

3Q20 Outlook – Resilient markets despite fears about COVID-19 and recession

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The world is sailing through one of the toughest storms in a century, facing an irksome sanitary crisis with more than 10 million confirmed cases of Coronavirus and slightly more than half a million fatalities. Consequently, governments have been dealing with a complex conundrum since March, between restricting mobility to curb the pandemic on one hand, and gradually reopening the economy to avoid an even worst recession on the other. Unfortunately, the mismatch of contagion curves among several regions and fears of a second wave of spread are limiting the transition plans towards a “new reality” for consumers and firms. This complex backdrop has steered the global economy to the worst recession since 1929, as warned last week by the IMF in its *World Economic Outlook*.

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As of today, the landscape is riddled with more questions than answers about the evolution and implications of the pandemic. To tackle some of the adverse economic effects, the world has unveiled an unprecedented policy response. From the fiscal side, nearly US\$ 11 trillion of counter-cyclical measures have been deployed. In terms of the monetary response, nearly 90 countries have cut rates, in addition to quantitative programs in both advanced and emerging economies. These stimuli, although different between countries, have reduced risk aversion in financial markets and limited credit risk for households and firms. Going forward, the shape of the recovery in each economy will depend on the degree of the policy response, the performance of their epidemic curves, their interrelationships with the world economy, specific plans to reopen and possible setbacks, and other idiosyncratic factors.

As if this backdrop were not challenging enough, another relevant factor to bear in mind globally in 3Q20 is the geopolitical component. In our view, the most important will be the political process in the U.S. ahead of the November 3rd elections. However, market participants will also focus on other political aspects worldwide, from social unrest in several regions to trade negotiations.

Mexico will also cope with a challenging backdrop in the second half of the year. COVID-19 has strongly affected economic activity despite policymakers’ efforts, firms and the society at large to contain its widespread effects. In this regard, we adjusted our GDP forecast for this year to -9.8% from -7.8% previously. From a policy perspective, we expect Banxico to lower its reference rate to 4.00% in 3Q20, amid a more dovish tone recently.

Mexico's main macroeconomic and financial forecasts

End of period

	1Q20	2Q20	3Q20	4Q20	2020
GDP (% y/y)	-1.4	-19.4	-14.6	-4.0	-9.8
Inflation (% y/y)	3.2	3.1	3.4	3.2	3.2
USD/MXN	23.67	22.99	22.65	22.00	22.00
Banxico's reference rate (%)	6.50	5.00	4.00	4.00	4.00
28-day TIIE (%)	6.71	5.29	4.30	4.20	4.20
Mexbol (points)	34,555	37,716	-	-	38,000

Source: Banorte

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



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Mexico

The economy experienced unprecedented weakness in 2Q20, with a larger than expected impact from COVID-19. In this context, [we recently updated our GDP forecast](#), to -9.8% y/y. This is mainly explained by the delay in the restart of the economy, with the [epidemiological indicator](#) for the week from June 29th to July 5th showing 18 states in ‘orange’ and 14 in ‘red’. This is also consistent with latest figures such as [April’s GDP proxy IGAE](#) and [May’s trade balance](#). Going into 2H20, we will be looking to confirm if external demand helps the economy, specifically given large stimulus in the US. We also expect some support from the official launch of USMCA (starting today), especially as tensions between the US and China will probably exacerbate due to the electoral process. Nevertheless, domestic weakness will likely extend, with muted dynamism in consumption but more so in investment (see table below, left).

Regarding the economic policy response, measures so far amount to close to 4.5% of GDP, including those by [the central bank](#) (see table below, right), below the 5% average in emerging markets according to the IMF. This limited support stems from little fiscal room as well as risks to the path of debt-to-GDP –which could trigger even more reductions to the sovereign rating– and is one of the main reasons behind our forecast of a GDP expansion of only 1.8% in 2021, below market expectations.

For inflation, we maintain our 3.2 y/y forecast for year-end 2020. Nevertheless, we recognize that it [has become more volatile](#), in large part due to both direct (*e.g.* more negative output gap, supply chain disruptions) and indirect (*e.g.* problems with data collection and lower gasoline prices) distortions because of the pandemic. In this context, [we also adjusted our monetary policy view](#) recently, seeing now two additional 50bps cuts for the reference rate to end the year at 4.00%. Although we had already identified a more accommodative stance as a risk, further easing in other countries, domestic conditions, and the latest adjustments in the statement made us reframe this situation. We expect these two cuts to take place in the third quarter, on August 13th and September 24th. Moreover, we look forward to the 2Q20 *Quarterly Report*, which will be published on August 26th.

