

Banxico's Survey – Analysts expect a year-end inflation at 3.1% and 17.60 pesos per dollar

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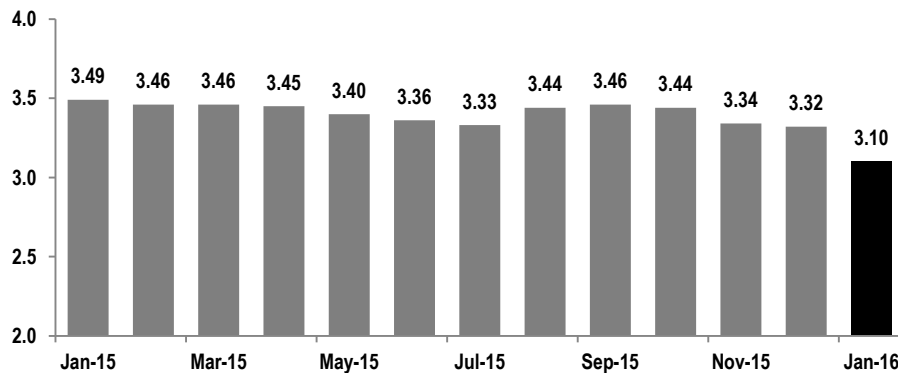
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- Banxico just published its monthly survey of expectations for January
- Analysts' median for 2016 inflation stands at 3.1% yoy, below the 3.32% observed in the previous survey (Banorte-Ixe: 2.8%)
- For 2017, inflation is expected at 3.31%, while medium-term inflation expectations stand at 3.35% (Banorte-Ixe: 3%)
- GDP forecast for 2016 stands in 2.69% yoy, below the 2.74% observed in the previous survey (Banorte-Ixe: 2.7%)
- Moreover, the exchange rate is expected to end 2016 at USD/MXN17.60, significantly above the 16.79 observed in December's survey (Banorte-Ixe: 17.60)
- The average of analysts' estimates that Banxico's interest rate would close in 2016 around 3.9% (Banorte-Ixe: 3.75%)

Year-end inflation estimate for 2016 is at 3.1%, below the 3.32% observed in the previous survey. Consensus' estimate for core inflation in 2016 stands at 3% yoy. For the next 12-months, inflation is expected to be at 3.21% yoy, below the 3.32% observed in December.

Year-end for 2016 inflation expectations
% yoy

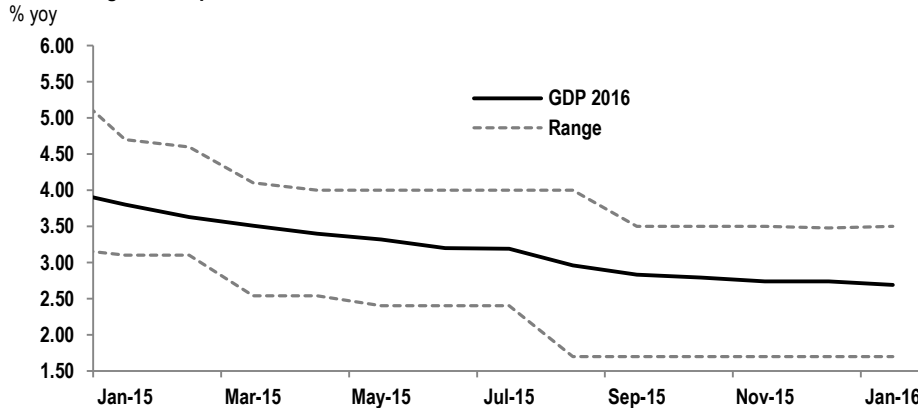


Source: Banorte-Ixe and Banxico

Medium-term inflation expectations stood practically in line with the previous survey. Medium-term expectations (1-4 years) stood at 3.35%, while long-term expectations (5-8 years) remain stable at 3.26% yoy.

Mexico's 2016 GDP expectations were below from the previous survey. According to Banxico's survey of expectations (January), analysts' consensus forecast for Mexico's GDP growth stands at 2.69%, below the 2.74% observed in the previous survey (Banorte-Ixe: 2.7%), as shown in the chart below. For 2017, the estimate for GDP growth stands at 3.18%, also below the 3.29% observed in December's survey (Banorte-Ixe: 3.1%).

2016 GDP growth expectations



Source: Banorte-Ixe and Banxico

Moreover, economists surveyed expect the Mexican peso to close 2016 at USD/MXN17.60, significantly above the USD/MXN16.79 observed in December's survey (Banorte-Ixe: 17.60). For 2017, analysts also revised their FX forecast to USD/MXN17.17 from USD/MXN16.42 (Banorte-Ixe: 17.00).

Banxico's decision-making process. We highlight that this survey was made after Banxico's decision on December 17, in which the board decided to increase the reference rate by 25bps, leaving it at 3.25%, as it was widely expected. According to the survey, 43% of analysts expect Banxico's next hike rate in 1Q16, while 90% expect it in 2Q16. Finally, the average of analysts' estimates that the interest rate would close in 2016 around 3.9% (Banorte-Ixe: 3.75%).

Weak external market is the main factor that could hamper economic growth according to analysts. Among the main factors which could affect Mexico's economic performance Banxico's survey includes: (1) Weak external market and world economy (23%); (2) international financial volatility (18% of respondents); (3) the oil export price (13%); and (3) public security problems (12%).

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