Ahead of the Curve

Banxico to revise GDP down and inflation up for 2020

- **Banxico's Quarterly Report and Minutes.** The central bank will release its Quarterly Report (QR) for 4Q19 on Wednesday and the minutes of the last monetary policy meeting on Thursday. We will focus on changes to the forecasts for GDP and inflation, in a context of relative uncertainty about the terminal rate in the easing cycle. We expect the mid-point for 2020 GDP to be cut by 30-40bps, to 0.9-1.0%. Moreover, we see the estimated path for inflation adjusted between 10-30bps higher in the forecast horizon, starting in 2Q20. The minutes will lose some relevance, given the release of the QR. Despite of this, we will pay attention to the tone, considering this was the first unanimous decision since May 2019, which in our view tilted the balance less dovish. All in all, we expect these documents to be consistent with our call of two additional 25bps cuts in the reference rate in the meetings to be held in March and May, reaching 6.50% by year-end

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www.banorte.com
@analisis_fundam

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

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

Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 24-Feb	**7:00am**	**CPI inflation**	1H-Feb	% 2w/2w	0.21	0.15	0.11
				% y/y	3.61	3.55	3.29
		Core		% 2w/2w	0.20	0.28	0.16
				% y/y	3.67	--	3.73
Tue 25-Feb	**7:00am**	**GDP (Full-year)**	2019	% y/y	-0.1	--	2.1
Tue 25-Feb	**7:00am**	**GDP**	4Q19 F	% y/y	-0.4	-0.4	-0.3
		sa		% q/q	-0.1	-0.1	0.0
		Primary activities		% y/y	1.9	--	1.9
		Industrial production		% y/y	-2.1	--	-1.8
		Services		% y/y	0.1	--	0.2
Tue 25-Feb	**7:00am**	**Global economic indicator**	December	% y/y	0.5	0.5	-1.2
		sa		% m/m	0.2	--	0.1
		Primary activities		% y/y	1.4	--	-2.1
		Industrial production		% y/y	-1.0	--	-2.3
		Services		% y/y	1.1	--	-0.7
Tue 25-Feb	**10:00am**	**Current account**	4Q19	US$ bn	--	--	2.0
Tue 25-Feb	**10:00am**	**International reserves**	Feb-21	US$ bn	--	--	182.7
Wed 26-Feb	**7:00am**	**Retail sales**	December	% y/y	2.4	--	2.1
		sa		% m/m	-0.4	--	1.7
Wed 26-Feb	**1:00pm**	**Banxico's quarterly inflation report**	4Q19				
Thu 27-Feb	**7:00am**	**Unemployment rate**	January	%	3.46	--	2.91
		sa		%	3.39	--	3.13
Thu 27-Feb	**10:00am**	**Banxico's minutes**	February				
Fri 28-Feb	**7:00am**	**Trade balance**	January	US$ mn	-2,653.1	--	3,068.3
		Total exports		% y/y	2.3	--	3.0
		Oil exports		% y/y	4.5	--	4.3
		Non-oil exports		% y/y	2.2	--	2.9
		Total imports		% y/y	-3.3	--	-0.3
Fri 28-Feb	**10:00am**	**Comercial banking credit**	January	% y/y	2.1	--	2.0
		Consumption		% y/y	2.5	--	2.4
		Housing		% y/y	7.7	--	7.6
		Firms			0.5	--	0.3
Fri 28-Feb	**3:30pm**	**Budget balance (PSBR)**	January	$ bn	--	--	-564.7

Source: Banorte; Bloomberg

Proceeding in chronological order…

Core goods could push headline inflation higher in the first half of February. We estimate headline inflation at +0.21% 2w/2w, picking up from the +0.11% of the previous fortnight. Meanwhile, core inflation could rise 0.20% (previous: 0.16%), translating into a 15bps contribution. Goods would add 10bps to the latter, with 4bps in processed foods and the rest in other goods. Within the former, we believe that start-of-the-year adjustments could be still taking place, while the end of the discount season –especially for clothing– would push the latter up. Going into services, most of the impact would center in other services (adding 2bps), even with holiday-related categories still trending down. We will still be looking into detailed dynamics of this component, as it will be very important to analyze the relative effects from the minimum wage increase and economic slack. In addition, we believe housing will continue climbing at a moderate pace (+2bps), with education marginally higher (+0.7bps).

