

Banxico's Survey – Analysts expect no changes on the reference rate for the remainder of 2018

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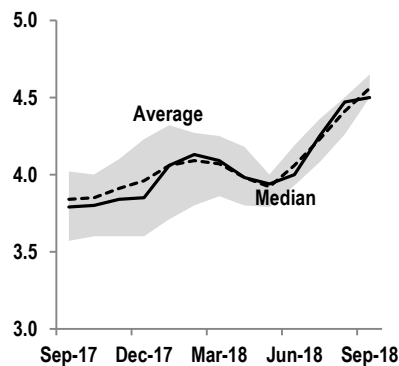
- Banxico just published its survey of expectations in September
- Consensus expects inflation at 4.5% at the end of 2018 in line with previous 4.47% (Banorte: 4.8%)
- For 2018, consensus forecasts core inflation at 3.7%, while medium term expectations are at 3.51% (Banorte: 3.5%)
- Economists expect Banxico's reference rate at 7.75% by year-end (Banorte: 7.75%)
- Growth expectations in 2018 remained unchanged at 2.1% (Banorte: 2.1%)
- For next year, analysts expect growth at 2.2% y/y marginally above previous estimate of 2.1%
- Exchange rate forecast for year-end was revised up to 18.97 USD/MXN from 18.9 (Banorte: 18.6 USD/MXN)

Banxico just published its survey of expectations in September. Inflation forecasts for 2018 remained virtually unchanged at 4.5% yoy (Banorte: 4.8%). In the meantime, expectations for core inflation in 2018 is at 3.53%, below the 3.59% previous. In the next 12-months, inflation is expected at 3.7% yoy, unchanged from previous survey. For year-end 2019 inflation is expected at 3.7% (previous: 3.68%).

Medium term expectations are in line with previous survey. The median for medium term expectations (1- 4 years) are at 3.51% (previous: 3.5%). Meanwhile, long term expectations (5- 8 years) are at 3.3%, in line with August's survey.

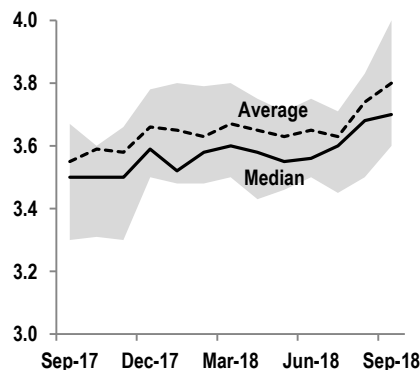
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Inflation expectations for 2018
% yoy



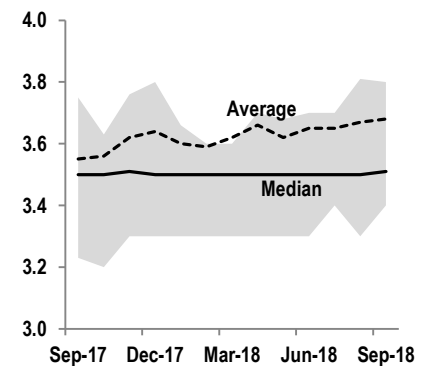
Source: Banxico

Inflation expectations for 2019
% yoy



Source: Banxico

Inflation expectations in the medium term
% yoy



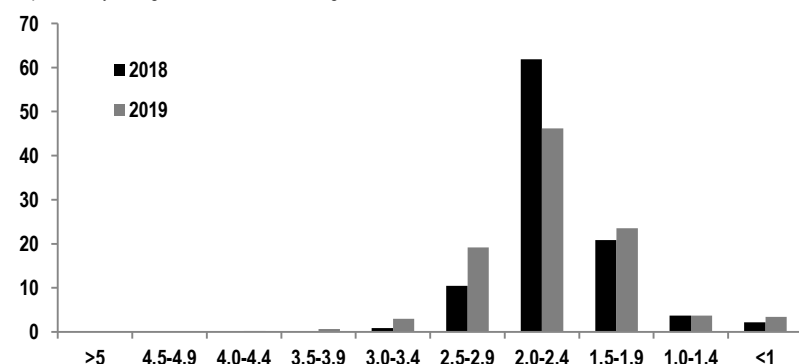
Source: Banxico

Analysts expect the reference rate at 7.75% for year end. Consensus, including us, do not expect movements in the reference rate for the rest of the year. For this Thursday's decision, we consider that Banxico will not move the reference rate after the announcement of the end of the NAFTA negotiation. We believe that this news will help reduce volatility, particularly in the exchange rate, in addition to dissipating the uncertainty of an adverse impact on inflation going forward (see note: *"We no longer expect Banxico to hike with NAFTA 2.0"* <[here](#)>).

Growth expectations for 2018 in line with previous survey. According to September's survey, analysts maintained its growth forecast for this year at 2.1% (Banorte: 2.1%), as shown below. For 2019, analysts marginally upgraded their estimates to 2.2% from 2.1% (Banorte: 1.8% yoy).

GDP Growth estimates

% probability that growth falls in each range

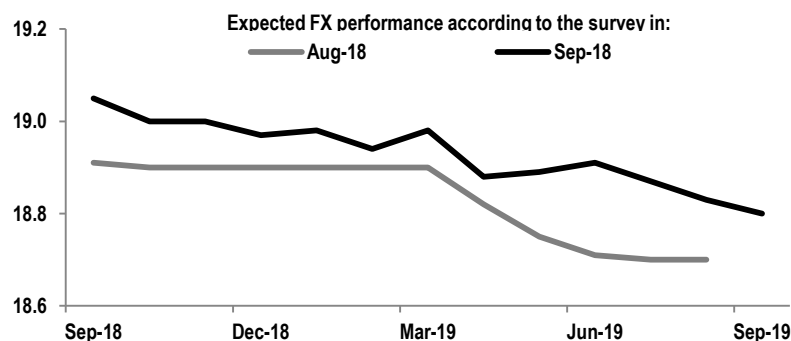


Source: Banxico

Analysts expect a higher exchange rate for 2018. Estimates are now at USD/MXN18.97 from USD/MXN18.9 (Banorte: 18.6). For 2019, they expect the currency to finish the year at USD/MXN18.9 up from USD/MXN18.8 in previous survey.

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 (14% of responses); (2) foreign trade policy (13%); (3) public insecurity (12%); (4) impunity and lack of rule of law (10%); and (5) corruption with 6% of responses.

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