4Q20 Outlook – Markets dealing with the pandemic, the pace of recovery, and the US elections

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Global markets have portrayed high resilience in recent months, despite the challenging backdrop in terms of the current sanitary crisis. Data suggests the most significant shock to the economy coming from the COVID-19 pandemic was observed during the second quarter of the year, with economic activity rebounding in the third quarter supported by unprecedented policy accommodation and strategies to lift mobility restrictions. However, several regions, such as Europe and Asia, are dealing with second waves of contagion, posing risks to the pace of the recovery and recently depicting a temporary loss of momentum. In addition, we have to acknowledge that the world economy will likely face a long-lasting jeopardy derived from the aftermath of the pandemic, rendered in the loss of potential growth or even a wider poverty gap, as recently forewarned by policymakers and world leaders that gathered (this time virtually) in last week's annual joint meetings organized by the World Bank and the International Monetary Fund.

One crucial element that could help households and firms to sail through this cumbersome environment is the policy response from central banks and governments. From the monetary policy standpoint, central banks have less leeway to use their traditional tools but are willing to maintain loose monetary conditions for longer, aided by unconventional measures. Given this backdrop, fiscal policy will continue playing a key role. The fiscal response so far hovers around US$13 trillion or nearly 15% of world's GDP among the 196 countries tracked by the IMF, with a high likelihood of additional stimuli in coming months, mainly in the US and other advanced economies. These expectations have diminished risk aversion.

Geopolitical factors will remain a relevant feature in the 4Q20 and will shape the likely landscape for 2021. In the short run, investors will focus on the US elections on November 3rd, in which the most recent polls and predictive models show a victory of Joe Biden over Donald Trump. Another key aspect will be the composition of the House of Representatives and the Senate, with increasing bets of a "Blue Wave".

Mexico will try to tackle several challenges and risks. Incorporating economic and policy dynamics, we adjust our GDP forecast for 2020 to -9.0%, from -9.8% previously, and for 2021 to +4.1%, from +1.8%. In this context, we expect Banxico to stay put for the rest of the year and next –although with some room to ease in the latter– and the government to focus on the recovery, but with no additional measures.

Mexico's main macroeconomic and financial forecasts
End of period

	1Q20	2Q20	3Q20	4Q20	2020	2021
GDP (% y/y)	-1.3	-18.7	-9.5	-6.3	-9.0	4.1
Inflation (% y/y)	3.2	3.3	4.0	3.7	3.7	4.2
USD/MXN	23.67	22.99	22.11	22.00	22.00	21.00
Banxico's reference rate (%)	6.50	5.00	4.25	4.25	4.25	4.25
28-day TIIE (%)	6.71	5.28	4.55	4.60	4.60	4.67
Mexbol (points)	34,555	37,716	37,458	39,300	39,300	--

Source: Banorte

Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*

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Mexico

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After an historical contraction of 18.7% in 2Q20, more timely data for the third quarter suggest that GDP bounced back more than expected, leading us to update our estimates. Therefore, we now expect a 9.0% y/y contraction in full-year 2020 from -9.8%, previously with stronger sequential upticks in the second half of the year. Specifically, we identify three broad trends that have favored the economy: (1) A greater impulse of external demand, mainly coming from the US; (2) better performance in some relevant categories within services, such as retail sales, strongly supported by remittances and a faster-than-expected recovery in mobility, with some fatigue from the pandemic; and (3) less weakness than foreseen in categories such as mining and construction. By sectors, and from the demand-side, net exports (exports minus imports) would be more favorable, with marginal upward adjustments in investment and consumption (see table below, left). On the supply side, the most benefited sector would be industry –mainly manufacturing–, although with services also stronger.

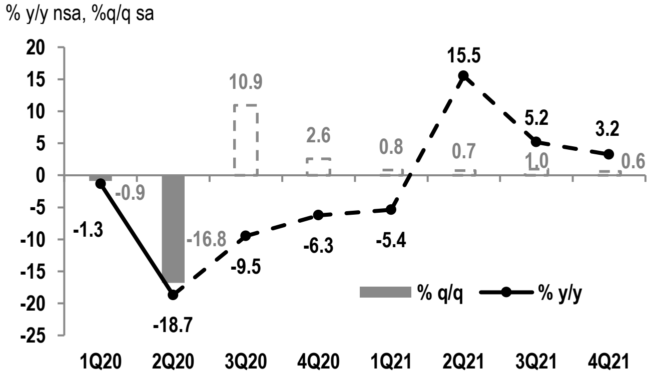
In this backdrop, we also revised our forecast for 2021, estimating now a 4.1% y/y expansion, significantly above our previous estimate of 1.8%. Despite of this, the recovery should still be modest, with the economy in the year still 5.5% lower than what was registered in 2018. Part of this adjustment is due to higher inertial GDP, considering our view of more activity at the end of 2020 along a very favorable base effect. We still believe performance in the first two quarters will be moderate (see chart below, right). Nevertheless, starting in 3Q21, our base-case scenario assumes a more aggressive recovery as a vaccine for COVID-19 may be readily available for distribution. Meanwhile, the boost from abroad should continue to be supported by additional fiscal stimulus. In addition, following Biden's win (see *US elections* section), higher certainty on trade would help global flows to gather momentum, along additional efforts from businesses to diversify their supply chains, with Mexico benefiting from USMCA mainly at China's expense. Domestic demand could lag behind, although less than previously expected taking into account a slow, but steady, recovery in employment levels, as well as an unusual strength in remittances as a tailwind for private consumption. Lastly, and to a lesser extent, investment is likely to be modestly better after two years to the downside, with some support coming from the latest public-private infrastructure plan.

