

1Q20 Outlook – Geopolitics to continue shaking the already fragile growth dynamics

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The year kicked-off with relevant news in the geopolitical front (*e.g.* heightened tensions between the US and Iran), confirming that the global economy and financial markets will continue to be affected by these drivers, as stressed out by several multinational organizations (*e.g.* World Bank's *2020 Global Economic Prospect* released last week). In our view, the main event in 2020 will be the US Election on November 3rd, with President Trump seeking re-election. Although recent polls are signaling a close race at this early stage, our baseline scenario considers Trump is best positioned to win again. Moreover, there is a strong likelihood that Trump will use his significant media resonance to show a more radical rhetoric when needed, especially in three main areas: (1) Foreign policy and national security; (2) protectionist agenda (*i.e.* trade tensions); and (3) migration (most likely focusing on Mexico). In this context, the impeachment process and the current state of the economy will also be relevant in the political equation.

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.magal@banorte.com

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

Aside from the US, investors will focus on the *Brexit* process, political unrest in Latin America and other regions, as well as the new order in the Middle East, given the most recent developments. Another relevant aspect in the international landscape is growth, in which the US and China are expected to slow down and the Eurozone is still challenged. We acknowledge several headwinds for the world economy, increasing the probability of a global recession by the end of this year and the beginning of 2021. Despite this situation, the US economy has been quite resilient, increasing the debate about whether it would be sufficient or not as a significant buffer to spur economic activity in the rest of the world. Taking into account this complex scenario, policy responses will be crucial at this point in time, characterized last year by coordinated stimulus from numerous central banks. However, today the room for additional monetary measures is more limited, with the focus on the likelihood and pressure for fiscal response.

In Mexico, growth was negatively impacted by slower investment at the domestic level, as it usually happens every first year of a new government. Moreover, the slowdown in manufacturing in the US also had a toll on Mexico's exports. This year, we expect government spending and investment, as well as some private-sector projects to be reactivated –with a ratified USMCA–, so the economy will start to recover. Market risks include the effect of the minimum wage increase, potential changes to the credit rating of the sovereign and Pemex, the fiscal outlook and other policy responses, including the magnitude of Banxico's easing cycle.

Mexico's main macroeconomic and financial forecasts

End of period

	1Q20	2Q20	3Q20	4Q20	2020
GDP (% y/y)	0.9	0.8	1.0	0.6	0.8
Inflation (% y/y)	3.6	3.6	3.8	3.6	3.6
USD/MXN	18.60	18.90	19.91	19.80	19.80
Banxico's reference rate (%)	6.75	6.50	6.50	6.50	6.50
28-day TIEE (%)	7.00	6.75	6.80	6.70	6.70
Mexbol (points)	-	-	-	48,500	48,500

Source: Banorte

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Mexico

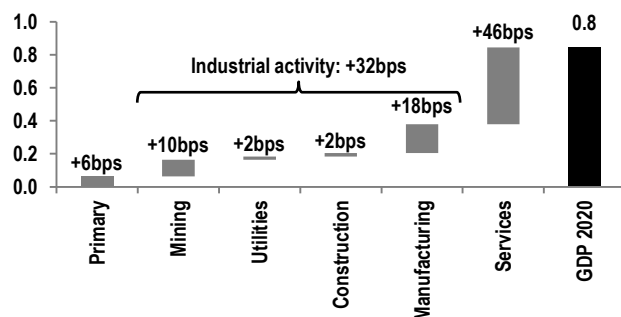
We revise our GDP forecast for 2020 to 0.8% y/y from 1.4% previously. From the demand side, we expect private consumption to continue to be the main growth driver, supported by strength in real wages, remittances, and some boost from social programs. Nevertheless, this would be compensated by higher savings and a slight increase in unemployment, implying more modest growth than we previously anticipated. We also expect investment to stabilize, helped by factors such as the [infrastructure plan](#) and some key projects from the Federal Government, although still limited by frail business confidence. From the supply side (see chart below, left), we anticipate mining to contribute positively for the first time in almost eight years, driven by higher oil production. Construction could also improve marginally, in line with the pick-up in investment. Moreover, manufacturing would keep growing, aided by the [likely ratification of USMCA](#), inducing lower trade uncertainty, although dampened by the global deceleration, including in the US. Services would improve, despite some of the factors stated above that could limit private consumption dynamics.