The non-core component would increase 0.22% 2w/2w, adding 5bps to the headline. We expect +6bps from agricultural goods, evenly split between fresh fruits and meat and egg. Within the first, we expect a more widespread increase, while the second would show pressures mostly in eggs and poultry, especially after the latter's recent decline. On energy, we highlight zero subsidy for low-grade gasoline since February 1st. Nevertheless, a relatively strong MXN and a modest decline in international reference prices should more than offset for the latter, resulting in a -0.5bps contribution. LP gas would also continue creeping down, subtracting -1bps and adding four consecutive bi-weekly prints lower.

With these results, annual inflation would increase to 3.61% from 3.24% in January. This acceleration would be mainly driven by an adverse base effect, remembering there was a relevant decline in fresh fruits in the same period of 2019. In this regard, despite the previously outlined pressures, core inflation would decline marginally to 3.67% from 3.73%. Going forward, our main focus is still in the effects from both the potential impact higher from the minimum wage increase compared with downward bias induced by higher economic slack. All in all, the main support behind our call for only two additional 25bps cuts by Banxico this year rests heavily in our expectation of higher annual inflation levels going forward.

Mexico's final 4Q19 GDP lower on strong revision in industry and with services also an inch weaker. We anticipate 4Q19 GDP at -0.4% y/y, about 10bps lower than the preliminary estimate. Nonetheless, the full-year figure would remain at -0.1% y/y. Seasonally-adjusted, we see a revision to -0.1% q/q from 0.0%.

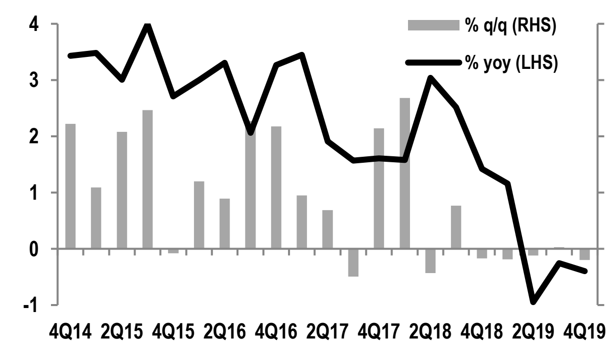
Contrary to the implied figure from the preliminary report, industry was weak in December. Both construction and manufacturing were below expectations, staying cautious on the latter as some industries kept showing muted dynamism. In this context and using already known data, quarterly IP will likely be revised from -1.8% to -2.1% y/y. Only taking this into account, 4Q19 GDP would be lowered from -0.3% to -0.4% y/y.

Going forward, we believe construction could start to gather pace, boosted by civil engineering projects of the Federal Government, investment commitments from the private sector and a low base. Nonetheless, business confidence dipped at the turn of 2020, providing a warning sign. Meanwhile, we still see risks to the downside in manufacturing, with January's trade balance next week as an important test (see below) and possible supply chain disruptions due to the Coronavirus outbreak in China. On the contrary, we expect mining to continue trending up, contributing positively since the start of this year.

We estimate services at +0.1% y/y (from +0.2% in the preliminary report). We have mixed signals for December, albeit positive enough for keeping performance in the black. In annual terms, retail sales would be higher –as detailed in the following section–, while public spending and employment accelerated (along an historical low in the unemployment rate). On the other hand, IMEF's non-manufacturing PMI and consumer credit suggest a more challenging outlook. Broadly speaking, available information does not allow to anticipate yet a substantial improvement in domestic demand despite strong consumption fundamentals, which we attribute mostly to high uncertainty.

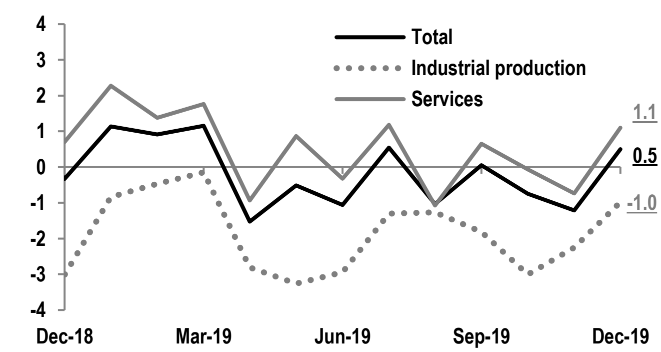
4Q19 GDP, estimated at -0.1% q/q, would worsen at the margin relative to the preliminary report and the previous quarter, which coincided at 0.0%. Industry would decline to -1.2% from -1.0%, adding three quarters in contraction and worst in the year. Services would be at +0.2%, although also below the advanced figure (0.3%). Last but not least, this is consistent with December's IGAE at 0.5% y/y (+0.2% m/m). Services would climb 1.1% y/y, industry edges down 1.0%, and primary activities at +1.4%.