2020 GDP forecast
% y/y nsa, %q/q sa

% y/y	1Q20	2Q20	3Q20	4Q20	2020
GDP	**-1.3**	**-18.7**	**-9.5**	**-6.3**	**-9.0**
Private consumption	-0.5	-20.6	-12.5	-7.5	-10.3
Investment	-9.3	-34.0	-18.4	-16.2	-19.4
Government spending	3.4	2.4	-3.3	-4.5	-0.5
Exports	1.8	-30.9	-8.8	1.2	-9.6
Imports	-3.2	-29.7	-19.2	-9.2	-15.4
% q/q					
GDP	**-1.2**	**-17.1**	**10.9**	**2.6**	**--**

Source: INEGI, Banorte

GDP
% y/y nsa, %q/q sa



Source: INEGI, Banorte

United States

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After a deep contraction of 31.7% in 2Q20, there are signs of a strong rebound in economic activity in the third quarter, supported by the reopening along unprecedented fiscal and monetary stimulus packages. However, a second wave of contagions has limited the former, while most of the fiscal support programs have expired or are close to doing so, while negotiations of a new stimulus package have stalled. In this context, we see risks of a slowdown of the rebound in 4Q20, with signals that consumption has started to moderate again.

One of the most controversial issues preventing the approval of new stimulus is the extension of additional unemployment benefits, after they expired on July 31st. This occurs in a backdrop in which a net loss of 10.3 million jobs has accumulated so far this year through September, with threats by large companies of further cuts in 4Q20. In addition, it is likely that the population will have access to a vaccine against COVID-19 until the second half of 2021 at the earliest, as pharmaceutical companies and scientific agencies have said. In this scenario, many activities will not be able to resume at 100%, especially in services. Monetary policy remains accommodative and the central bank's new strategy shows an even more dovish bias, targeting a reference rate at the current range for a very long period, which we estimate at least until the end of 2022. At the same time, Fed members are increasingly inclined to expand the asset purchase program, which we expect to materialize this year.

Despite these challenges, the economy will fall less than we expected after factoring in stimulus measures and the recovery observed so far. Therefore, we adjust our growth projection for 2020 to -4.1%, from -6.1% previously. Specifically, for 3Q20 we estimate a higher upturn –of 27% saar– and a 6.1% increase in the last quarter. For 2021 we anticipate 3.9% growth, with the US practically reversing the hit of the pandemic in one year. This estimate incorporates our baseline scenario of an electoral victory for the Democratic Party (see next section). Among our main assumptions, the following stand out: (1) A new fiscal stimulus package after the elections; (2) an expansion of the asset-purchase program; (3) a very favorable base effect; (4) availability of a vaccine for the entire population in 2H21; and (5) lower tensions with China and a decrease in the probability of tariffs disrupting trade volumes.

US: Banorte Estimates

	1Q20	2Q20	3Q20	4Q20	2020*
GDP (% q/q annualized rate)*	-5.0	-31.7	27.0	6.1	-4.1
Private Consumption	-6.9	-34.1	36.0	6.1	-4.3
Fixed Investment	-1.4	-28.9	6.1	3.9	-5.1
Exports	-9.5	-63.2	21.6	5.3	-16.1
Imports	-15.0	-54.0	17.0	3.9	-16.0
CPI (% y/y, average)	2.1	0.3	1.2	1.5	1.3
Unemployment rate (%, eop)	4.4	11.1	7.9	7.5	7.5
Non-farm payrolls (thousands)	-908	-13,288	3,911	2,700	-7,585

* All GDP estimates are % q/q saar, except for 2020, which is % y/y. eop: end of period.
Source: Banorte

