

Banxico's Survey – Inflation expectations for 2017 continue to edge up, while stabilizing for the medium-term

April 3, 2017

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

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

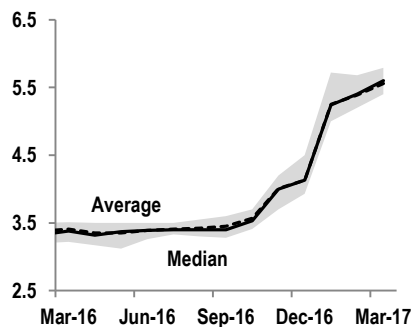
Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

- Banxico just published its survey of expectations in March
- Consensus expects inflation at 5.6% at the end of 2017 above previous 5.4% (Banorte-Ixe: 5.7%)
- For 2018, consensus forecasts 3.82% inflation, while medium term expectations are at 3.5% (Banorte-Ixe: 3.5%)
- Economists expect Banxico's reference rate at 7.15% by year-end (Banorte-Ixe: 7%)
- For this year, growth expectations were downgraded to 1.5% from 1.6% (Banorte-Ixe: 1.1%)
- For next year, analysts expect growth in the area of 2.15% y/y in line with previous survey 2.2%
- Exchange rate forecast for year-end was revised down to 20.24 USD/MXN from 21.1 (Banorte-Ixe: 19.5 USD/MXN)

Banxico just published its survey of expectations in March. Inflation forecasts for 2017 are at 5.6% yoy, above the 5.4% from previous survey (Banorte-Ixe: 5.7%). In the meantime, expectations for core inflation in 2017 are at 4.6%, above the 4.4% previously. In the next 12-months, inflation is expected at 3.99% yoy, vs. previous 3.98%. For year-end 2018 inflation is expected at 3.82% (previous: 3.8%).

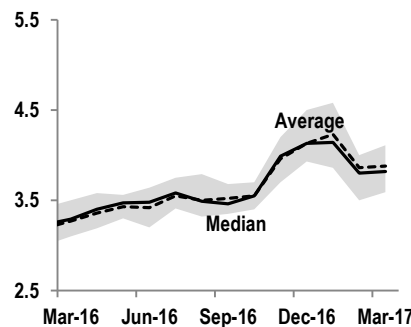
Medium term expectations are now below previous survey. The median for medium term expectations (1- 4 years) are at 3.5% (previous: 3.6%). Meanwhile, long term expectations (5- 8 years) are at 3.29%, in line with February's survey.

Expectations for 2017
%



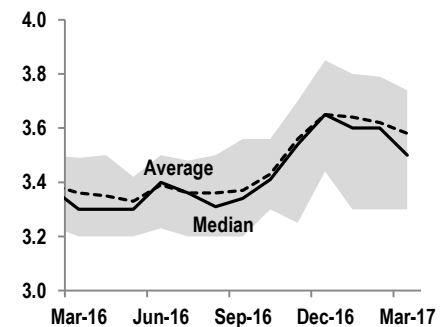
Source: Banxico

Expectations for 2018
%



Source: Banxico

Medium-term expectations
%

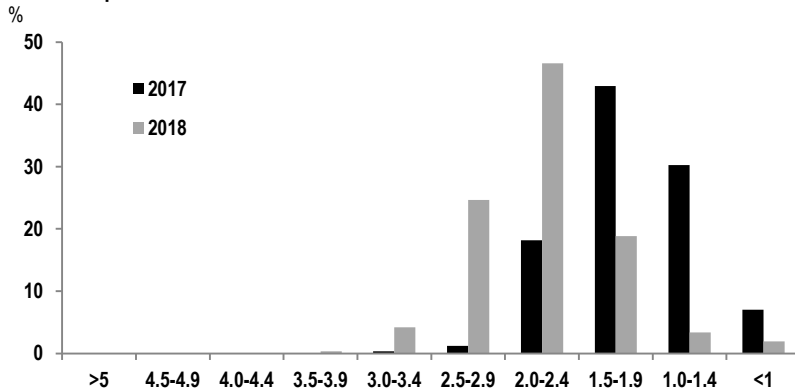


Source: Banxico

Analysts expect the benchmark rate to close this year at 7.15%. The expected rate for the end of 2017 was reduced 10bp from the previous survey. We highlight that answers to this survey were sent before Banxico's decision to increase the reference rate by 25bp to 6.5%. Looking ahead, we anticipate another 50bp hikes in 2017. Nevertheless, we cannot rule out the possibility of more increases in case of unforeseen shocks to inflation during the year.

Growth expectations for 2017, below previous survey. According to Banxico's survey (March), analysts marginally revised up its growth forecast to 1.5% from 1.6% (Banorte-Ixe: 1.1%), as shown below. For 2018, analysts maintained its 2.15% from 2.2% (Banorte-Ixe: 2.5% yoy).

Growth expectations 2017-2018

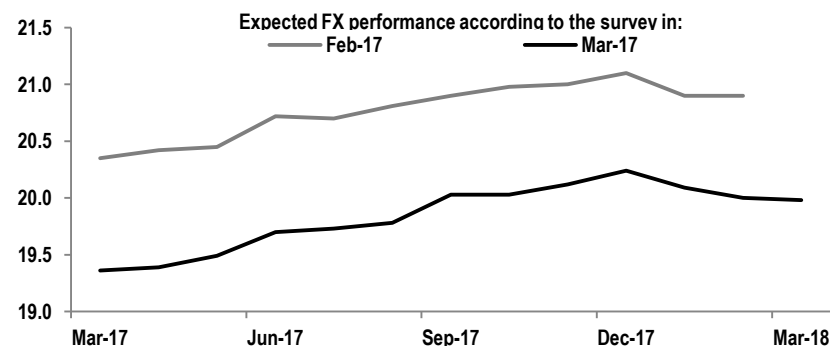


Source: Banxico

Analysts expect a lower exchange rate for 2017. Estimates are at USD/MXN20.24 from USD/MXN21.1 (Banorte-Ixe: 19.5). For 2018, they expect the currency to finish the year at USD/MXN19.84 from USD/MXN20.6. In this context, we refined our year-end forecast to USD/MXN19.5 from USD/MXN22.3, incorporating a more favorable scenario (for more information see our note: *"Mexico – Stronger Mexican peso forecasts after a series of positive surprises"* <[here](#)>).

Exchange rate expected path

USD/MXN



Source: Banxico

Global political instability along with oil production output is the main obstacles for economic growth. Among the factors that could have an adverse impact on Mexico's economic growth are: (1) Global political instability (11% of responses); (2) oil production output (11%); (3) uncertainty about the country's economic situation (10%); (4) insecurity (10%); and (5) external market weakness, with 9% of responses.

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
Francisco José Flores Serrano	Economist, National	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
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
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
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	Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247

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