

Banxico's Survey – Analysts revised down their year-end inflation forecast

May 2, 2016

- Banxico just published its monthly survey of expectations for April
- Analysts' median for 2016 inflation stands at 3.19% yoy, below the 3.3% observed in the previous survey (Banorte-Ixe: 2.8%)
- For 2017, inflation is expected at 3.35%, while medium-term inflation expectations stand also at 3.35% (Banorte-Ixe: 3%)
- The average of analysts' estimates that Banxico's interest rate will close in 2016 around 4.15% (Banorte-Ixe: 4.25%)
- GDP forecast for 2016 stands in 2.41% yoy, marginally above the 2.4% observed in the previous survey (Banorte-Ixe: 2.3%)
- The exchange rate is expected to end 2016 at USD/MXN17.61, marginally below the 17.66 observed in March's survey (Banorte-Ixe: 17.60)

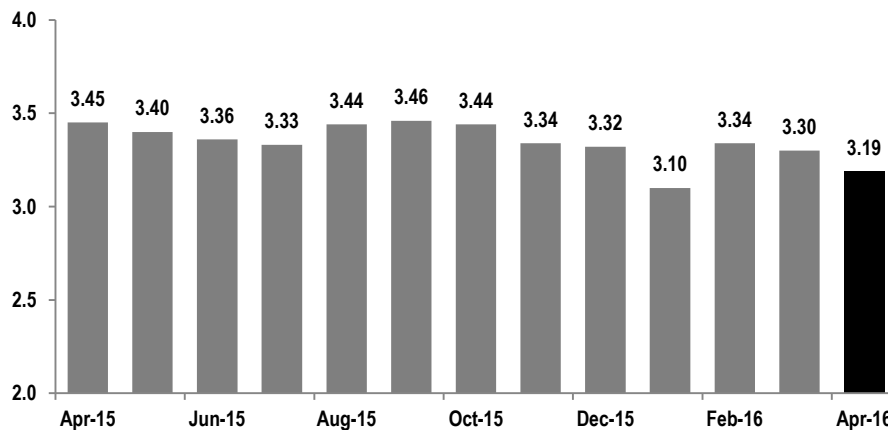
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Banxico just published its monthly survey of expectations for April. Year-end inflation estimate for 2016 is at 3.19%, below the 3.3% observed in the previous survey (Banorte-Ixe: 2.8%). Moreover, consensus' estimate for core inflation in 2016 stands at 3.13% yoy. For the next 12-months, inflation is expected to be at 3.36% yoy, compared with the 3.27% observed in March. Similarly, analysts expect an inflation of 3.35% yoy in 2017.

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% (previous: 3.36%), while long-term expectations (5-8 years) remain stable at 3.3% yoy, in line with the previous survey.

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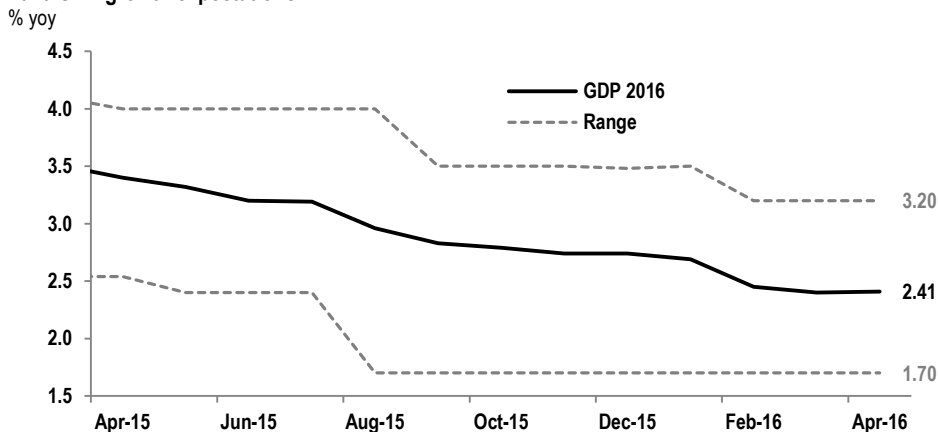
Analysts’ estimate that the reference rate will close around 4.15% in 2016.

We highlight that this survey deadline before the Fed’s decision on April 27, in which the board decided to leave the reference rate without changes, but with a less *dovish* tone than the previous statement, especially with the external environment section. In this context, according to the Banxico’s survey, 33% of analysts expect Banxico’s next rate hike in 2Q16, while 80% in 3Q16. Finally, analysts’ estimate that the reference rate will close around 4.15% in 2016 (Banorte-Ixe: 4.25%) and in 2017 around 4.87%.

Mexico’s 2016 GDP expectations were revised marginally up to 2.41% from 2.4%.

According to Banxico’s survey of expectations (April), analysts’ consensus forecast for Mexico’s GDP growth stands at 2.41%, marginally above the 2.4% observed in the previous survey (Banorte-Ixe: 2.3%). In this context, today’s results do not include the last revisions made by several analysts after the publication of the GDP’s preliminary report on Friday 29. However, for 2017, GDP’s growth estimate stands at 2.86%, below the 2.92% observed in March’s survey (Banorte-Ixe: 3.1%).

2016 GDP growth expectations



Source: Banorte-Ixe and Banxico

Economists surveyed expect the Mexican peso to close 2016 at USD/MXN17.61.

This level was marginally below the USD/MXN17.66 observed in March’s survey (Banorte-Ixe: 17.60). For 2017, analysts also revised their FX forecast to USD/MXN17.20 from USD/MXN17.30 (Banorte-Ixe: 17.30 pesos per dollar).

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 (24%); (2) international financial volatility (15% of respondents); (3) Mexico’s security problems (15%); (4) the oil export price (14%); and oil production output (13%).

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