

## Banxico's Survey – Analysts expect a relatively stable outlook for the rest of 2016

May 2, 2016

- Banxico just published its survey of expectations in May
- Consensus expects inflation at 3.11% at the end of 2016 below previous 3.19% (Banorte-Ixe: 2.8%)
- For 2017, inflation forecasts are at 3.35%, while medium term expectations are at 3.3% (Banorte-Ixe: 3%)
- Economists expect Banxico's reference rate at 4.25% by year-end (Banorte-Ixe: 4.25%)
- For this year, growth expectations improved marginally with a 2.44% average forecast from 2.41% in previous survey (Banorte-Ixe: 2.3%)
- Exchange rate forecasts for year-end were revised up to 17.92 USD/MXN from 17.61 (Banorte-Ixe: 17.60 USD/MXN)

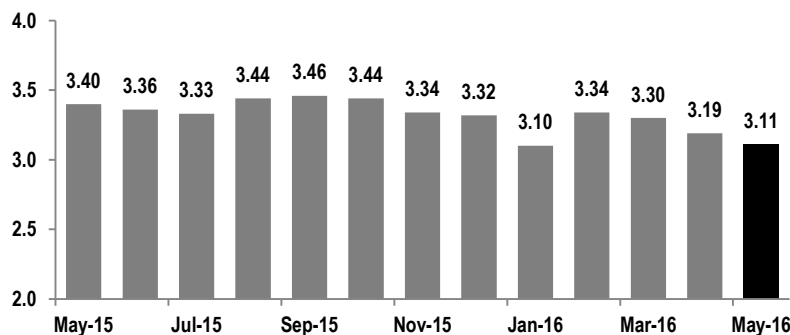
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**Banxico just published its survey of expectations in May.** Inflation forecasts for 2016 are at 3.11% yoy, below the 3.19% from previous survey (Banorte-Ixe: 2.8%). It is worth noting that expectations have come down for three consecutive months. In the meantime, expectations for core inflation in 2016 are at 3.12%, unchanged vs. previous survey. In the next 12-monhts, inflation is expected at 3.43% yoy, vs. previous 3.36%. For year-end 2017 inflation is expected at 3.35% (previous: 3.35%).

**Year-end for 2016 inflation expectations**  
% yoy



Source: Banorte-Ixe and Banxico

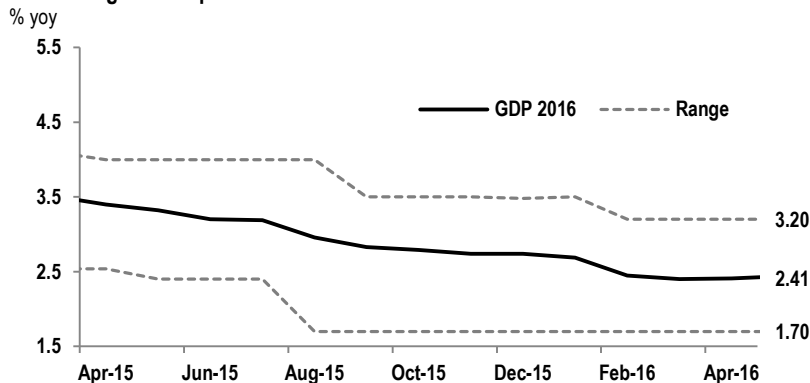
**Medium term expectations are unchanged from previous survey.** The average of participants expects medium term inflation (1- 4 years) at 3.3% (previous: 3.3%). Meanwhile, long term expectations (5- 8 years) are at 3.14%, in line with April's survey.

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**Analysts expect Banxico’s rate at 4.25%.** The survey highlights that most of the participants are forecasting a higher interest rate (currently at 3.75%) in 2Q16. This is in line with our view that Banxico will hike again rates in its June 30<sup>th</sup> meeting, just right after the Fed also increases rates at its June meeting (June 14-15). For 2017, analysts expect the reference rate at 5%.

**Marginally higher growth expectations for 2016.** According to Banxico's survey (May), analysts revised down its growth forecast to 2.44% from 2.41% (Banorte-Ixe: 2.3%), as shown below. For 2017, analysts expect a 2.84% GDP expansion from 2.86% (Banorte-Ixe: 3.2% yoy).

**2016 GDP growth expectations**



Source: Banorte-Ixe and Banxico

**Analysts expect a higher exchange rate for 2016.** Estimates are at USD/MXN17.92 from USD/MXN17.61(Banorte-Ixe: 17.6). For 2017, they expect the currency to finish the year at USD/MXN17.49 from USD/MXN17.2 (Banorte-Ixe: USD/MXN17.3).

**Finally, weakness in external markets and the global economy is the main factor that could adversely impact growth.** Among the factors that could have an adverse impact on Mexico's economic growth are: (1) Weakness in external markets and the global economy (25% of responses); (2) international financial instability (15%); (3) insecurity (14%); (4) oil prices (25%); and (5) oil platform con el 11% of responses.

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