

Banxico's Survey – Analysts expect higher inflation in 2017

November 1, 2016

www.banorte.com
www.ixe.com.mx
@ analisis_fundam

Delia Paredes
Executive Director of Economic Analysis
delia.paredes@banorte.com

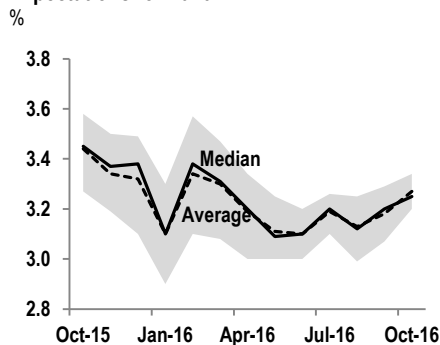
- Banxico just published its survey of expectations in October
- Consensus expects inflation at 3.25% at the end of 2016 slightly above previous 3.2% (Banorte-Ixe: 3.1%)
- For 2017, consensus forecasts inflation at 3.53%, while medium term expectations are at 3.41%
- Economists expect Banxico's reference rate at 5% by year-end (Banorte-Ixe: 5%)
- For this year, growth expectations remained unchanged at 2.1% (Banorte-Ixe: 2%)
- For next year, analysts expect growth in the area of 2.3% y/y slightly below previous estimate 2.4%
- Exchange rate forecast for year-end was revised down to 18.6 USD/MXN from 18.9 (Banorte-Ixe: 18.5 USD/MXN)

Banxico just published its survey of expectations in October. Inflation forecasts for 2016 are at 3.25% yoy, slightly above previous survey (Banorte-Ixe: 3.1%). In the meantime, expectations for core inflation in 2016 are at 3.31%, above the 3.21% previous. In the next 12-monhts, inflation is expected at 3.55% yoy, vs. previous 3.46%. For year-end 2017 inflation is expected at 3.53% (previous: 3.4%).

Document for distribution among public

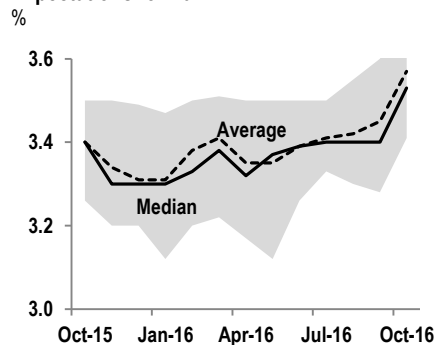
Medium term expectations are now above previous survey. The median for medium term expectations (1- 4 years) are at 3.41% (previous: 3.34%). Meanwhile, long term expectations (5- 8 years) are at 3.2%, in line with September's survey.

Expectations for 2016



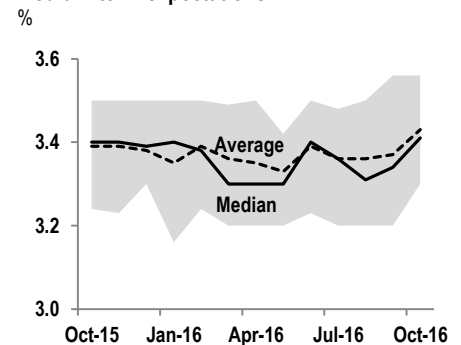
Source: Banxico

Expectations for 2017



Source: Banxico

Medium-term expectations

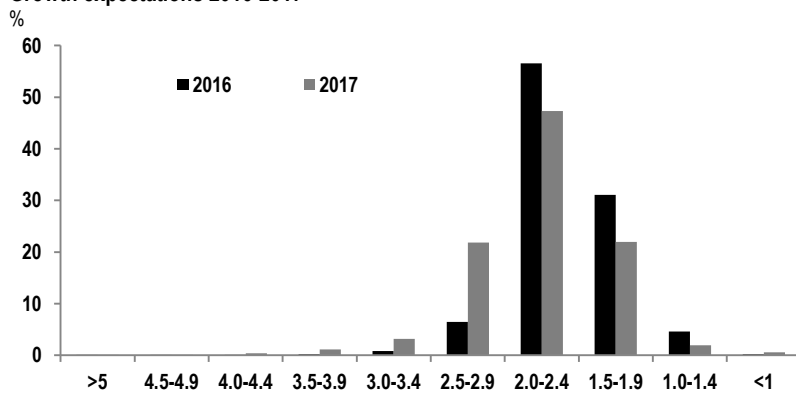


Source: Banxico

Analysts expect the reference rate to close this year at 5%. In our case, we consider the next move from the central bank remains subject to the performance of the exchange rate, particularly amid the electoral process in the United States. In this context, our base case is that Hillary Clinton wins the election and thus, Banxico will not have to act until December, in tandem with the Fed, when it will raise the rate again in 25bps. Nevertheless, we cannot rule out the possibility of a Trump's victory, in which case the Mexican monetary authority could hike reference rate in 75bps at its November monetary policy meeting and then again at December's to 6.25%.

Growth expectations for 2016 in line with previous survey. According to Banxico's survey (October), analysts maintained its growth forecast unchanged at 2.1% (Banorte-Ixe: 2%), as shown below. For 2017, analysts downgraded their estimates to 2.3% from 2.4% (Banorte-Ixe: 2.3% yoy).

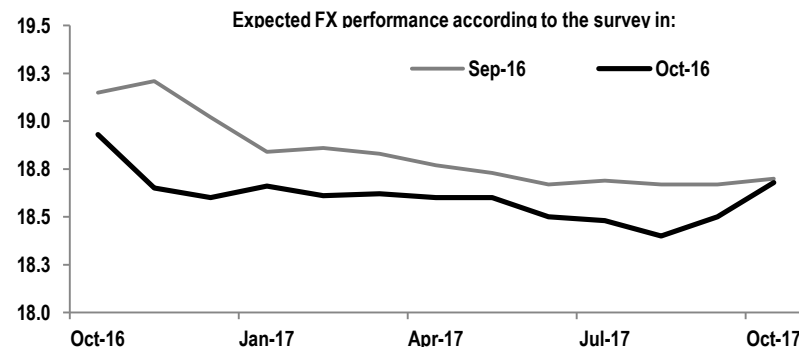
Growth expectations 2016-2017



Source: Banxico

Analysts expect a lower exchange rate for 2016. Estimates are at USD/MXN18.6 from USD/MXN18.9 (Banorte-Ixe: 18.5). For 2017, they expect the currency to finish the year at USD/MXN18.63 from USD/MXN18.6 (Banorte-Ixe: 19.8).

Exchange rate expected path
USD/MXN



Source: Banxico

Weakness in external markets and the global economy is the main obstacle for economic growth. Moreover, analysts mentioned security issues (12%); current fiscal policy (10%); oil prices (24%); and oil platform (13%) among other issues making growth more difficult.

Disclaimer

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Francisco José Flores Serrano	Economist, National	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Juan Carlos Alderete Macal, CFA	FX Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research —	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst –	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research Analyst – Airlines / Airports /	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto Parts/	valentin.mendoza@banorte.com	(55) 1670 - 2250

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454