

Banxico's Survey – Inflation expectations for 2018 remain unchanged

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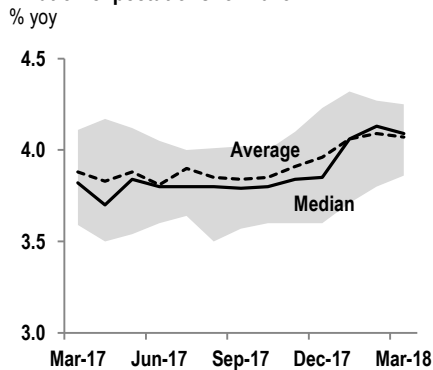
- Banxico just published its survey of expectations in March
- Consensus expects inflation at 4.1% at the end of 2018, in line with the previous survey (Banorte: 4.3%)
- For 2019, consensus forecasts a 3.6% inflation, while medium term expectations stand at 3.5%
- Economists expect Banxico's reference 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 was revised down to USD/MXN 18.60 from USD/MXN 18.62 (Banorte: 18.60)

Banxico just published its survey of expectations in March. Inflation forecasts for 2018 stand at 4.09% yoy, marginally below the 4.13% from the previous survey (Banorte: 4.3%). In the meantime, expectations for core inflation in 2018 are at 3.6%, in line with February's figures. Inflation in the next 12-months is expected at 3.89% yoy, vs. previous 3.86% seen the previous month. For year-end 2018, inflation is expected at 3.6% (previous: 3.58%).

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 3.49%.

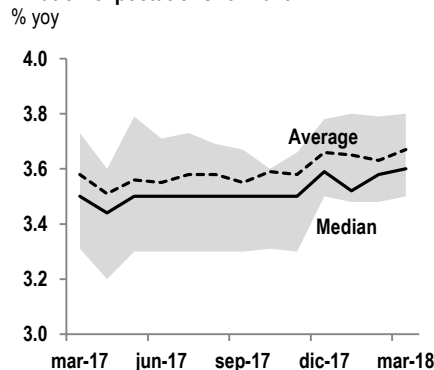
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Inflation expectations for 2018



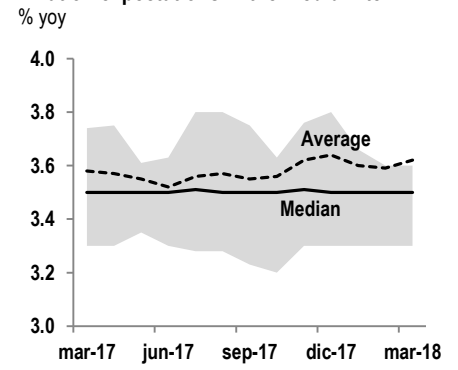
Source: Banxico

Inflation expectations for 2019



Source: Banxico

Inflation expectations in the medium term



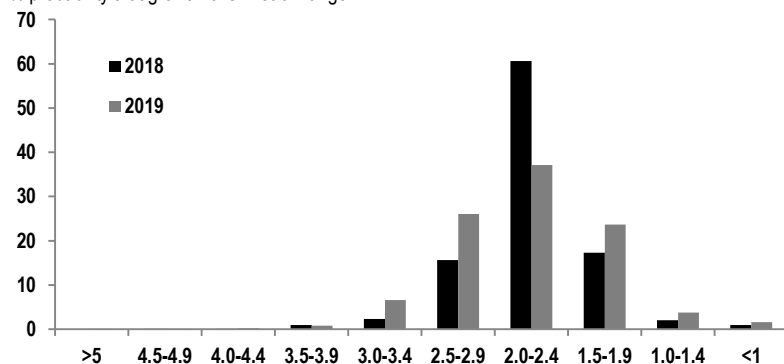
Source: Banxico

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, while forecasts for the remainder of the year show a greater dispersion. Considering the less hawkish tone in the publication of the last quarterly report, we now expect the central authority to increase the reference rate by 25bps in 2Q18 due to the uncertainty surrounding the Mexican economy. Subsequently, and as this uncertainty dissipates, we believe that Banco de Mexico will be able to cut the rate by 50bps in the second half of the year.

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

GDP Growth estimates

% probability that growth falls in each range

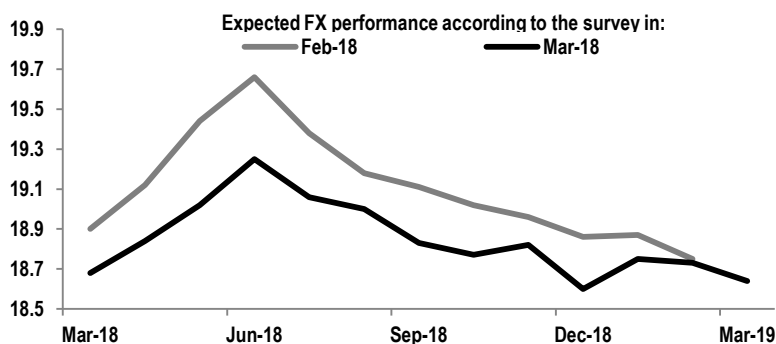


Source: Banxico

Analysts expect a lower exchange rate for 2018. Estimates are at USD/MXN18.60 from USD/MXN18.62 (Banorte: USD/MXN 18.60). For 2019, economists now expect the currency to finish the year at USD/MXN18.45.

Expected FX performance

MXN/USD



Source: Banxico

Foreign trade policy is the main obstacle for economic growth. Among the factors that could have an adverse impact on Mexico's economic growth are: (1) foreign trade policy (26% of responses); (2) uncertainty about domestic politics (23% of responses); (3) insecurity (12% of responses); (4) oil production output (6% of responses); and (5) US monetary policy (5% of responses). It should be noted that both the concepts on foreign trade policy and the US monetary policy were introduced for the first time in the February's survey.

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