

Banxico's Survey – YE18 inflation expected at 4.1%

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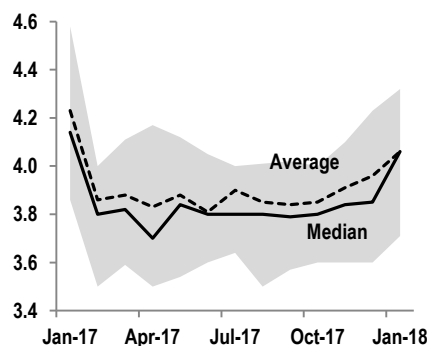
- Banxico just published its survey of expectations in January
- Consensus expects inflation at 4.06% at the end of 2018, above the 3.85% from the previous survey (Banorte: 4.3%)
- For 2019, consensus forecasts a 3.52% inflation, while medium term expectations stand at 3.6%
- Economists expect Banxico's reference rate at 7.50% by year-end, in line with our forecast
- For this year, growth expectations remained unchanged at 2.3% (Banorte: 2.5%)
- For 2019, analysts expect growth in the area of 2.35%, in line with the previous survey
- Exchange rate forecast for year-end was revised up to 18.85 USD/MXN from USD/MXN 18.66 (Banorte: 18.60)

Banxico just published its survey of expectations in January. Inflation forecasts for 2018 stand at 4.06% yoy, above the 3.85% from the previous survey (Banorte: 4.3%). In the meantime, expectations for core inflation in 2018 are at 3.57%, marginally above the 3.5% from December. Inflation in the next 12-months is expected at 4.02% yoy, vs. previous 3.96% seen in December's survey. For year-end 2018, inflation is expected at 3.52% (previous: 3.59%).

Medium term expectations are in line with previous survey. The median for medium term expectations (1- 4 years) is at 3.6%. Meanwhile, long term expectations (5- 8 years) stand at 3.5%, also in line with December's survey.

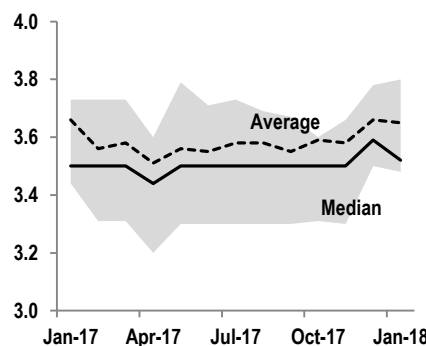
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Inflation expectations for 2018
% yoy



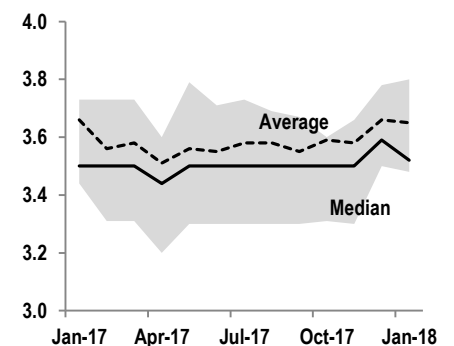
Source: Banxico

Inflation expectations for 2019
% yoy



Source: Banxico

Inflation expectations in the medium term
% yoy



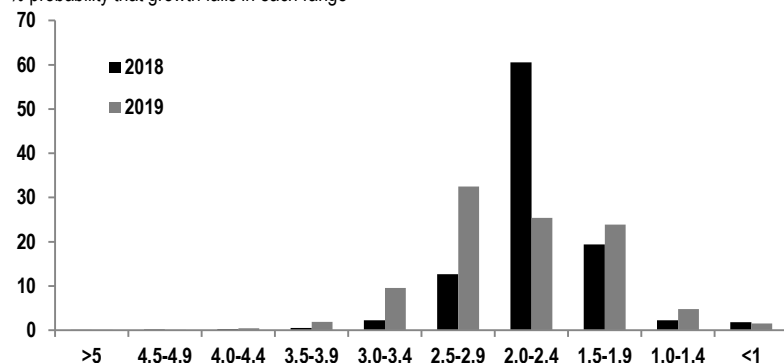
Source: Banxico

Analysts expect the reference rate at 7.50% for year end, in line with our forecast. We expect a 25bps hike in the February meeting. Furthermore, we project two additional 25bps increases, one in April and another one in June. Moreover, in the second half of the year, once the volatility starts to dissipate, we expect the monetary authority to cut rates by 50bps.

Growth expectations for 2018 stand in line with the previous survey. According to Banxico's survey (January), analysts maintained their growth forecast at 2.3% (Banorte: 2.5%), as shown below. Moreover, for 2019, economists also kept it unchanged at 2.4%.

GDP Growth estimates

% probability that growth falls in each range

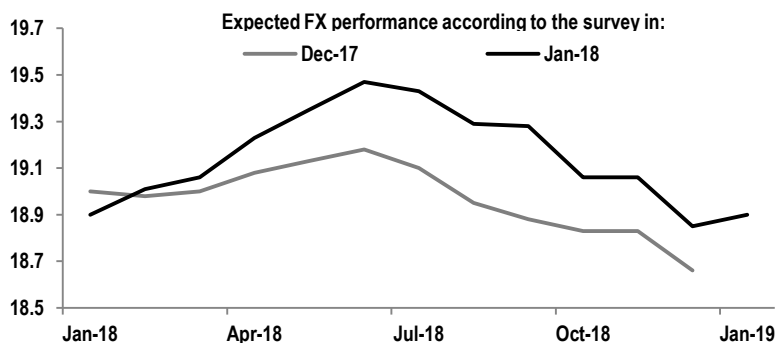


Source: Banxico

Analysts expect a higher exchange rate for 2018. Estimates are at USD/MXN18.85 from USD/MXN18.66 (Banorte: USD/MXN 18.60). For 2019, they expect the currency to finish the year at USD/MXN18.25 from USD/MXN18.50.

Expected FX performance

MXN/USD



Source: Banxico

Uncertainty about domestic politics is still regarded as 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 (24% of responses); (2) insecurity (15%); (3) oil production output (8%); (4) uncertainty about the domestic economy (8%); and (5) instability regarding international politics (8%).

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