1Q21 Outlook – Markets and the economy fully immersed in the transition towards a new post-pandemic world

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@analisis_fundam

Gabriel Casillas
IRO and Chief Economist
gabriel.casillas@banorte.com

Alejandro Padilla
Executive Director of Economic Research and Financial Markets Strategy
alejandro.padilla@banorte.com

Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.macal@banorte.com

Manuel Jiménez
Director of Market Strategy
manuel.jimenez@banorte.com

Investors remain cautious about the current state of the economy and the resilience of governments, firms, and households in a transition towards a new post-pandemic normal, still digesting the significant challenges faced in 2020 due to COVID-19. We acknowledge that some risks are still lingering in the current backdrop (please see our research note "*The ten issues to watch in 2021*" for additional information). Notwithstanding this complex outlook, the relief rally in the last months of the previous year has extended to early 2021. Market participants are portraying a bullish sentiment towards the vaccination process, additional fiscal and monetary stimuli, as well as the recovery of the global economy. These factors are offsetting prevailing fears about new waves of contagion and the need for additional lockdowns in several regions.

In addition, the geopolitical landscape suggests a brighter year *vis-à-vis* 2020, despite several elections in different parts of the world, that will be strongly influenced by how the sanitary crisis has been dealt with. Investors are welcoming a new US administration under Joe Biden starting on January 20th, in combination with fading risks associated with *Brexit* as a no-deal *Brexit* was avoided at end of last year. The main focus will be the US, especially the first 100 days of Biden's administration, that will rely on a Democratic majority in both chambers, allowing a faster and more coordinated strategy to overcome the adverse effects of Coronavirus and the aftermath of Trump's presidency (*e.g.* China, international trade, climate change). Moreover, markets will assimilate a larger fiscal plan that could compensate a slightly less dovish stance from the Federal Reserve.

The Mexican case is concerned with this same situation, with an economy that has also experienced the consequences of the pandemic. We expect a 4.1% recovery of GDP in 2021 –after a likely fall of -9.0% in 2020–,with parallel headwinds coming from the rise in new cases and restrictions, as the ones the world is facing. Investors will also focus on geopolitical factors, stressing out the mid-term elections and Mexico's relationship with its most important trading partner under a new presidency. In terms of economic policy, Banxico is likely to reduce its reference rate by 75bps throughout the year, starting in the next meeting on February 11th, while the room to maneuver on the fiscal side will remain limited.

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

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Mexico's main macroeconomic and financial forecasts
End of period

	1Q21	2Q21	3Q21	4Q21	2020	2021
GDP (% y/y)	-5.4	15.5	5.2	3.2	-9.0	4.1
Inflation (% y/y)	3.3	3.3	2.9	3.7	3.2	3.7
USD/MXN	21.60	20.90	19.00	19.80	19.91	19.80
Banxico's reference rate (%)	3.75	3.50	3.50	3.50	4.25	3.50
28-day TIIE (%)	4.13	3.75	3.85	3.85	4.48	3.85
Mexbol (points)	--	--	--	51,200	44,066	51,200

Source: Banorte

Mexico

Francisco Flores
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

We expect GDP to rebound 4.1% y/y this year, recovering from an expected decline of 9.0% in 2020. With this, activity would stay around 5.3% below its level in 2018, which constituted the highest point in this business cycle. We see lingering weakness in the first half, still impacted by restrictions due to the pandemic. Nevertheless, we assume activity will accelerate in the second half as a higher share of the population is inoculated. Inside, we expect external demand to continue as the main driver of the recovery, with exports up 7.7% y/y, supported by different stimulus measures abroad, mainly in the US (see next section). Within domestic demand, investment should continue lagging, growing only 4.3%, with consumption stronger at the margin at 6.5%. We believe the lack of greater stimulus, along a still uncertain scenario and several other idiosyncratic factors, will keep weighing on these components. Government spending would contract 1.8%, with an unfavorable base effect on top of austerity measures implemented by the Federal Government. On the supply side, industry would lead gains at 4.7% –with a boost from manufacturing–, albeit with services also relatively good at 4.0%.

We expect inflation to close the year at 3.7% y/y, above the 3.2% in 2020 (see chart below, right). We see a short-term inflation peak until April, driven by a base effect. On the other hand, slack would contribute favorably, especially at the core, taking it to 3.1% by year-end. At the non-core we expect energy –mainly gasolines– and other commodities to bounce back, lifted by the recovery of global economic activity, with this component reaching 5.4% at the end of 2021. Nonetheless, short-term dynamics would be quite benign, allowing Banxico to cut in the two meetings to be held in the quarter (February 11th and March 25th) by 25bps each, with the last cut of the same magnitude on May 13th. With this, the reference rate would reach 3.50%, remaining there until the end of the year.