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

[We expect inflation by year-end 2020 at 3.6%](#), with the core component at 3.5% (see chart below, right). We believe the latter will be influenced in large part by the [recent minimum wage increase](#), maintaining some resistance to the downside despite high slack in the economy (with an output gap estimated around -2%). At the non-core level, we expect a managed rise in energy prices –consistent with the government’s promise of maintaining prices constant in real terms–, while agricultural products could accelerate higher after very favorable dynamics throughout 2019, particularly in fresh fruits and vegetables.

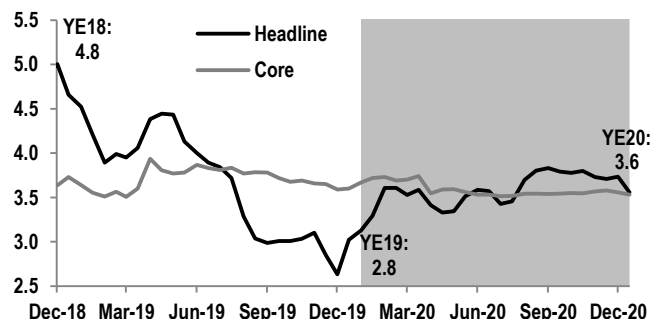
Regarding monetary policy, we now believe the easing cycle could stop at 6.50%, 50bps higher than our previous estimate. We expect three 25bps cuts in each of the following meetings, taking place in February, March and May. Our forecast change is based on four main factors: (1) A more challenging inflation outlook than the one forecasted by Banxico; (2) a more conservative stance by the central bank’s Board, at least during this year, as [evidenced by recent communications](#); (3) the pause in the Fed’s easing cycle, limiting the available room in terms of the interest rate spread; and (4) a balance of risks for growth less skewed to the downside, recognizing the slight pick-up in activity.

GDP 2020: Contribution to annual growth
% y/y, basis points



Source: Banorte

Inflation trajectory
% y/y, biweekly frequency



Source: INEGI, Banorte

United States

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

The global economy has been slowing down, likely growing about 3.0% in 2019 from 3.6% in 2018, while the most recent forecast for the current year by the IMF is at 3.4%. In this context, the US economy has been quite resilient and has been one of the main contributors to global growth. For 2020, our estimate for US GDP is 1.8% y/y (see table below) after increasing 2.3% in the previous year. In our view, most of the upside will again be explained by consumption, estimated at 2.4%, from 2.6% in 2019, supported by: (1) Labor market strength, with the unemployment rate remaining close to its current level of 3.5%; (2) the three Fed funds rate cuts implemented last year; (3) muted inflation that will favor real disposable income; and (4) relatively high levels of consumer confidence. We highlight that despite this, 1Q20 GDP could be relatively modest at around 1.3% q/q saar, impacted by Boeing's suspension of production of its grounded 737 Max, which we estimate could slash about 0.5pp to the period. Based on the assumption that this will only be temporary, we believe 2Q20 growth could accelerate to 1.9%.

Regarding inflation, signals from the labor market keep pointing to limited wage pressures, with average hourly wages up 2.9% y/y by year-end 2019 after advancing 3.3% twelve months prior. Taking this into account, our scenario of GDP slightly below potential (which we estimate around 2.0%) and with limited upside in energy prices despite recent volatility on the back of geopolitical tensions with Iran (see *Commodities* section), we anticipate inflation at 2.1% this year –based on CPI, see table below–, higher than last year's 1.8%. In the case of the PCE core, which is the measure preferred by the Fed, we estimate inflation at 1.7%.

Based on the latter, we believe the Fed will maintain the Fed funds range unchanged at 1.50-1.75% in 2020, in line with the median forecast in the latest *dot plot*. In this context, the central bank's macro framework shows slightly higher estimates, with GDP at 2.0% and PCE at 1.9%. Therefore, our expectations suggest a modest skew towards the possibility of a rate cut, although it is very modest and even in the case of materializing, we believe it would be no sooner than 4Q20.