GDP
% yoy nsa, q/q sa



Source: INEGI, Banorte

IGAE
% yoy nsa



Source: INEGI, Banorte

Weekly international reserves report. Last week, net international reserves increased US$57 million, closing at US$182.7 billion. According to Banxico's report, this comes mainly from a positive valuation effect in central bank assets. In this context, the central bank's international reserves have increased US$1.8 billion during 2020 (please refer to the following table).

Banxico's foreign reserve accumulation detail
US$, million

	2019	Feb 14, 2020	Feb 14, 2020	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	180,877	182,660	57	1,783
(B) Gross international reserve	183,028	189,103	158	6,075
Pemex	--	--	12	1,046
Federal government	--	--	3	4,148
Market operations	--	--	0	0
Other	--	--	143	882
(C) Short-term government's liabilities	2,151	6,443	101	4,293

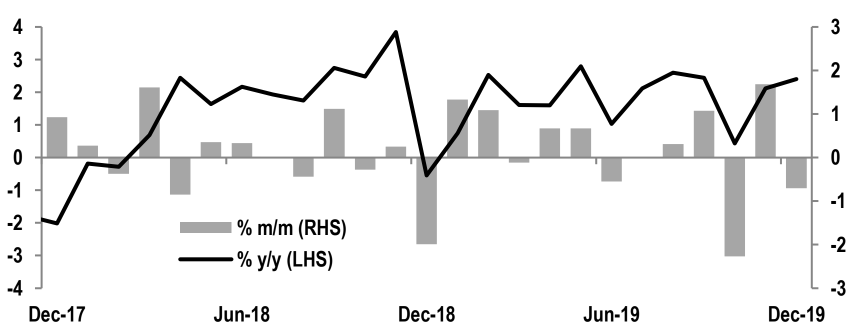
Source: Banco de México

December's retail sales to backtrack some of their recent gain. We anticipate a 2.4% y/y advance, above the 2.1% observed in November. Nevertheless, it should be mentioned that the annual rate will likely be benefited by a base-effect (as December 2018 showed a 0.5% decline) along one additional working day. With seasonally-adjusted figures, sales would fall by 0.7% m/m, backtracking some of the +1.7% registered in the previous month, in our view skewed to the upside to some extent by *El Buen Fin* (Mexico's Black Friday).

Apart from the above, indicators for the period were mostly positive. Among them, non-oil consumption goods imports accelerated to 4.8% y/y from -1.3% in the previous month. Moreover, ANTAD's same-store sales picked up 0.7% in real terms, second consecutive month in positive territory. Regarding other, more structural drivers, real wages increased 3.8% –highest since 2002– while the unemployment rate fell to 3.13%, a new low in the history of the series. On the contrary, Walmart sales retraced 0.2%, while auto sales have extended their weakness, contracting by 8.1%.

We maintain our more optimistic view for consumption in 2020. We think wage dynamics will be supported by the increase in the minimum wage in a context of controlled inflation, lifting households' real incomes. If this backdrop continues and uncertainty diminishes, as we expect to happen, consumption could gather steam. Moreover, we continue seeing higher social spending by the government as an additional boost. On the contrary, some limits to the pace of growth are likely due to the slowdown of economic activity and formal job creation, impacting growth in total labor income.

Retail sales
% yoy (nsa), % m/m (sa)