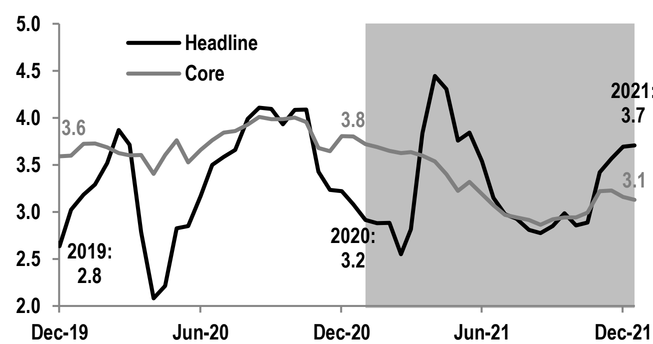
We will also heed discussions about changes to Banxico's Law and on autonomous agencies, among other legislative proposals, with ordinary sessions of both chambers of Congress starting on February 1st. The central bank may also announce its financial results for 2020 by the end of the quarter or in early April, which are relevant for the determination of its Operational Surplus. Markets will also follow developments in the political front ahead of the mid-term elections to be held on June 6th. Registrations for federal positions will run from late March to the beginning of April, although with campaigns heating up until the second quarter.

2021 GDP forecast
% y/y nsa, %q/q sa

% y/y	1Q21	2Q21	3Q21	4Q21	2021
GDP	**-5.4**	**15.5**	**5.2**	**3.2**	**4.1**
Private consumption	-6.9	19.2	9.5	7.1	6.5
Investment	-12.8	24.1	8.9	3.4	4.3
Government spending	-3.7	-2.3	-2.6	1.5	-1.8
Exports	-2.8	31.9	5.4	2.8	7.7
Imports	-7.0	25.3	17.6	9.5	10.2
% q/q					
GDP	**0.8**	**0.7**	**1.0**	**0.6**	**--**

Source: INEGI, Banorte

Inflation forecasts
% y/y, bi-weekly frequency



Note: Shaded area represents forecasts. Source: INEGI, Banorte

United States

Katia Goya
Senior Global Economist
katia.goya@banorte.com

After a strong rebound in 3Q20, the US economy slowed down at the end of last year. Nonetheless, we believe that it will avert an outright contraction, up 3.5% saar. With this, GDP would contract by the same magnitude in full-year 2020, its biggest drop since 1946, losing 9.4 million jobs. Our expectation is that the economy will continue to be affected by COVID-19 –especially in the first half of the year– with better prospects for the second semester due to advances in the deployment of the vaccine. However, lingering weakness during the first and second quarters would be cushioned by lax monetary policy and, especially, greater fiscal stimulus. We estimate a 3.9% expansion of the economy this year, completely reversing the impact that the pandemic had in 2020.

While the US$900 billion fiscal stimulus approved late last year is limited, hopes for a faster recovery are pinned on the ability of Democrats to pass a more aggressive package in 1Q21 after the *Blue Wave*. This is because only a simple majority in the Senate will be required for this purpose. We hope these stimulus packages will allow for a more benign scenario, especially for private consumption. We see it very likely that the amount of direct transfers already approved in December will rise, as well as additional unemployment benefits –both in amount and duration–. In this context, we estimate a 2.2% saar advance in household spending in 1Q21 and 3.2% in 2Q21.

Despite the *Blue Wave*, Biden's agenda will face obstacles. Several key law initiatives require 60 votes in the Upper House, which means that the vote of some Republicans is needed. Issues related with immigration, climate regulation and changes to the labor law, among others, fit within this category. In addition, there are also other cases in which some moderate Democrats are not aligned with Biden's proposals, such as tax increases. The latter has alleviated investor's fears of disruptive changes, more so as part of these proposals are aimed at increasing companies' tax burden.

Finally, we do not expect additional actions in the monetary policy front. In our opinion, the new composition of the FOMC will give it a slightly more dovish bias than last year, due to the addition of Christopher Waller to the Fed Board and the bias we identify among the four regional presidents that will have voting rights this year (Evans from Chicago, Barkin from Richmond, Daly from San Francisco, and Bostic from Atlanta).

