

Banxico's Survey – Analysts downgraded growth and inflation expectations

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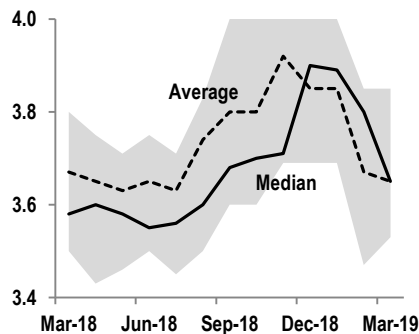
- Banxico just published its survey of expectations in March
- Consensus expects inflation at 3.6% at the end of 2019 slightly below previous 3.65% (Banorte: 3.5%)
- For 2020, consensus forecasts inflation at 3.57%, while medium term expectations are at 3.55% (Banorte: 3.5%)
- Economists expect Banxico's reference rate at 8% by year-end (Banorte: 7.75%)
- Growth expectations in 2019 were downgraded to 1.5% from 1.63% (Banorte: 1.5%)
- For next year, analysts expect growth in the area of 1.9% y/y below previous estimate 2%
- Exchange rate forecast for year-end was revised down to 20 USD/MXN from 20.13 (Banorte: 21.3 USD/MXN)

Banxico just published its survey of expectations in March. Inflation forecasts for 2019 are at 3.6% yoy, slightly below previous 3.65% (Banorte: 3.5%). In the meantime, expectations for core inflation in 2019 are at 3.45%, unchanged vs. previous survey. In the next 12-months, inflation is expected at 4.1% y/y. For year-end 2020 inflation is expected at 3.57% (previous: 3.6%).

Medium term expectations are in line with previous survey. The median for medium term expectations (1-4 years) are at 3.55% (previous: 3.5%). Meanwhile, long term expectations (5-8 years) remain at 3.5% y/y.

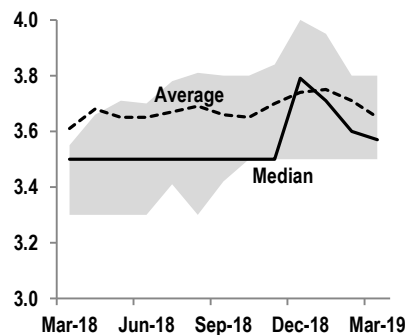
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Inflation expectations for 2019
% yoy



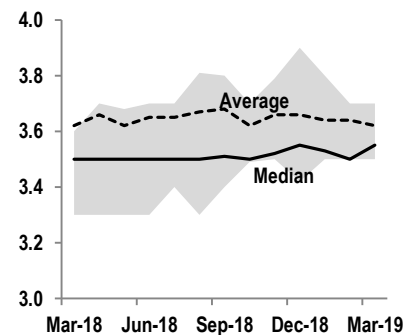
Source: Banxico

Inflation expectations for 2020
% yoy



Source: Banxico

Inflation expectations in the medium term
% yoy



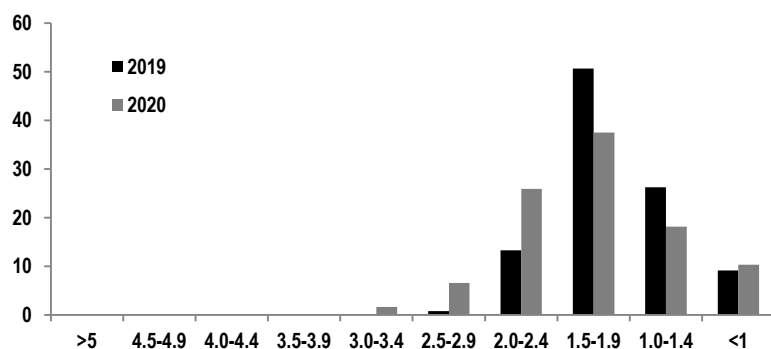
Source: Banxico

Analysts expect the reference rate at 8% for year end. This level implies a 25bp rate cut in 2019, in line with the latest *Citibanamex* expectations survey, where the median of economist expects this movement to take place in November 2019. In our view, Banxico could start an easing cycle as soon as in June and could cut the reference rate in 50-75bps by year-end.

Growth expectations between 1.5%-2% for the next two years. According to Banxico's survey (March), analysts downgraded its growth forecast to 1.5% from 1.63% (Banorte: 1.5%). For 2020, analysts also revised down their estimates to 1.9% from 2% (Banorte: 2.1% yoy). Finally, long-term growth (next 10-year average) is estimated at 2.3% (Banorte: 2.5% y/y).

GDP Growth estimates

% probability that growth falls in each range

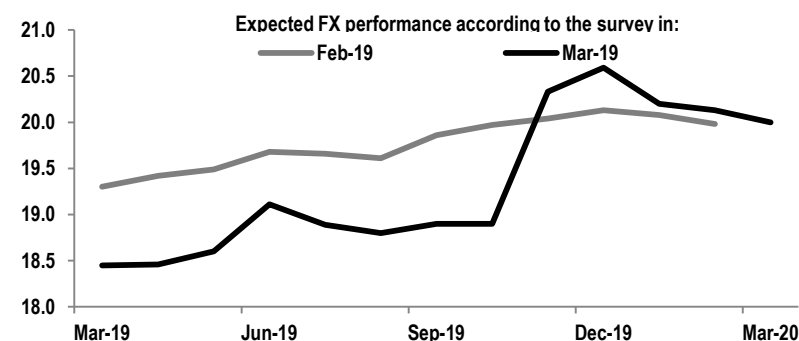


Source: Banxico

Analysts expect a lower exchange rate for 2019. Estimates are at USD/MXN20 from USD/MXN20.13 (Banorte: 21.3). For 2020, they expect the currency to finish the year at USD/MXN20.13 from USD/MXN20.5 in previous survey.

Expected FX performance

MXN/USD



Source: Banxico

Public insecurity is the main obstacle for economic growth. Among the factors that could have an adverse impact on Mexico's economic growth are: (1) Public insecurity and oil production output (14%); (2) uncertainty about domestic politics (12%); (3) lack of rule of law and global economic weakness with 10% of responses and (4) uncertainty about domestic economic situation.

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