

Banxico's Survey – Marginal tweaks to estimates in September

July 1, 2016

www.banorte.com
www.ixe.com.mx
@ analisis_fundam

Delia Paredes

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

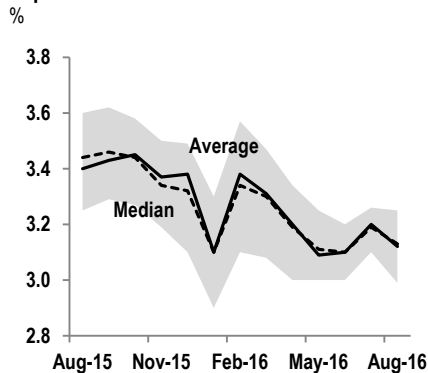
- Banxico just published its survey of expectations in August
- Consensus expects inflation at 3.12% at the end of 2016 below previous 3.2% (Banorte-Ixe: 2.8%)
- For 2017, consensus forecasts a 3.4% inflation, while medium term expectations are at 3.31% (Banorte-Ixe: 3%)
- Economists expect Banxico's reference rate at 4.5% by year-end (Banorte-Ixe: 5.25%)
- For this year, growth expectations were downgraded to 2.2% from 2.3% (Banorte-Ixe: 2.3%)
- Exchange rate forecast for year-end was revised down to 18.5 USD/MXN from 18.62 (Banorte-Ixe: 18.5 USD/MXN)

Banxico published its survey of expectations in August. Inflation forecasts for 2016 are at 3.12% yoy, below the 3.2% from previous survey (Banorte-Ixe: 2.8%). In the meantime, expectations for core inflation in 2016 are at 3.2%, unchanged vs. 3.2% previous. In the next 12-monhts, inflation is expected at 3.49% yoy, vs. previous 3.58%. For year-end 2017 inflation is expected at 3.4%.

Medium term expectations are in line with previous survey. The median for medium term expectations (1- 4 years) are at 3.31% (previous: 3.36%). Meanwhile, long term expectations (5- 8 years) are at 3.1%, below July's survey.

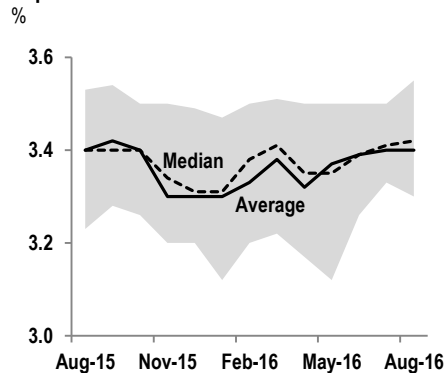
Document for distribution among public

Expectations for 2016



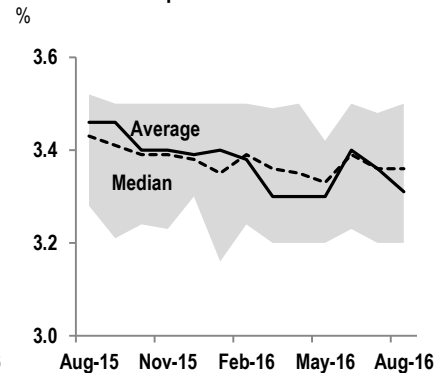
Source: Banxico

Expectations for 2017



Source: Banxico

Medium-term expectations

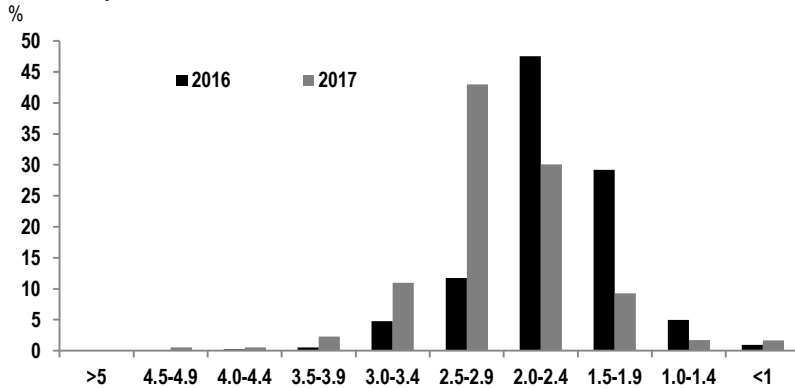


Source: Banxico

Analysts expect the reference rate to close this year at 4.5%. In our case, we expect Banxico will hike the rate in 50bps in September and another 50bps in December to leave the rate at the end of the year at 5.25%, amid the difficult backdrop we expect for the exchange rate in the next few months.

Growth expectations for 2016 below previous survey. According to Banxico's survey (August), analysts revised down its growth forecast to 2.2% from 2.3% (Banorte-Ixe: 2.3%). For 2017, the median of analysts expect growth at rates of about 2.6% (Banorte-Ixe: 2.5% yoy). It is worth noting that most analysts place growth in a range between 2% and 3% for next year, as shown in the table below.

Growth expectations 2016-2017

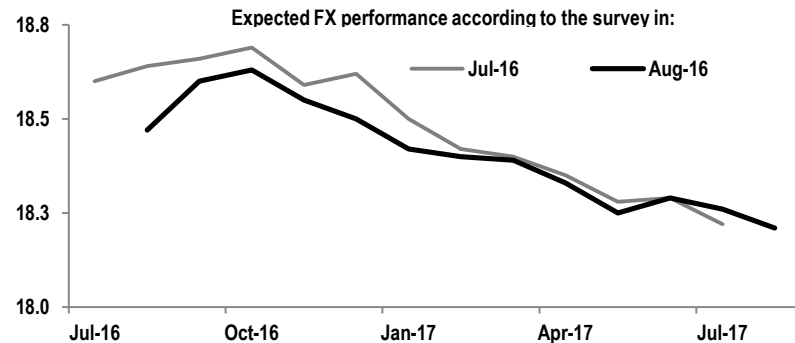


Source: Banxico

Analysts expect a lower exchange rate for 2016. Estimates are at USD/MXN18.5 from USD/MXN18.62 (Banorte-Ixe: 18.5). For 2017, they expect the currency to finish the year at USD/MXN18.22 from USD/MXN18.2 (Banorte-Ixe: 19.2 in June 2017).

Exchange rate expected path

USD/MXN



Source: Banxico

Weakness in external markets and the global economy is the main factor that could undermine growth, according to analysts. Among the factors that could have an adverse impact on Mexico's economic growth are: (1) Weakness in external markets and the global economy (27% of responses); (2) oil prices (27%); (3) lower oil platform (13%); (4) international financial instability (12%); and (4) public insecurity (8%).

Disclaimer

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

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
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 Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst 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
Marisol Huerta Mondragón	Equity Research Analyst – Food/Beverages	marisol.huerta.mondragon@banorte.com	(55) 1670 - 1746
José Itzamna Espitia Hernández	Equity Research Analyst – Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto Parts/ Consumer Discretionary / Real Estate	valentin.mendoza@banorte.com	(55) 1670 - 2250

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@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	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454