US: Banorte Forecasts

	1Q20	2Q20	3Q20	4Q20	2020**
GDP (% y/y)*	1.3	1.9	1.8	1.7	1.8
Private Consumption	2.0	2.2	2.2	2.0	2.4
Fixed Investment	0.8	1.0	0.5	1.0	0.3
Exports	1.5	2.2	1.9	1.8	1.1
Imports	2.2	2.3	2.4	2.2	1.9
CPI (% y/y, average)	2.3	2.1	2.1	2.1	2.1
Unemployment rate (% eop)	3.6	3.5	3.5	3.6	3.6
Non-farm payrolls (thousands)	560	570	550	520	2,200

* All GDP estimates are % q/q saar, except for 2020, which is % y/y. ** 2020 figures are reported in annual rates. eop: end of period.

Source: Banorte

US Election

One of the key events this year will be the US Election to be held on November 3rd. President Trump clearly aims for re-election, while the candidate for the Democratic Party is not yet known. In this respect, recent polls show Joe Biden in the leading position among Democrats with 27.4% support, followed by Bernie Sanders (18.8%), and Elizabeth Warren (16.8%). Each of the remaining candidates has less than 10% backing. Party’s candidate selection processes will start on February 3rd, with the Iowa caucuses. National Conventions, in which the candidate is formalized, will be held between July 13-16 by the Democratic Party and August 24-27 in the case of the Republicans.

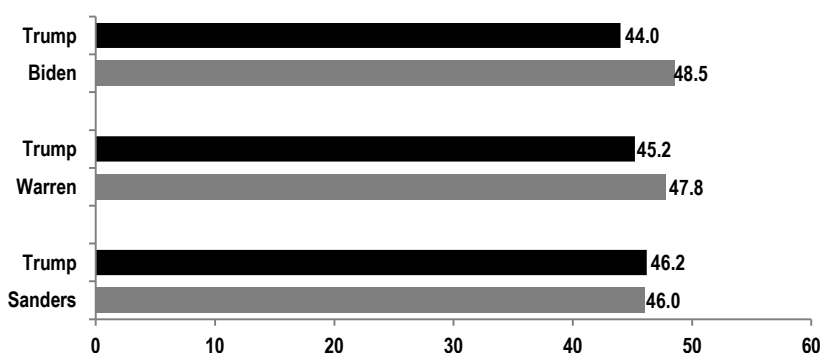
Katia Goya
Senior Global Economist
katia.goya@banorte.com

It is highly likely that candidates from both parties will focus during the campaign on the so-called swing states, characterized as those in which past electoral triumphs have switched between parties. Included in this category are Colorado, Florida, Iowa, Michigan, Minnesota, Ohio, Nevada, New Hampshire, North Carolina, Pennsylvania, Virginia and Wisconsin. Among them, those with the highest number of electoral votes are Florida (29), Pennsylvania (20), Ohio (18), and Michigan (16). On the other hand, those with the most votes within the Electoral College include California (55) –usually won by the Democrats– and Texas (38), which is Republican.

We should mention that, no matter who the Democratic candidate turns out to be, he/she would win by a tight margin against President Trump according to recent polls (see chart below). Nevertheless, our base-case scenario is a Trump victory. Moreover, it is our take that he will reinforce his stance during the campaign, especially in three fronts: (1) Protectionist agenda; (2) foreign policy and national security; and (3) migration. Except for the first theme, we believe Trump’s rhetoric will again turn increasingly aggressive against Mexico as the campaign unfolds, with the goal of cementing support among his base. Other issues could also influence his popularity –highlighting the conflict with Iran, the trade war with China and the impeachment process–, although we believe they will not severely impair his support on Election Day. In this sense, we should mention that despite these issues being highly polarizing in the public debate, his popularity among the general population stands around 45%.

Trump vs Democratic candidates

% of voter support



Source: Real Clear Politics

Global

Global growth has fallen sharply, affected by risks related to trade and geopolitics, along with idiosyncratic and structural factors. Higher uncertainty has led to a synchronized slowdown, with a more severe loss of momentum in manufacturing, and concerns on when this weakness could spill to services. This has driven central banks to act with aggressive monetary policy responses, amid demands for fiscal policy to boost growth.

In this context, the conflict between Iran and the US seems to be less serious than feared. Meanwhile, the signing of phase 1 of the trade agreement between China and the US –with only limited economic effects–, is relevant in signaling a major step towards a greater agreement that could eventually lead to the withdrawal of current tariffs and other issues such as intellectual property, among others.

