

Banxico's survey – Inflation expectations for year-end up for second consecutive month

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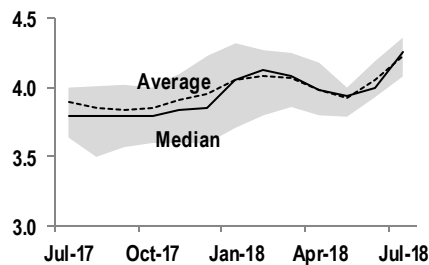
- Banxico just published its survey of expectations in July
- Consensus now expects inflation at 4.25% at the end of 2018 above previous 4% (Banorte: 4.3%)
- For 2018, consensus forecast at 3.6% core inflation, while medium term expectations remained at 3.5% (Banorte: 3.5%)
- Economists expect Banxico's reference rate at 7.75% by year-end (Banorte: 7.75%)
- Growth expectations in 2018 remained unchanged at 2.3% from 2.3% (Banorte: 2.5%)
- For next year, analysts expect growth in the area of 2.3% y/y below previous estimate 2.5% (Banorte: 1.8%)
- Exchange rate forecast for year-end was revised down to 19 USD/MXN from 19.5 (Banorte: 18.6 USD/MXN)

Banxico just published its survey of expectations in July. Inflation forecasts for 2018 are at 4.25% yoy, above the 4% from previous survey (Banorte-Ixe: 4.3%). In the meantime, expectations for core inflation in 2018 are at 3.6%, unchanged from previous. In the next 12-months, inflation is expected at 3.8% yoy, also unchanged. For year-end 2019 inflation is expected at 3.6%.

Medium term expectations are in line with previous survey. The median for medium term expectations (1- 4 years) are at 3.5% (previous: 3.5%). Meanwhile, long term expectations (5- 8 years) are at 3.35%, in line with June's survey.

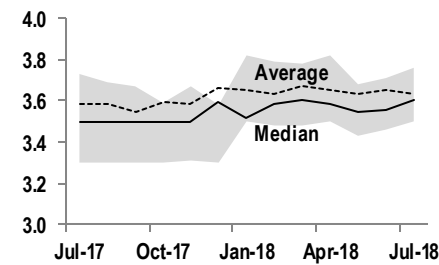
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Inflation expectations for 2018
% yoy



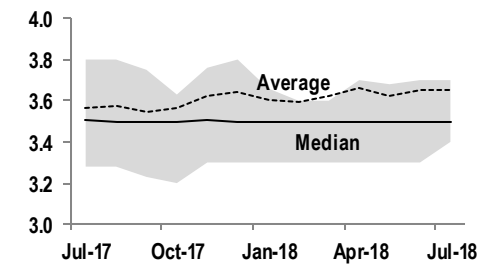
Source: Banxico

Inflation expectations for 2019
% yoy



Source: Banxico

Inflation expectations in the medium term
% yoy



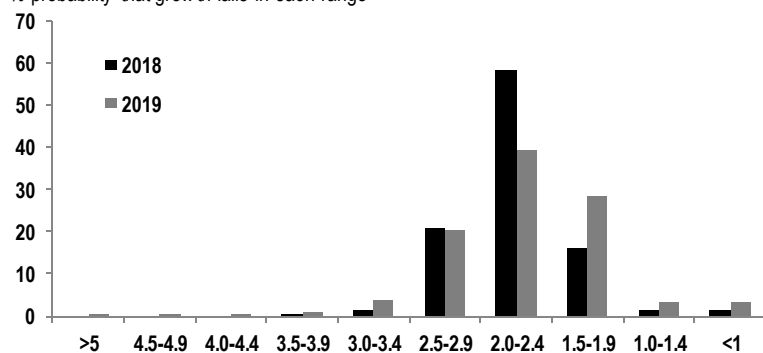
Source: Banxico

Analysts expect the reference rate at 7.75% for year end. This level is in line with our own expectation, as we expect Banxico to remain on hold in the next 18-months. Nevertheless, we expect the monetary authority to leave the door open to further tightening, so we cannot rule out a rate hike in the case of a deterioration of the FX and inflation outlook or if fiscal conditions weaken. In particular we believe that this last factor has low probability as we perceive a firm commitment from the new administration –which will take office at the end of the year-, with sound fiscal accounts.

Growth expectations for 2018 in line with previous survey. According to Banxico's survey (July), analysts revised down its growth forecast to 2.3% unchanged from previous survey (Banorte: 2.5%), as shown below. For 2019, analysts downgraded their estimates to 2.3% from 2.5% (Banorte: 1.8% yoy).

GDP Growth estimates

% probability that growth falls in each range

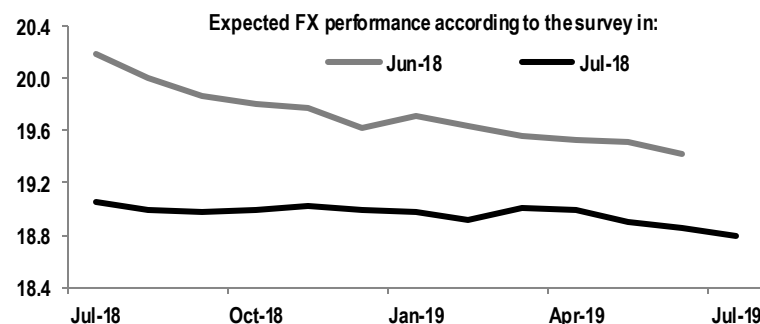


Source: Banxico

Analysts expect a lower exchange rate for 2018. Estimates are at USD/MXN19 from USD/MXN19.5 (Banorte: 18.6). For 2019, they expect the currency to finish the year at USD/MXN18.89 from USD/MXN19.11.

Expected FX performance

USD/MNX



Source: Banxico

Insecurity is the main obstacle for economic growth. Among the factors that could have an adverse impact on Mexico's economic growth are: (1) Insecurity (16% of responses); (2) foreign trade policy (13%); (3) domestic uncertainty (12%); (4) corruption (16%); along with (5) impunity and lack of rule of law on el 5% of responses.

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