Banxico's Survey – Analysts' 2017 inflation expectations keep deteriorating

December 16, 2016

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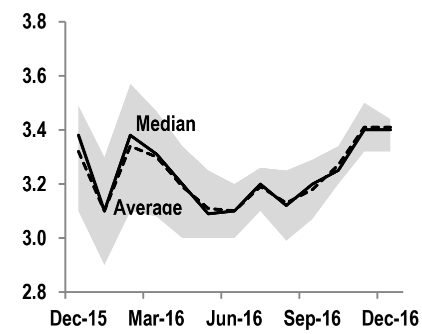
- **Banxico just published its survey of expectations for December**
- **Consensus expects inflation at 3.4% at the end of 2016, in line with previous forecast (Banorte-Ixe: 3.34%)**
- **For 2017, consensus forecasts a 4.13% inflation, while for 2018 the estimate stands at 3.6%**
- **In addition, medium term expectations were marginally revised upward from 3.54% to 3.65% (Banorte-Ixe: 4%)**
- **Economists expect Banxico's reference rate at 6.5% by year-end 2017 (Banorte-Ixe: 6.75%)**
- **For this year, growth expectations remained unchanged at 2.1 (Banorte-Ixe: 2%)**
- **Nonetheless, for next year, analysts expect growth in the area of 1.7%, meanwhile 2018's growth is forecasted at 2.21%**
- **Exchange rate forecast for year-end was revised up to 20.7 USD/MXN from 20.63 (Banorte-Ixe: 21.5 USD/MXN)**

Banxico just published its survey of expectations for December. Inflation forecasts for 2016 are at 3.4% yoy, unchanged from the previous survey (Banorte-Ixe: 3.34%). In addition, expectations for core inflation in 2016 stood at 3.4%, also in line with the previous month. For the next 12-months, inflation is expected at 4.13% yoy, vs. 3.99% in November. For year-end 2017 inflation is expected at 4.13% (previous: 4%). Moreover, inflation for YE18 is expected to stand at 3.6% yoy.

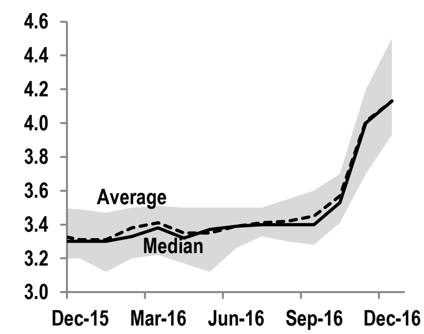
Upward revisions to medium and long-term forecasts. The median for medium term expectations (1-4 years) are at 3.65% (previous: 3.54%). Meanwhile, long term expectations (5-8 years) are at 3.35%, in line with November's survey.

Expectations for 2016
%



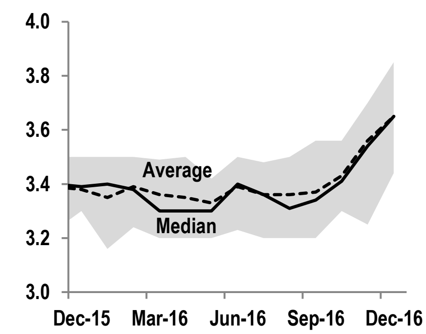
Source: Banxico

Expectations for 2017
%



Source: Banxico

Medium-term expectations
%

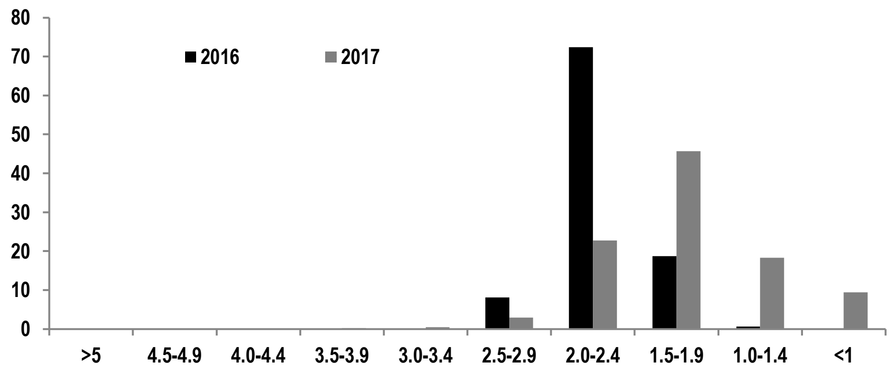


Source: Banxico

Analysts expect the reference rate in YE17 at 6.50%. Banxico's 50bps hike in December's meeting was a measure to cope with the higher pass-through from the FX depreciation to prices and to mitigate impacts from both the 9.9% minimum wage increase, as well as the shocks from the liberalization of gasoline prices. Looking ahead, we expect Banxico to hike 100bps during 2017, although we do not rule out further hikes in the event of increases in FX volatility.

Growth expectations for 2016 in line with previous survey. According to the survey, analysts kept their growth forecast at 2.1% (Banorte-Ixe: 2%), as shown in the chart below. For 2017, analysts downgraded their estimates to 1.7% from 1.8% (Banorte-Ixe: 1.1% yoy). Finally, for 2018, the growth estimate stood at 2.21% yoy (Banorte-Ixe: 2.5% yoy).

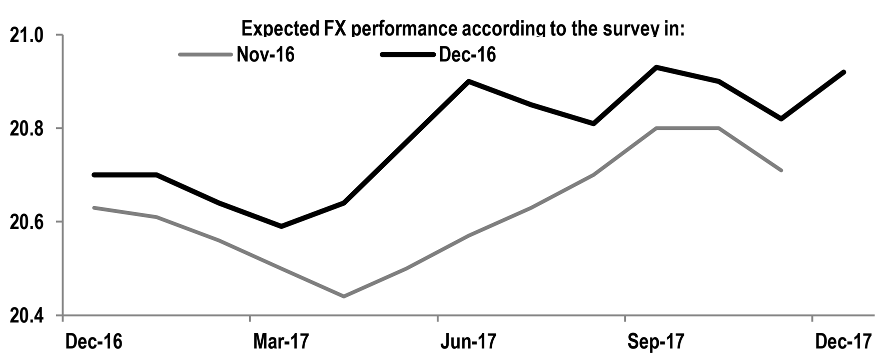
Growth expectations 2016-2017
%



Source: Banxico

Analysts expect a higher exhange rate for 2016. Estimates are at USD/MXN20.7 from USD/MXN20.63 (Banorte-Ixe: 21.5). For 2017, they expect the currency to finish the year at USD/MXN20.92 from USD/MXN20.77 (Banorte-Ixe: 23.5). The exchange rate for YE18 is expected to stand at USD/MXN20.55 (Banorte-Ixe: 22.7).

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, the economists highlighted the following: (1) Weakness in external markets and the global economy (19% of responses); (2) global financial instability (12%; (3) global political instability (10%); (4) oil output (19%); and (5) FX uncertainty with 8% of the responses.

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