US: Banorte Estimates

	2020	1Q21	2Q21	3Q21	4Q21	2021*
GDP (% q/q annualized rate)*	-3.5	2.6	3.3	4.0	4.1	3.9
Private Consumption	-3.8	2.2	3.2	3.6	4.9	4.4
Fixed Investment	-2.5	2.0	3.2	6.1	7.8	4.7
Exports	-13.6	4.9	5.7	7.8	8.2	4.2
Imports	-10.1	4.1	5.7	7.0	7.4	9.0
CPI (% y/y, average)	1.2	1.4	1.8	1.7	1.9	1.7
Unemployment rate (%, eop)	6.7	6.6	6.5	6.3	6.0	6.0
Non-farm payrolls (thousands)	-9,374	600	1,400	2,000	4,000	8,000

* All GDP estimates are % q/q saar, except for 2021, which is % y/y. eop: end of period.
Source: Banorte

Global

Katia Goya
Senior Global Economist
katia.goya@banorte.com

According to the World Bank, which published its most recent estimates a few days ago, the global economy would have contracted 4.3% in 2020. For this year, they expect 4.0% growth, which will keep world activity around US$4.7 trillion below pre-pandemic levels. The main support behind this expectation is the progress in the application of vaccines. In this sense, and in line with our expectations, everything suggests that the first semester will still be weak, with a stronger rebound until the second half. Our outlook incorporates greater monetary stimulus already announced in 2020, with the main central banks maintaining monetary accommodation for an extended period. On the fiscal front, the package approved in the European Union, which consists of the Recovery Fund for €750 billion and the budget for the next seven years of €1.07 trillion, will be very important to support the region's recovery. Moreover, solid growth expected in China stands out, estimated to be close to 8.0%.

The Eurozone is among the regions that suffered the most from the pandemic, falling 7.5% in 2020 and with a deflationary scenario for five consecutive months, as inflation fell 0.3% y/y at the end of last year. For 1Q21 we estimate a slight recovery, with 1.0% q/q growth after an estimated contraction of 2.0% in 4Q20. We hope that fiscal stimulus, together with the recent announcement by the European Central Bank of additional monetary stimulus, will allow a clearer recovery in coming quarters, with the economy growing 4.5% in 2021. According to the European Commission, the fiscal support package could add around 2% to the region's GDP by 2024 and 2 million more jobs by 2022. On the positive side, we also consider the fact that a hard *Brexit* was avoided, which eliminates a very significant risk. Although an agreement on financial services has not been reached yet, trade terms have already been set, thus eliminating the risk of imposition of tariffs that probably would have affected external demand and trade volumes for both parties.

For its part, Latin America continues to be strongly impacted by COVID-19, with Brazil in third place in the world in number of infections, Argentina in eleventh, and Mexico in place twelve. In Brazil, after an estimated contraction of around 4.5% in 2020, we expect 3.5% growth in 2021. The recovery will be favored by statistical factors, but growth will be dampened by the elimination of transfers to households that promoted activity last year. So far, the indicators show that the strong rebound in 3Q20 decelerated in the fourth quarter. We expect this moderation to extend further into 1Q21, with a quarterly rate close to 0%. On the political front, the leaders of both Houses will be elected in early February, which will be key for the reform agenda, and the stance in terms of fiscal discipline. Regarding the Lower House, candidate Baleia Rossi is the author of one of the proposals for revisions to the fiscal stance and is supported by 11 parties. Meanwhile, Arthur Lira is backed by President Jair Bolsonaro and the majority of the PSL. As far as the latter is concerned, Rodrigo Pacheco is supported by the outgoing leaders of both the Lower House and the Senate.

Fixed income (Sovereign Debt)

Santiago Leal
Senior Strategist, Fixed Income and FX
santiago.leal@banorte.com

The Mexican yield curve has started this year extending the steepening bias registered since late 2020 stages, explained by two main factors: one global and one local. In the one hand, in the last 6 months, US interest rates have experienced upward pressures –mainly in long-term maturities– reflecting the expectation of greater fiscal stimulus due to Joe Biden's victory on the elections held on November 3rd. This performance accelerated significantly in the first trading sessions of this year as markets factored in the *Blue Wave*, pushing the yield of the 10-year Treasury note to levels as high as 1.19% from a 2020 close at 0.91%, along with further widening of inflation breakevens. In our view, pressures for these securities could linger, estimating a 2021 year-end level for the 10-year Treasury at 1.45%. On the other hand, the market has repriced its expectations about further rate cuts to Banxico's reference rate after the pause of the last months. At Banorte we forecast 75bps of additional rate cuts this year starting in February and the market is currently pricing-in about 40bps by the third quarter of the year. As a result, short-term Mbonos have kept a favorable performance at the start of 2021 rallying around 10bps while longer-term tenors have pressured about 15bps and as much as 25bps in those of greater duration, revealing space for additional gains in the short-end and supporting our view of further steepening going forward.

