

Banxico's Survey – YE17 inflation expected at 6.6%

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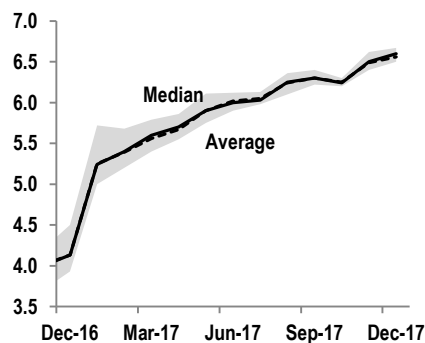
- Banxico just published its survey of expectations in December
- Consensus expects inflation at 6.6% at the end of 2017, above the 6.5% from the previous survey (Banorte: 6.7%)
- For 2018, consensus forecasts a 3.85% inflation (Banorte: 4.1%), while medium term expectations stand at 3.5%
- Economists expect Banxico's reference rate at 7.25% by year-end, consistent with yesterday's hike
- 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 down to 18.95 USD/MXN from 19.00

Banxico just published its survey of expectations in December. Inflation forecasts for 2017 stand at 6.6% yoy, above the 6.5% from the previous survey (Banorte: 6.7%). In the meantime, expectations for core inflation in 2017 are at 4.8%. Inflation in the next 12-months is expected at 3.85% yoy, vs. previous 3.81% seen in November's survey. For year-end 2018 inflation is expected at 3.85%, below our 4.1% forecast (previous: 3.48%).

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

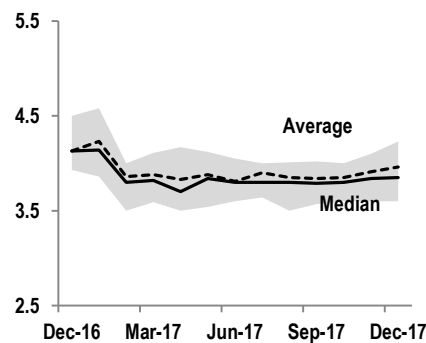
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Inflation expectations for 2017
% yoy



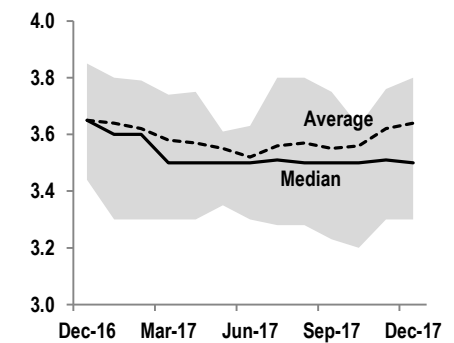
Source: Banxico

Inflation expectations for 2018
% yoy



Source: Banxico

Inflation expectations in the medium term
% yoy



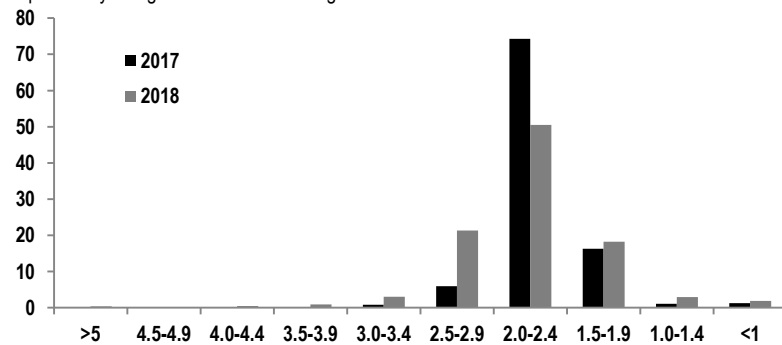
Source: Banxico

Analysts expect the reference rate at 7.25% for year end. It is worth noting that the survey was carried out before Banxico’s meeting, meaning that economists, as well as us, expected the increase in the reference rate. Looking ahead, we now expect a 25bps hike in the February meeting; however, we do not rule out further increases in case of heightened volatility and a bleaker inflation outlook. In addition, in the second half of the year, once the volatility starts to dissipate, we expect the monetary authority to cut rates by 50bps.

Growth expectations for 2017 in line with previous survey. According to Banxico's survey (December), 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

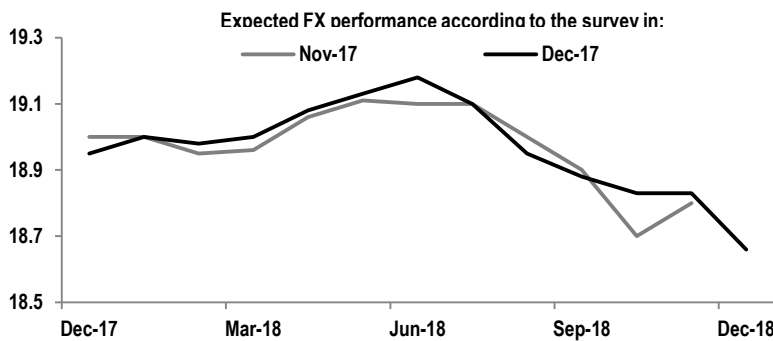


Source: Banxico

Analysts expect a higher exchange rate for 2017. Estimates are at USD/MXN18.95 from USD/MXN19.00. For 2018, they expect the currency to finish the year at USD/MXN18.66 from USD/MXN18.60.

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 (16%); (3) oil production output (8%); (4) uncertainty about the domestic economy (19%); and (5) instability regarding international politics (6%).

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