US Elections

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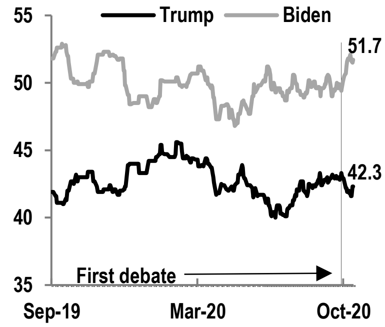
With the election less than a month away, all eyes are on the last debate between the candidates to be held this week and the results on November 3rd, with Joe Biden currently leading Trump by around 9.2pp in poll-of-poll averages. The latter also points to his triumph in most of the so-called swing states: (1) Florida with +2.7pp; (2) Wisconsin +6.3pp; (3) Michigan +7.2pp; (4) Pennsylvania +7.0pp; (5) North Carolina +3.3pp; and (6) Arizona +3.0pp, among others.

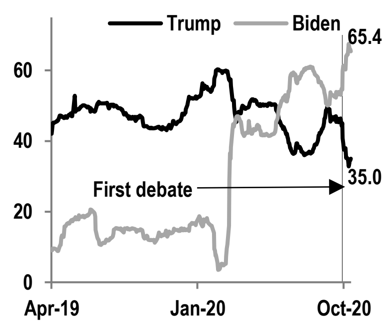
Presidential Election: Poll average
% vote intentions



Source: Real Clear Politics

Despite of this, doubts prevail over who will win the presidency, remembering that, 15 days before the 2016 election, Hillary Clinton had a 5.5pp advantage. In addition, the process is already an unprecedented event given risks involved in voting due to the pandemic, which is why mail-in voting has been promoted. Historically, this has benefited Democrats, and Trump has not committed to recognizing a Biden triumph, which could result in a scenario of volatility and strong uncertainty about the date in which the result and the Supreme Court's decision would eventually be known. Even if on the night of November 3rd or the early morning of the 4th it is possible to know who obtained at least the 270 electoral votes required to win, it is not until December 14th that voters of the Electoral College formally cast their votes. Later, on January 6th, Congress will receive the electoral votes of the states to count and certify them, and on January 20th, the inauguration ceremony will be held.

Probability of winning: Betting markets
%



Source: Real Clear Politics

If there is a dispute, this would not be the first time. The most recent precedent is the 2000 race between George Bush and Al Gore, with 246 and 260 electoral votes, respectively, leaving Florida's 25 votes in dispute in the face of a very tight result. Bush led Gore with only 1,784 votes in that state, so the Democratic candidate requested a recount in some counties. Thus, the winner was not known on November 7th, Election Day. Although the count was not fulfilled, Florida's Secretary of State declared Bush the winner. In contrast, the state's Supreme Court requested that a manual recount of all votes would have to be carried out. However, on December 12th, the US Supreme Court reversed this decision, granting the 25 electoral votes to George Bush, thus winning the presidential election. It should be noted that Gore accepted his defeat at the time, reducing uncertainty. Our base case is that Biden will be the winner. However, Trump is likely to denounce fraud in case of a very tight result, which could heighten tensions and extend volatility for longer.

Another very relevant issue is how much strength the winner would eventually have to implement his agenda in Congress, taking into account there will also be elections for the entire House of Representatives and a third of the Senate. Everything indicates the Democrats will maintain control of the Lower House but the coin is in the air with respect to the Senate, where Republicans currently have the majority. Our expectation is that the Democrats will gain both, a scenario known as "Blue Wave." This would allow Biden to advance his agenda without major setbacks, with one of the proposals that has concerned investors most being a potential income tax increase, from 21% to 28%, for high-income people.

Global

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According to the IMF in its *World Economic Outlook,* the world will see a strong GDP contraction of 4.4% in 2020. The institution estimates all regions will face declines this year, except for China, which may at least grow 1.9%. In this context, we have seen an unprecedented monetary policy response from the main central banks in most countries, both advanced and emerging. Meanwhile, the fiscal measures applied so far to face the pandemic have been concentrated mainly in advanced economies, reaching 9.0% of GDP, while in emerging economies the space and willingness of governments has been more limited, reaching 3.5% of GDP.

The Eurozone is among the regions likely suffering the greatest damage from the pandemic, with the IMF anticipating an 8.3% GDP decline this year. We consider the scenario could be further complicated by the strong upturn in infections, which has led to the implementation of containment measures in several countries. Weakness in activity has brought inflation to very low levels and far from the *"close to, but below 2%"* target. In this backdrop, we expect new monetary stimulus by the ECB, specifically the expansion of the Pandemic Emergency Purchase Programme (PEPP) by €350 billion. To this, we must add further deterioration if a no-deal *Brexit* materializes on December 31st. The likelihood of this scenario has increased after UK Prime Minister Boris Johnson said last week that they will make preparations for a hard *Brexit,* demanding the European Union to change its negotiating stance. The situation remains very fluid, although complicated, even in a context in which talks between the two parties are likely to continue.

