

Banxico Survey – Relatively stable estimates for growth, inflation and the exchange rate

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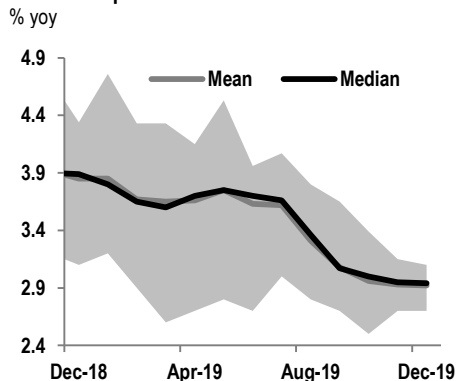
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- Banxico just published its survey of expectations in December
- Consensus expects inflation at 2.94% at the end of 2019, 1bp below the figure from the previous survey (Banorte: 3.00%)
- For next year, it was also revised down to 3.46% (previous: 3.50%). Medium-term expectations were unchanged at 3.5%, in line with our forecast
- Economists expect Banxico's reference rate at 7.25% by year-end, also in line with our view, while cumulative cuts for 2020 put the rate at 6.50% (Banorte: 6.00%)
- Growth expectations in 2019 stand at 0.0% (Banorte: -0.1%). For next year, analysts expect GDP at 1.1% yoy, practically in line with the previous estimate (Banorte: 1.4%)
- The exchange rate for year-end was revised to USD/MXN 19.50 (previous: 19.48; Banorte: 20.30)

Banxico published its survey of expectations in December. Inflation forecasts for 2019 stood at 2.94% yoy, 1bp below the figure seen in the previous survey and further away from our 3.00% estimate. The forecast for core inflation stood at 3.58%, still above target. Expectations for 2020 were 4bps down, to 3.46%, which in this occasion happens to match the expectation for the next twelve months. Regarding core inflation next year, economists expect it at 3.40%, in line with November's estimate.

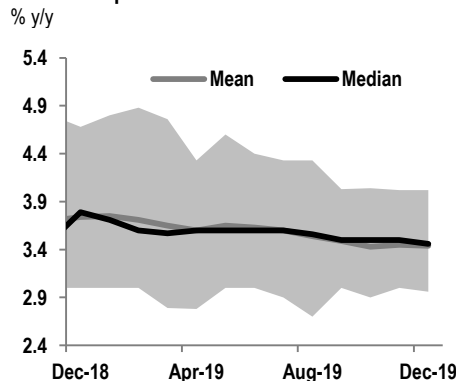
Medium term expectations unchanged from previous survey. Both medium- (1- 4 years) and long-term expectations (5- 8 years) stand at 3.50%, now adding 7 months at this exact same level. In a similar fashion, estimates for core inflation for the same time period came in at 3.46% and 3.40%, respectively.

Inflation expectations for 2019



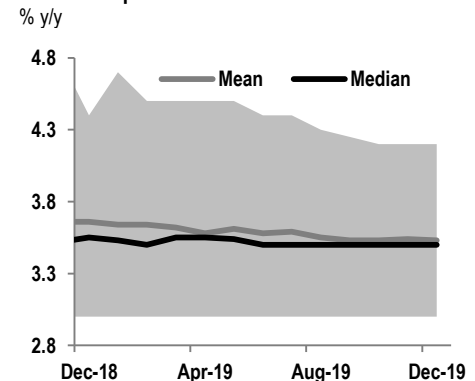
Source: Banxico

Inflation expectations for 2020



Source: Banxico

Inflation expectations in the medium term

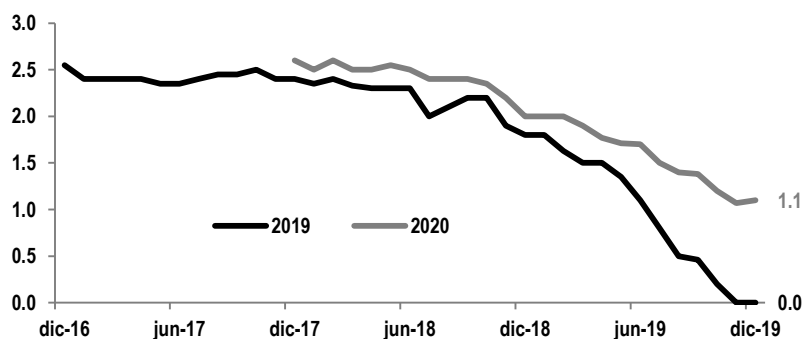


Source: Banxico

Analysts expect the reference rate at 7.25% by year-end, with 2020's level estimated at 6.50%. The first is in line with our expectation that Banxico will cut the reference rate again by 25bps in its last meeting of 2019 (December 19th). However, consensus expects a 6.50% rate in 2020, implying an additional reduction of 75bps, more modest than our estimate of accumulated cuts of 125bps to leave the benchmark rate at 6.00% by the end of the year. Regarding the trajectory, we expect most of the cuts to take place during the first half of the year.

Growth expectations for 2019 in line with the previous survey. According to this month's survey, analysts kept their growth forecast at 0.0% yoy (see chart below), above our -0.1%. For 2020, analysts actually revised their estimates higher, but only by 3bps to 1.1% (Banorte: 1.4%). Finally, long-term growth (next 10-year average) is still estimated at 2.0%.

GDP growth estimates
% yoy



Source: Banxico

Analysts' exchange-rate expectations for 2019 and 2020 broadly unchanged. The estimate for year-end 2019 stood at USD/MXN19.50 from USD/MXN19.48 (Banorte: 20.30). For next year, they expect it to finish higher, at USD/MXN20.00, in line with the previous survey.

Insecurity stands as the main obstacle for economic growth. According to the analysts surveyed, the factors that are likely to have an impact on economic growth are: Insecurity (21% of responses); uncertainty about the domestic economic situation (16%); uncertainty about domestic politics (13%); public spending (9%); and oil production (6%), among the most relevant.

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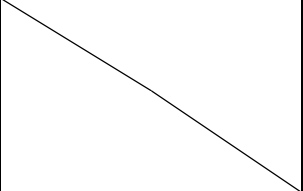
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