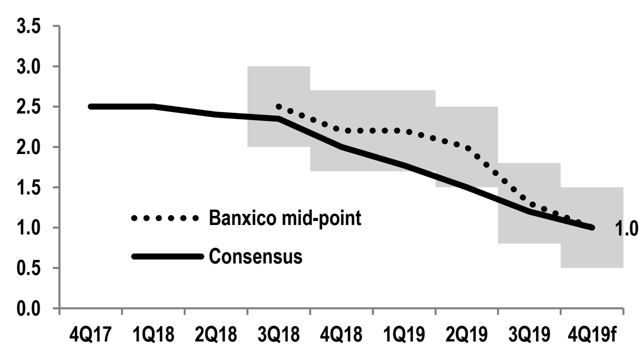
Source: INEGI, Banorte

Banxico's *Quarterly Report* and minutes. The central bank will release its *Quarterly Report* (QR) for 4Q19 on Wednesday –around 1:00pm (ET)– and the minutes of the last monetary policy meeting on Thursday –at 10:00am (ET)–. In the former, Banxico watchers will focus on changes to the forecasts for GDP and inflation, in a context of uncertainty about the terminal rate in the easing cycle. In this respect and considering only the end of 2020, *Citibanamex*'s survey released yesterday shows most analysts (33.3% of respondents) –including us– see the year-end rate at 6.50%, followed closely by those estimating it at 6.25% (29.2%), and 6.00% in third place (20.8%). Two more (8.3%) forecast only 6.75%, and the remaining two on hold at the current level of 7.00%. In our view, this distribution reflects low conviction about the accumulated magnitude of further rate cuts, with the QR potentially helping moderate this divergence.

Regarding growth, Banxico previewed in the latest communiqué that their 2020 GDP forecast range will be revised lower, currently at 0.8-1.8% (mid-point: 1.3%). We should mention that: (1) With next week's adjustment, the range would have been cut every time –except for one occasion, in which it stayed unchanged– since the 2020 forecast was first published in the 3Q18 QR; and (2) the central bank keeps stating that the balance of risks is skewed to the downside. In this context, we estimate a cut between 30-40bps in the mid-point, to 0.9-1.0% (see chart below, left), with the range's amplitude unchanged as we are still very early in the year.

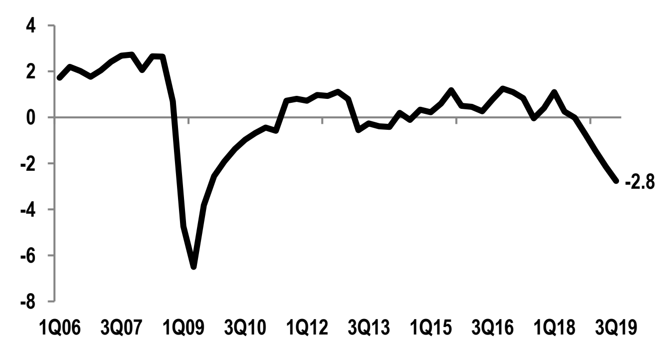
Among the drivers, they will likely highlight: (1) More modest growth in 4Q19 impacting short-term momentum, particularly as industry was affected by temporary shocks in manufacturing (see section on GDP above); (2) the global impact from the "Coronavirus" outbreak at least in 1Q20, despite high uncertainty about its magnitude; and (3) other political and geopolitical factors –such as the upcoming US election–.Details about these will be valuable to judge whether most are either cyclical or structural in nature. On the contrary, they will likely recognize as positive the ratification of USMCA in the US, and expectations that Canada will do the same soon, so the agreement can enter into force in the second half of the year.

GDP Forecasts - 2020
% y/y, nsa



*Note: Market consensus corresponds to the median in Banxico's survey at the time of publication of the QR. Shaded area represents Banxico's forecast range
Source: Banxico

Banxico's output gap estimate
% of potential GDP



Source: Banxico

An additional factor in our radar will be the updated estimate of the output gap, which they also previewed that will widen. As of 3Q19 the central bank's point estimate stood at -2.8% of potential GDP (chart above, right), by far the widest since the financial crisis. We do not rule out an adjustment below -3%, with the magnitude quite relevant as it is one factor with potential implications to the downside for prices, particularly core inflation.

Regarding inflation, Banxico has already stated that they will modify their current projections (see tables below), in line with our expectations. Nonetheless, they said that both the headline and core are expected to be "moderately" higher than currently, opening the question of how much will this be. In our view, the move could be a key element to gauge the most likely magnitude of the easing cycle, at least for the rest of this year. In a highly uncertain backdrop, headline inflation increased from 2.83% by December 2019 to 3.24% in January, with the uptick not entirely unexpected by the central bank as reflected by Governor Diaz de Leon comments that we would observe a "little bump" due to higher excise taxes in some goods. In that sense, estimates for 1Q20 will likely stay unchanged, at 3.5% for the headline and 3.6% for the core, virtually in line with our forecasts.