Latin America continues to be strongly impacted by the pandemic, with Brazil in the world's third place in total cases, Argentina stands in fifth and Colombia in sixth. According to the IMF, the region will contract 8.1% this year. In Brazil, the institution estimates a 5.8% fall in 2020 and +2.8% in 2021, with the economy supported by aggressive fiscal stimulus programs that, nonetheless, are scheduled to end this December. So far, what has been observed is an uneven recovery between sectors. Services remain 9.8% below pre-pandemic levels, while industrial production is only 2.6% lower than in February. Although fiscal support measures have underpinned the recovery, they pose significant challenges for the health of public accounts, especially as speculation grows that direct transfers to households could be extended until 2021. Incentives for this to happen are high, considering Bolsonaro's intention to be re-elected in 2022. Therefore, the continuation of populist policies at the expense of fiscal discipline and the reform agenda is highly likely. In this environment, all eyes are on municipal elections to be held in November, which will be a good monitor of people's sentiment. Thus, and in broader terms, we believe that investors' attention interested in the region will be increasingly focused on the potential for additional credit rating downgrades by the main agencies, given the difficult tradeoff these countries face due to the pandemic and its impact on growth and the call of the electorate for stimuli, albeit with limited fiscal room to carry them out.

Fixed income (Sovereign Debt)

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The Mexican yield curve steepened in the 3Q20, with Cetes rallying 47bps, short-term Mbonos gaining 23bps, and long-term tenors pressured by 10bps, with a similar performance in TIIE-28 swaps. Meanwhile, real-rate Udibonos rallied mainly in 1- to 3-year maturities. These dynamics came in line with our expectation of adjustments in short-term nodes limited to Banxico's easing inertia, while the long-end sensibly captured risk elements during the quarter. Treasuries performed in a more stable fashion, allowing for some contraction in the local risk premium.

For year-end 2020 we expect the Mexican yield curve to remain anchored in the short-end, where we see a markedly narrow space of adjustment, even more so when considering a market that still incorporates implied accumulated cuts for Banxico of -8bps this year and -17bps by 2Q21. This pricing differs from our expectation of an unchanged reference rate at 4.25% this and next year. This reflects, among other factors, Banxico's divided Board and reinforces our reading of limited attractiveness in short-term securities. Meanwhile, we maintain a view of steep slopes for the remainder of the year, sharpening towards 2021. Once the political situation in the US reaches a resolution, potential positive effects on emerging markets could extend the most recent flattening, although in our view the space for this movement will be slim and temporary. Crossing into 2021, we expect a risk premium consistent with possible sovereign rating adjustments (without losing investment-grade) in the middle of an election year that will also feed idiosyncratic risks. Additionally, the strong correlation with Treasuries, currently at +70% in the 10-year node and picking-up, also argues for steep slopes going forward. We favor liquidity, while waiting for better market conditions, with appealing value for tactical strategies in the 20-year region in Mbonos. Although still distant and conditioned to global sentiment, levels close to 120bps in the TIIEs' 2s10s would signal entries for relative value positions favoring a new steepening bias. As for Mexican linkers, carry in the following months still seems attractive to us, reason why we will look for breakevens to cheapen and capitalize on this defensive option.

Banorte's interest rate forecasts
%

Security	2016	2017	2018	2019	2020 forecasts				2021 forecasts			
					1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Banxico's reference rate												
Average	4.29	6.75	7.64	8.00	7.05	5.79	4.72	4.25	4.25	4.25	4.25	4.25
End of period	5.75	7.25	8.25	7.25	6.50	5.00	4.25	4.25	4.25	4.25	4.25	4.25
28-day Cetes												
Average	4.17	6.70	7.64	7.87	7.00	5.53	4.68	4.25	4.32	4.32	4.32	4.32
End of period	5.78	7.26	8.06	7.13	6.39	4.81	4.27	4.25	4.32	4.32	4.32	4.32
28-day TIIE												
Average	4.48	7.05	8.00	8.31	7.33	6.05	4.97	4.60	4.67	4.67	4.67	4.67
End of period	6.11	7.62	8.59	7.69	6.71	5.29	4.55	4.60	4.67	4.67	4.67	4.67
10-year Mexican bond (Mbono)												
Average	6.21	7.15	7.93	7.61	6.88	6.39	5.81	6.00	6.33	6.38	6.40	6.65
End of period	7.44	7.64	8.63	6.85	7.09	5.81	5.83	6.15	6.50	6.25	6.50	6.75
10-year US Treasury												
Average	1.84	2.33	2.91	2.14	1.38	0.68	0.65	0.70	0.77	0.90	1.05	1.20
End of period	2.44	2.41	2.71	1.92	0.67	0.66	0.68	0.75	0.80	1.00	1.10	1.25
10-year Spread Mex-US												
Average	437	482	502	547	550	571	509	530	556	548	535	545
End of period	500	523	592	493	642	515	515	540	570	525	540	550

