

Banxico's Survey – Analysts expect another 25pbs rate cut in 2019

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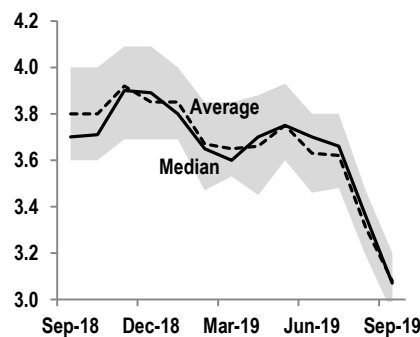
- Banxico just published its survey of expectations in September
- Consensus expects inflation at 3.07% at the end of 2019 below previous 3.36% (Banorte: 3.3%)
- For 2020, consensus forecasts inflation at 3.5%, similar to the level of medium-term expectations (Banorte: 3.5%)
- Economists expect Banxico's reference rate at 7.5% by year-end (Banorte: 7.25%)
- Growth expectations in 2019 remained unchanged at 0.5% (Banorte: 0.8%)
- For next year, analysts still expect growth in the area of 1.4% y/y
- Exchange rate forecast for year-end was revised down to 19.75 USD/MXN from 19.84 (Banorte: 20.3 USD/MXN)

Banxico just published its survey of expectations in September. Inflation forecasts for 2019 are at 3.07% y/y, below the 3.36% from previous survey (Banorte: 3.3%). In the meantime, expectations for core inflation in 2019 are at 3.63%, slightly lower vs. previous 3.67% y/y. In the next 12-months, inflation is expected at 3.7%, vs. previous 3.76% y/y. For year-end 2020 inflation is expected at 3.5% (previous: 3.56%).

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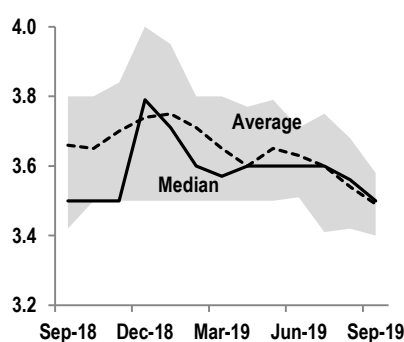
Medium term expectations are in line with previous survey. The median for medium term expectations (1- 4 years) are at 3.5% (previous: 3.5%), as it is the case of long-term expectations (5- 8 years).

Inflation expectations for 2019
% y/y



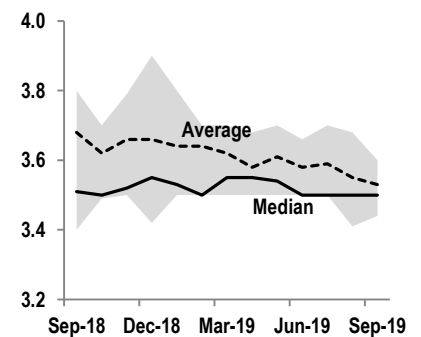
Source: Banxico

Inflation expectations for 2020
% y/y



Source: Banxico

Inflation expectations in the medium term
% y/y



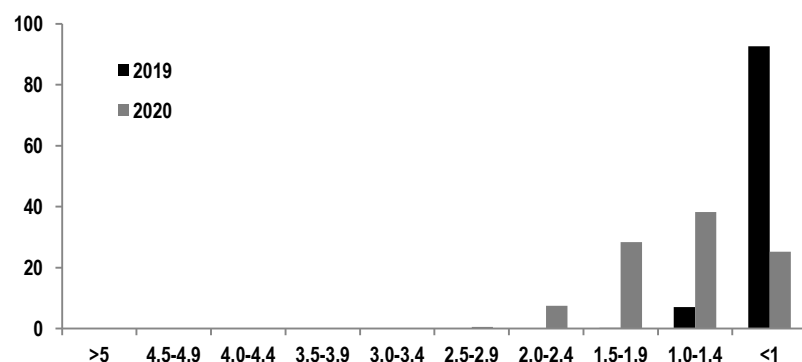
Source: Banxico

Analysts expect the reference rate to close this year at 7.5%. This level is 25bps below the expected reference rate in previous survey and implies an additional rate cut in 2019, after the central bank reduced the reference rate from 8% to 7.75% in September. In 2020, the expectation of economists is that the rate will end the year at 7%, 50 bps less than the expected end-level in 2019. This expectation contrasts with our estimate of a 25bp rate cut at each of the monetary policy meetings remaining in 2019 leaving the rate at 7.25%. For 2020, we expect a more aggressive easing cycle, particularly in the first half of the year, with the reference rate at 6% at the end of the year.

Growth expectations for 2019 in line with previous survey. According to Banxico's survey (September), analysts marginally revised down its growth forecast to 0.46% from 0.5% (Banorte: 0.8%), with the probability of having growth below 1% at 92.7%, as shown below. For 2020, analysts also did marginal moves to the estimate to 1.38% from 1.4% (Banorte: 1.4% y/y). Finally, long-term growth (next 10-year average) is still estimated at around 2% (Banorte: 2.3% y/y).

GDP Growth estimates

% probability that growth falls in each range

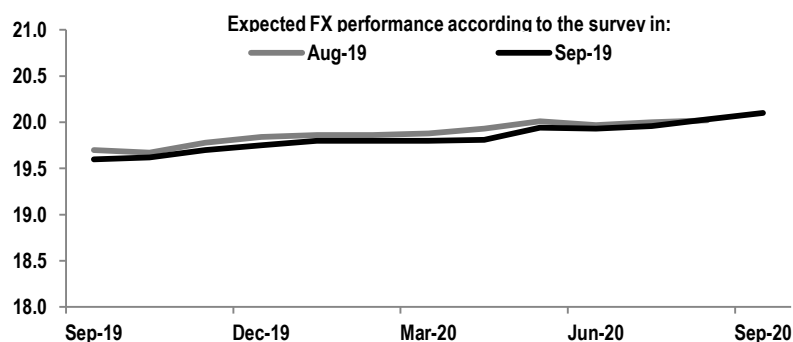


Source: Banxico

Analysts expect a lower exchange rate for 2019. Estimates are at USD/MXN19.75 from USD/MXN19.84 (Banorte: 20.3). For next year, they expect the currency to finish the year at USD/MXN20.32 from USD/MXN20.26 (Banorte: 21.3), with marginal changes to the expected trajectory.

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 (15% of responses); (2) public insecurity (14%); (3) uncertainty about domestic economic outlook (13%); (4) global economic weakness (10%); and (5) fiscal policy with 8% of responses.

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