GDP 2020

% y/y nsa, %q/q sa

% y/y	1Q20	2Q20	3Q20	4Q20	2020
GDP	-1.4	-19.4	-14.6	-4.0	-9.8
Private consumption	-0.5	-17.0	-14.8	-3.7	-9.0
Investment	-9.3	-40.1	-24.7	-8.6	-20.6
Government spending	3.4	1.2	-6.2	-8.4	-2.5
Exports	1.7	-36.7	-5.2	3.2	-9.6
Imports	-3.4	-36.6	-9.7	-3.1	-13.2
<hr/>					
% q/q					
GDP	-1.2	-12.9	4.8	5.7	--

Source: INEGI, Banorte

Measures announced to fight the economic impact from COVID-19

\$ billion, US\$ billion, % of GDP

	\$ billion	US\$ billion ²	% of GDP ³
Total	999.1	43.4	4.5
Federal Government	372.6	16.2	1.6
Announced in the daily press conferences	307.6	13.4	1.4
Others (Preliminary Budget Assumptions)	65.0	2.8	0.3
Banxico¹	350.0	15.2	1.5
IDB Invest	276.5	12.0	1.3

Notes: 1. These measures only consider those oriented to bolster credit to MSMEs; 2. Using an exchange rate of USD/MXN 23.0380; 3. Using estimated GDP by the MoF in the Preliminary Budget Assumptions for 2021

Source: Banxico, MoF, IDB Invest, MoE

United States

After a 5% saar economic contraction during 1Q20, sharp declines in April figures point to a deeper slowdown in 2Q20. Although May data showed a stronger-than-expected recovery –strengthening the case of a “V-shaped” rebound– the recent rise in COVID-19 infections after the reopening of the economy has increased fears of a longer and more severe slowdown.

Real consumption fell 12.2% m/m in April, due to declines in sales of both durable and non-durable goods, and services. However, after the sharp rise in personal income of 10.8% m/m in the fourth month of the year on the back of the fiscal stimulus package, personal consumption advanced 8.1% m/m in May, showing that the gradual reopening led consumers to spend a good part of that income. At the same time, and contrary to expectations, companies began hiring employees after heavy layoffs in April. Despite of the above, we estimate that consumption to have fallen 32% saar in 2Q20. Meanwhile, companies continued to backtrack on their investment plans in a still uncertain environment, leading to an estimated 29.9% drop in the same period. At the same time, global weakness would have led to a 28.4% contraction in exports. In this context, we maintain our estimate of a drop in GDP of 28.9% in 2Q20 and -6.1% y/y for all of 2020.

Although our estimate incorporates a very gradual recovery in the second half, the risk is that it will be even more moderate in view of the risk of a second wave of contagion, implying a greater than estimated contraction. For example, California ordered the closing of bars in several cities and Arkansas delayed its reopening process, while Texas achieved the highest number of infections since the pandemic began and have tripled since May 31st.

Monetary policy remains very loose, with the Fed making it clear it does not intend to move the rate for an extended period and making use of its balance sheet very meaningfully, expanding by 70% year-to-date and reaching US\$ 7.1 trillion. On this front, it is likely that the most interesting developments will be until 4Q20, with the revision of the Federal Reserve monetary policy strategy. However, on the fiscal front, despite four stimulus packages already approved, more is required given the prompt expiration of some key parts of these programs. In this context, a new package is likely to be approved in July, with the attention on a possible proposal by president Trump of US\$ 1 trillion in infrastructure spending.

US: Banorte Estimates

	1Q20	2Q20	3Q20	4Q20	2020*
GDP (% q/q annualized rate)*	-5.0	<u>-28.9</u>	<u>2.5</u>	<u>3.4</u>	<u>-6.1</u>
Private Consumption	-6.8	<u>-32.0</u>	<u>5.3</u>	<u>5.1</u>	<u>-6.7</u>
Fixed Investment	-1.3	<u>-29.9</u>	<u>-1.6</u>	<u>3.2</u>	<u>-7.0</u>
Exports	-9.0	<u>-28.4</u>	<u>-2.8</u>	<u>3.4</u>	<u>-8.2</u>
Imports	-15.7	<u>-18.5</u>	<u>-0.2</u>	<u>3.6</u>	<u>-8.9</u>
CPI (% y/y, average)	2.1	<u>0.5</u>	<u>0.8</u>	<u>1.0</u>	<u>1.1</u>
Unemployment rate (% eop)	4.4	11.1	<u>9.7</u>	<u>8.3</u>	<u>8.3</u>
Non-farm payrolls (thousands)	-908	-13,288	<u>7,000</u>	<u>3,000</u>	<u>-4,196</u>

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

Source: Banorte

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US Elections

During the third quarter, attention will be on electoral campaigns ahead of the November 3rd general election where the president, a third of the Senate, and the entire House of Representatives will be elected. After the primaries on March 17th, President Trump obtained the nomination of the Republican Party to be the candidate for the presidency of the United States. Meanwhile, Joe Biden obtained 1,993 delegates on June 5th, formally becoming the Democratic candidate. What follows in the process are the both parties' National Conventions and the presidential debates (see tables, right).

