Banxico's Survey – Analysts revised down growth and inflation estimates

September 2, 2019

www.banorte.com
@analisis_fundam

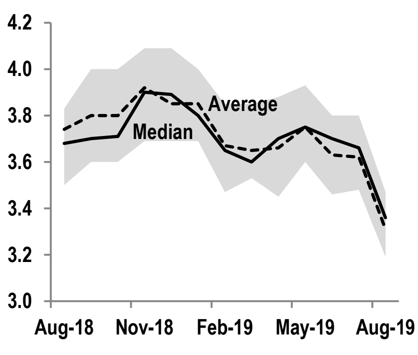
Delia Paredes
Executive Director of Economic Analysis
delia.paredes@banorte.com

- **Banxico just published its survey of expectations in August**
- **Consensus expects inflation at 3.36% at the end of 2019 below previous 3.66% (Banorte: 3.3%)**
- **For 2020, consensus forecasts inflation at 3.56%, while medium term expectations are at 3.5% (Banorte: 3.5%)**
- **Economists expect Banxico's reference rate at 7.75% by year-end (Banorte: 7.5%)**
- **Growth expectations in 2019 were downgraded to 0.5% from 0.8% (Banorte: 0.8%)**
- **For next year, analysts expect growth in the area of 1.4% y/y below previous estimate 1.5% (Banorte: 1.4%)**
- **Exchange rate forecast for year-end was revised up to 19.84 USD/MXN from 19.7 (Banorte: 20.3 USD/MXN)**

Banxico just published its survey of expectations in August. Inflation forecasts for 2019 are at 3.36% y/y, below the 3.66% from previous survey (Banorte: 3.3%). In the meantime, expectations for core inflation in 2019 are at 3.67%, unchanged vs. previous survey. In the next 12-months, inflation is expected at 3.76%, vs. previous 3.88% y/y. For year-end 2020 inflation is expected at 3.56% (previous: 3.6%).

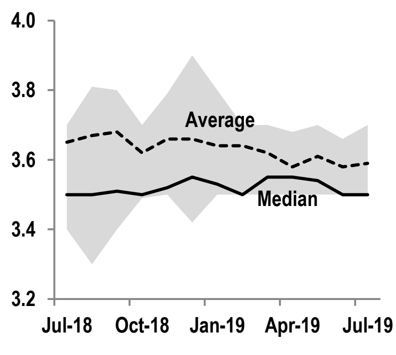
Medium term expectations are in line with previous survey. The median for medium term expectations (1- 4 years) are at 3.5% (previous: 3.5%). Meanwhile, long term expectations (5- 8 years) also at that level, unchanged from previous survey.

Inflation expectations for 2019
% yoy



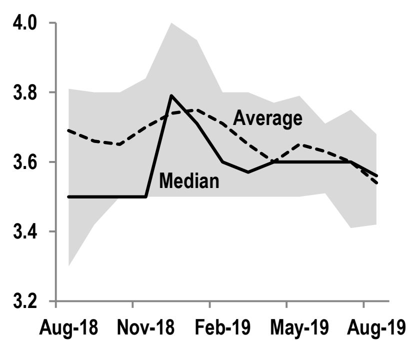
Source: Banxico

Inflation expectations for 2020
% yoy



Source: Banxico

Inflation expectations in the medium term
% yoy

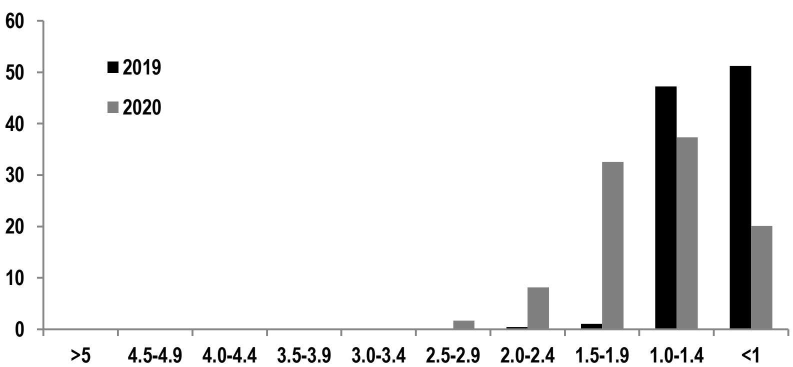


Source: Banxico

Analysts expect the reference rate to close this year at 7.75%. This level implies a 25 bp cut in 2019, after the central bank reduced the reference rate to 8% from 8.25% in August. By 2020, economists surveyed expect Banxico's rate at 7%, 75 bp lower than the expected level for the end of 2019. This expectation contrasts with our estimate of a 25bp rate cut at the September meeting, with a high probability of seeing another cut -in the same magnitude-, in the last quarter of the year, with the rate closing 2019 at 7.5%. While we think that the monetary authority will be very cautious, we believe that Banxico has room for a cycle of low rates between 125 and 200bp.

Growth expectations for 2019 below previous survey. According to Banxico's survey (August), analysts revised down its growth forecast to 0.5% from 0.8% (Banorte: 0.8%), with 97% probability of growing below 1%. For 2020, analysts downgraded their estimates to 1.4% from 1.5% (Banorte: 1.4%y/y). Finally, long-term growth (next 10-year average) is estimated at 2.05% (Banorte: 2.3% y/y).

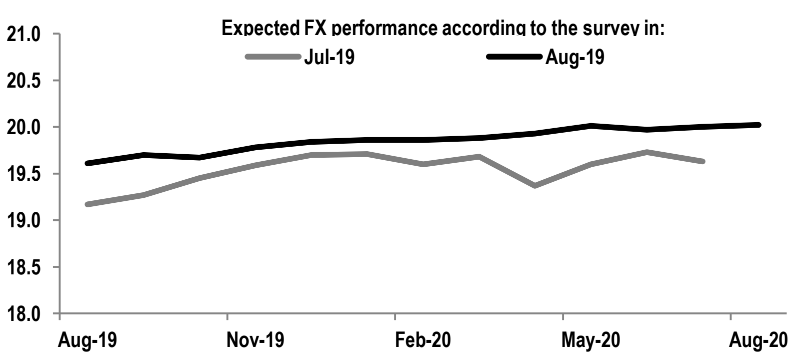
GDP Growth estimates
% probability that growth falls in each range



Source: Banxico

Analysts expect a higher exchange rate for 2019. Estimates are at USD/MXN19.84 from USD/MXN19.7 (Banorte: 20.3). For next year, they expect the currency to finish the year at USD/MXN20.26 from USD/MXN20 (Banorte: 21.3), with the expected trajectory marginally modified from previous survey.

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) uncertainty about domestic economic outlook (15%); (3) public insecurity (12%); (4) fiscal policy (10%); (5) oil production output with 10% of responses and (6) global economic weakness with 8% of responses.

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 Godinez	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 & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Luis Leopoldo López Salinas	Analyst, Global Economist	luis.lopez.salinas@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	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
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	hugoa.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.ceballos@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