

Moody's reaffirms Mexico's A3 rating

April 27, 2017

- Moody's affirmed today its A3 rating, while maintaining its sovereign debt outlook in "negative"
- The drivers behind the decision, according to the document released today by the rating agency are:
 - (1) The government's fiscal consolidation efforts and the significantly reduced likelihood that the contingent liabilities from PEMEX will materialize, given a better financial position; and
 - (2) Although Moody's base-case scenario calls for marginal changes to NAFTA regarding rules of origin and trade disputes mechanism, the agency mentioned that stronger changes or a US withdrawal could lead to a material deterioration of Mexico's credit metrics
- Moody's highlighted that Mexico's credit outlook could change back to stable if: *"...renegotiation of the trade agreement leads to changes that have only limited impact on Mexico's medium-term economic and fiscal prospects, leading to a significant reduction in investors' risk perception..."*
- In addition, Moody's also mentioned that Mexico's rating could be revised up if: *"...higher than expected growth driven by continuing structural reform efforts, which would result in the creation of sizable fiscal buffers by the government, and a significant decrease in government debt metrics..."*
- We highlight that Moody's continues to be the rating agency that has awarded Mexico with the highest sovereign rating. As shown in the table below, the A3 from Moody's is one notch above the BBB+ by S&P and Fitch, even though they all have a negative outlook
- In terms of strategy, it is our take that the announcement could be positive for Mexican assets, albeit modestly as the outlook was left unchanged. We estimate that the risk premium embedded in both local rates and MXN is already broadly consistent with a country rating of Baa1/Baa2, so it could be construed as a mild upward surprise relative to current market expectations
- In rates, we remain on the sidelines for now, waiting for better entry levels after taking profits on long positions in the belly of the Mbonos curve (Jun'22, Dec'23, and Dec'24), where we still acknowledge the most attractive relative valuation. Nevertheless and generally speaking, we see an expensive valuation in Mexican bonds, as suggested by the strong flattening bias and lower risk premium following the rally in 1Q17

www.banorte.com
www.ixe.com.mx
@analisis_fundam

Gabriel Casillas

Chief Economist and Head of Research
gabriel.casillas@banorte.com

Delia Paredes

Executive Director of Economic Analysis
delia.paredes@banorte.com

Alejandro Cervantes

Senior Economist, Mexico
alejandro.cervantes@banorte.com

Francisco Flores

Economist, Mexico
francisco.flores.serrano@banorte.com

Fixed income and FX Strategy

Alejandro Padilla

Head Strategist - Fixed-Income and FX
alejandro.padilla@banorte.com

Juan Carlos Alderete, CFA

FX Strategist
juan.alderete.macal@banorte.com

Santiago Leal

Analyst Fixed Income and FX
santiago.leal@banorte.com

Document for distribution among public

- In FX, the Mexican peso gained from 19.05 to 19.00 per dollar as an immediate reaction in the after-market. Similar to our rates outlook, we are waiting for a better level to evaluate new positions. Under current conditions, we see USD/MXN above 19.30 is attractive for short positions on an intraday and tactical basis, while 19.60 looks better for directional trades. In contrast, we expect the cross to validate the 18.45-18.50 zone as a strong support, in which appetite for dollars is likely to remain high**

Mexico's credit ratings

	Rating	Investment Grade/ Speculative	Outlook	Last change in rating and/or outlook
Fitch	BBB+	Investment	Negative	9-Dec-16
Standard & Poor's	BBB+	Investment	Negative	23-Aug-16
Moody's	A3	Investment	Negative	05-Feb-14

Source: Bloomberg

Disclaimer

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Juan Carlos Alderete Macal, CFA	FX Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates / Financials/ Mining / Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research Analyst – Airlines / Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
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.cebillos@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 Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454