The latest polls show a strong rebound in electoral preferences favoring Joe Biden, with his lead exacerbated after the sad incident of George Floyd's death (see first graph, right). The high number of COVID-19 infections and deaths –for which he has been severely criticized–, the contraction of the economy, and job losses, have affected Trump's popularity. This is evident in the recent drop in his approval rating, reaching 42.2% according to *Real Clear Politics*. It's worth noting that, during his tenure, Trump has had a historically low approval rate relative to other presidents.

It is important to say that some states are already clearly defined for each of the Parties, identified either as blue (Democrats) or red (Republicans). Thus, and due to the US electoral system, the key battleground is in those known as swing states. The latter are characterized by the possibility of electoral votes ending up in the hands of any Party. In this context, we highlight that, in those considered as swing-states this time around, preferences are clearly tilted towards Joe Biden.

Taking the above into account, trends suggest that, as we believe, Biden will win the popular vote, just like Hillary Clinton in 2016. However, the key question is who will win the electoral vote. According to the model developed by *The Economist*, Joe Biden would obtain 341 electoral votes, well above the 270 required to win the presidency. Nevertheless, we expect a very tight race and uncertainty throughout the process, maintaining our base-case scenario that Joe Biden will win the popular vote but that Trump will be reelected with the electoral vote. In this respect, betting markets suggest a much more competitive race (see second graph, right), although currently pointing also to a victory for the Democratic candidate.

In this context, we consider Trump will most likely harden his stance on several key issues throughout his campaign, as he did in the previous election, seeking to strengthen support among his voting base. A clear example is renewed tensions in its relationship with China and his more radical stance on trade issues also with other regions, such as the European Union, which he has threatened on the imposition of new tariffs. Likewise, it is likely that Mexico will once again be a target, especially on the immigration front. Finally, we do not rule out a hardening of its position against some multilateral institutions, such as the WHO and the WTO, among others.

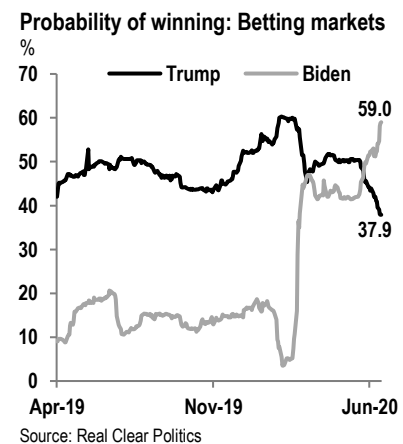
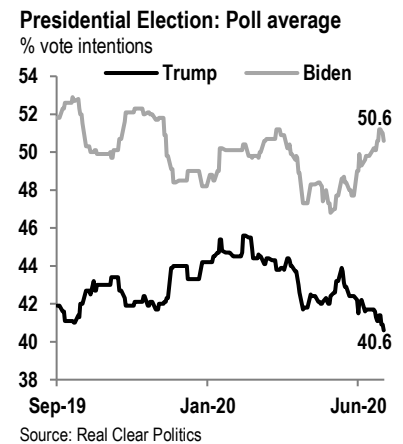
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National Conventions	
Democratic Convention	Republican Convention
August 17- 20	August 24-27
Milwaukee, WI	Charlotte, NC

Source: The New York Times

Presidential Debates		
1 st Debate	2 nd Debate	3 rd Debate
Sep-29	Oct-15	Oct-22
University of Notre Dame	University of Michigan	University of Belmont

Source: The New York Times



Global

Global economic activity will suffer a sharp contraction in 2020 because of the unprecedented crisis induced by the pandemic, which the IMF estimates at -4.9% y/y. The institution forecasts that all regions will face a sharp drop in GDP this year except for China, which may, at least, grow at 1.0%. In this context, we have seen a strong monetary policy response from the main central banks of most economies, both in advanced and emerging countries. Meanwhile, fiscal measures applied so far in the world to cope with the pandemic add up to nearly US\$ 11 trillion, with G-20 remaining as the main responsible for these actions.

