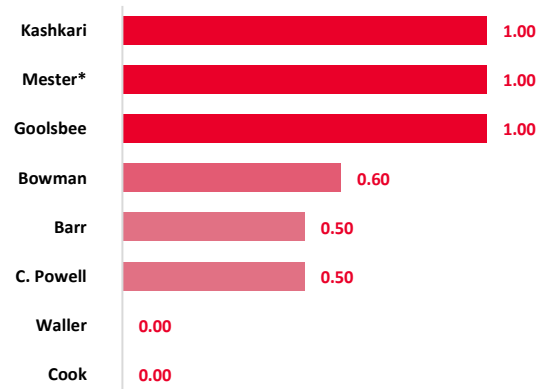
Speeches' tone



Source: Banorte, Federal Reserve

#### Hawk-o-meter – Sep'23 to Oct'23

Speeches' tone



Speeches analyzed as of October 4  
Source: Banorte, Federal Reserve

## Quantitative Analysis

### Nowcasting Model for Mexico's Private Consumption.

**Driven by favorable shifts in several key macroeconomic indicators, private consumption in Mexico has exhibited robust growth in 3Q23.** One of the principal catalysts underpinning this expansion throughout the third quarter has been the pace of formal job creation, marked by the addition of 2.28 million new jobs compared to the corresponding period in the preceding year. This phenomenon, coupled with controlled inflationary pressures, has made a substantial contribution to a significant quarterly increase in real wage rates for workers, registering a substantial 5.7% y/y increase. In addition, sectors such as construction and manufacturing –which collectively account for a third of formal employment– have experienced remarkable real wage growth, with rates of 10.8% and 9.6% y/y, respectively. Another pivotal factor bolstering national purchasing power is the influx of remittances, posting a robust 7.57% y/y growth during the July-August 2023, with expectations of maintaining this trajectory in the coming months, supported by the resilience of the U.S. labor market.

**An examination of demand data within key sectors supports the enduring strength of private consumption.** We highlight the surge in light vehicles sales, with a remarkable 31.78% y/y upswing. In addition, indicators related to the tourism services have shown favorable statistics, including a 6.6% increase in aviation fuel demand during July-August and a 2.25% y/y growth in hotel occupancy during the same period. This favorable trend is also evident in the sharp increase in debit card transactions, with a significant annual surge of 12.87% recorded within the same period. During the third quarter, there has been a decrease in the proportion of credit card purchases relative to total debit and credit card transactions, dropping from 41.5% to 40.1%, which highlights the positive impact of income-related factors on consumption patterns within this timeframe.

**Conversely, the appreciation of the national currency vis-à-vis the U.S. dollar (13.48%) in the quarter has fostered an expansion in the purchasing power of imported goods.** For instance, during July and August, non-oil exports have recorded a 7.74% y/y expansion, while imported consumption has accumulated an 18.7% y/y growth, with durable goods consumption displaying a remarkable 20.9% cumulative annual surge.

**It's worth mentioning that certain variables haven't been as dynamic during this timeframe.** The demand for gasoline and diesel, which are linked to ground transportation, have experienced negative growth rates of -10.6% and -9.5% y/y, respectively. As such, some transportation-related activities might have slowed down in the past months.

**Employing statistical and machine learning models, Banorte's nowcasting projections for August and September 2023 stand at 3.9% and 4.2% y/y, respectively.** This translates to a growth of 0.81% (q/q sa). Consequently, private consumption is anticipated to stand at 4.41% y/y during 3Q23, reaffirming its pivotal role in Mexico's business cycle.