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

Foreign Exchange

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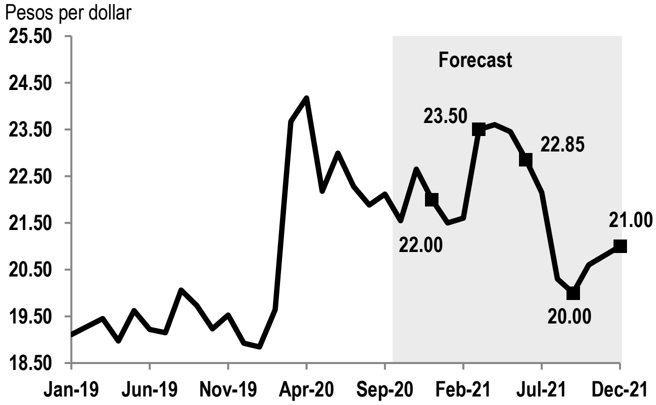
The USD scored two quarters weakening at the end of the 3Q20, reaching 2018-lows for the DXY, in a context where all developed currencies strengthened, and emerging currencies registered a mixed performance with strong losses in RUB and TRY. The USD/MXN appreciated 3.9% q/q at 22.11, its second positive quarter, reaching levels in September as strong as 20.85 –not seen since March–, although it maintains a depreciation of 14.4% so far in 2020.

The framework for MXN performance in the final stretch of 2020 will combine a phase of high volatility and some ambiguity in the direction of the broad USD, as the electoral process in the US is defined under a political scenario where the need of additional fiscal support is still being discussed. We hold our year-end forecast for USD/MXN at 22.00, with still stressed levels in the following weeks as the market hedges election risks. From this peak, we project a recovery in line with improved risk appetite and a USD that will incorporate further mid-term weakness due to the effect of the widening fiscal deficit and the extension of an ultra-lax monetary stance, regardless of the policy mix of the incoming administration. In this sense, Biden's victory and a "Blue Wave" would probably result in additional pressures for the USD. However, current configuration in polls and other predictors extending Biden's lead has diluted the risk perception about the possibility of a substantial delay in the definition of the election, driving a moderation in implied volatility in various asset classes, which in our opinion could signal complacency judging from the development of previous elections and surprises already delivered. Therefore, we favor a cautious positioning where the 20.85 zone should remain a strong resistance for the MXN. Likewise, our fair-value estimate has remained consistent over the last few months at 20.50.

Economic recovery in 2021 will be markedly uneven across regions, so while we acknowledge the boost that a vaccine could add to overall market sentiment, the differentiation between emerging currencies will prevail. The MXN speculative positioning has portrayed temporal preference for longs and it still has ample room for widening, where current extreme levels in EUR could be redistributed in its favor, capturing interest in carry strategies once volatility stabilizes. In this backdrop, we keep our 2021 year-end forecast at 21.00 with a path that captures key challenges for local risk perception, with visible pressures in the first half of the year.

USD/MXN
Pesos per dollar



Source: Bloomberg, Banorte

USD/MXN forecasts
Pesos per dollar

Period	End of period	Average
1Q20	23.67	20.00
2Q20	22.99	23.32
3Q20	22.11	22.08
4Q20	22.00	22.07
1Q21	23.50	22.20
2Q21	22.85	23.30
3Q21	20.00	20.82
4Q21	21.00	20.80

Source: Banorte

Stock market indices

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In recent months, equity markets erased most of the losses recorded over the year, driven by unprecedented economic policies that were implemented to deal with the impact of the pandemic, as well as by economic data that suggested, on the back of resuming activities, that the worst was already behind us. In this context of copious market liquidity, US stock markets reached new record highs, particularly in September, mainly bolstered by the solid performance of the technology sector which has benefited under this 'new normality'. Nevertheless, the kick-off of the US election process proved to be a source of volatility, considering that, in case of a transition of power, the latter could not be smooth. In addition, concerns have increased about the possibility that a government change results in higher taxes (hurting company profits), and as worldwide contagion rebounds, investors have begun to worry about the sustainability of valuations. Although companies' results are starting to improve, focus will be on foreshadowing how fast or sustainable the recovery might be, as the environment, certainly, continues to be challenging, with dormant risk of a possible second wave of global COVID-19 infections, and increasingly imperative needs for additional stimuli.