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In the Eurozone, negotiations on the stimulus package proposal made by the European Commission will probably take place during the summer. The new budget period starts on January 1st. Therefore, an agreement must be reached before September for it to be implemented. The 27 National Parliaments and the European Parliament must approve it. In the UK, Boris Johnson is preparing an aggressive infrastructure package worth around £ 5 billion (US\$ 6.2 billion). On Brexit, negotiations will enter into an eight-week period this quarter to reach an agreement about the conditions that will prevail in the relationship once the transition period ends, which is later this year. On the monetary policy front, we don't rule out a further expansion of the BoE asset purchase program, which could be announced in November. In the case of the ECB, we do not expect a further expansion of Pandemic Emergency Purchase Programme (PEPP) neither a cut in reference rates.

Latin America has recently become the new epicenter of COVID-19, with more than 100,000 deaths and a profound impact that will lead, according to the IMF, to a 9.4% contraction in 2020. In this context, the evolution of the pandemic suggests that containment measures will have to be extended longer than anticipated, which would further delay any recovery. We highlight that some countries, such as Colombia (ranked 21st in the world in terms of the total number of infections) and Chile (7th place), have made use of unconventional measures such as QE, like advanced economies. However, given concerns of financial imbalances and less depth and liquidity in their financial markets, these have been much more limited in size and scope.

Regarding Brazil (2nd worldwide in COVID-19 confirmed cases), the IMF estimates a contraction of 9.0% this year and growth of 3.6% in 2021, in a context where the economy continues to recover from the 2015-2016 recession. Monetary authorities have announced aggressive stimulus, bringing the reference rate to 2.25% and implementing other measures to stabilize the functioning of the markets and increase the credit supply. We no longer estimate further reductions in the *Selic* rate and consider progress of the structural reform agenda to be a key topic, especially to address the sustainability of fiscal accounts. In Chile, the IMF expects a 7.5% contraction in GDP and a 5.0% advance in 2021. After performing well in 1Q20, we anticipate a sharp economic decline in the second quarter, followed by a rebound in the second half of the year, supported by monetary and fiscal stimulus measures.

Stock markets

In recent months, stock markets have observed periods of high volatility due to the evolution of the pandemic. After reaching all-time highs back in February, global indices slumped, following WHO decision to declare the COVID-19 as pandemic on March 11th, suggesting a strong headwind for the global economy. Consequently, the world implemented an unprecedented and quick policy response to tackle the negative effects of the Coronavirus. As such, stock markets posted a quick recovery with returns that until early June reached ~42% when compared to March lows. Performance in advanced economies stood out, particularly in the US, showing a clear “V-shaped” recovery, in contrast with EM. Nevertheless, risks still lingering in the environment are keeping investors concerned, who have even begun to question the sustainability of the accelerated recovery witnessed in the stock exchanges. The economic outlook remains challenging, with a new round of downward revisions in GDP forecasts, and fears of a second wave of contagions, coupled with geopolitical tensions and trade issues that have not been left aside yet, as we head into the US presidential election.

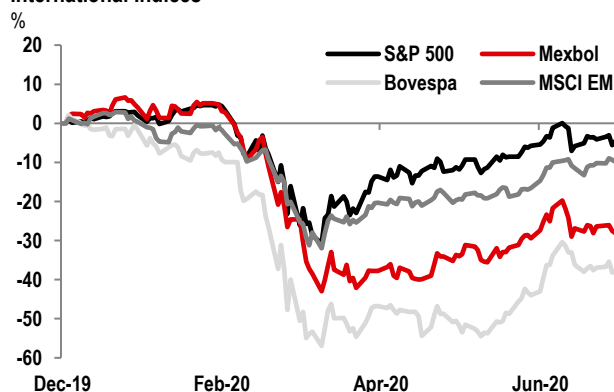
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S&P500 forecast. In 1Q20, earnings dropped 8.1%, yet better than the estimated slump of 16.5%. Now, *Bloomberg* consensus estimates an annual contraction of 22.1% in 2020 (vs. -5.9% in April 2020) and an accelerated recovery in 2021 (+26.1%). With these assumptions and a P/E fwd multiple of 21x (15% lower than the current level), the index could close the year at 3,144pts, leaving little room for further appreciation.

