

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

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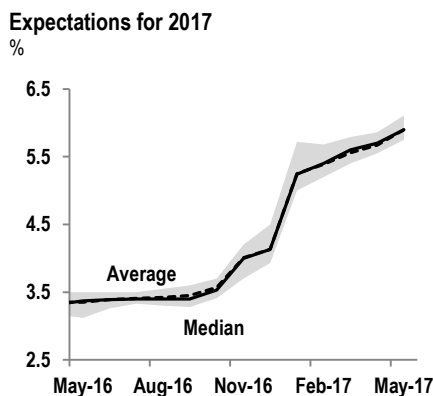
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- Banxico just published its survey of expectations in May
- Consensus expects inflation at 5.9% at the end of 2017, above April's 5.7% (Banorte-Ixe: 5.7%)
- For 2018, consensus forecasts a 3.84% inflation, while medium term expectations are at 3.5% (Banorte-Ixe: 3.5%)
- Economists expect Banxico's reference rate at 7.25% by year-end (Banorte-Ixe: 7.5%)
- For this year, growth expectations were revised up to 2% from 1.7% (Banorte-Ixe: 1.6%)
- For next year, analysts expect growth in the area of 2.2% y/y in line with the previous survey
- Exchange rate forecast for year-end was revised down to 19.5 USD/MXN from 19.6 (Banorte-Ixe: 19.5 USD/MXN)

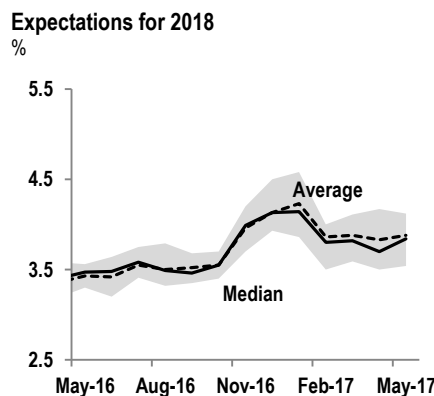
**Banxico just published its survey of expectations in May.** Inflation forecasts for 2017 are at 5.9% yoy, above the 5.7% observed in the previous survey (Banorte-Ixe: 5.7%). Moreover, expectations for core inflation in 2017 stand at 4.84%, marginally above the 4.83% seen in the previous survey. In the next 12-months, inflation is expected at 3.81% yoy, vs. previous 3.82%. For year-end 2018 inflation is expected at 3.84% (previous: 3.7%).

**Medium term expectations are in line with April's survey.** The median for medium term expectations (1- 4 years) are at 3.5% (previous: 3.5%). Meanwhile, long term expectations (5- 8 years) are at 3.3%, in line with April's survey.

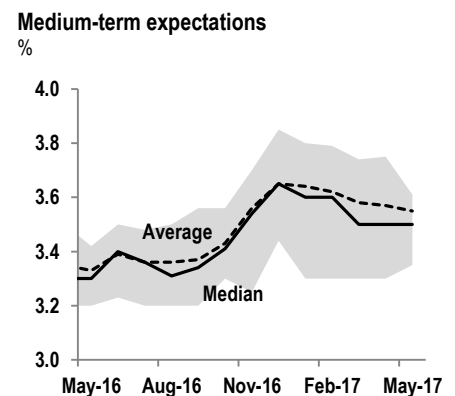
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Source: Banxico



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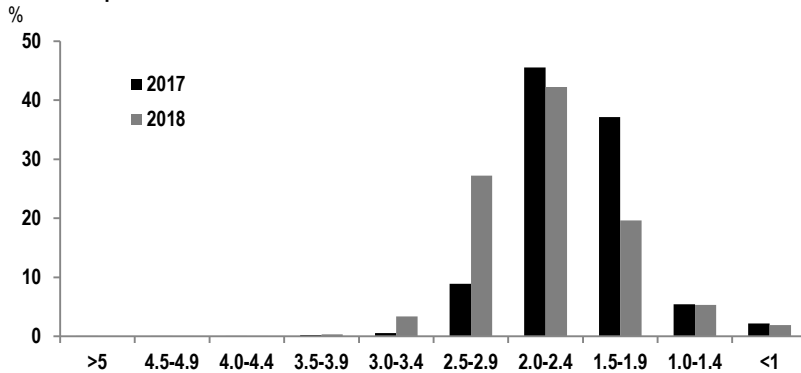


Source: Banxico

**Analysts expect the benchmark rate to close this year at 7.25%.** The expected rate for the end of 2017 was increased by 25bp from the previous survey. In this context, we expect a 25bps hike in the next meeting (to take place in June 22). Looking ahead, we anticipate the benchmark rate to close 2017 at 7.5%. Nevertheless, we cannot rule out the possibility of more increases in case of unforeseen shocks to inflation during the year.

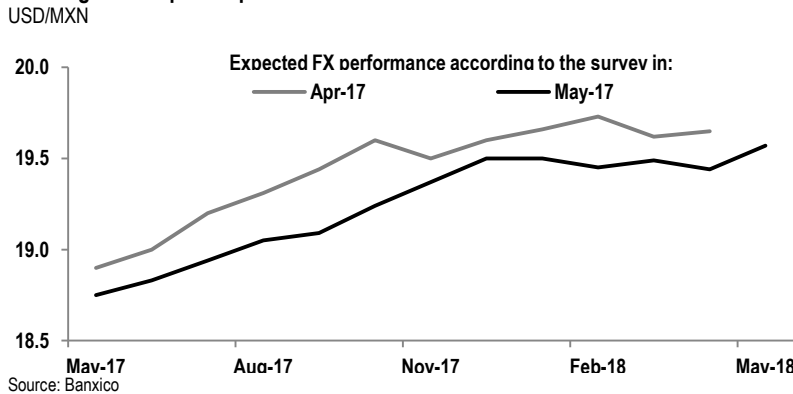
**Growth expectations for 2017 revised upward from previous survey.** According to Banxico's survey (May), analysts revised up its growth forecast to 2% from 1.7% (Banorte-Ixe: 1.6%), as shown below. For 2018, analysts maintained its 2.2% estimate (Banorte-Ixe: 2.5% yoy).

**Growth expectations 2017-2018**



**Analysts expect a lower exchange rate for 2017.** Estimates are at USD/MXN19.50, in line with our forecast, from USD/MXN19.60. For 2018, they expect the currency to finish the year at USD/MXN19.42 from USD/MXN19.56.

**Exchange rate expected path**



**Insecurity is the main obstacle for economic growth.** Among the factors that could have an adverse impact on Mexico's economic growth are: (1) Insecurity (15% of responses); (2) oil production output (11%); (3) uncertainty about the country's politic situation (10%); (4) inflationary pressures in the country (15%); and (5) global political instability (7%).

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