S&P500 forecast. Index advance has been supported by unprecedented fiscal and monetary stimulus, as well as by the recovery in activity. Bloomberg consensus estimates a 19.3% y/y decline in 2020 earnings and a 24.0% recovery in 2021. With these assumptions and a 22.3x P/E forward 2021 multiple (in line with current valuation) we estimate the S&P500 could close 2020 at 3,630pts; however, we do not rule out the possibility of facing greater volatility due to the electoral process.

Mexbol forecast. In Mexico, early signs of recovery and strategies implemented by companies, focused on adapting their businesses to the 'new normality' and turning their operations more efficient, have led us to raise slightly our Mexbol YE20 reference level to 39,300 points, up 3.4% from 38,000pts previously. In our relative valuation model, we now anticipate that EBITDA will decrease 3.7% y/y in 2020 (vs -7.9% previously) and a 5.3% y/y net debt increase (+9.7% previously) in Mexbol's constituents, where it is also worth noting that the benchmark's sample recently changed. Meanwhile, we assumed a 7.2x FV/EBITDA target multiple, in line with last year's average of 7.3x; yet still reflecting a discount close to 9.0% against the 8.0x 3Y average, owing to the complex global environment.

Towards 2021, the economic outlook seems to be more benign. However, we should not forget that several risks still linger on the horizon, such as local mid-term elections –the largest in Mexico's history–, the possibility of facing a credit rating downgrade, lesser room for stimuli, idiosyncratic risks, and of course, as long as there is no vaccine or effective treatment, a potential upsurge in coronavirus cases.

2020: S&P500 forecast
Pts

P/E fwd	S&P500 (points)	Potential Return (%)
23.0x	3,744	7.7
22.6x	3,679	5.8
22.3x	**3,630**	**4.4**
22.0x	3,582	3.0
21.6x	3,516	1.1

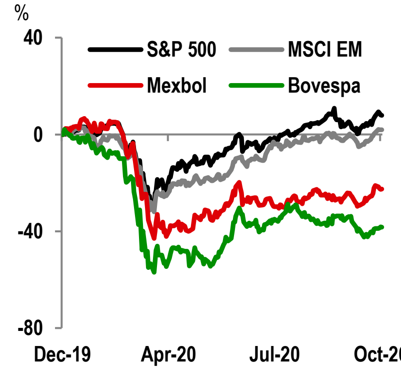
Source: Banorte

2020: Mexbol forecast
Pts

FV/EBITDA	Mexbol (points)	Potential Return (%)
7.6x	42,400	11.6
7.4x	40,848	7.5
7.2x	**39,296**	**3.5**
7.0x	37,774	-0.6
6.8x	33,192	-4.7

Source: Banorte

International Indices
%



Source: Bloomberg, Banorte

Commodities

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Commodities closed 3Q20 with modestly positive dynamics. The energy and metals components extended gains of the previous quarter. In this sense, the GSCI Index picked up by 7.6%, while the BCOM Index rose 9.0%, although during the year they still depict an adjustment of -19.7% and -12.4%, respectively.

Crude-oil prices registered remarkably stable price action during the quarter, with Brent closing September at 40.90 $/bbl (-0.5% q/q) and WTI at 40.20 $/bbl (+2.4% q/q). These dynamics were supported by OPEC+ efforts to balance the market despite a global backdrop that remains significantly fragile. Main energy agencies have consistently cut their demand forecasts, with risks that are still biased to the downside in light of the effects of a second wave of COVID-19. Meanwhile, Libya has restored production after several months suspended in key oilfields, a factor that will be considered in OPEC+ strategy whose supply agreement has experience high compliance, gradually prompting the futures curve to lower its contango (spot prices below forward ones) compared to six months ago. In this context, we see unlikely that OPEC+ will deepen its production cuts in the short term, although if necessary, they could delay or moderate the following phase of the agreement that currently consists in an implied production increase of 2 Mbbl/d starting in January. With this, markets will focus on the next OPEC+ meeting on December 1st where the production strategy going forward will be defined. In this sense, we expect Brent prices at 40 $/bbl for year-end 2020 and levels reaching 45 $/bbl by mid-2021. In gasoline prices, EIA forecasts 1.73 $/gal in December for PADD 3, equivalent to -6.6% compared to August 2020.

In metals, both precious and industrials registered lower gains compared to the previous quarter. Gold reached all-time highs at 2,075 $/t oz although it moderated its strong rally at the end of the month due to some temporary USD strength. We hold a positive outlook for this metal, revisiting 2,000 $/t oz for year-end 2020 and with the possibility of crossing this figure supported by stimulus policies, global volatility, and its relationship with real rates. Regarding industrial metals, copper extended its strengthening path reaching its highest in two years. We expect a slightly favorable performance due to a slow economic recovery. Lastly, grains paired the 1H20 sell-off without fully offsetting losses caused mainly by supply chain disruptions. For this asset class, we expect positive dynamics considering a high probability of weather event "*La Niña*" in November.