We hold a more positive view for the belly of the yield curve, considering that investor's risk appetite could remain given the additional response in economic policy that could be witnessed in the US and the rest of the world, with positive implication to market liquidity. Moreover, we hold our recommendation of receiving the 6-month TIIE-28 IRS (6x1) and capitalize the potential space of further gains in short-term rates, where Banxico's meeting on February 11th will be key to calibrate the expectation of the Board's bias due to its new configuration. Meanwhile, we find few value in Udibonos, waiting for better entry levels to build strategies that benefit from a more attractive carry due to base effects in local inflation.

Banorte's interest rate forecasts
%

Security	2017	2018	2019	2020	2020				2021 forecasts			
					1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Banxico's reference rate												
Average	6.75	7.64	8.00	5.44	7.05	5.79	4.72	4.25	4.00	3.58	3.50	3.50
End of period	7.25	8.25	7.25	4.25	6.50	5.00	4.25	4.25	3.75	3.50	3.50	3.50
28-day Cetes												
Average	6.70	7.64	7.87	5.33	7.00	5.53	4.68	4.25	3.96	3.54	3.50	3.50
End of period	7.26	8.06	7.13	4.25	6.39	4.81	4.27	4.25	3.88	3.50	3.50	3.50
28-day TIIE												
Average	7.05	8.00	8.31	5.69	7.33	6.05	4.97	4.50	4.21	3.79	3.85	3.85
End of period	7.62	8.59	7.69	4.48	6.71	5.29	4.55	4.48	4.13	3.75	3.85	3.85
10-year Mexican bond (Mbono)												
Average	7.15	7.93	7.61	6.25	6.88	6.39	5.81	5.92	5.60	5.85	5.98	5.85
End of period	7.64	8.63	6.85	5.54	7.09	5.81	5.83	5.54	5.65	6.05	5.90	5.80
10-year US Treasury												
Average	2.33	2.91	2.14	0.88	1.38	0.68	0.65	0.85	1.01	1.18	1.28	1.38
End of period	2.41	2.71	1.92	0.91	0.67	0.66	0.68	0.91	1.10	1.25	1.30	1.45
10-year Spread Mex-US												
Average	482	502	547	534	550	571	509	507	459	468	470	448
End of period	523	592	493	463	642	515	515	463	455	480	460	435

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

Foreign Exchange

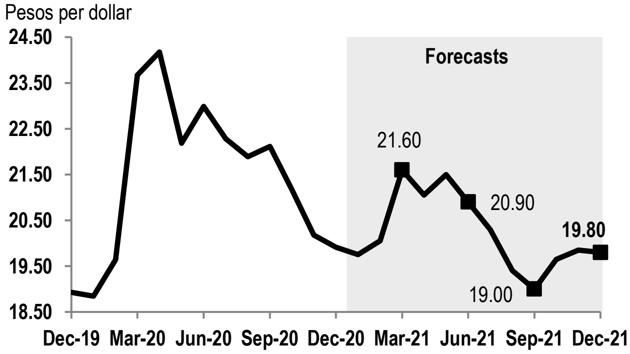
Santiago Leal
Senior Strategist, Fixed Income and FX
santiago.leal@banorte.com

The impact of 2020's unprecedented global volatility in the Mexican peso resulted in an annual trading range between USD/MXN 18.52 and 25.79, experiencing an outstanding recovery in the second half of the year closing with a 4.9% depreciation at 19.91, comparing favorably with losses of around 16% and 22% in other emerging currencies such as RUB, TRY, and BRL.

After year-end dynamics highlighting a sharp weakening of the US dollar, we expect 2021 to be defined by a greater differentiation between developed and emerging currencies. For former we see the space for further appreciation running out amid a context in which additionally, and at least in the short-term, the USD will be supported by a backdrop of fiscal stimulus and relative growth favoring it, along with a still net short positioning for the currency. In this sense, we estimate EUR/USD stabilizing at 1.24 towards December. In contrast, the EM currency universe is still exposing interesting valuations that we expect to capture flow distribution under a context of high available liquidity and a healthy risk appetite momentum considering vaccine developments, stronger growth expectations, and the economic policy response.