Nevertheless, we still disagree with the path going forward, which sees a reversal lower and close to the target rather quickly. We believe that, starting in 2Q20, the "modest" adjustment warned by the central bank will equate to increases between 10-30bps along the horizon (see tables below, with our estimates for the adjustments in the last row, underlined in italics). More importantly, if we are right then the convergence of inflation to 3% would be delayed from 4Q20 to 1Q21. We should mention this change would still leave the central bank's forecast path for this year slightly below our own, albeit less so. It is our take this *moderate* change will: (1) Allow Banxico to maintain enough room to continue easing in the short term; and (2) help reaffirm the message about the need of a prudent stance due to uncertainty about the composition of inflation, the recent increase in core inflation expectations, and the higher-than-expected minimum wage increase.

Banxico's headline inflation forecasts
% y/y, quarterly average

QR	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
Nov-17 (3Q17)	4.6	4.1	3.6	3.0	3.1	3.3	3.1	3.0							
Feb-18 (4Q17)	5.5	4.8	4.3	3.8	3.2	3.0	3.1	3.2							
May-18 (1Q18)	5.3	4.6	4.3	3.8	3.3	3.1	3.1	3.1	3.1						
Aug-18 (2Q18)		4.6	4.8	4.2	3.8	3.6	3.2	3.3	3.2	3.1					
Nov-18 (3Q18)			4.9	4.7	4.4	4.4	3.8	3.4	3.3	3.1	3.0				
Feb-19 (4Q18)				4.8	4.1	4.3	3.8	3.4	3.5	3.1	2.8	2.7			
May-19 (1Q19)					4.1	4.3	4.0	3.7	3.8	3.2	3.1	3.0	3.0		
Aug-19 (2Q19)						4.2	3.3	3.2	3.4	3.1	3.1	3.0	2.9	3.0	
Nov-19 (3Q19)							3.3	3.0	3.5	3.1	3.1	3.0	2.8	2.9	2.9
Feb-20 (4Q19)								2.9	*3.5*	*3.4*	*3.3*	*3.2*	*3.0*	*3.0*	*3.0*

*Note: Grey boxes indicate actual data. Rows refer tp the Quarterly Report released, while columns show the forecasts of the quarter done in the respective document. Data underlined in italics in the last row refers to our forecasts for adjustments to be made in the 4Q19 QR
Source: Banxico, INEGI

Banxico's core inflation forecasts
% y/y, quarterly average

QR	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
Nov-17 (3Q17)	4.2	3.9	3.6	3.6	3.3	3.2	3.1	3.1							
Feb-18 (4Q17)	4.4	4.0	3.8	3.6	3.3	3.2	3.1	3.0							
May-18 (1Q18)	4.3	3.7	3.6	3.4	3.2	3.2	3.1	3.0	3.0						
Aug-18 (2Q18)		3.7	3.6	3.5	3.3	3.2	3.0	2.9	3.0	2.9					
Nov-18 (3Q18)			3.6	3.7	3.6	3.6	3.4	3.1	3.0	2.9	2.7				
Feb-19 (4Q18)				3.7	3.5	3.6	3.4	3.2	3.2	2.9	2.8	2.7			
May-19 (1Q19)					3.6	3.8	3.6	3.4	3.4	3.0	3.0	3.0	3.0		
Aug-19 (2Q19)						3.8	3.7	3.5	3.4	3.1	3.0	2.9	2.9	3.0	
Nov-19 (3Q19)							3.8	3.6	3.6	3.2	3.1	2.9	2.8	2.9	2.9
Feb-20 (4Q19)								3.6	*3.6*	*3.5*	*3.3*	*3.1*	*3.0*	*3.0*	*3.0*

*Note: Grey boxes indicate actual data. Rows refer to the Quarterly Report released, while columns show the forecasts of the quarter done in the respective document. Data underlined in italics in the last row refers to our forecasts for adjustments to be made in the 4Q19 QR
Source: Banxico, INEGI

In this last regard, Deputy Governor Irene Espinosa affirmed in an interview that "*…the central bank's mantra has been and should be to stay cautious…*" as "*…we need to analyze inflation components, identify what is behind the resistance to the downside of core inflation, and to review the inflation forecast…*" given that, among other reasons, "*…in the time spent between updating them, an unexpected shock materialized, which is the magnitude of the minimum wage hike…*". In our view, these comments are relatively close to the views of the majority of the Board.