Commodities price performance and market consensus' forecasts

Commodity	Unit	Spot*	Performance (%)			Market consensus' forecasts				
			2018	2019	2020	4Q20	1Q21	2Q21	2020	2021
WTI	$/bbl	40.88	-24.84	34.46	-33.05	40.50	43.00	45.50	38.25	42.74
Brent	$/bbl	42.82	-19.55	22.68	-35.12	43.00	45.00	48.25	40.94	45.13
Natural Gas (H. Hub)	$/MMBtu	2.77	-0.44	-25.54	26.68	2.51	2.72	2.55	2.20	3.05
Gasoline (RBOB)	$/gal	1.17	-26.43	28.26	-31.16	1.10	1.25	1.40	1.15	1.40
Gold	$/t oz	1,899	-1.56	18.31	25.18	1,900	1,913	1,900	1,776	1,870
Silver	$/t oz	24.16	-8.52	15.21	35.32	22.75	21.80	21.93	19.75	21.49
Copper	$/mt	6,740	-17.69	3.50	9.17	6,500	6,400	6,400	6,000	6,456
Corn	¢/bu	402	0.55	-2.07	-0.12	365	360	375	352	370
Wheat	¢/bu	625	-0.86	0.61	8.22	550	520	520	535	515

Source: Bloomberg *as of 16/October/20; RBOB (Reformulated gasoline blendstock for oxygenate blending)

Corporate Debt

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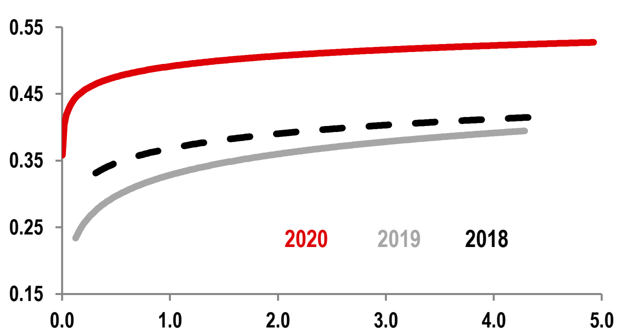
2020 has been an unprecedented year, characterized by a high level of uncertainty in the wake of the health crisis and its effect on the global economy. Against this backdrop, there has been a nationwide decline in business financing, in view of the sharp economic slowdown, coupled with less favorable conditions regarding terms, offered amounts and interest rates. Regarding the latter, the cost of credit remains under pressure (+92bps YTD in the "AA 28-day TIIE unsecured curve") despite the rate cuts made by Banxico, reflecting an increased implicit risk in broad terms.

In this context, the corporate debt market has experienced a significant drop in terms of amount outstanding (-6.5% yoy and -9.1% vs. 2018), returning to levels seen in 3Q17. However, based on expectations of a gradual economic recovery, financing in Mexico could show a slight step forward by the end of 2020, still constrained by feelings of uncertainty that prevail ahead of the US elections, and amid the economic recovery and public health issues. In particular, during 4Q20, the corporate debt market will be driven by issuances scheduled during the month of October worth $23.2 billion, the highest year to date. In 2021, we expect a moderate dynamism to remain during the first half of the year, with a more favorable outlook by 2H21, considering that medical breakthroughs will support a stronger economic growth.

Banxico offered credit institutions the facility to enter into corporate securities repo operations with a maturity of up to 91 days for a maximum amount of MXN 100 billion (US$ 4.7 billion) with US$ 4.2 billion available as of today. Thus, financial authorities continue to actively implement strategies to preserve the best liquidity conditions of the financial system.

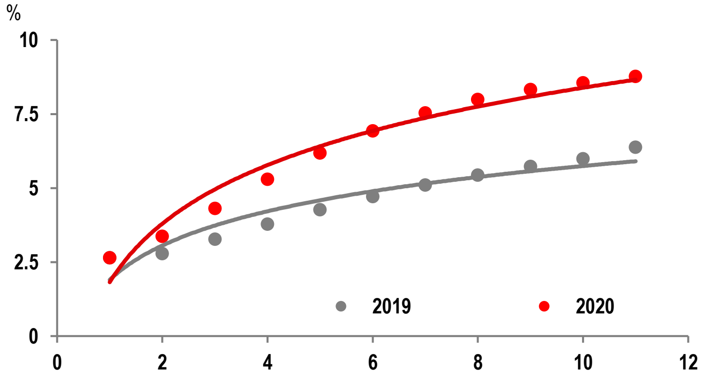
As for Pemex and CFE –the main players in the domestic market–, 4Q20 will be marked by their return to the financial markets. By the closing of this edition, CFE has scheduled the issuance of three series for $5.5 billion. Meanwhile, after losing its investment grade, Pemex made a comeback in the international markets with a 5-year bond worth US$1.5 billion. During the course of the year, Mexico state-owned company's bond curve in dollars has shifted upward, as can be seen on the lower right-hand chart. As far as results are concerned, we expect a weak 3Q20 report, considering a sluggish economic activity and the 31% drop on the price of the Mexican Oil Export Mix (38.46 US$/bbl in 3Q20 vs. 55.77 US$/bbl in 3Q19).