Regarding the Mexican peso, we forecast a 2021 year-end level at USD/MXN 19.80 with a trajectory reaching up to 19.00. We expect the backdrop benefiting the EM currency universe to provide support for the MXN as well, which, as we outlined last year, will remain as a remarkable carry option, a factor that will prove relevant for the spot price action as implied volatility remains in a moderation path, given the less stressed risk horizon with respect to the most critical stages in 2020. This factor will also favor foreign portfolio flows towards Mexico that, both in stocks and bonds, experienced historic outflows in previous months as global optimism collapsed. Furthermore, the peso has depicted an important evolution in our fair value model, currently near 20.20 per dollar, from 20.70 in mid-2020. We acknowledge an improvement in risk appetite perception, consistent with the 5-year CDS consolidation at levels close to those before the pandemic. However, we anticipate that a further appreciation of the MXN will be limited by an uneven recovery among emerging economies, with Mexico's position potentially decoupling from other peers, among other factors, given the margin of support in the monetary and more importantly, in the fiscal front. Moreover, the electoral process and other local idiosyncratic themes could be a source of temporal pressures.

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	19.91	20.53
1Q21	21.60	20.47
2Q21	20.90	21.15
3Q21	19.00	19.57
4Q21	19.80	19.77

Source: Bloomberg, Banorte *Underlined numbers indicate forecasts

Stock market indices

Marissa Garza
Director of Equity Strategy
marissa.garza@banorte.com

2020 will be historically remembered as having the world's worst economic crisis since the Great Depression of 1929, with significant effects also on financial markets due to the COVID-19 pandemic. Nevertheless, most of the losses that main stock market indices posted in March and April 2020, were erased by the end of the year. Meanwhile, the US stock markets reached new record highs. Now, 2021 is poised for a better outlook, which coupled with interest rates that should continue to be low over a long period of time, lead us to believe that the 'name of the game' this year for equity markets will be *"valuation"*. We also think that risk appetite will continue supported by: (1) The kickoff of the vaccination process in the world, heading us to the transition towards a post-pandemic reality; (2) a sustained economic recovery and high liquidity, as unprecedented economic policy responses continue around the globe; and (3) companies continuing to implement strategies for adapting to the 'new normality', laying the foundation for capturing arising opportunities and resume growth. In any case, we should not ignore the risks that linger, such as the US government transition, the electoral environment for 2021 and geopolitical risks, as well as post-pandemic structural changes that will take place.

2021: S&P 500 forecast
Pts

P/E fwd	S&P 500 (pts)	Potential Return (%)
25.0x	4,843	27.6
24.0x	4,649	22.5
23.0x	**4,455**	**17.4**
22.0x	4,261	12.3
21.0x	4,068	7.2

Source: Bloomberg, Banorte

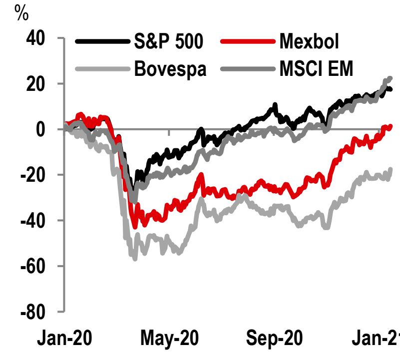
2021: Mexbol forecast
Pts

FV/EBITDA	Mexbol (pts)	Potential Return (%)
8.4x	54,570	18.4
8.2x	52,898	14.8
8.0x	**51,226**	**11.2**
7.8x	49,554	7.6
7.6x	47,881	3.9

Source: Bloomberg, Banorte

S&P500 forecast. US stock markets started 2021 with good performance, reaching new record highs, driven by recovery expectations on the economic activity and the vaccine deployment. In our view, the factors that could give an additional boost to the markets, driving the S&P500 to reach 4,450pts are: (1) A better global outlook; (2) lax monetary conditions and new fiscal stimuli; and (3) a 21.5% y/y earnings growth. In this context, we cannot rule out continuing investment rotation for value over growth stocks.

International Indices
%



Source: Bloomberg, Banorte

Mexbol forecast. In Mexico, the Mexbol has not been the exception and started with a positive momentum this year. As we have mentioned earlier, we believe risk appetite will continue, particularly towards markets with appealing valuations such as Mexico. Additionally, in our view, low interest rates would drive a multiples rerating against those of the last complex year. Assuming an 8.0x FV/EBITDA target multiple (consistent with the last 3 year average), we reiterate our 2021E Mexbol reference level of 51,200 points. Our model considers a 6.8% y/y EBITDA growth, and a 4.5% y/y net debt decrease. We believe that further revaluation of the market will depend on whether the recovery effectively remains on track.

Although 2021 will be of recovery, it is worth noting that such improvement will not be homogeneous, and therefore, stock picking will continue to prove being crucial. Thus, being very selective will be of great importance, favoring cyclical companies with attractive valuations and showing clear signs of adaptation and benefits after the pandemic, as well as others with comprehensible signs of recovery and resuming growth. That said, we have chosen Amx, Cemex, Femsa, Gmxt and Nemak, as our top picks for 2021. We think their fundamentals and outlook are solid, and should therefore be a core portion of portfolios this year.