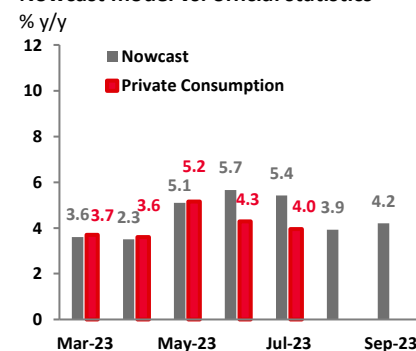


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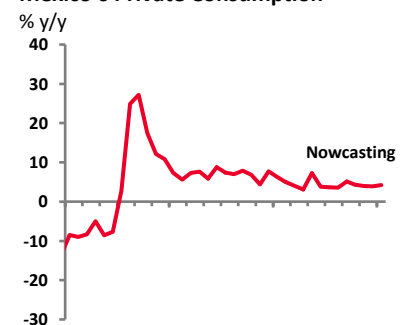
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#### Nowcast model vs. official statistics



Source: Banorte with data from INEGI.

#### Mexico's Private Consumption



Source: Banorte, with data from INEGI.

## Recent research notes

### Zoom Nearshoring

- *Volume II: Shifting Gears: Exploring Mexico's Regional Advantages for Nearshoring*, July 17, 2023, [<pdf>](#)
- *Volume I: Nearshoring could unleash Mexico's potential*, March 6, 2023, [<pdf>](#)

### Mexico

- *Banxico minutes – The Board seems more cautious about an eventual start of rate cuts*, October 12, 2023, [<pdf>](#)
- *September inflation – We revise our estimates higher on a more challenging outlook*, October 9, 2023, [<pdf>](#)
- *Analysis of the 2024 Budget Proposal*, September 12, 2023, [<pdf>](#)
- *Fitch affirms Mexico 'BBB-' sovereign rating, maintaining a stable outlook*, June 16, 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>](#)
- *Minimum Wage – 20% increase in 2023*, December 1, 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 items*, 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 25bps hike in November's meeting*, September 20, 2023, [<pdf>](#)
- *Shifting Gears: Exploring Mexico's Regional Advantages for Nearshoring*, July 17, 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*, October 6, 2023, [<pdf>](#)
- *4Q23 Auction Calendar: Reshuffling in favor of floating vs. fixed rates*, September 29, 2023, [<pdf>](#)
- *Pension Funds Outlook - August 2023*, September 21, 2023, [<pdf>](#)
- *Extraordinary Cetes and Bondes F auction results*, September 6, 2023, [<pdf>](#)
- *OPEC+: Saudi Arabia extended its unilateral 1 Mbbl/d output cut until December*, September 5, 2023, [<pdf>](#)
- *FX Commission: Reduction of the FX NDFs program*, August 31, 2023, [<pdf>](#)
- *Syndicated auction results of new 5-year Mbono Mar'29*, August 17, 2023, [<pdf>](#)
- *Profit-taking: Tactical long in 2-year Mbono Dec'24*, June 22, 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

- *Flash VOLAR: In the face of challenges guidance decreases, while traffic slows down. Out of favorites*, October 11, 2023, [<pdf>](#)
- *AIRPORTS: Traffic slows down and changes in tariff regulation*, October 10, 2023, [<pdf>](#)
- *Flash WALMEX: Notification from COFECE regarding wholesale market investigation announced*, October 10, 2023, [<pdf>](#)
- *Flash GAP: Uncertainty due to regulatory changes and further slowdown in passenger traffic*, October 10, 2023, [<pdf>](#)
- *Flash ASUR: Impact on the stock due to regulatory changes and moderate passenger growth*, October 9, 2023, [<pdf>](#)
- *Flash OMA: Announcement of changes in tariffs regulation dampens passenger increase*, October 5, 2023, [<pdf>](#)
- *Flash Airports: The tariff base regulation is being modified*, October 5, 2023, [<pdf>](#)
- *Flash ALPEK: Corpus Christi Polymers pauses construction*, September 27, 2023, [<pdf>](#)
- *Flash: Mexican aviation recovers Category 1*, September 14, [<pdf>](#)
- *EQUITY STRATEGY: CHDRAUI B to join the Mexbol*, September 4, 2021, [<pdf>](#)
- *Flash FEMSA: Femsa continues with its long-term plan, now with its subsidiary Envoy Solutions*, August 30, 2023, [<pdf>](#)
- *Flash VOLAR: Risks in the environment impact share price*, August 17, 2023, [<pdf>](#)