28-day TIIE 28 unsecured spreads credit curve
%



Source: Banorte with data from PIP

Pemex – USD bond curve
%



Source: Bloomberg

Recent research notes

Mexico

- *Banxico Minutes – A divided Board regarding the room for a last cut*, October 8, 2020, <pdf>
- *IMF's Article IV consultations – Policy ideas in the face of COVID-19*, October 7, 2020, <pdf>
- *The government presents investment plan with the private sector for $297.3 billion.* October 5, 2020 <pdf>
- *Budget Proposal 2021 – Austere and optimistic,* September 9, 2020, <pdf>
- *2Q20 GDP – Slight revision higher despite lower services,* August 26, 2020, <pdf>
- *Pension reform – Better conditions for workers and soothes investor confidence,* July 22, 2020, <pdf>

Fixed-Income, FX, and Commodities

- *4Q20 Auction Calendar: increase in issuance amounts in line with expectations*, September 25, 2020, <pdf>
- *Profit taking in short-term tactical long positions in Mbonos May'29 and Nov'38,* September 18, 2020, <pdf>
- *OPEC+: Extension of compliance to December*, September 17, 2020, <pdf>
- *Banxico announces an extension of the credit and liquidity facilities,* September 15, 2020, <pdf>
- *Technical adjustments from Banxico to the interbank funding market and open market operations,* July 9, 2020, <pdf>

Equities

- *AXTEL, Quarterly report 3Q20: The sale of the whole company goes on*, October 15, 2020, <pdf>
- *Flash CEMEX: Improved financing contract terms*, October 14, 2020, <pdf>
- *Flash FEMSA: Buys OK Market, a chain of proximity stores in Chile* October 9, 2020, <pdf>
- *AIRPORTS (September): Sequential improvements continue*, October 7, 2020, <pdf>
- *Flash ASUR: Still with falls in passengers in September, but with sequential improvement*, October 7, 2020, <pdf>
- *Flash VOLAR: Still showing accelerated recovery in September*, October 6, 2020,<pdf>
- *Flash GAP: Continued in September with better than expected recovery*, October 6, 2020, <pdf>
- *Flash OMA: Passengers continued to fall, now in September, although to a lesser extent*, October 5, 2020, <pdf>
- *Flash HOTEL: Gets approval to financially strengthen.*, October 25, 2020, <pdf>
- *Flash KOF: Sells stake in dairy products company in Panama*, October 1, 2020, <pdf>
- *NEMAK: A less challenging environment ahead*, September 29, 2020, <pdf>
- *ALFA: A strategy aiming to unlock value* September 29, 2020, <pdf>
- *Flash VOLAR: Paves the way for financial strengthening* September 22, 2020, <pdf>
- *Flash FCFE: 3Q20 distribution reflects resilience to difficult environment*, September 18, 2020, <pdf>
- *Flash AMX: Sells Tracfone in the US to Verizon for $6.25 billion*, September 14, 2020, <pdf>
- *Flash CEMEX: Defines "Operation Resilience" strategy,* September 11, 2020, <pdf>
- *VOLAR: Well positioned to take advantage of the recovery,* August 26, 2020, <pdf>
- *AXTEL Is the party over? Not yet*, August 12, 2020, <pdf>

Corporate Debt

- *Pemex is back in the international market,* October 9, 2020, <pdf>
- *Results: Corporate bond repo transactions,* October 9, 2020, <pdf>
- *Corporate Bond Market Review*, October 7, 2020, <pdf>
- *PEMEX – 2Q20 Results,* July 28, 2020, *<pdf>*
- *Mexican Corporates against COVID,* July 22, 2020,<pdf>
- *Banxico announced adjustments to the corporate bond repo transactions*, July 16, 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 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*

Certification of Analysts.

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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	Reference
BUY	*When the share expected performance is greater than the MEXBOL estimated performance.*
HOLD	*When the share expected performance is similar to the MEXBOL estimated performance.*
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