

Banxico's Survey – FX forecasts revised up on concerns about uncertainty

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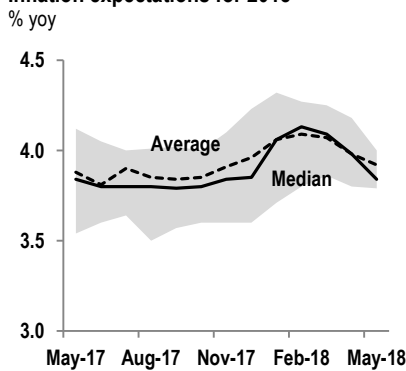
- Banxico just published its survey of expectations in May
- Consensus expects inflation at 3.94% at the end of 2018 below previous 3.98% (Banorte: 4.3%)
- For 2019, consensus forecasts 3.55% inflation, while medium term expectations remain at 3.5% (Banorte: 3.5%)
- Economists expect Banxico's reference rate at 7.5% by year-end (Banorte: 7.25%)
- For this year, growth expectations were revised marginally to 2.25% from 2.3% (Banorte: 2.5%)
- For next year, analysts expect growth around 2.3% y/y in line with previous survey
- Exchange rate forecast for year-end was revised up to 18.92 USD/MXN from 18.6 (Banorte: 18.6 USD/MXN)

Banxico just published its survey of expectations in May. Inflation forecasts for 2018 are at 3.94% yoy, unchanged at 3.98% from previous survey (Banorte: 4.3%). In the meantime, expectations for core inflation in 2018 remained at 3.5%. In the next 12-months, inflation is expected at 3.9% yoy, vs. previous 3.98%. For year-end 2019 inflation is expected at 3.55% (previous: 3.58%).

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

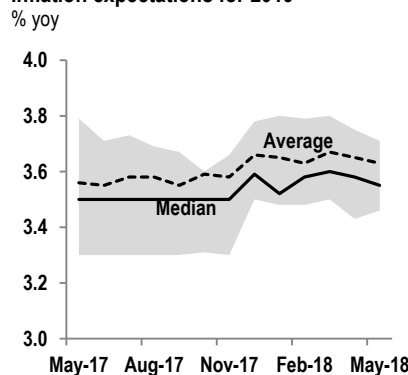
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Inflation expectations for 2018



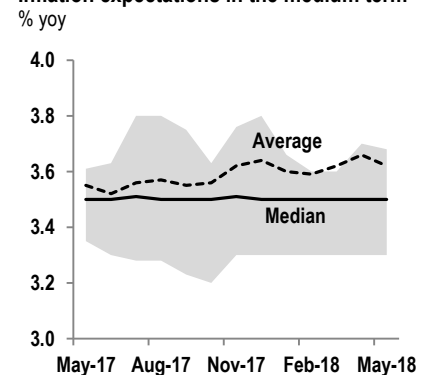
Source: Banxico

Inflation expectations for 2019



Source: Banxico

Inflation expectations in the medium term



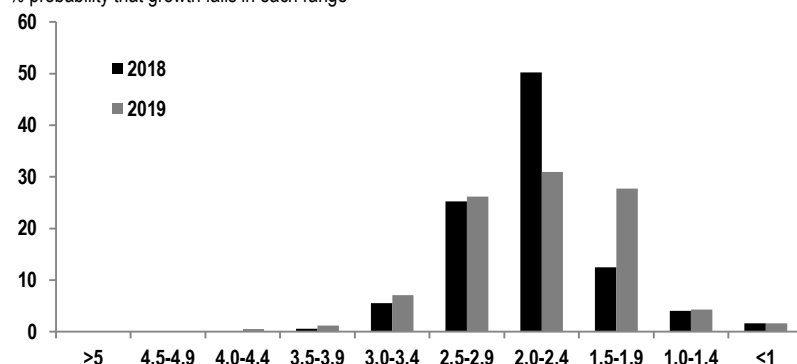
Source: Banxico

Analysts expect the reference rate at 7.5% for year end. This level is above our expectation for a 7.25% at the end of the year. We consider that the last *Quarterly Report* along with the minutes of Banxico's last minutes -published during the week-, continue to support our view that Banxico could hike rates in June. Looking ahead, we believe that the central bank has room to cut the reference rate by 50bps in 2H18, as uncertainty ebbs away.

Growth expectations for 2018 marginally revised. According to Banxico's survey (May), analysts expect an economic expansion of 2.25% from 2.3% (Banorte: 2.5%), as shown below. For 2019, analysts maintained its 2.3% from 2.3%.

GDP Growth estimates

% probability that growth falls in each range

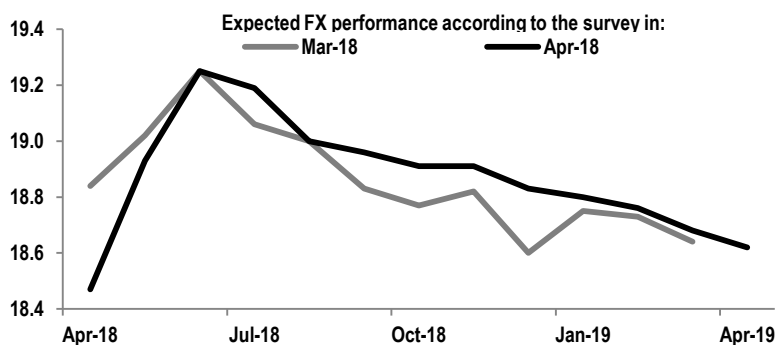


Source: Banxico

Analysts expect a higher exchange rate for 2018. Estimates are at USD/MXN18.92 from USD/MXN18.6 (Banorte: 18.6). For 2019, they expect the currency to finish the year at USD/MXN18.6 from USD/MXN18.46.

Expected FX performance

MXN/USD



Source: Banxico

Uncertainty about domestic politics is considered 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 (22% of responses); (2) foreign trade policy (18%); (3) insecurity (16%); (4) uncertainty about the local economy (8%); and (5) foreign exchange uncertainty with 5% of responses.

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