

Banxico's Survey – Analysts expect slightly higher inflation in 2019

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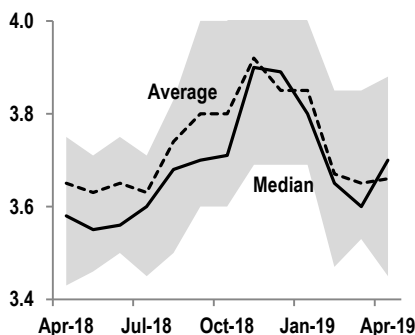
- Banxico just published its survey of expectations in April
- Consensus expects inflation at 3.7% at the end of 2019 above previous 3.6% (Banorte: 3.5%)
- For 2020, consensus forecasts inflation at 3.6%, while medium term expectations are at 3.55% (Banorte: 3.5%)
- Economists expect Banxico's reference rate at 8% by year-end (Banorte: 7.75%)
- Growth expectations in 2019 remained unchanged at 1.5% (Banorte: 1.5%)
- For next year, analysts expect growth in the area of 1.77% y/y below previous estimate 1.9%
- Exchange rate forecast for year-end was revised down to 19.8 USD/MXN from 20 in previous survey (Banorte: 20.3 USD/MXN)

Banxico just published its survey of expectations in April. Inflation forecasts for 2019 are at 3.7% yoy, above the 3.6% from previous survey (Banorte: 3.5%). In the meantime, expectations for core inflation in 2019 are at 3.56%, above the previous 3.5% y/y. In the next 12-months, inflation is expected at 3.98%, vs. previous 4.1% y/y. For year-end 2020 inflation is expected at 3.6% (previous: 3.57%).

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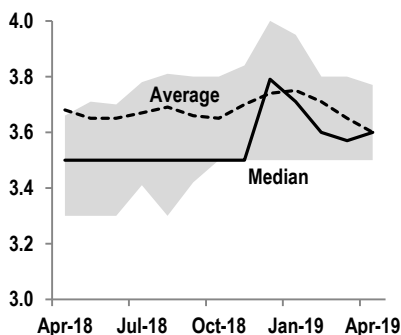
Medium term expectations are in line with previous survey. The median for medium term expectations (1- 4 years) remained at 3.55%. Meanwhile, long term expectations (5- 8 years) are at 3.4%, in line with March's survey.

Inflation expectations for 2019
% yoy



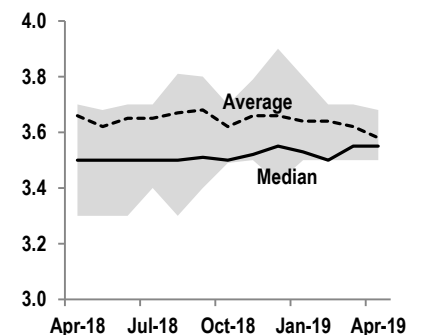
Source: Banxico

Inflation expectations for 2020
% yoy



Source: Banxico

Inflation expectations in the medium term
% yoy



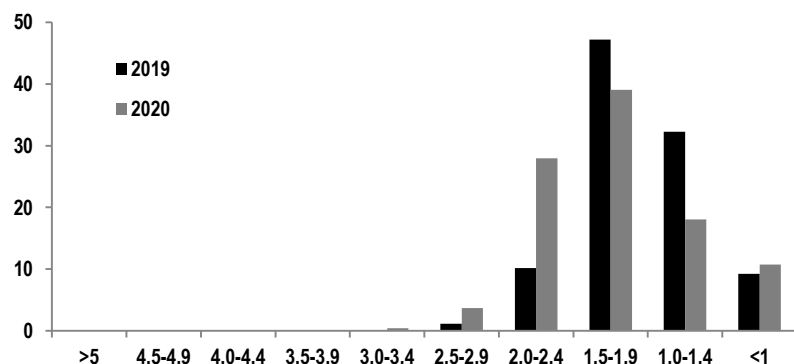
Source: Banxico

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 September 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 for 2019 in line with previous survey. According to Banxico's survey (April), analysts still see growth at 1.5% (Banorte: 1.5%), but with risks on the downside as survey suggest a 41% probability that it could be below this number, as shown in the following chart. For 2020, analysts downgraded their estimates to 1.77% from 1.9% (Banorte: 2.1% yoy). Finally, long-term growth (next 10-year average) is estimated at 2.22% (Banorte: 2.5% y/y).

GDP Growth estimates

% probability that growth falls in each range

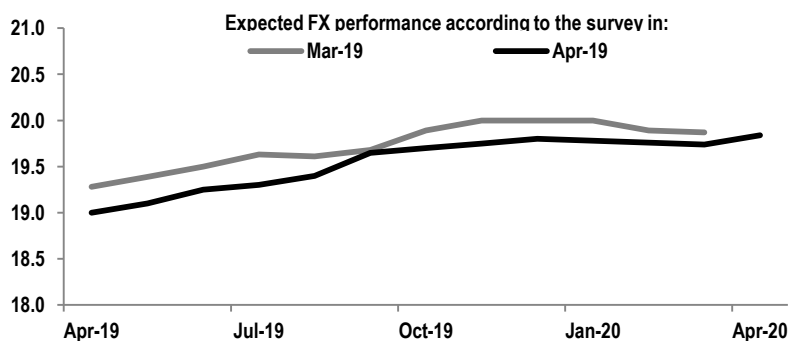


Source: Banxico

Analysts expect a lower exchange rate for 2019. Estimates are at USD/MXN19.8 from USD/MXN20 (Banorte: 20.3) in previous survey. For 2019, they expect the currency to finish the year at USD/MXN20 from USD/MXN20.13 (Banorte: 21.3).

Expected FX performance

MXN/USD



Source: Banxico

Uncertainty about domestic politics is the main obstacle for economic growth. According to analysts, among the factors that could have an adverse impact on Mexico's economic growth are: (1) Uncertainty about domestic politics (19% of responses); (2) public insecurity (18%); (3) oil output (11%); (4) uncertainty about domestic economic outlook (9%); and (5) global economic weakness with 8% of responses.

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