

Banxico's Survey – Downward revision for 2018's inflation expectations

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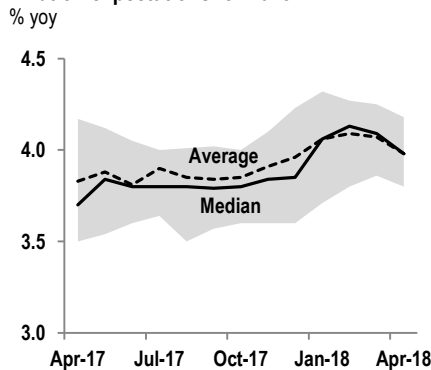
- Banxico just published its survey of expectations in April
- Consensus expects inflation at 3.98% at the end of 2018, below the previous 4.09% (Banorte: 4.3%)
- For 2019, consensus forecasts a 3.6% inflation, while medium term expectations stand at 3.5%
- Economists expect Banxico's reference rate at 7.50% by year-end, (Banorte: 7.25%)
- For this year, growth expectations remained unchanged at 2.3% (Banorte: 2.5%)
- For 2019, analysts expect growth in the area of 2.4%, marginally above the previous survey
- Exchange rate forecast for year-end remained at USD/MXN 18.60 (Banorte: 18.60)

Banxico just published its survey of expectations in April. Inflation forecasts for 2018 stand at 3.98% yoy, marginally below the 4.09% from the previous survey (Banorte: 4.3%). In the meantime, expectations for core inflation in 2018 are at 3.6%, in line with March's figures. Inflation in the next 12-months is expected at 3.98% yoy, vs. previous 3.89% seen the previous month. For year-end 2019, inflation is expected at 3.6% (previous: 3.6%).

Medium term expectations are in line with previous survey. The median for medium term expectations (1- 4 years) remain unchanged at 3.5%. Meanwhile, long term expectations (5- 8 years) stand at 3.5%.

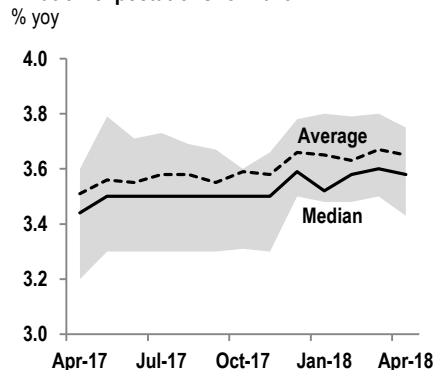
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Inflation expectations for 2018



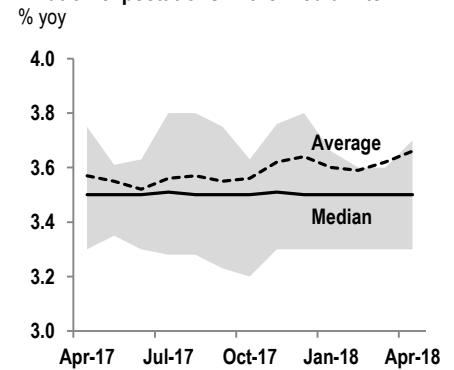
Source: Banxico

Inflation expectations for 2019



Source: Banxico

Inflation expectations in the medium term



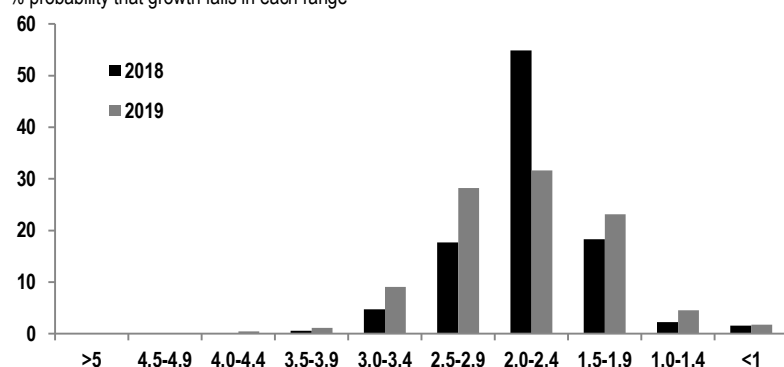
Source: Banxico

Analysts expect the reference rate at 7.50% for year end. Within the quarterly trajectory, the consensus to a higher rate at the end of 2Q18 and 3Q18, while forecasts for 4Q18 show a decrease in the reference rate. We consider that the last minutes published by the central bank continue to support our view that Banxico could hike once again sometime in 2Q18, subject to incoming inflation and economic activity data, as well as to FX behavior and volatility conditions in domestic and international financial markets. Looking ahead, we believe that the central bank has room to cut the reference rate by 50bps, as uncertainty ebbs away.

Growth expectations for 2018 stand in line with the previous survey. According to Banxico's survey (April), analysts maintained their growth forecast at 2.3% (Banorte: 2.5%), as shown below. Moreover, for 2019, economists revised it downwards to 2.3% from 2.33%.

GDP Growth estimates

% probability that growth falls in each range

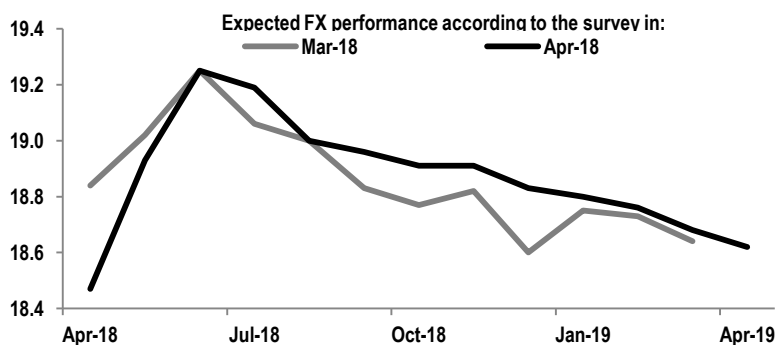


Source: Banxico

Analysts maintained their exchange rate forecast for 2018. Estimates stand at USD/MXN18.60, unchanged from the previous survey (Banorte: USD/MXN 18.60). For 2019, economists now expect the currency to finish the year at USD/MXN18.46.

Expected FX performance

MXN/USD



Source: Banxico

Uncertainty about domestic politics is 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) Foreign trade policy (23% of responses); (3) insecurity (17% of response); (4) oil production output (24% of responses); and (5) uncertainty about the local economy (4% of responses).

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