

Banxico's Survey – Outlook deteriorates at the end of the year

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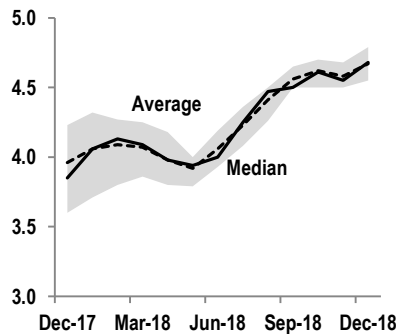
- Banxico just published its survey of expectations in December
- Consensus expects inflation at 4.7% at the end of 2018 above previous 4.6% (Banorte: 4.8%)
- For 2019, consensus forecasts inflation at 3.9%, while medium term expectations are at 3.6% (Banorte: 3.5%)
- Economists expect Banxico's reference rate at 8.25% by year-end (Banorte: 8.25%)
- Growth expectations in 2018 remained unchanged at 2.1% (Banorte: 2.1%)
- For next year, analysts expect growth in the area of 1.8% y/y below previous estimate 1.9%
- Exchange rate forecast for year-end is still expected around 20.3 USD/MXN (Banorte: 20.5 USD/MXN)

Banxico just published its survey of expectations in December. Inflation forecasts for 2018 are at 4.7% y/y, above the 4.6% from previous survey (Banorte: 4.8%). In the meantime, expectations for core inflation in 2018 are unchanged at 3.6% y/y.

Medium term expectations are in line with previous survey. The median for medium term expectations (1- 4 years) are at 3.55% (previous: 3.52%). Meanwhile, long term expectations (5- 8 years) are at 3.38%, in line with November's survey.

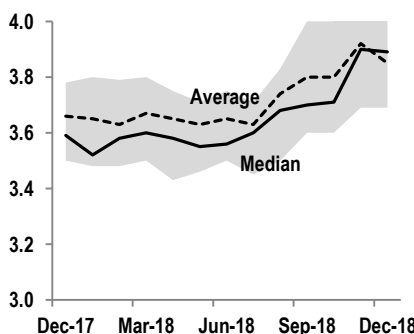
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Inflation expectations for 2018
% yoy



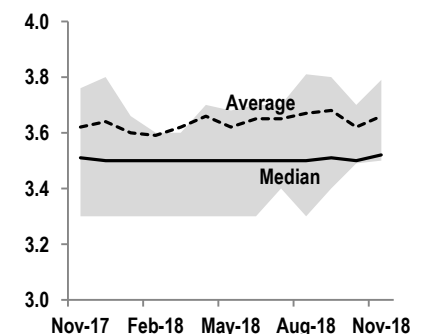
Source: Banxico

Inflation expectations for 2019
% yoy



Source: Banxico

Inflation expectations in the medium term
% yoy



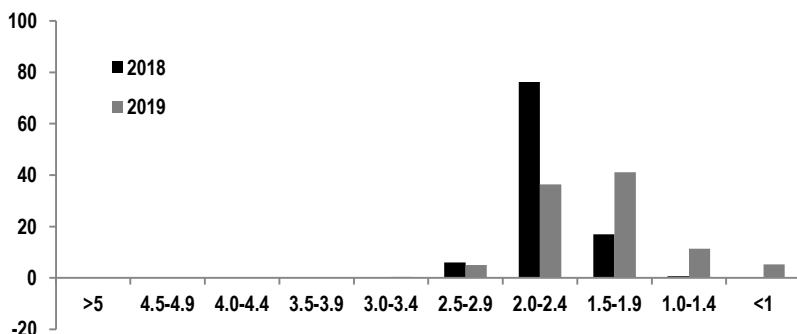
Source: Banxico

Analysts expect the reference rate at 8.25% for year end. Consensus now expect a 25bps hike in the reference rate in the upcoming monetary policy decision of next Thursday to then remain unchanged in 2019. This is in line with our own expectation on monetary policy.

Growth expectations for 2018 in line with previous survey. According to Banxico's survey (December), analysts revised down its growth forecast to 2.1% from 2.1% (Banorte: 2.1%), as shown below. For 2019, analysts downgraded their estimates to 1.8% from 1.9% (Banorte: 1.8% yoy). Lastly, for 2020 growth is expected in the area of 2% y/y, while long-term growth (next 10-year average) is estimated at 2.3% (Banorte: 2.5% y/y).

GDP Growth estimates

% probability that growth falls in each range

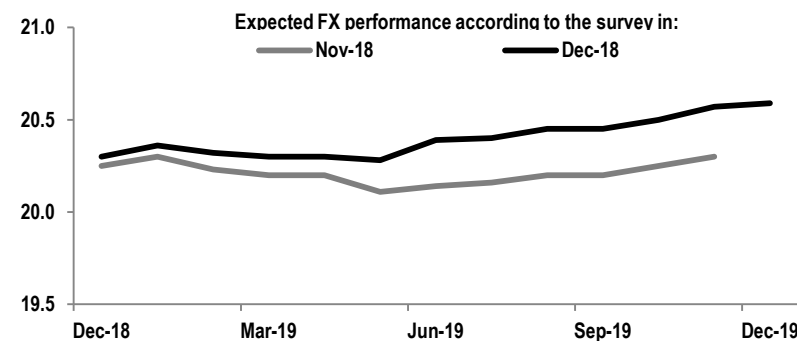


Source: Banxico

Analysts exchange rate forecasts for 2018 remained unchanged. Estimates are at USD/MXN20.3 (Banorte: USD/MXN20.5). For 2019, they expect the currency to finish the year at USD/MXN20.6 from USD/MXN20.3 in previous survey (Banorte: 22.5).

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 (23% of responses); (2) public insecurity (11%) and lack of rule of law (11%); (3) uncertainty about domestic economic outlook (10%); (4) oil production output with 7% of responses and (5) fiscal policy (5%).

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