Another big front is *Brexit* –with consequences in several regions– and the possibility of new trade agreements between the United Kingdom and its partners, not only with the European Union. *Brexit* will surely materialize on January 31st, followed by a transition period until December 31st. In that period, the UK and the EU must reach a trade agreement. However, this seems almost impossible since this type of negotiations usually take more than twelve months. Despite this, Boris Johnson and the Conservative Party have been reluctant to extend it, increasing the possibility of a no-deal *Brexit* at the end of the year. Given persistent uncertainty in this front, risks of a further slowdown in the UK have become more pronounced and inflation is running below the target. We expect the Bank of England to cut the reference rate by 25bps in 1Q20.

In the Eurozone, exports have been a drag for activity since early 2018, with manufacturing as the weakest sector in the region, while Germany's economy has slowed down dramatically. Despite our expectation of modest growth and muted inflation, it is unlikely that the ECB will act in the short-term, considering the aggressive stimulus package announced in September. In our opinion, this region shows very clearly the limits of monetary policy, so the central bank will continue emphasizing the need of greater fiscal stimulus. Meanwhile, the focus will be on the review of the central bank's strategy to be conducted throughout the year, which we believe will turn out with the adoption of a symmetric inflation target.

In China, we expect a deceleration of the economy, with GDP growth close to 6.0% and relatively limited monetary stimulus response. Finally, in Latin America, we believe Brazil's central bank is near the end of the easing cycle, which could place the level of the Selic rate between 4.00%-4.25% (current: 4.50%). In Chile, the attention is in the difficult political situation, where early elections do not seem the most likely scenario. In Colombia, the political situation is also complex, but growth is expected to remain close to 3.0% and inflation within the target range between 2.0%-4.0%.

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

Fixed income

Mexican sovereign bonds were strongly supported last year by the global dovish wave combined with an attractive valuation, with the yield curve rallying 179bps in almost every tenor. This appreciation was stronger than the 85bps experienced in US Treasuries, resulting in an interest rate spread contraction. Specifically, the 10-year spread moved from 592bps to 493bps (see table below), depicting the risk on sentiment among investors by year-end in tandem with a clear search for yield. In terms of asset class comparison within the local fixed income market, nominal-rate Mbonos outperformed CPI-linked Udibonos, given more positive inflation dynamics in 2019, with annual inflation moving from 4.83% to 2.83%.

The conditions for 2020 analyzed in this document suggest a more stable performance of local rates in comparison to the previous year, with a strong likelihood of a flattening bias in the Mbonos curve. In our view, short-term securities are properly pricing in 75bps of implied cuts from Banxico, especially in the first half of the year, in line with our expectations. This valuation conveys limited room for additional gains. In contrast, we think longer tenors should have a more positive performance in 1H20 given the effect of slack in the global economy that should trigger additional stimuli from central banks (albeit in a more limited way *vis-à-vis* 2019) and also from the fiscal front. In addition, geopolitical risks should fuel the search for safer assets, with Mexico portraying a highly appealing carry in a risk-adjusted basis against EM competitors. However, we are forecasting a modest increase in the country-specific risk premium in the 2H20 (see table below), taking into account geopolitical risks worldwide (*e.g.* US Election) and also some headwinds for the Mexican economy and fiscal accounts. In contrast with 2019, we are observing that inflation dynamics and current breakevens will benefit some CPI-linked Udibonos. In this regard, we recently opened a [trade idea of long positions in the 3-year Udibono](#).