Regarding the minutes, their relevance will be diluted by the publication of the QR. Despite of this, we will pay attention to the overall tone, considering this was the first unanimous decision since May 2019, which in our view helped tilt the balance less dovish. We should also mention that the document will be shorter, given changes to the central bank's communication strategy. Although new information about the outlook for inflation will already be out, we will look for comments about the skew in terms of the balance of risks, as so far it has not been characterized either to the upside or downside. In our view, most of the discussions will be centered around this theme. Other issues worth looking for include risks to financial stability and the fiscal outlook in a context of prevailing challenges for GDP growth.

All in all, we expect these documents to be consistent with our call that the Board is still skewed in favor of additional easing, although cautiously given high global and domestic uncertainty. We expect changes to forecasts for growth and inflation to reaffirm this bias, although a tad less dovish relative to the stance observed in the second half of 2019. We reiterate our call of two additional 25bps cuts in the reference rate in the meetings to be held in March and May, reaching 6.50% by year-end. In our view, these moves will be followed by a pause that will provide Banxico with enough time to evaluate how their decisions are filtering through the economy and the evolution of growth and inflation dynamics, important to decide the best path forward in terms of policy decisions to ensure an orderly and sustained convergence of inflation to its target.

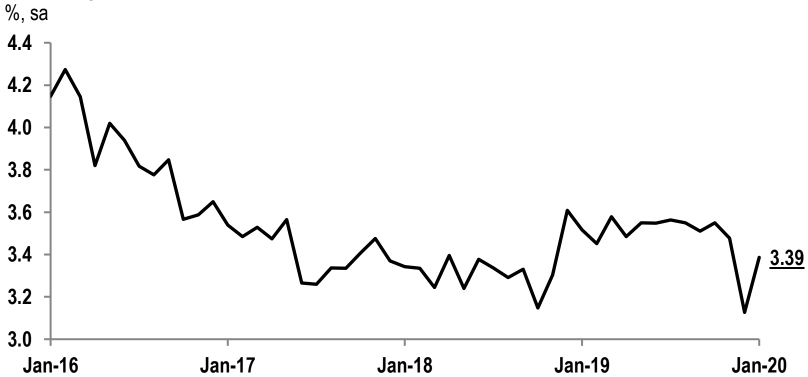
The unemployment rate will likely rebound at the start of 2020. We estimate the unemployment rate at 3.39% (sa), +26bps relative to December's print. As we previously mentioned, we think the considerable fall of the previous month –to a new historical low– was explained by significant changes in the composition of the labor force. After the release of quarterly figures in absolute terms, there was some evidence pointing to a sizable increase in both the occupied population and the labor force, giving some credence to our hypothesis. Nevertheless, we need more data to evaluate if this was a persistent shift or only a short-term effect. Given weakness in economic activity, we lean more towards the latter, expecting the unemployment rate to rebound back to levels consistent with its short-term trend. This would be similar to the dynamics seen in 2012, 2014 and 2015, where a sharp decline in December was followed by a relatively strong recovery.

Moreover, it would also be consistent with other labor market figures. In particular, formal jobs in January increased by 68,955 positions, its lowest expansion for a comparable period since 2015. In addition, the annual pace of growth of formal workers continued to slow down, now at 1.6%, worst since early 2010. This is also in line with the employment component within IMEF's non-manufacturing PMI, which edged-down to 47.0pts from 47.5pts. However, the same metric for manufacturing improved to 44.7pts (previous: 43.8pts).

All in all, this print will be key to evaluate labor market dynamics, as it could help confirm if the drastic improvement in December was transitory of if it persists, at least in the short-term. It is our take that relatively modest GDP growth and the 20% increase in the minimum wage could have an additional impact in terms of formal job creation. In addition, we think absorption by the informal sector could reach its limit relatively soon, which so far has been one of the drivers behind the stability in the unemployment rate. If these two materialize, they could result in a higher unemployment rate in 2020, as we expect.

Unemployment rate

%, sa



Source: INEGI, Banorte

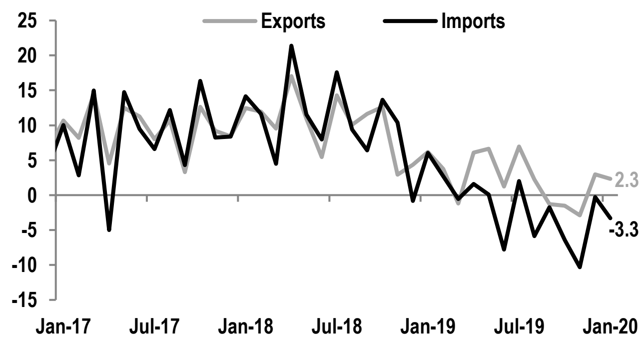
Trade balance back to a modest deficit, with imports still low and resilient auto exports. We estimate a US$2,653.1 million deficit, reversing some of the historically-high surplus for a December observed in 2019. Total exports would increase 2.3% y/y; imports would stay limited at -3.3%, marking its six consecutive months in contraction.