## Corporate Debt

- *Corporate Bond Market Review: SEPTEMBER 2023*, October 5, 2023, [<pdf>](#)
- *PEMEX – Crude-oil production up, with net income helped by currency gains*, August 1, 2023, [<pdf>](#)
- *Moody's affirmed Pemex's 'B1' ratings; outlook changed to negative*, July 24, 2023, [<pdf>](#)
- *Fitch Downgrades Pemex's IDRs to 'B+' on Rating Watch Negative*, July 18, 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	
2y10y TIIE-IRS steepener		Oct-13-23		
Long positions in Mbono Dec'24	P	Jun-16-23	Jun-22-23	
Pay TIIE-IRS (26x1), receive 2-year SOFR	L	Aug-18-22	Oct-28-22	
Pay 2-year TIIE-IRS (26x1)	P	Feb-4-22	Mar-4-22	
Tactical longs in Mbono Mar'26	P	May-14-21	Jun-7-21	
Receive 6-month TIIE-IRS (6x1)	P	Dec-17-20	Mar-3-21	
Long positions in Udibono Nov'23	L	Feb-11-21	Feb-26-21	
Long positions in Mbono May'29 & Nov'38	P	Sep-7-20	Sep-18-20	
Long positions in Udibono Dec'25	P	Jul-23-20	Aug-10-20	
Long positions in Udibono Nov'35	P	May-22-20	Jun-12-20	
Long positions in Mbono May'29	P	May-5-20	May-22-20	
Tactical longs in 1- & 2-year TIIE-28 IRS	P	Mar-20-20	Apr-24-20	
Long positions in Udibono Nov'28	P	Jan-31-20	Feb-12-20	
Long positions in Udibono Jun'22	P	Jan-9-20	Jan-22-20	
Long positions in Mbono Nov'47	L	Oct-25-19	Nov-20-19	
Long positions in Mbonos Nov'36 & Nov'42	P	Aug-16-19	Sep-24-19	
Long positions in the short-end of Mbonos curve	P	Jul-19-19	Aug-2-19	
Long positions in Mbonos Nov'42	L	Jul-5-19	Jul-12-19	
Long positions in Mbonos Nov'36 & Nov'38	P	Jun-10-19	Jun-14-19	
Long positions in Mbonos Jun'22 & Dec'23	P	Jan-9-19	Feb-12-19	
Long floating-rate Bondes D	P	Oct-31-18	Jan-3-19	
Long CPI-linkded Udibono Jun'22	L	Aug-7-18	Oct-31-18	
Long floating-rate Bondes D	P	Apr-30-18	Aug-3-18	
Long 20- to 30-year Mbonos	P	Jun-25-18	Jul-9-18	
Short Mbonos	P	Jun-11-18	Jun-25-18	
Long CPI-linkded Udibono Jun'19	P	May-7-18	May-14-18	
Long 7- to 10-year Mbonos	L	Mar-26-18	Apr-23-18	
Long CPI-linkded Udibono Jun'19	P	Mar-20-18	Mar-26-18	
Long 5- to 10-year Mbonos	P	Mar-5-18	Mar-20-18	
Long floating-rate Bondes D	P	Jan-15-18	Mar-12-18	
Long 10-year UMS Nov'28 (USD)	L	Jan-15-18	Feb-2-18	

P = Profit, L = Loss

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

\* Total return does not consider carry gain/losses

P = Profit, L = Loss

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

1. Carry + roll-down gains of 17bps

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

P = Profit, L = Loss

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

\* Total return does not consider carry gain/losses

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

P = Profit, L = Loss



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

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## Guide for investment recommendations.

	Reference
<b>BUY</b>	When the share expected performance is greater than the MEXBOL estimated performance.
<b>HOLD</b>	When the share expected performance is similar to the MEXBOL estimated performance.
<b>SELL</b>	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

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428.593

1,538.78

0.01

37,492.43

201.5

1,097.9

19,56.90

0.0

26,717.4

7,534.4

12,512.5

28,875.5

26,465.54

28,161.92

26,465.54

198.45

85%