Santiago Leal

Fixed income and FX Senior Strategist
santiago.leal@banorte.com

Banorte's interest rate forecasts

Security	2014	2015	2016	2017	2018	2019	2020 forecasts*			
							1Q	2Q	3Q	4Q
Banxico's reference rate										
Average	3.21	3.02	4.29	6.75	7.64	8.00	<u>7.00</u>	<u>6.58</u>	<u>6.50</u>	<u>6.50</u>
End of period	3.00	3.25	5.75	7.25	8.25	7.25	<u>6.75</u>	<u>6.50</u>	<u>6.50</u>	<u>6.50</u>
28-day Cetes										
Average	3.02	2.98	4.17	6.70	7.64	7.87	<u>6.95</u>	<u>6.53</u>	<u>6.50</u>	<u>6.50</u>
End of period	2.70	3.00	5.78	7.26	8.06	7.13	<u>6.70</u>	<u>6.45</u>	<u>6.50</u>	<u>6.50</u>
28-day TIIE										
Average	3.51	3.32	4.48	7.05	8.00	8.31	<u>7.25</u>	<u>6.83</u>	<u>6.80</u>	<u>6.75</u>
End of period	3.32	3.56	6.11	7.62	8.59	7.69	<u>7.00</u>	<u>6.75</u>	<u>6.80</u>	<u>6.70</u>
10-year Mexican bond (Mbono)										
Average	6.01	5.96	6.21	7.15	7.93	7.61	<u>6.90</u>	<u>6.98</u>	<u>7.08</u>	<u>7.25</u>
End of period	5.82	6.25	7.44	7.64	8.63	6.85	<u>6.95</u>	<u>7.00</u>	<u>7.15</u>	<u>7.35</u>
10-year US Treasury										
Average	2.53	2.13	1.84	2.33	2.91	2.14	<u>1.93</u>	<u>1.98</u>	<u>2.03</u>	<u>2.07</u>
End of period	2.17	2.27	2.44	2.41	2.71	1.92	<u>1.95</u>	<u>2.00</u>	<u>2.05</u>	<u>2.10</u>
10-year Spread Mex-US										
Average	348	383	437	482	502	547	<u>497</u>	<u>500</u>	<u>505</u>	<u>518</u>
End of period	365	398	500	523	592	493	<u>500</u>	<u>500</u>	<u>510</u>	<u>525</u>

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

*Underlined numbers indicate forecasts

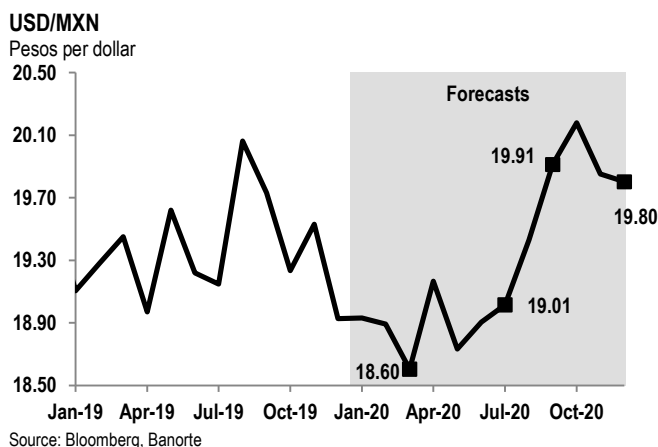
Foreign Exchange

The unexpected trade developments between China and the US by 2019-end, coupled with global monetary stimulus, lead to a widespread FX strengthening against the USD during the 4Q19. USD/MXN benefited from this backdrop and gained additional impulse, supported by its differentiation against other crosses given its implied yield. Moreover, expectations around USMCA turned more positive. In this sense, the Mexican peso rallied 3.7% to 18.93 in 2019. However, consistent with our view, the currency reached levels up to 20.26 during the summer.

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

For 2020 we see an FX marketplace divided in two main phases: (1) USD confined, possibly down to the 3Q20; and (2) year-end dynamics reflecting more defined USD strength, as has been the case in previous global deceleration stages. Under this framework, the US Election on November 3rd will be set in the forefront of the geopolitical agenda. We expect higher hedging in the MXN around 45 days before the event, broadly in line with historical evidence. Our baseline scenario is not factoring unexpected elements mirroring 2016 volatility shocks. However, and independent from voting results, the tone adopted in campaigns will be key for FX performance, especially in the foreign policy front. Our forecasts assume greater intensity in 2H20. As a reference point, the greatest stress for the Mexican cross in the 2016 US Election reached up to 3.6 σ before President Trump's victory, with further losses reaching as high as 3.8 σ when taking into account closing levels and a 90-day moving average. Furthermore, USD usually strengthens in US electoral years, validating this performance in 9 out of the 11 last chapters since 1976.

