

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

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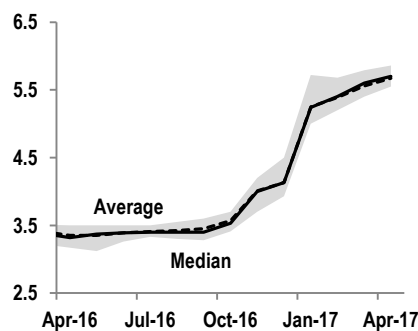
- Banxico just published its survey of expectations in April
- Consensus expects inflation at 5.7% at the end of 2017 above previous 5.6%, in line with our expectations
- For 2018, consensus forecasts 3.7% inflation, while medium term expectations are at 3.5% (Banorte-Ixe: 3.5%)
- Economists expect Banxico's reference rate at 7% by year-end (Banorte-Ixe: 7%)
- For this year, growth expectations were revised up to 1.7% from 1.5% (Banorte-Ixe: 1.6%)
- For next year, analysts expect growth in the area of 2.2% y/y in line with previous survey
- Exchange rate forecast for year-end was revised down to 19.6 USD/MXN from 20.24 (Banorte-Ixe: 19.5 USD/MXN)

Banxico just published its survey of expectations in April. Inflation forecasts for 2017 are at 5.7% yoy, above the 5.6% from previous survey (Banorte-Ixe: 5.7%). Moreover, expectations for core inflation in 2017 stand at 4.8%, above the 4.6% seen in the previous survey. In the next 12-months, inflation is expected at 3.8% yoy, vs. the previous 4%. For year-end 2018 inflation is expected at 3.7% (previous: 3.8%)

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) are at 3.3%, in line with March's survey.

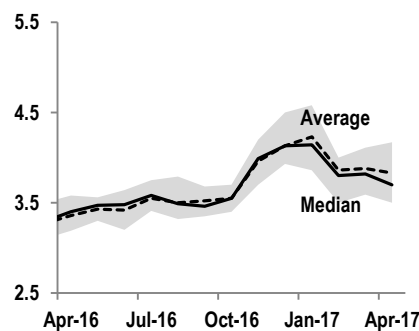
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Expectations for 2017 %



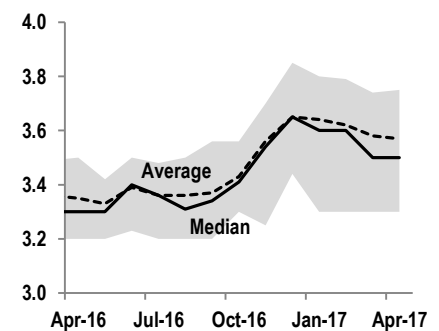
Source: Banxico

Expectations for 2018 %



Source: Banxico

Medium-term expectations %

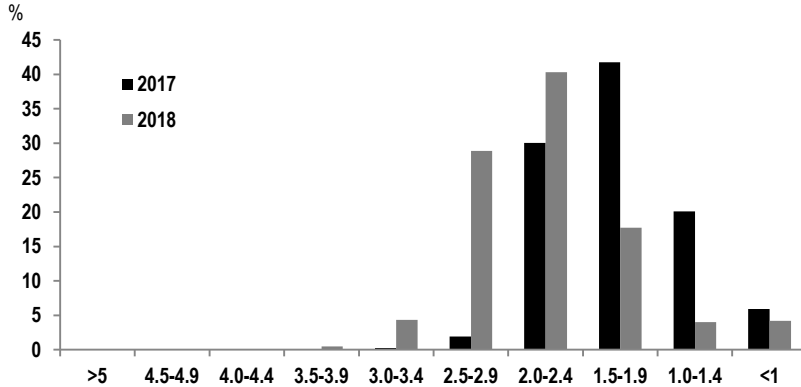


Source: Banxico

Analysts expect the benchmark rate to close this year at 7.00%. The expected rate for the end of 2017 was reduced 15bp from the previous survey. In this context, we don't expect a rate hike in the next meeting (to take place in May 18th). Looking ahead, we anticipate another two 25bp increases 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 stand above the previous survey's figure. According to Banxico's survey (April), analysts revised up their growth forecast to 1.7% from 1.5% (Banorte-Ixe: 1.6%), as shown below. For 2018, analysts maintained their 2.2% estimate (Banorte-Ixe: 2.5% yoy).

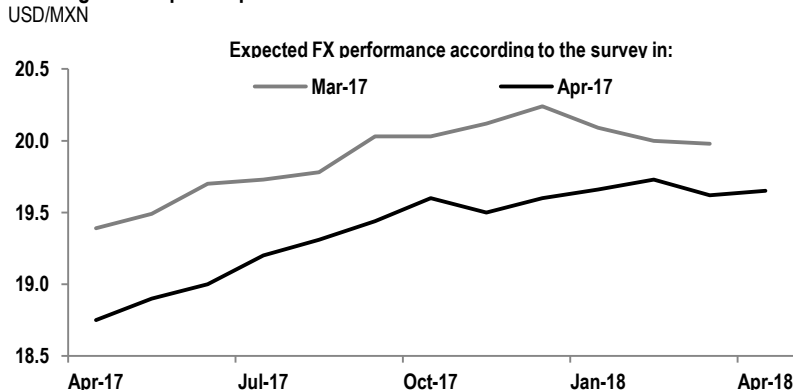
Growth expectations 2017-2018



Source: Banxico

Analysts expect a lower exchange rate for 2017. Estimates are at USD/MXN19.6 from USD/MXN20.24 (Banorte-Ixe: 19.5). For 2018, they expect the currency to finish the year at USD/MXN19.56 from USD/MXN19.84.

Exchange rate expected path



Source: Banxico

Insecurity is the main obstacle for economic growth. Among the factors that could have an adverse impact on Mexico's economic growth are: (1) Insecurity (15% of responses); (2) oil production output (12%); (3) uncertainty about the country's politic situation (11%); (4) global political instability (15%); and (5) external market weakness (6% of responses).

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