Mexbol forecast. In Mexico, high uncertainty about the evolution of the epidemic curve, coupled with a very [complex growth outlook](#), have reduced risk appetite. In this context, in 2020 we anticipate a 7.9% y/y drop in EBITDA and a 9.7% y/y increase in the net debt of companies that comprise the Mexbol. Thus, when considering a FV/EBITDA multiple of 7.5x (slightly above last year's average of 7.3x, but still below the 3-year average of 8.3x) we now estimate a 2020 YE level for Mexbol of 38,000pts, practically unchanged *vis-á-vis* our previous reference level. In our opinion, a re-rating will depend on the evolution of the pandemic and the recovery prospects for 2021.

International Indices



Source: Bloomberg, Banorte

2020 Mexbol Forecast

Points

FV/EBITDA	EBITDA (MXN millions)	Net Debt (MXN millions)	Mexbol (pts)	Potential Return (%)
7.9x			41,022	8.8
7.7x			39,537	4.8
7.5x	\$7,425	\$17,264	38,052	0.9
7.3x			36,567	-3.0
7.1x			35,082	-7.0

Source: Banorte

Foreign Exchange

After the historic 25% sell-off of the Mexican peso during the first quarter, the 2Q20 resulted in a 2.9% appreciation to 22.99 per dollar, supported by an unprecedented policy response worldwide and a broad USD weakening. As of June's close, MXN still holds an 18% year-to-date depreciation and stands as the third weakest in the EM FX universe, just after ZAR and BRL. The USD adjusted -2% q/q in the DXY, as a result of a favorable balance in G10 and EM currencies, with the latter group experiencing a stronger relative performance.

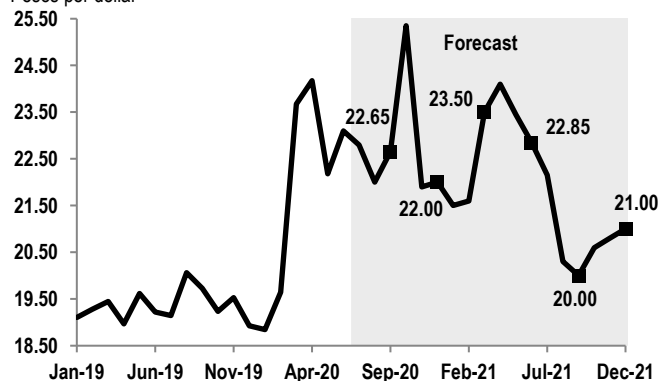
Lower demand for USD funding given the stabilization in global financial conditions has been its main weakening channel, effect that can be observed in the sharp reduction of usage in liquidity swaps with the Fed by other main central banks. The total amount outstanding of this program decreased slightly less than 50% from its highest point in May. Going forward, we expect the USD to stabilize at current levels although with spaces for new strengthening phases triggered by fragile global optimism. A risk for this view is the stronger relative position of the Eurozone against the US in terms of their economic recovery progress, a factor that could feed additional support for EUR. Regarding the MXN, we estimate a trajectory that will experience its most stressed point before the US election, considering stronger hedging activity 45 days prior to the event. According to anecdotal evidence, the last election resulted in pressures of up to 3.6σ for the cross before President Trump's victory, with a relief rally of the same magnitude afterwards. This framework reinforces our view of an MXN with high betas to foreign drivers. To this outlook it is worth adding the fact that although local liquidity has improved with respect to March's shock, it is still far from fully recovering towards levels in previous phases. However, the Foreign Exchange Commission has remained active in providing support to improve market depth. In this sense, the NDF hedging program currently accounts for a total amount outstanding of US\$ 7.491 billion from a total available of US\$ 30 bn, whereas the use of the swap line facility with the Fed stands at US\$ 4.910 bn of a total available of US\$ 60 bn. Moreover, this last program has witnessed low demand readings in its latest rollovers, also suggesting a healthy local financing structure. In terms of strategy, we see USD/MXN 21.50 as attractive to initiate USD longs, whereas we reiterate our estimate for a 2020 close at 22.00 under a cautious framework due to still ample trading ranges and potential price action asymmetry.

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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	22.65	22.48
4Q20	22.00	23.08
1Q21	23.50	22.20
2Q21	22.85	23.47
3Q21	20.00	20.82
4Q21	21.00	20.80

Source: Banorte

Commodities

Commodities closed the 1H20 with negative dynamics despite the positive performance in energy and metals during the 2Q20. In this sense, the Goldman Sachs Commodity Index (GSCI) and the Bloomberg Commodity Index (BCOM) decreased in the first half of the year by 25.6% and 19.7%, respectively.