We updated our USD/MXN forecast for year-end 2020 to 19.80 from 20.20 (see table below, right), capturing the previously described scene and adjusting by the base effect due to a stronger close in 2019. Moreover, we acknowledge a more diluted effect from the carry's erosion as other competitor-flow regions hold a dovish bias and Banxico has recently depicted a more cautious approach. Among domestic risks, we stress out growth dynamics and a challenging fiscal backdrop. We will evaluate attractive entries to build long USD recommendations, with the market currently net long and favoring the MXN close to 2013 highs; low and notably resilient implied volatility to recent risk aversion shocks, and a strong technical barrier at 18.75 per dollar.



USD/MXN forecasts
Pesos per dollar

Period	End of period	Average
1Q20	18.60	18.81
2Q20	18.90	18.93
3Q20	19.91	19.45
4Q20	19.80	19.94

Source: Banorte

Stock market indices

In 2019, most of the global stock market indices surged, with last-year's return alone as the best of the decade. During the year, the MSCI ACWI (the all-country world index) advanced 24% y/y, while US equity markets reached new historic highs, with the Dow Jones up 22.3%, S&P500 +28.8%, and Nasdaq +35.2%. In our view, the main factors that boosted performance globally were: the trade deal reached between the world's two largest economies, along with easing monetary policies from the Fed and other 62 central banks, the continuity of the global economic cycle and earnings growth –though below than originally estimated–. In light of these factors, the MSCI ACWI's P/E re-rated from 15.1x (at the end of 2018) to 19.8x, while the S&P500 did so to 21.6x from 16.5x, trading 9.0% above the 5-year-average.

In spite of solid returns in 2019 and escalating geopolitical tensions between the US and Iran, 2020 kicked-off with risk appetite among investors, due to the progress made in the negotiations between China and the US. In our opinion, stock markets' performance will be linked to global economic and earnings growth, as well as central banks' monetary policies and how geopolitical risks continue to evolve –including the US Election and President Trump's impeachment–.

S&P500 forecast. In 2020, analysts' consensus anticipates 9% y/y earnings growth for the constituents of the S&P500. If this scenario proves to become true, and assuming a target P/E multiple of 20.9x (slightly below current's index valuation), then the benchmark could reach 3,400pts. Nevertheless, we should bear in mind that the presidential election or a steeper deceleration of the US economy –impacting corporate earnings–, might cause higher volatility or even a weak performance in the stock market, while potentially triggering a de-rating in the index towards its historical averages (3-year of 20.4x and 5-year 19.8x).

Mexbol forecast. Unlike global equities, Mexbol's valuation in 2019 reflected more local uncertainty and lower-than-expected economic growth. In this context, the market's FV/EBITDA multiple de-rated to 7.2x from 7.8x as of the end of 2018. A lower rates outlook in Mexico could motivate domestic stocks to re-rate; however, we have adopted a cautious stance for determining our Mexbol's target for 2020. That said, by assuming a 7.4x FV/EBITDA 2020E target multiple (similar to last year's average valuation), 9.4% y/y EBITDA growth, and a 6.6% increase in companies' net debt, we set our YE reference level at 48,500pts (see table below).

2020 Mexbol Forecast

FV/EBITDA	EBITDA (MXN millions)	Net Debt (MXN millions)	Mexbol (pts)	Potential Return (%)
8.0x			53,756	20.1%
7.7x			51,111	14.2%
7.4x	\$8,816 +9.4%	\$16,774 +6.6%	48,466	8.2%
7.1x			45,821	2.3%
6.8x			43,176	-3.6%

Source: Banorte

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

Commodities

Commodities closed 2019 with a positive performance. These dynamics resulted from strong gains in the energy and precious metals sectors. In particular, the Goldman Sachs Commodity Index (GSCI) and the Bloomberg Commodity Index (BCOM) increased by 16.5% and 5.4%, respectively.

