

Banxico's Survey – Marginally higher inflation expectations for year-end

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Delia Paredes
Executive Director of Economic Analysis
delia.paredes@banorte.com

Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

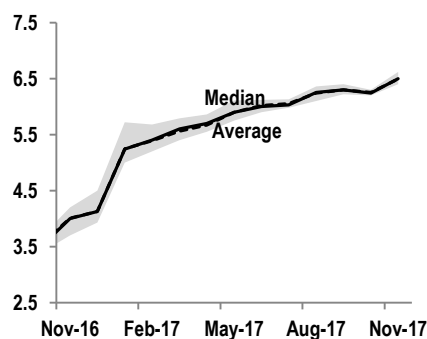
- Banxico just published its survey of expectations in November
- Consensus expects inflation at 6.5% at the end of 2017, above the 6.24% from the previous survey (Banorte: 6.5%)
- For 2018, consensus forecasts a 3.84% inflation (Banorte: 4.1%), while medium term expectations are at 3.5%
- Economists expect Banxico's reference rate at 7% by year-end (Banorte: 7%), while the forecast for YE18 puts the reference rate at 6.75% (Banorte: 6.5%)
- For this year, growth expectations remained unchanged at 2.1% (Banorte: 2.1%)
- For 2018, analysts expect growth in the area of 2.3%, in line with the previous survey
- Exchange rate forecast for year-end was revised up to 19.00 USD/MXN from 18.80

Banxico just published its survey of expectations in November. Inflation forecasts for 2017 stand at 6.5% yoy, above the 6.24% from the previous survey (Banorte: 6.5%). In the meantime, expectations for core inflation in 2017 are at 4.75%. Inflation in the next 12-months is expected at 3.81% yoy, vs. previous 3.81% seen in October's survey. For year-end 2018 inflation is expected at 3.84% (previous: 3.8%).

Medium term expectations are in line with previous survey. The median for medium term expectations (1- 4 years) is at 3.51% (previous: 3.5%). Meanwhile, long term expectations (5- 8 years) stand at 3.5%, in line with October's survey.

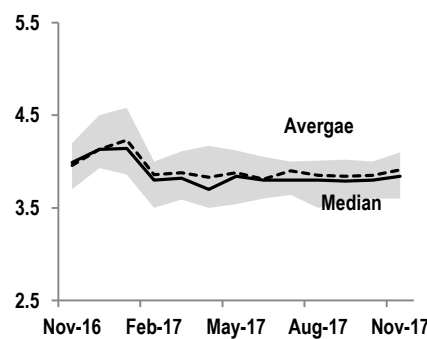
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Inflation expectations for 2017
% yoy



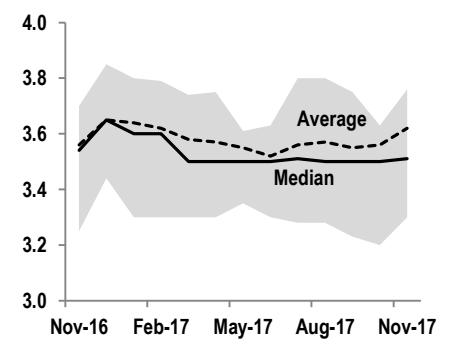
Source: Banxico

Inflation expectations for 2018
% yoy



Source: Banxico

Inflation expectations in the medium term
% yoy



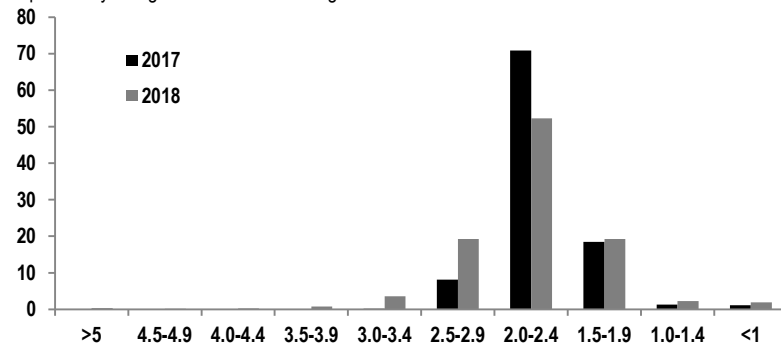
Source: Banxico

Analysts expect the reference rate at 7% for year end. For next year, they expect the monetary authority to cut the reference rate in about 25bps. This is in line with our own view that Banxico will remain on hold for the remainder of the year and that they will consider cutting rates in the second half of next year. However, we expect that the Central Bank could cut rates by 50bps, starting with a 25bps cut in the August meeting.

Growth expectations for 2017 in line with previous survey. According to Banxico's survey (November), analysts maintained their growth forecast at 2.1% (Banorte: 2.1%), as shown below. Moreover, for 2018, analysts also kept it unchanged at 2.3% (Banorte: 2.5% yoy).

GDP Growth estimates

% probability that growth falls in each range

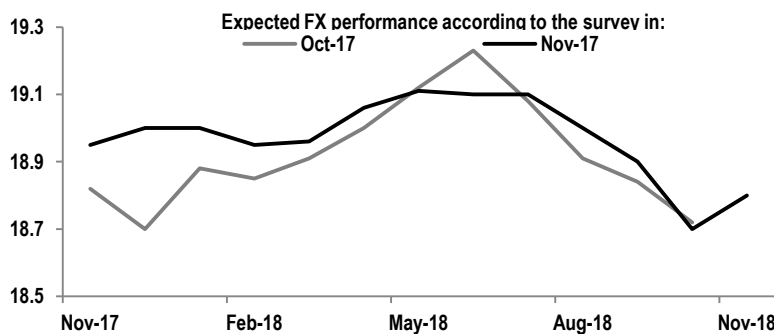


Source: Banxico

Analysts expect a higher exchange rate for 2017. Estimates are at USD/MXN19.00 from USD/MXN18.80 (Banorte: 18.1). For 2018, they expect the currency to finish the year at USD/MXN18.6 from USD/MXN18.5 (Banorte-Ixe: 18.6).

Expected FX performance

MXN/USD



Source: Banxico

Uncertainty about domestic politics is regarded as the main obstacle for economic growth. Among the factors that could have an adverse impact on Mexico's economic growth are: (1) Uncertainty about domestic politics (19% of responses); (2) insecurity (15%); (3) oil production output (11%); (4) instability regarding international politics (19%); and (5) domestic inflationary pressures (6% of responses).

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Juan Carlos Alderete Macal, CFA	FX Senior Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Strategist Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates / Financials/ Mining / Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research Analyst – Airlines / Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvlazarquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454