

Banxico's Survey – Analysts downgrade again growth estimates for 2019

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

- Banxico just published its survey of expectations in June
- Consensus expects inflation at 3.7% at the end of 2019 below previous 3.75% (Banorte: 3.5%)
- For 2020, consensus forecasts inflation at 3.6%, while medium term expectations are at 3.5% (Banorte: 3.5%)
- Economists expect Banxico's reference rate at 8% by year-end (Banorte: 8%)
- Growth expectations in 2019 were downgraded to 1.1% from 1.35% (Banorte: 1.5%)
- For next year, analysts expect growth in the area of 1.7% y/y in line with previous survey
- Exchange rate forecast for year-end was revised down to 19.78 USD/MXN from 19.83 (Banorte: 20.3 USD/MXN)

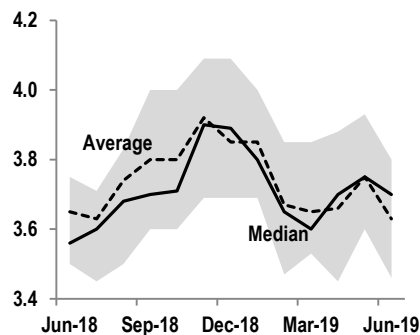
Banxico just published its survey of expectations in June. Inflation forecasts for 2019 are at 3.7% yoy, slightly below the 3.75% from previous survey (Banorte: 3.5%). In the meantime, expectations for core inflation in 2019 are at 3.64%, unchanged vs. previous survey. In the next 12-months, inflation is expected at 3.97%, vs. previous 3.93% y/y. For year-end 2020 inflation is expected at 3.6% (previous: 3.6%).

Medium term expectations are in line with previous survey. The median for medium term expectations (1- 4 years) is at 3.5% (previous: 3.54%). Meanwhile, long term expectations (5- 8 years) are at 3.5%, in line with May's survey.

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Inflation expectations for 2019

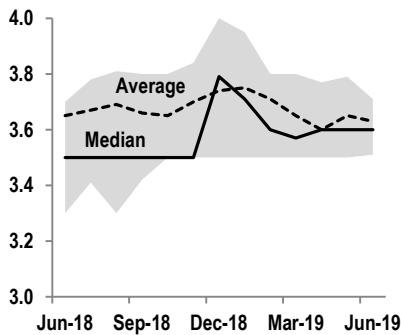
% yoy



Source: Banxico

Inflation expectations for 2020

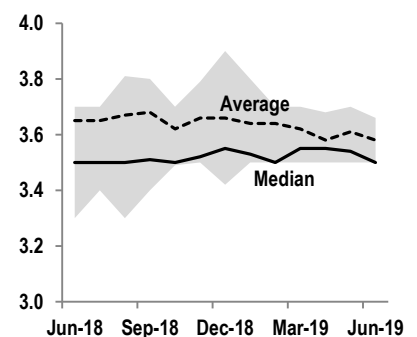
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Source: Banxico

Inflation expectations in the medium term

% yoy



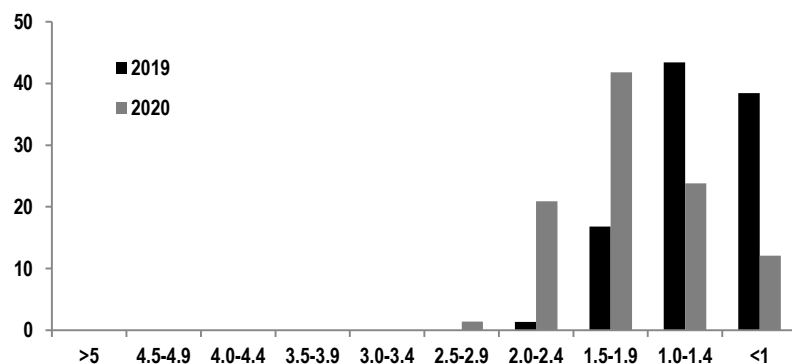
Source: Banxico

Analysts expect the reference rate at 8% for year end. This level implies a 25bp rate cut in 4Q19, in line our own expectation. For 2020, they expect the reference rate at 7.5%, 50bps lower than the expected rate at the end of this year. In our view, Banxico has room for an easing cycle between 125 and 200bps.

Growth expectations for 2019 below previous survey. According to Banxico's survey (June), analysts downgraded its growth forecast to 1.1% from 1.35% (Banorte: 1.5%), as shown below. For 2020, analysts maintained its 1.7% (Banorte: 2.1% yoy). Finally, long-term growth (next 10-year average) is estimated at 2.1% (Banorte: 2.5% y/y).

GDP Growth estimates

% probability that growth falls in each range

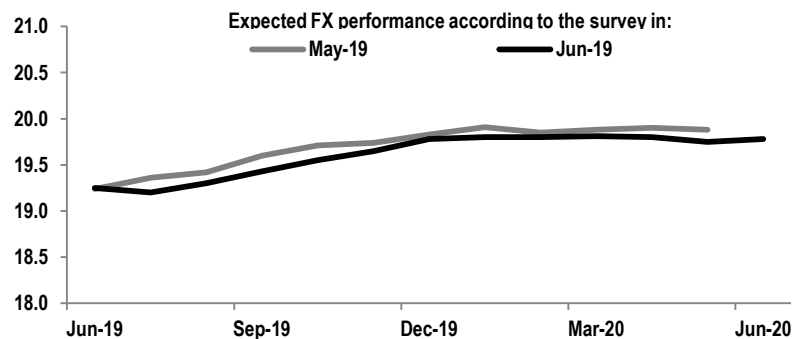


Source: Banxico

Analysts expect a slightly lower FX in 2019. Estimates are at USD/MXN19.78 down from USD/MXN19.83 (Banorte: 20.3). For 2019, they expect the currency to finish the year at USD/MXN20 from USD/MXN20.23 (Banorte: 21.3), while the trajectory for the next 12-months was revised down slightly.

Expected FX performance

MXN/USD



Source: Banxico

Uncertainty about domestic politics is 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 (17% of responses); (2) public insecurity (13%); (3) oil production output and fiscal policy (12%); (4) uncertainty about domestic economic outlook with 11% of responses, along with (5) global economic weakness, impunity and corruption with 5% 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
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Francisco Duarte Alcocer	Analyst, Global Economist	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
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
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research – Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
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	Manager, 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	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Corporate Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454