Crude-oil prices finished June with the biggest quarterly recovery in the last three decades even after [trading in negative territory in the case of WTI](#) in April as a result of the impact of COVID-19 on consumption and limited storage capacity. Prices strengthened primarily on the back of OPEC+'s efforts to balance the market in light of weak demand dynamics and excess supply in global balances. First, a [historic output cut of 9.7 Mbb/d](#) was reached in April and later it was extended to July by [withdrawing 9.6 Mbb/d from the market](#) with a stricter compliance monitoring. In our view, these agreements will steer the futures curve towards backwardation (spot above forward prices) as a potential demand improvement combines with global output restrictions. This stimulus has been reflected in a price surge of ~80% compared to the end of the previous quarter; however, it has not been enough to return to 2019 levels. In this sense, Brent currently trades at 41 \$/bbl (-38% in 2020) and WTI at 39 \$/bbl (-35% in 2020). Market participants will watch for the next OPEC+ meeting on November 30th and December 1st, although we do not rule out early emergency meetings, where the agreement could experience short-term adjustments. In this context, we expect Brent prices at 40 \$/bbl for year-end 2020. Regarding gasoline, the EIA forecasts 1.63 \$/gal for year-end PADD 3 (+6.1% vs May 2020) and for natural gas it estimates a 69% increase to 3.06 \$/MMBtu given a recovery in the energy market.

In metals, during the first half of the year performance in the precious space was positive, contrary to dynamics in industrials. In the former, gold ended June reaching fresh highs not seen in 8 years of 1,781 \$/t oz (+12.9% q/q). We maintain a favorable outlook for this metal considering the dovish wave from most central banks and the formal phase of economic recession in the US that, as we have observed in the last two recessions (2001 and 2008), boosted demand for gold. In the latter, gains in 2Q20 did not offset the sharp losses at the beginning of the year, with copper printing a 30% rally from 2016 lows reached in March. We hold a cautious view for this sector given the fragile economic backdrop. Finally, grains closed June at record lows (-13.2% in 2020) mainly due to the disruption of supply chains. For this asset class, we expect weak dynamics given the uncertainty of a prompt and wide reopening of the economy, coupled with a high probability of neutral weather conditions for the 3Q20.

Commodities price performance and market consensus' forecasts

Commodity	Unit	Spot*	Performance (%)			Market consensus' forecasts			
			2018	2019	2020	3Q20	4Q20	2020	2021
WTI	\$/bbl	39.66	-24.84	34.46	-35.05	33.00	38.00	37.55	41.02
Brent	\$/bbl	41.15	-19.55	22.68	-37.65	35.00	40.00	40.47	44.05
Natural Gas (H. Hub)	\$/MMBtu	1.75	-0.44	-25.54	-19.92	2.00	2.36	1.96	2.59
Gasoline (RBOB)	\$/gal	1.20	-26.43	28.26	-29.31	0.95	1.10	1.05	1.30
Gold	\$/t oz	1,781	-1.56	18.31	17.41	1,700	1,700	1,670	1,690
Silver	\$/t oz	18.21	-8.52	15.21	1.99	16.75	17.00	16.75	17.00
Copper	\$/mt	6,015	-17.69	3.50	-2.58	5,400	5,600	5,465	5,818
Corn	¢/bu	341	-2.38	-2.08	-15.02	335	350	345	381
Wheat	¢/bu	492	-2.85	1.07	-13.45	521	518	525	501

Source: Bloomberg *as of 30/Jun/20; RBOB (Reformulated gasoline blendstock for oxygenate blending)

Fixed income

The local fixed-income market closed the 2Q20 with a strong performance supported by the extension of the synchronized global monetary stimulus, which has already even permeated in a visible fashion to the use of non-conventional tools in EM regions. The dovish inertia, together with local growth and inflation conditions, allowed Banxico to continue its easing cycle, which along with a stronger risk appetite resulted in a 133bps rally in Mbonos. Cetes rallied 153bps and real-rate Udibonos 172bps, reflecting in the latter the expectation of a second half of 2020 with higher inflation readings, as well as increased uncertainty about its short-term volatility, triggering a relevant richening of inflation breakevens. Meanwhile, the balance for US Treasuries was narrower, strengthening by 9bps in the mid-end of the yield curve though pressured in longer-term maturities as financial needs for the economic stimulus programs in the US will focus on long-term issuances. Moreover, this performance reflected the market perception of loose monetary conditions prevailing in the US. In this sense, although the possibility of negative rates in the US came as a rather active theme in market discussions and positioning, the tool was ruled out by FOMC members. In this context, rate spreads between Mbonos and USTs compressed ~130bps in all maturities, stabilizing at current levels. Spreads against UMS compressed as a result of a 56bps rally in these securities.

