

# Banxico's Survey – Inflation expectations for 2017 continue to deteriorate

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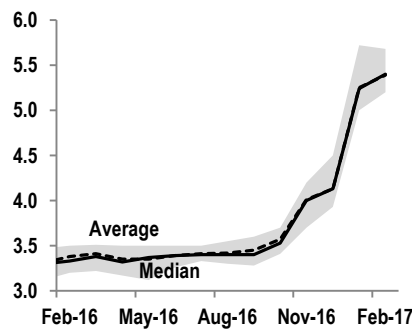
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- Banxico just published its survey of expectations for February
- Consensus expects inflation at 5.4% at the end of 2017 above the previous forecast of 5.24% (Banorte-Ixe: 5.7%)
- For 2018, consensus forecasts a 3.8% inflation, while medium term expectations are at 3.6%
- Economists expect Banxico's reference rate at 7.25% by year-end (Banorte-Ixe: 7.25%)
- For this year, growth expectations remained unchanged at 1.6% (Banorte-Ixe: 1.1%)
- Nonetheless, for 2018, 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 21.1 USD/MXN from 21.63, this after the Foreign Exchange Commission's announcement of the new FX hedge program (Banorte-Ixe: 22.3 USD/MXN)

**Banxico just published its survey of expectations in February.** Inflation forecasts for 2017 are at 5.4% yoy, above the 5.24% observed in the previous survey (Banorte-Ixe: 5.7%). In the meantime, core inflation expectations in 2017 stand at 4.4%, above the 4.21% seen in the previous survey. For the next 12-monhts, inflation is expected at 3.98% yoy, vs. previous 4.13%. For year-end 2018 inflation is expected at 3.8% (previous: 3.8%)

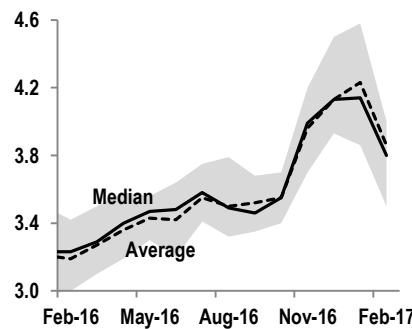
**Medium term expectations are in line with previous survey.** The median for medium term expectations (1- 4 years) are unchanged at 3.6%. Meanwhile, long term expectations (5- 8 years) are at 3.33%, in line with January's survey.

Expectations for 2017 %



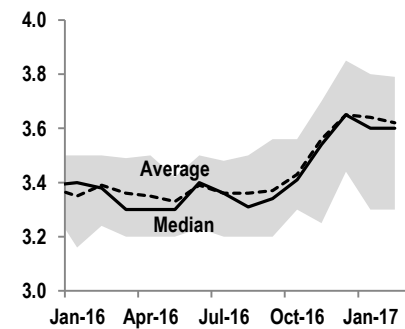
Source: Banxico

Expectations for 2018 %



Source: Banxico

Medium-term expectations %



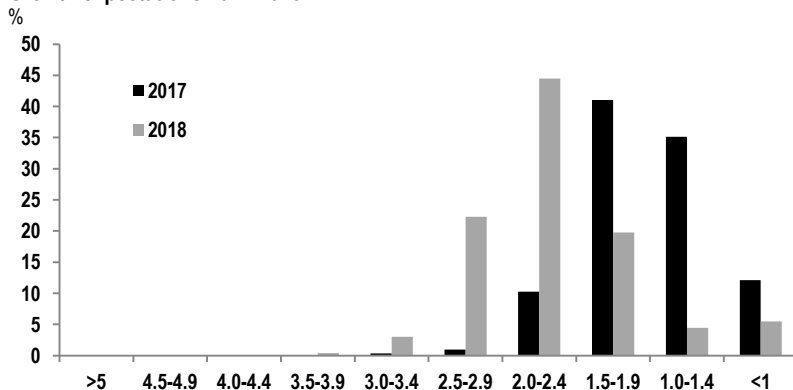
Source: Banxico

**Analysts expect the reference rate to finish 2017 at 7.25%.** The expected rate for YE17 increased 25bp from the previous survey, which we believe was driven by higher inflation expectations for the year, despite de FEC’s hedge program. It is worth noting that the end point of the rate in 2017 has risen in the past 3 surveys by 25bp each time.

Looking ahead, we consider that the central bank will increase the reference rate by another 100bps in 2017. Given the FEC’s announcement, the central bank now has more room to execute monetary policy due to fewer inflationary pressures derived from the reduced volatility of the exchange rate coupled with lower energy prices. In addition, the implementation of the exchange rate hedge program is also likely to lead to lower short-term inflation expectations. As a result, we now believe that Banxico has larger margin not to hike by 50bps as a response to a 25bps Fed hike.

**Growth expectations for 2017 in line with previous survey.** According to Banxico’s survey (February), analysts maintained their growth forecast at 1.6% (Banorte-Ixe: 1.1%). For 2018, analysts kept their 2.2% estimate (refer to the chart below).

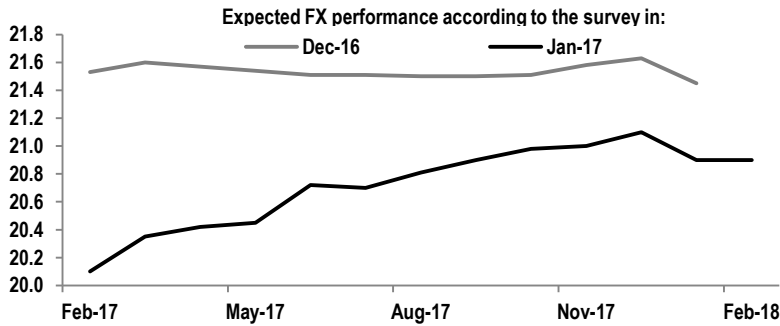
**Growth expectations 2017-2018**



Source: Banxico

**Analysts expect a lower exchange rate for 2017.** Estimates are at USD/MXN21.1 from USD/MXN21.63(Banorte-Ixe: 22.3). For 2018, they expect the currency to finish the year at USD/MXN20.6 from USD/MXN21.55. The strong downward revisions took place after the Foreign Exchange Comission’s announcement regarding the new FX hedge program (for additional information see: *“Reassessing our rates and peso forecasts after the FEC’s new mechanism”* <[pdf](#)>).

**Exchange rate expected path**  
USD/MXN



Source: Banxico

**Weakness in external markets and the global economy is the main obstacle for economic growth.** Last but not least, the economists highlighted that among the factors that could have an adverse impact on Mexico's economic growth are: (1) Weakness in external markets and the global economy (12% of responses); (2) global political instability (10% of responses); (3) inflationary pressures in the country (10% of responses); (4) uncertainty about the country's economic situation (12% of responses); and (5) oil production output (8% of responses).

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