In 4Q19, crude-oil strengthened, offsetting losses during the previous two quarters, concluding with a positive annual balance with Brent and WTI printing gains of +22.7% y/y and +34.5% y/y, in the same order. This performance captured a complex geopolitical landscape in the Middle East, feeding risk premia and volatility to the market (*e.g.* Saudi Aramco attack in September, US-Iran tensions), and the support from OPEC and its allies through their production cut agreement in a context in which supply and demand are still at risk of being unbalanced. In this sense, [OPEC extended its collective oil output cut](#) to 1.7 Mbbbl/d, a strategy to be reviewed on March 6th. In addition, positive trade perspectives between US and China temporarily minimized uncertainty about lower demand in coming months. We consider that these factors will still benefit short-term crude-oil dynamics. However, during the year we believe that global balances will continue widening as the OPEC+ supply agreement compliance will include members exceeding their self-imposed limits (*e.g.* Russia) in a global production context with the US reaching historical highs and consumption data reflecting muted growth later in the year. In this context, we expect a 2020 close for Brent prices at 65 \$/bbl, averaging 60 \$/bbl during the year. In terms of gasoline, price action will be relatively stable, with the EIA forecasting 2.23 \$/gal for year-end PADD 3 (-0.2% vs November 2019) reflecting small variations despite its relevance in the election campaign.

In 2019, precious metals printed a strong appreciation, while industrials registered modest gains. Regarding the former, gold marked its best annual performance since 2010, up 18.3%. We maintain a favorable view for this metal with the possibility of trading near to 1,570 \$/ t oz, considering upward geopolitical risks and a dovish bias in most central banks. Industrial metals recovered after significant losses in 2018, division for which we expect a good performance and extending previous gains, given a improved trade landscape. Finally, the agricultural sector concluded the year with a moderated appreciation. We expect this asset class to trade within a tight range, taking into account the low likelihood of *El Niño* event in 1Q20.

Commodities price performance and market consensus' forecasts

Commodity	Unit	Spot*	Performance (%)		1Q20	2Q20	3Q20	4Q20	2020
			2018	2019					
WTI	\$/bbl	58.19	-24.84	34.46	60.00	57.41	56.60	57.00	56.72
Brent	\$/bbl	64.49	-19.55	22.68	62.11	61.00	60.00	60.00	61.27
Natural Gas (H. Hub)	\$/MMBtu	2.19	-0.44	-25.54	2.50	2.45	2.37	2.65	2.34
Gasoline (RBOB)	\$/gal	1.66	-26.43	28.26	1.75	1.82	1.82	1.74	1.79
Gold	\$/t oz	1,549	-1.56	18.31	1,505	1,500	1,520	1,538	1,500
Silver	\$/t oz	17.83	-8.52	15.21	17.75	17.80	17.55	17.70	17.60
Copper	\$/mt	6,302	-17.69	3.50	6,017	6,050	6,100	6,200	6,200
Corn	¢/bu	389	-0.31	-4.73	390	398	405	410	410
Wheat	¢/bu	569	2.36	0.95	513	523	507	505	510

Source: Bloomberg *as of 15/Jan/20 ; RBOB (Reformulated gasoline blendstock for oxygen blending)

Recent research notes

Mexico

- *We estimate 2020 inflation at 3.6%, after closing last year at 2.8%*, January 9th, 2020, <[pdf](#)>
- *The Minimum Wage will increase 20% in 2020*, December 17th, 2019, <[pdf](#)>
- *Final details of USMCA agreed on, paving the way for approval*, December 10th, 2019, <[pdf](#)>
- *The government announced the first phase of its Infrastructure Program*, November 26th, 2019, <[pdf](#)>

Fixed-Income, FX, and Commodities

- *Trade Idea: Long positions in CPI-linked Udibono Jun '22*, January 9th, 2020, <[pdf](#)>
- *The MoF achieved a successful financing in international markets*, January 7th, 2020, <[pdf](#)>
- *1Q20 Auction Calendar: issuance amounts were left unchanged*, December 19th, 2019, <[pdf](#)>
- *Technical note: Towards a new reference rate – TIE repo*, November 25th, 2019, <[pdf](#)>

Equities

- *CHDRAUI, Attractive valuation yet without clear catalysts*, January 13th, 2020, <[pdf](#)>
- *NEMAK, Structural and EV components should aid recovery*, January 13th, 2020, <[pdf](#)>
- *LACOMER, Ongoing double-digit growth in 2020*, January 10th, 2020, <[pdf](#)>
- *SPORT, Focus on future's growth strategy*, January 10th, 2020, <[pdf](#)>
- *WALMEX, A sharper deceleration than expected*, January 9th, 2020, <[pdf](#)>