Our view for the 3Q20 integrates an anchored short-end of the nominal yield curve given a feasible expectation for Banxico and little room for further strength before becoming more expensive, as the market is already pricing-in accumulated rate cuts of 105bps for 2020. As a result of this fair valuation, we wait for more attractive levels for long positions in long-term Mbonos with a slope structure that, although compressed relative to its widest phase in April, will remain relatively elevated, capturing a scene of prevailing risk premia and our expectation of geopolitical risks that will become more relevant given the US electoral process. In parallel, we will watch for entry points for new long positions in Mexican linkers in order to take advantage of more attractive carry gains in these securities during the 2H20.

Banorte's interest rate forecasts

%

Security	2016	2017	2018	2019	2020 forecasts				2021 forecasts			
					1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Banxico's reference rate												
Average	4.29	6.75	7.64	8.00	7.05	5.79	<u>4.50</u>	<u>4.00</u>	4.00	<u>4.00</u>	<u>4.00</u>	<u>4.00</u>
End of period	5.75	7.25	8.25	7.25	6.50	5.00	<u>4.00</u>	<u>4.00</u>	<u>4.00</u>	<u>4.00</u>	<u>4.00</u>	<u>4.00</u>
28-day Cetes												
Average	4.17	6.70	7.64	7.87	7.00	5.53	<u>4.45</u>	<u>4.00</u>	4.07	<u>4.07</u>	<u>4.07</u>	<u>4.07</u>
End of period	5.78	7.26	8.06	7.13	6.39	4.81	<u>4.00</u>	<u>4.00</u>	<u>4.07</u>	<u>4.07</u>	<u>4.07</u>	<u>4.07</u>
28-day TIIE												
Average	4.48	7.05	8.00	8.31	7.33	6.05	<u>4.80</u>	<u>4.25</u>	4.39	<u>4.46</u>	<u>4.46</u>	<u>4.46</u>
End of period	6.11	7.62	8.59	7.69	6.71	5.29	<u>4.30</u>	<u>4.20</u>	<u>4.46</u>	<u>4.46</u>	<u>4.46</u>	<u>4.46</u>
10-year Mexican bond (Mbono)												
Average	6.21	7.15	7.93	7.61	6.88	6.39	<u>6.10</u>	<u>6.60</u>	<u>6.65</u>	<u>6.63</u>	<u>6.88</u>	<u>6.95</u>
End of period	7.44	7.64	8.63	6.85	7.09	5.81	<u>6.00</u>	<u>6.50</u>	<u>6.50</u>	<u>6.65</u>	<u>6.90</u>	<u>7.00</u>
10-year US Treasury												
Average	1.84	2.33	2.91	2.14	1.38	0.68	<u>0.73</u>	<u>0.93</u>	1.13	<u>1.18</u>	<u>1.38</u>	<u>1.65</u>
End of period	2.44	2.41	2.71	1.92	0.67	0.66	<u>0.85</u>	<u>1.00</u>	1.10	<u>1.25</u>	<u>1.50</u>	<u>1.80</u>
10-year Spread Mex-US												
Average	437	482	502	547	550	571	<u>537</u>	<u>567</u>	<u>552</u>	<u>545</u>	<u>550</u>	<u>530</u>
End of period	500	523	592	493	642	515	<u>515</u>	<u>550</u>	<u>540</u>	<u>540</u>	<u>540</u>	<u>520</u>

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

Corporate Debt

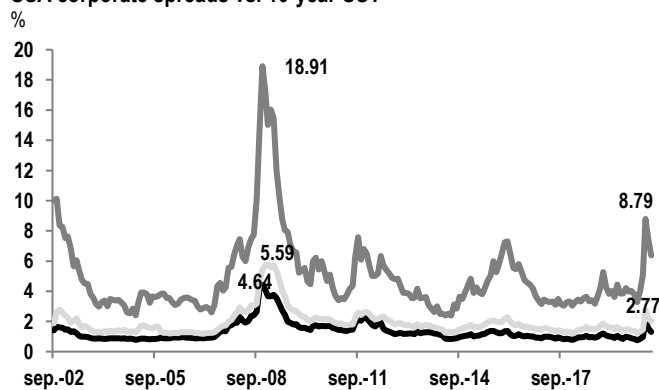
Companies are facing significant operational and financial challenges coming from the economic impact of the Coronavirus pandemic, triggering concerns about a possible deterioration of their credit profiles. In particular, the biggest impact would be during 2Q20 –figures that will be released in 3Q20–, period in which lockdowns have forced them to seek additional liquidity given the limited capacity to generate cash. Despite the low visibility that we have at this moment over the financial impact, it is worth analyzing the corporate debt market during the 2008-2009 crisis. In 2008, the USD corporate bond market faced a complex scenario with an issuance drop of 37.4% y/y, while the risk premium reached its highest level since 2002, as depicted in the chart below to the left. Nevertheless, in 2020 we haven't seen such pronounced movements, as the issued amount totaled USD \$1.2 trillion (+87.5% YTD) with mild spread changes.

