

Banxico's Survey – Inflation expectations for 2017 continue to rise

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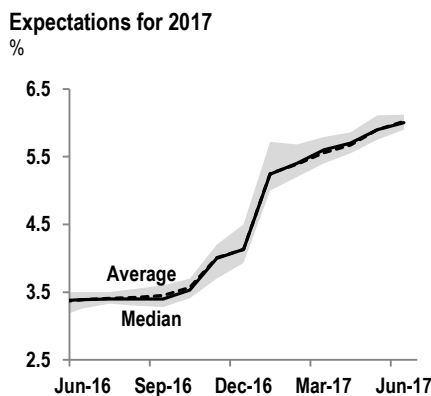
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- Banxico just published its survey of expectations in June
- Consensus expects inflation at 6% at the end of 2017 above previous 5.9% (Banorte-Ixe: 5.7%)
- For 2018, consensus forecasts a 3.8% inflation, while medium term expectations are at 3.5% (Banorte-Ixe: 3.5%)
- Economists expect Banxico's reference rate to remain at 7% by year-end (Banorte-Ixe: 7%)
- For this year, growth expectations remained unchanged at 2% (Banorte-Ixe: 1.6%)
- For next year, analysts expect growth in the area of 2.3% y/y marginally above the 2.2% seen in the previous survey
- Exchange rate forecast for year-end was revised down to 18.7 USD/MXN from 19.5 (Banorte-Ixe: 19.5 USD/MXN)

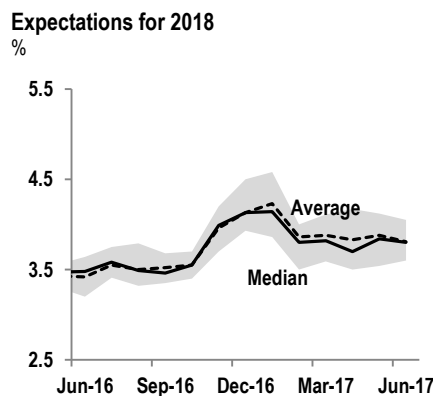
Banxico just published its survey of expectations in June. Inflation forecasts for 2017 are at 6% yoy, above the 5.9% from previous survey (Banorte-Ixe: 5.7%). Moreover, expectations for core inflation in 2017 stand at 4.9%, marginally above the 4.84% seen in the previous survey. In the next 12-months, inflation is expected at 3.8% yoy, vs. previous 3.81%. For year-end 2018 inflation is expected at 3.8% (previous: 3.84%)

Medium term expectations are in line with May's survey. The median for medium term expectations (1- 4 years) are unchanged at 3.5%. Meanwhile, long term expectations (5- 8 years) are at 3.3%, are also in line with last month's survey.

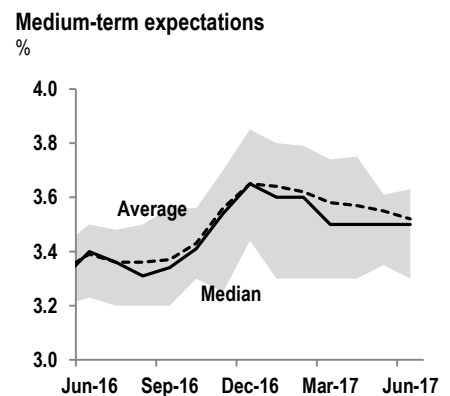
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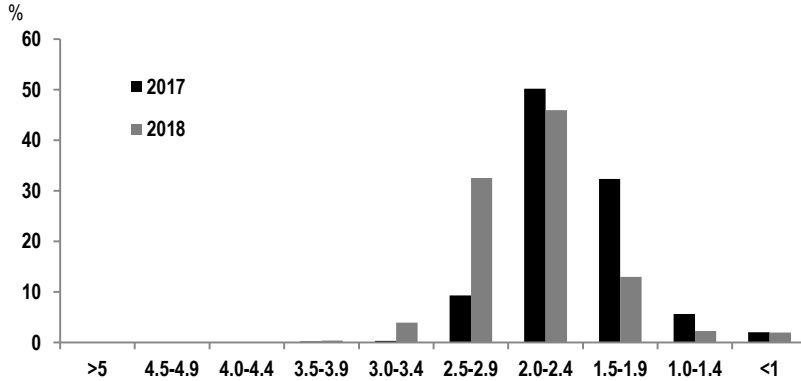
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Analysts expect the reference rate to remain unchanged at 7% year-end.

The expected rate for the end of 2017 was decreased by 25bp from the previous survey. In this context, we also expect the reference rate to remain unchanged through the end of the year given that Banxico’s Board considers that the impact of the above-mentioned inflationary shocks is temporary, and the current level of the reference rate is consistent with the convergence of inflation to its 3% target, we now consider that the monetary authority will maintain the reference rate at 7% throughout the year.

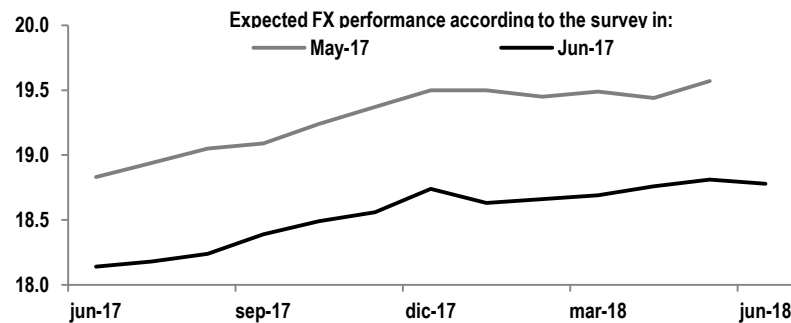
Growth expectations for 2017 in line with previous survey. According to Banxico's survey (June), analysts maintained their growth forecast at 2% (Banorte-Ixe: 1.6%), as shown below. For 2018, analysts marginally revised their forecast to 2.3% from 2.2% (Banorte-Ixe: 2.5% yoy).

Growth expectations 2017-2018



Analysts expect a lower exchange rate for 2017. Estimates are at USD/MXN18.7 from USD/MXN19.5 (Banorte-Ixe: 19.5). For 2018, they expect the currency to finish the year at USD/MXN18.46 from USD/MXN19.42.

Exchange rate expected path
USD/MXN



Oil production output and insecurity are the main obstacles for economic growth. Among the factors that could have an adverse impact on Mexico's economic growth are: (1) Oil production output (5.3 average score); (2) insecurity (5.3 average score); (3) uncertainty about the country's politic situation (5 average score); (4) public spending policy (4.9 average score); and (5) inflationary pressures in the country with an average score of 4.8pts.

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