

Banxico's Survey – Upward revision for the FX trajectory

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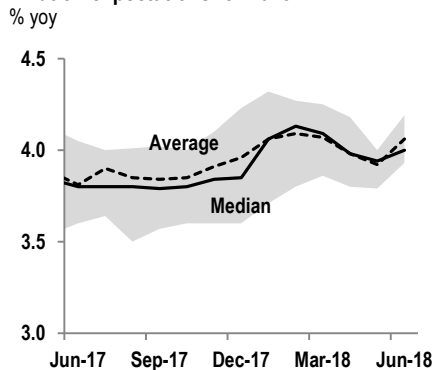
- Banxico just published its survey of expectations in June
- Consensus expects inflation at 4% at the end of 2018, above the previous 3.94% (Banorte: 4.3%)
- For 2019, consensus forecasts a 3.56% inflation, while medium term expectations stand at 3.5%
- Economists expect Banxico's reference rate at 7.75% by year-end, (Banorte: 7.75%)
- For this year, growth expectations remained unchanged at 2.3% (Banorte: 2.5%)
- For 2019, analysts expect growth in the area of 2.3%, also in line with the previous survey
- Exchange rate forecast for year-end was revised up to 19.50 USD/MXN from 18.92 (Banorte: 18.60 USD/MXN)

Banxico just published its survey of expectations in June. Inflation forecasts for 2018 stand at 4% yoy, marginally above the 3.94% from the previous survey (Banorte: 4.3%). In the meantime, expectations for core inflation in 2018 are at 3.61%, up from the 3.54% seen in May. Inflation in the next 12-months is expected at 3.83% yoy, vs. previous 3.9% seen the previous month. For year-end 2019, inflation is expected at 3.56% (previous: 3.55%).

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

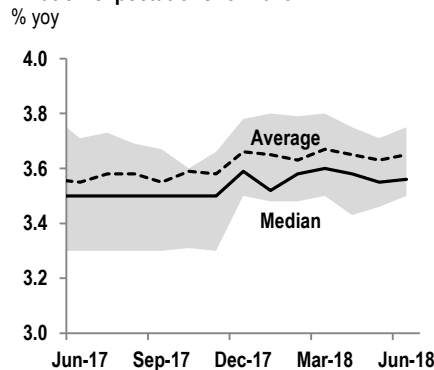
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Inflation expectations for 2018



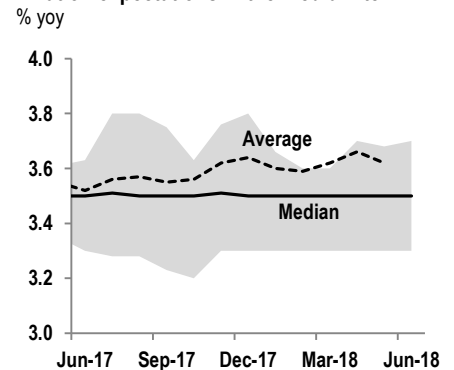
Source: Banxico

Inflation expectations for 2019



Source: Banxico

Inflation expectations in the medium term



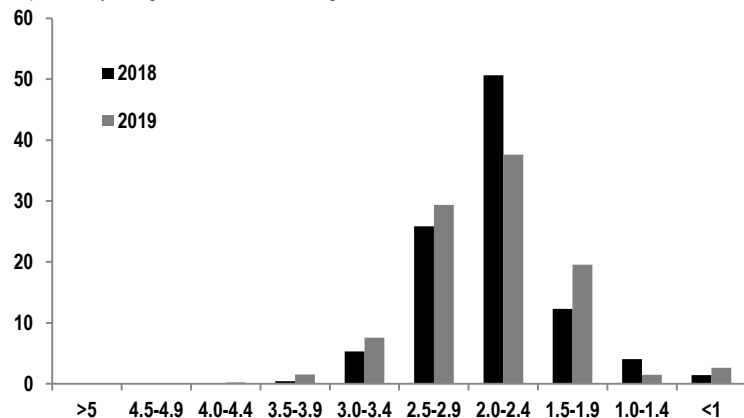
Source: Banxico

Analysts expect the reference rate at 7.75% for year end. The consensus of economists, like us do not expect movements in the reference rate for the rest of the year. Additionally, considering the environment of uncertainty regarding the renegotiation of NAFTA, we do not anticipate movements in this for the next 18 months.

Growth expectations for 2018 stand in line with the previous survey. According to Banxico's survey (June), analysts maintained their growth forecast at 2.3% (Banorte: 2.5%) while reducing the deviation around it, as shown below. Moreover, for 2019, economists kept their forecast at 2.3%.

GDP Growth estimates

% probability that growth falls in each range

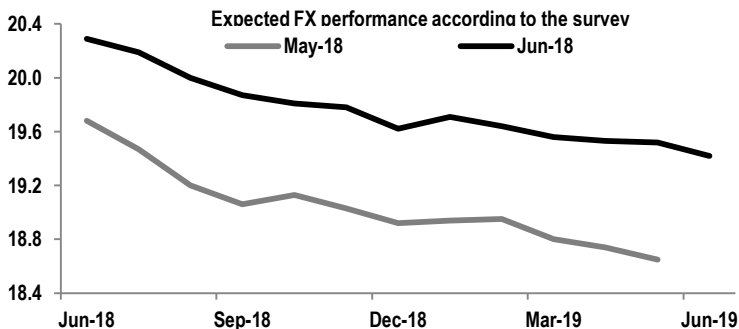


Source: Banxico

Analysts expect a higher exchange rate for 2018. Estimates are at USD/MXN19.50 from USD/MXN18.92 (Banorte: 18.60). Moreover, the overall trajectory was also revised upward (as shown in the graph below). For 2019, they expect the currency to finish the year at USD/MXN19.11 from USD/MXN18.60.

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 (19% of responses); (2) Foreign trade policy (17% of responses); (3) insecurity (14% of response); (4) lack of rule of law (8% of responses); and (5) impunity (5% of responses).

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