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Mexico is portraying a different story. In 2008, debt placement dropped 23% with spreads increasing around 70-100bps in 'AAA' samples. In comparison, during the first six months of 2020 issuance volumes fell 51.8% YTD, but with a modest increase in credit risk premium amid the low market volume. However, risk premia have started to show an upward adjustment, conveyed in the most recent issuances. Risk aversion has limited the appetite for this type of instruments, increasing the refinance risk for issuers.

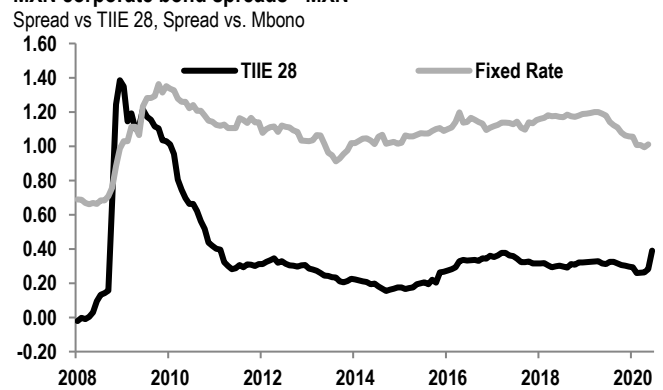
Throughout the first half of 2020, the Mexican market remained practically “closed”. However, in 3Q20 we expect that the refinancing risk will remain high, in tandem with our view of weaker quarterly results and several possible downgrades. Investors will pay close attention to Pemex and CFE, especially to the debt maturity profile for the next six months, totaling \$ 28.95 billion (US\$ 1.26 billion), almost half of scheduled maturities in the corporate debt market. The oil company has stated that it has enough resources to meet its 2020 obligations; nevertheless, we expect weak 2Q20 results driven by low oil prices during the period, in addition to an oversupplied market.

USA corporate spreads vs. 10-year UST



Source: Bloomberg

MXN corporate bond spreads - MXN



Source: PIP and Valmer

Recent research notes

Mexico

- *IGAE – Historical contraction in April, albeit lower than expected*, Jun 26th, 2020, [<pdf>](#)
- *Banxico – A more dovish tone signals added willingness to ease further*, Jun 25th, 2020, [<pdf>](#)
- *Mexico – 2020 GDP to contract even more given the delay of the economic reopening*, Jun 22nd, 2020, [<pdf>](#)
- *Job losses continued in May, albeit at a more modest pace*, Jun 12th, 2020, [<pdf>](#)
- *The Federal Government presents guidelines of the plan for reopening the economy*, May 13th, 2020, [<pdf>](#)
- *Mexico keeps ‘investment grade’, despite Moody’s sovereign and Pemex downgrade*, Apr 17th, 2020, [<pdf>](#)

Fixed-Income, FX, and Commodities

- *FX Commission: USD financing auction results*, Jun 29th, 2020, [<pdf>](#)
- *3Q20 Auction Calendar: Issuance increase for Mbonos and Udibonos*, Jun 26th, 2020, [<pdf>](#)
- *Profit taking in CPI-linked Udibono Nov’35*, Jun 12th, 2020, [<pdf>](#)
- *OPEC+: Extension to production cuts to drive short-term market dynamics*, Jun 8th, 2020, [<pdf>](#)

Equities

- *AIRPORTS (May): Strong impact on passengers from COVID-19*, Jun 8th, 2020, [<pdf>](#)
- *ALSEA: A gradual return towards a ‘new normal’*, Jun 5th, 2020, [<pdf>](#)
- *CFE FIBRA E (FCFE), Initiation of coverage: Resilient and with the most appealing distribution.*, May 27th, 2020, [<pdf>](#)

Deuda Corporativa

- *PEMEX – 1Q20 Results*, Apr 30th, 2020, [<pdf>](#)

Note: All our publications are available in the [following link](#)

Recent trade ideas

Trade idea	P/L	Initial date	End date
Long positions in 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-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	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 v-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 v-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	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
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