

Banxico Survey – 2020 GDP forecast to a new low of 1.0%

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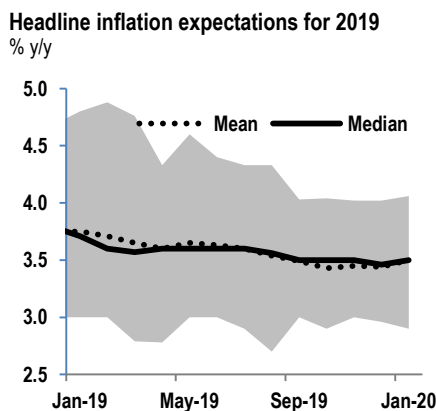
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- Banxico just published its survey of expectations for January
- Consensus expects inflation at 3.5% at the end of 2020, 4bps above the previous survey but still below our 3.6%. Both medium-and long-term expectations were unchanged at 3.5%, in line with our forecast
- Economists expect Banxico's reference rate at 6.50% by year-end, also in line with our view, with the easing path front-loading cuts in the first part of the year, broadly in line with our call
- GDP growth for 2019 is aligned to the -0.1% implied by preliminary figures released last Thursday, after the survey was carried out. For this year, analysts expect GDP at 1.0% yoy, 10bps below the previous estimate and closer to our 0.8% forecast
- The exchange rate for year-end was revised sharply revised down, to USD/MXN 19.66 (previous: 20.00; Banorte: 19.80)

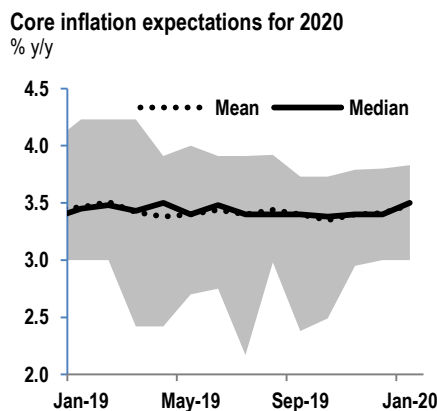
Banxico published its survey of expectations in January. Inflation forecasts for 2020 stood at 3.5% y/y, 4bps above the previous survey and closer, but still below, our 3.6% estimate. The forecast for core inflation is at 3.5%, increasing 10bps when compared to the previous estimate and now matching our forecast. Expectations for the next twelve months stand at 3.4%, almost equal to the year-end estimate due to the close proximity between data points. Finally, estimates for 2021 point to headline inflation at 3.5%, with the core component at 3.4%.

Medium term expectations unchanged from previous survey. Both medium-term (1- 4 years) and long-term expectations (5- 8 years) stand at 3.5%, now add 8 months at this exact same level. In a similar fashion, estimates for core inflation for the same periods came both at 3.5%

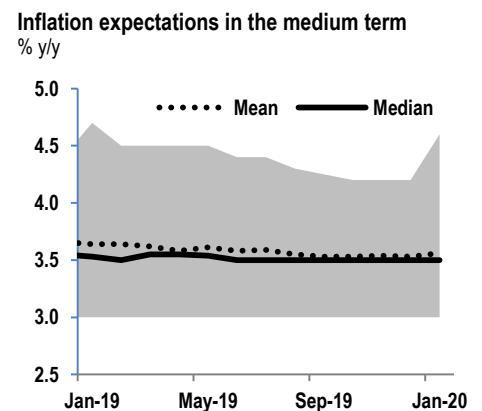
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Source: Banxico



Source: Banxico



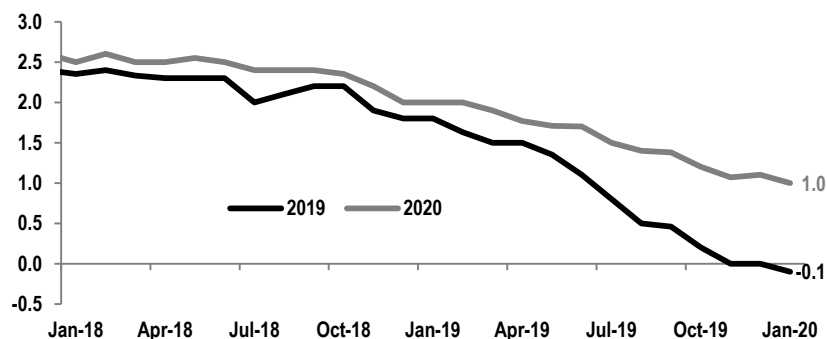
Source: Banxico

Analysts expect the reference rate at 6.50% by year-end. This implies an additional reduction of 75bps, in line with our call. Regarding the path, the survey shows most analysts are front-loading cuts in the first part of the year, relatively in line with our forecast. In particular, we expect 25bps cuts in the next three monetary policy meetings taking place in February, March and May.

Growth expectations for 2020 down from the previous survey. According to this month's survey, analysts lowered their growth forecast for 2019 to -0.1%, matching INEGI's preliminary print which was released last Thursday. However, it should be noted the survey was carried out before this figure was published. For 2020, analysts also revised their estimates lower by 10bps to 1.0%, getting closer to our 0.8% forecast. Finally, long-term growth (next 10-year average) is still expected at 2.0%.

GDP growth estimates

% y/y



Source: Banxico

Analysts' exchange-rate expectations for 2020 sharply revised down. The estimate for year-end 2020 came in at USD/MXN 19.66, down from 20.00 pesos per dollar (Banorte: 19.80). For 2021 consensus expects it to finish higher, at USD/MXN20.00, also improving relative to the previous survey.

Insecurity stands as the main obstacle for economic growth. According to the analysts surveyed, the factors that are likely to have an impact on economic growth are: Insecurity (21% of responses); uncertainty about domestic politics (19%); uncertainty about the domestic economic situation (17%); weakness in the domestic market (8%); and corruption and oil production (both at 5%), among the most relevant.

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