Commodities

Leslie Orozco
Strategist, Fixed Income and FX
leslie.orozco.velez@banorte.com

Commodities closed 2020 with negative dynamics, despite the gradual recovery in energy, metals, and grains after the collapse in demand derived from the pandemic. In this sense, the Goldman Sachs Commodity Index (GSCI) and the Bloomberg Commodity Index (BCOM) decreased 6.1% y/y and 3.5% y/y, respectively.

Crude-oil extended its recovery in the 4Q20 reaching 9-month highs; however, it printed a negative annual balance. Brent closed at 51.80 $/bbl (-21.5% y/y) and WTI at 48.52 $/bbl (-20.5% y/y). This performance was the result of losses observed in the 1Q20 due to the COVID-19 impact on oil demand. In response, OPEC+ agreed a historic cut in global supply, which remains active with monthly monitoring, boosting the futures curve towards a backwardation structure (spot prices higher than futures). This condition has accelerated after Saudi Arabia's unexpected output cut announcement by 1 Mbbl/d this month. The main energy agencies expect a slow recovery in demand led by vaccine rollout with consumption returning to levels around those observed before the pandemic at the end of 2022. The International Energy Agency (IEA) forecasts by the end of this year a consumption of 100.1 Mbbl/d, equivalent to an increase of 20 Mbbl/d vs the weakest level of 2020. Within the estimates, a slight imbalance will continue, closing the year with an excess demand of 1.3 Mbbl/d. In this context, we estimate Brent prices at 60 $/bbl in 2021, level from which the OPEC+ agreement could be more moderated. Regarding gasoline, the EIA estimates prices of 1.97 $/gal in December for PADD 3 (+4.5% vs December 2020) and for natural gas it anticipates a 21.6% increase to 3.27 $/MMBtu, alluding to a gradual recovery in crude-oil prices.

In 2020, precious and industrial metals outperformed gains registered in the previous year. In the first group, gold rallied 25% y/y printing its best performance since 2010 boosted by strong risk aversion. We expect more contained dynamics for this trading between 1,800 and 2,000 $/t oz throughout the year due to the combination of stimulus policies and upward risks in terms of inflation. In the second group, copper closed 2020 at 7-year highs after trading at 2016 lows during March. We support a positive outlook for this metal in the face of tight balances as a result of low inventory and the gradual reactivation of the industry. In this sense, we anticipate that the gold/copper ratio as a leading indicator of economic growth will hold a positive trend. Finally, grains registered the best annual performance in a decade. We maintain a positive view for this asset class considering the high likelihood of "*La Niña*" weather event and the increase in Chinese imports of soybeans and corn, given shortages caused by the trade war.

Commodities price performance and market consensus' forecasts

Commodity	Unit	Spot*	Performance (%)		Market consensus' forecasts					
			2019	2020	1Q21	2Q21	3Q21	4Q20	2021	2022
WTI	$/bbl	53.66	34.46	-20.54	47.30	50.00	50.00	51.00	51.94	49.35
Brent	$/bbl	56.41	22.68	-21.52	49.00	53.00	52.00	54.00	55.01	52.74
Natural Gas (H. Hub)	$/MMBtu	2.67	-25.54	15.99	2.90	2.67	2.70	2.85	2.86	2.67
Gasoline (RBOB)	$/gal	1.56	28.26	-17.05	1.50	1.62	1.61	1.52	1.59	1.69
Gold	$/t oz	1,847	18.31	25.12	1,900	1,950	1,950	1,900	1,894	1,850
Silver	$/t oz	25.55	15.21	47.89	25.12	25.00	25.50	25.50	25.50	24.22
Copper	$/mt	8,049	3.50	25.79	7,600	7,400	7,000	7,200	7,300	7,350
Corn	¢/bu	534	-1.91	17.69	425	430	425	420	425	401
Wheat	¢/bu	671	0.56	9.30	593	580	580	580	586	538

Source: Bloomberg *as of 14/January/21; RBOB (Reformulated gasoline blendstock for oxygenate blending)

