

Banxico's Survey – Significant revisions to expectations after US election

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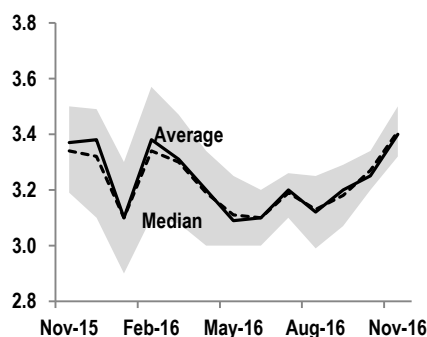
- Banxico just published its survey of expectations in November
- We highlight that this is the first survey after Trump's victory in the US presidential election, which implied significant revisions to estimates
- Consensus expects inflation at 3.4% at the end of 2016 above previous 3.25% (Banorte-Ixe: 3.1%)
- For 2017, consensus forecasts 4% inflation, while medium term expectations are at 3.54% (Banorte-Ixe: 3.5%)
- Economists expect Banxico's reference rate at 5.63% by year-end (Banorte-Ixe: 5.5%)
- For this year, growth expectations remained unchanged at 2.1% (Banorte-Ixe: 2%)
- Nonetheless, for next year, analysts now expect growth in the area of 1.8% y/y below previous estimate 2.3%
- Exchange rate forecast for year-end was revised up to 20.63 USD/MXN from 18.6 (Banorte-Ixe: 21.5 USD/MXN)

Banxico just published its survey of expectations in November. We highlight that this is the first survey after Trump's victory in the US presidential election, which implied significant revisions to estimates. Inflation forecasts for 2016 are at 3.4% yoy, above the 3.25% from previous survey (Banorte-Ixe: 3.1%). In the meantime, expectations for core inflation in 2016 are at 3.4%, above the 3.31% previous. In the next 12-months, inflation is expected at 4% yoy, vs. previous 4%. For year-end 2017 inflation is expected at 4% (previous: 3.53%).

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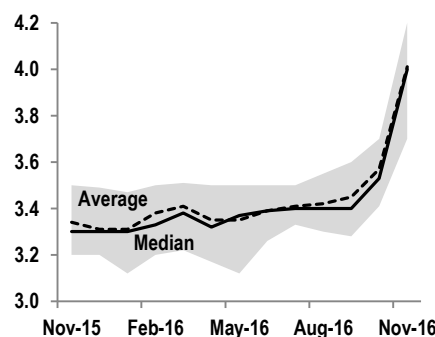
Medium term expectations are now above previous survey. The median for medium term expectations (1- 4 years) are at 3.54% (previous: 3.41%). Meanwhile, long term expectations (5- 8 years) are at 3.3%, in line with October's survey.

Expectations for 2016
%



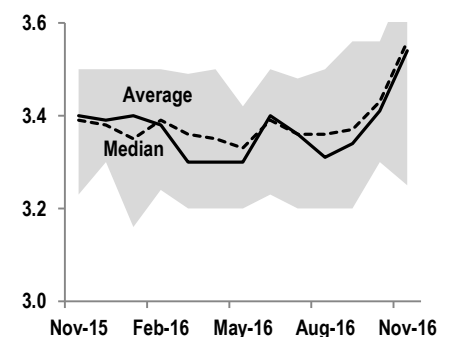
Source: Banxico

Expectations for 2017
%



Source: Banxico

Medium-term expectations
%

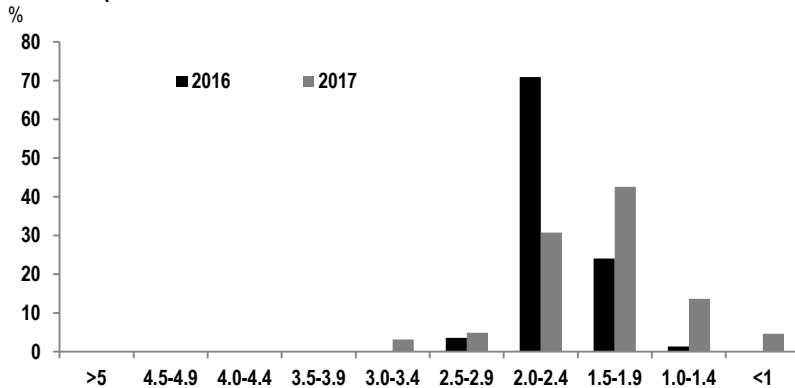


Source: Banxico

Analysts expect the reference rate at 5.63%. Banxico hiked 50bps at its November meeting as a measure to cope with increased pass-through from FX depreciation to prices and to avoid further deterioration of inflation expectations. Looking ahead, we expect Banxico to follow the US Fed and hike another 25bps at its December meeting (on December 15).

Growth expectations for 2016 in line with previous survey. According to Banxico's survey (November), analysts maintained its growth forecast at 2.1% (Banorte-Ixe: 2%), as shown below. Nevertheless, for 2017, analysts downgraded their estimates to 1.8% from 2.3% (Banorte-Ixe: 1.1% yoy).

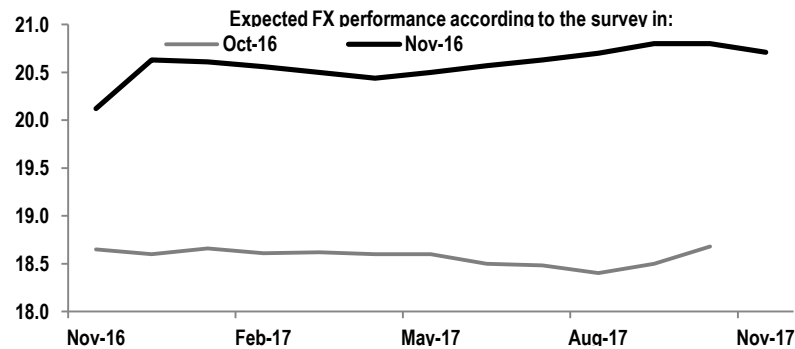
Growth expectations 2016-2017



Source: Banxico

Analysts expect a higher exchange rate for 2016. Estimates are at USD/MXN20.63 from USD/MXN18.6 (Banorte-Ixe: 21.5). For 2017, they expect the currency to finish the year at USD/MXN20.77 from USD/MXN18.63 (Banorte-Ixe: 23.5).

Exchange rate expected path
USD/MXN



Source: Banxico

Weakness in external markets and the global economy is the main obstacle for economic growth. Among the factors that could have an adverse impact on Mexico's economic growth are: (1) Weakness in external markets and the global economy (20% of responses); (2) FX uncertainty (11%); (3) global financial instability (11%); (4) Oil platform (20%); and (5) Oil prices with 9% of responses.

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