The period's seasonality typically shows a deficit, with January 2019 exhibiting the highest negative print in the historical series. We also believe performance will not show any sizable impact from supply-chain problems and transportation restrictions in China due to COVID-19, considering the time lag between shipments and arrivals to our country. In this respect, the first cases were identified in the 2nd half of December and the first death on January 11th.

The oil balance would show a slightly higher deficit relative to the previous month at -US$1,505.7 million, with exports advancing 4.5%, supported by higher crude-oil volumes but dampened somewhat by the price of the Mexican oil mix, which inched lower relative to December with an average of 52.92 US$/bbl. Imports would fall 11.1%y/y, mainly concentrated in intermediate goods, but also with a more difficult base effect and with gasoline in the US slightly lower sequentially.

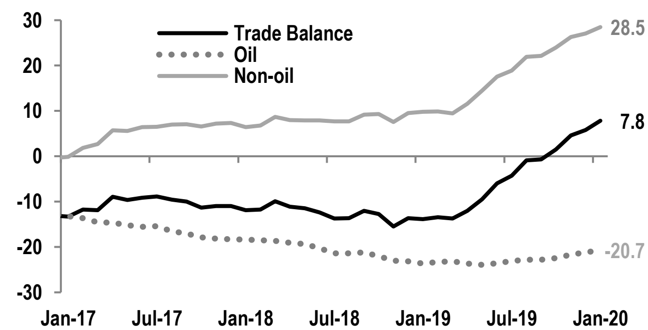
On the other hand, we estimate a US$1,147.4 million deficit in the non-oil balance, first negative print since exactly one year. Despite of this, it would be the lowest deficit in seven years in absolute terms. Exports would climb 2.2%, supported by autos within manufacturing holding up (3.2% y/y). Specifically, US IP for this sector provided positive signals after recent shocks, while AMIA figures showed a moderation in the pace of decline, to -5.8% y/y from -16.6% in December. Nevertheless, we are somewhat cautious in other manufacturing, with mixed signals from the US –such as the US ISM imports subcomponent improving meaningfully, but the PMI manufacturing moving lower– along uncertainty about the adverse effect from halted production of Boeing's 737 Max. Regarding imports, we estimate a 2.3% contraction. Capital goods would stay as the weakest link (-8.7%), with a more difficult base-effect but also with domestic business confidence reaching new lows, signaling still dampened investment demand. Intermediate goods would decline 1.2% from +0.6%, in the previous month, with January's export orders according to the US PMI falling for the first time since September suggesting a relatively muted performance. Lastly, consumption goods would moderate relative to December, following their typical seasonality in which businesses adjust inventories after the holiday season.

Exports and Imports
% yoy



Source: INEGI, Banorte

Trade balance
US$ billion, 12-month rolling sum



Source: INEGI, Banorte

We expect banking credit to grow 2.1% yoy in January. It is our take that credit to the non-financial sector kept expanding during the month. We estimate a 2.1% yoy expansion in real terms, slightly higher than the 2.0% growth of the previous month. This would be driven by a 2.5% increase in consumer credit, coupled with a 7.7% and 0.5% expansion in mortgages and corporates, in the same order. This increase would take place despite an uptick in inflation, given that it stood at 3.24% in January, 41bps below December's print.

MoF's public finance report (January). Attention during the first report of the will center on the public balance and Public Sector Borrowing Requirements (PSBR), comparing them to the forecasts outlined in the *2020 Budget.* In addition, we will also be looking into the primary balance, which we expect to post a surplus. Regarding revenue and spending, we will also be looking into their performance in the annual comparison, particularly within the former, as these could offer additional information on economic activity. Finally, we will also look at public debt, which as of December stood at MXN$10.9tn, equivalent to 44.7% of GDP (as measured by the HBPSBRs).

Analyst Certification

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.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., *through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.*

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

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

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

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

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
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	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 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.ceballos@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.roldan.ferrer@banorte.com	(55) 5004 - 1454