Corporate Debt

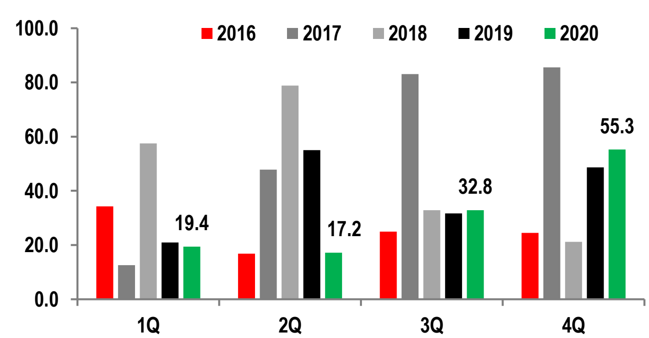
Tania Abdul Massih Jacobo
Director of Corporate Debt
tania.abdul@banorte.com

2020 was a year that tested the resilience of companies, igniting countless challenges that may extend beyond the first months of the year. As of today, wariness prevails among investors due to mixed growth signals and substantial short-term risks ahead of worsening epidemiological conditions. Against this backdrop, based on economic growth forecasts as of 1Q21 and considering the market's historical performance, we expect a low volume in terms of placements. The high level of uncertainty given the health crisis and its effect on the global economy has resulted in a decline of corporate financing. Accordingly, the outstanding amount in the corporate market fell 6.3% y/y, reaching levels similar to those registered in 2016-2017, while the issued amount declined 20.2% y/y, totaling $124.7 billion.

Amid this cautious sentiment, we anticipate that investors will continue to participate in so-called defensive sectors, particularly because the economy may continue to perform intermittently until a high percentage of the population is vaccinated. The sectors that will continue to outperform are: consumer staples, manufacturing and banking. In addition, sectors that we rank with moderate risk include: Non-bank financial institutions (NBFI) in the field of leasing and those belonging to the automotive sector, by upholding their ratings and maintaining solid credit levels, as well as airports, preserving their high liquidity levels. However, sectors that we continue to include in the high-risk category are the following: consumer discretionary, energy, airlines, non-bank financial institutions in the field of microcredit and REITs.

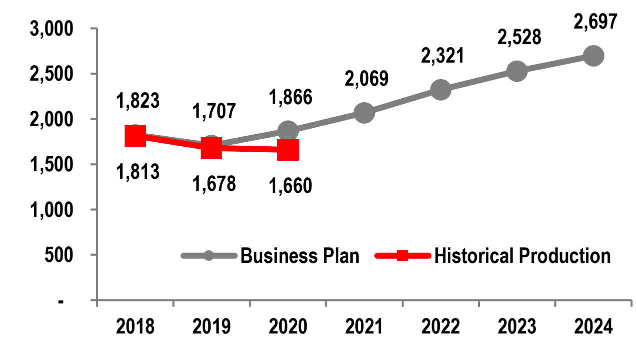
As for the energy sector, challenges will remain throughout 2021, in view of weak global demand based on a fragile economic recovery, despite the onset of vaccine distribution efforts. Nevertheless, stability in the price of oil is expected, with the major references trading at around 50 $/bbl and 60 $/bbl. In this context, for Pemex, one of the main challenges throughout the year will be the refinancing of MXN 120 billion (US$ 6.0 billion). It is important to mention that the state-owned oil company holds syndicated lines of credit, of which US$2.0 billion (27.5% of the total facility) and $700 million (1.9%) were available as of October 20th, thus the company's financial flexibility is limited and is coupled with possible pressures over its financing cost. Another challenge to be addressed during 2021 will be production; in 2020 (figures as of November) average production stood at 1,660 bbl/d, below the 1,866 bbl/d outlined in the 2019-2023 Business Plan.

Long-term issued volume – Quarterly information
Million pesos



Source: Banorte, PIP

Pemex – Historical production vs. Business Plan
Thousand barrels per day



Source: Pemex

Recent research notes

Mexico

- *Inflation 2021 – Reversal of pandemic distortions amid a still weak economy*, January 15, 2021, <pdf>
- *The ten issues to watch in 2021*, December 21, 2020, <pdf>
- *Banxico – The easing cycle will resume in February*, December 17, 2020, <pdf>
- *Minimum wage set to increase 15% in 2021*, December 17, 2020, <pdf>
- *Banco de Mexico's response to the Senate bill on foreign currency deposits in cash*, December 10, 2020, <pdf>
- *Galia Borja is nominated as the next Deputy Governor for Banxico*, December 7, 2020, <pdf>
- *S&P joins Fitch in ratifying Mexico's credit rating*, December 3, 2020, <pdf>
- *The government presents a new investment plan with the private sector for $228.6 billion*, November 30, 2020, <pdf>
- *3Q20 GDP – Broadly unchanged, highlighting more dynamism in services*, November 26, 2020, <pdf>
- *The IMF ratifies Mexico's Flexible Credit Line in its mid-term review*, November 20, 2020, <pdf>
- *Spending side of the budget FY21 – Higher expenditures in healthcare and social programs*, November 13, 2020, <pdf>
- *IMF's Article IV consultations – Policy ideas in the face of COVID-19*, October 7, 2020, <pdf>