Recent trade ideas

Trade idea	P/L	Initial date	End date
Long positions in Udibono Jun'22		9-Jan-20	
Long positions in Mbonos Nov'47	L	25-Oct-19	20-Nov-19
Long positions in Mbonos Nov'36 & Nov'42	P	16-Aug-19	24-Sep-19
Long positions in the short-end of Mbonos curve	P	19-Jul-19	2-Aug-19
Long positions in Mbonos Nov'42	L	5-Jul-19	12-Jul-19
Long positions in Mbonos Nov'36 & Nov'38	P	10-Jun-19	14-Jun-19
Long positions in Mbonos Jun'22 & Dec'23	P	9-Jan-19	12-Feb-19
Long floating-rate Bondes D	P	31-Oct-18	3-Jan-19
Long CPI-linked Udibono Jun'22	L	7-Aug-18	31-Oct-18
Long floating-rate Bondes D	P	30-Apr-18	3-Aug-18
Long 20- to 30-year Mbonos	P	25-Jun-18	9-Jul-18
Short Mbonos	P	11-Jun-18	25-Jun-18
Long CPI-linked Udibono Jun'19	P	7-May-18	14-May-18
Long 7- to 10-year Mbonos	L	26-Mar-18	23-Apr-18
Long CPI-linked Udibono Jun'19	P	20-Mar-18	26-Mar-18
Long 5- to 10-year Mbonos	P	5-Mar-18	20-Mar-18
Long floating-rate Bondes D	P	15-Jan-18	12-Mar-18
Long 10-year UMS Nov'28 (USD)	L	15-Jan-18	2-Feb-18

P = Profit, L = Loss

Track of directional fixed-income trade recommendations

Trade idea	Entry	Target	Stop-loss	Closed	P/L	Initial date	End date
Long Udibono Dec'20	3.05%	2.90%	3.15%	3.15%	L	09-ago-17	06/oct/2017
5y 10y TIE-IRS steepener	28bps	43bps	18bps	31bps	P ²	15-Feb-17	15/mar/2017
5y 10y TIE-IRS steepener	35bps	50bps	25bps	47bps	P	05-oct-16	19/oct/2016
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 TIE-IRS (13x 1)	3.92%	3.67%	4.10%	3.87% ¹	P	12-Nov-15	8-Feb-16
Long spread 10-year TIE-IRS vs US Libor	436bps	410bps	456bps	410bps	P	30-Sep-15	23-Oct-15
Receive 9-month TIE-IRS (9x 1)	3.85%	3.65%	4.00%	3.65%	P	3-Sep-15	18-Sep-15
Spread TIE 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 TIE-IRS (3x 1)	3.24%	3.32%	3.20%	3.30%	P	29-Jan-15	29-Jan-15
Pay 9-month TIE-IRS (9x 1)	3.28%	3.38%	3.20%	3.38%	P	29-Jan-15	29-Jan-15
Pay 5-year TIE-IRS (65x 1)	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 TIE-IRS (26x 1)	3.75%	3.55%	3.90%	3.90%	L	11-Jul-14	10-Sep-14
Receive 1-year TIE-IRS (13x 1)	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 TIE-IRS (6x 1)	3.83%	3.65%	4.00%	3.81%	P	10-Oct-13	25-Oct-13
Receive 1-year TIE-IRS (13x 1)	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 TIE-IRS (9x 1)	4.50%	4.32%	4.65%	4.31%	P	21-Jun-13	12-Jul-13
Spread TIE-Libor (10-year)	390bps	365bps	410bps	412bps	L	7-Jun-13	11-Jun-13
Receive 1-year TIE-IRS (13x 1)	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 TIE-IRS (13x 1)	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 TIE-IRS (13x 1)	4.87%	4.70%	5.00%	4.69%	P	11-Jan-13	24-Jan-13
Receive TIE Pay Mbono (10-year)	46bps	35bps	54bps	54bps	L	19-Oct-12	8-Mar-13
Spread TIE-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, Jorge Antonio Izquierdo Lobato and Eridani Ruibal Ortega, 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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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 Godínez	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 Zaldivar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
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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
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755

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	hugo.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 Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebaldos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
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
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.rolan.ferrer@banorte.com	(55) 5004 - 1454