Fixed-Income, FX, and Commodities

- *OPEC+: S. Arabia will cut its production by 1 Mbbl/d in February and March*, January 5, 2020, <pdf>
- *Mexico MoF's Financing Plan 2021: Lower financing requirements, reflecting an efficient liability management*, December 21, 2020, <pdf>
- *1Q21 Auction Calendar: increase in Mbonos and Udibonos issuance*, December 18, 2020, <pdf>
- *FX Commission: USD financing rollover*, December 7, 2020, <pdf>
- *OPEC+: An 0.5 Mbbl/d production increase starting in January 2021*, December 3, 2020, <pdf>
- *USD/MXN: we estimate year-end 2020 at 20.50 and 2021 at 19.80*, November 25, 2020, <pdf>
- *Refinancing operation from the MoF yesterday, issuing two new benchmarks for the UMS curve*, November 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>

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- *GCC 2021: Outstanding profitability and financial strength*, January 13, 2021, <pdf>
- *CEMEX, 2021: Favorable perspectives will detonate growth*, January 12, 2021, <pdf>
- *GMEXICO, 2021: Positive outlook, but tight valuation*, January 11, 2021, <pdf>
- *GMXT 2021: Favorable outlook and very attractive valuation*, January 8, 2021, <pdf>
- *AIRPORTS (December): Closes 2020 with lower rate of sequential advance*, January 7, 2021, <pdf>
- *Flash TLEVISA: Acquisition of majority stake in Univision by Searchlight and ForgeLight completed*, December 30, 2020, <pdf>
- *TELECOMMUNICATIONS: Laying the foundation for future growth*, December 23, 2020, <pdf>
- *Flash OMA: Fintech may launch a tender offer to increase its stake in Oma*, December 23, 2020, <pdf>
- *Flash AXTEL: Cancels competitive process for the whole company, it will seek to do it by parts*, December 22, 2020, <pdf>
- *BEVERAGE: Attractive valuations in view of recovery*, December 22, 2020, <pdf>
- *Flash FIBRAPL: Announces the acquisition of 2 properties*, December 21, 2020, <pdf>
- *Flash FCFE: Maintains a resilient distribution to the environment in 4Q20*, December 18, 2020, <pdf>
- *Flash ALFA: Approves dividend to be distributed on January 5th*, December 17, 2020, <pdf>
- *Flash FEMSA: Expands into the US cleaning product distribution business*, December 17, 2020, <pdf>
- *Flash AMX: Wins right to acquire 32% of OI's mobile subscribers in Brazil*, December 15, 2020, <pdf>
- *Flash VOLAR: Successfully concludes its follow-on equity offering* December 11, 2020, <pdf>
- *Flash IENOVA: New partner in the ECA Liquefaction project*, December 10, 2020, <pdf>
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- *Flash VOLAR: Primary follow-on equity offering outside Mexico*, December 8, 2020, <pdf>
- *Flash ALFA / NEMAK: Nemak Holding will be listed as of December 14, 2020*, December 4, 2020, <pdf>
- *Equity Strategy: Recovery and valuation support the Mexbol*, December 4, 2020, <pdf>
- *Flash IENOVA: Receives takeover bid from Sempra Energy*, December 2, 2020, <pdf>
- *Flash OMA: Obtains approval on the Master Development Program 2021-2025*, December 1, 2020, <pdf>
- *Flash GAP: Review of Mexican airports Master Development Program is approved* November 30, 2020, <pdf>
- *Flash TLEVISA: Declared as an economic agent with substantial power in Cable by the IFT*, November 27, 2020, <pdf>
- *WALMEX: Investigated for possible relative monopoly practices*, November 25, 2020, <pdf>
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Corporate Debt

- *Corporate Bond Market Review*, January 11, 2021, <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>
- *PEMEX – 3Q20 Results* October 28, 2020, <pdf>
- *Pemex is back in the international market*, October 9, 2020, <pdf>

Note: All our publications are available in the following link

Recent trade ideas

Trade idea	P/L	Initial date	End date
Receive 6-month TIIE-IRS (6x1)		17-Dec-20	
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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HOLD	*When the share expected performance is similar to the MEXBOL estimated performance.*
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GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy

Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Economic Research and Financial Market Strategy

Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Economic Research

Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707

Market Strategy

Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671

Fixed income and FX Strategy

Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy

Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Juan Barbier Arizmendi, CFA	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746

Corporate Debt

Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Economic Studies

Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454