

Banxico Survey – Major revisions as analysts recognize the adverse outlook ahead

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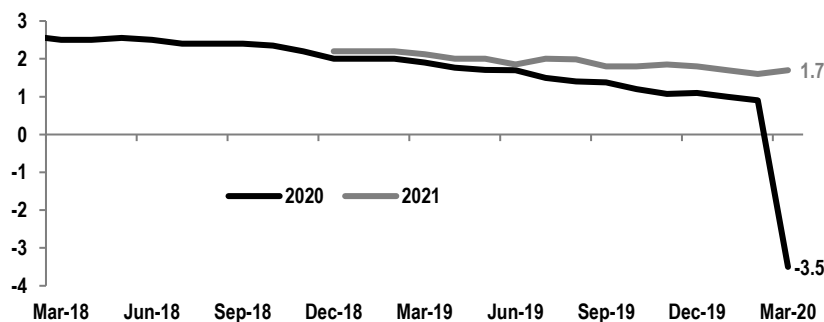
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- Banxico just published its survey of expectations for March
- In broad terms, we saw very significant revisions and wide dispersion around macroeconomic forecasts, reflecting the deterioration and high uncertainty about the outlook
- In this sense, the GDP estimate for 2020 came in at -3.5% y/y, in line with our expectation and considerably below the +0.9% seen in the previous survey. Nevertheless, for 2021 it was actually up by 10bps to 1.7% (Banorte: 1.0%)
- Consensus expects inflation at 3.64% at the end of 2020, 13bps above the previous survey and an inch above our 3.6%. Medium- and long-term expectations were unchanged at 3.5%, in line with our forecast
- Regarding the central bank’s reference rate, analysts now expect it at 5.50% by year-end, matching our view. Nevertheless, the path is different relative to ours, anticipating -50bps in 2Q and another -50bps in 4Q (Banorte: -100bps in 2Q20)
- The year-end forecast for the USD/MXN exchange rate was adjusted strongly, coming in at USD/MXN 21.95 (previous: 19.50; Banorte: 22.00)

Banxico published its survey of expectations in March. In our opinion, the results are consistent with the significant deterioration in the economic outlook on the back of the COVID-19 pandemic. Nevertheless, the scenario is still very uncertain, as reflected by the high degree of dispersion in responses, situation we expect to correct as we more information becomes available in order to make more accurate evaluations.

The GDP forecast for 2020 is sharply revised down. Analysts adjusted their estimate from a 0.9% expansion in the previous survey, to a 3.5% contraction (as seen in the following chart), in line with our expectations. Here there is a high degree of dispersion, with the minimum at -11.3% and the maximum at -1.6%. For 2021, expectations stand came in at 1.7%, 10bps higher than in the previous survey and with a more modest spread (minimum: -0.3%; maximum: 4.3%). Finally, long-term growth (next 10-year average) is still expected at 2.0%.

GDP growth estimates
% y/y



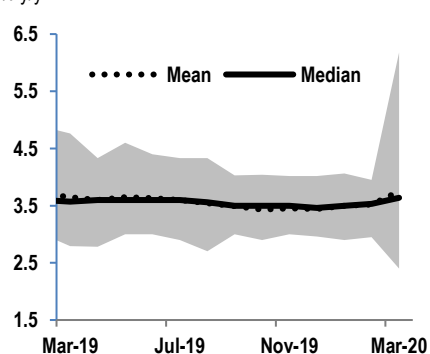
Source: Banxico

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Year-end inflation sees a slight revision, although with more uncertainty in estimates. The figure forecasted for 2020 came in at 3.64%, 13bps above the previous survey and surpassing our 3.6%. The volatility within the estimate widened significantly, with a maximum of 6.2% and a minimum of 2.4%, as seen in the chart on the left. The forecast for core inflation came in at 3.5%, unchanged when compared to the previous estimate and still matching our forecast. Expectations for the next twelve months stand at 3.54%, suggesting a relatively fast moderation at the start of 2021. Finally, estimates for year-end 2021 point to headline inflation at 3.5%, with the core component also climbing by the same magnitude (3.5%).

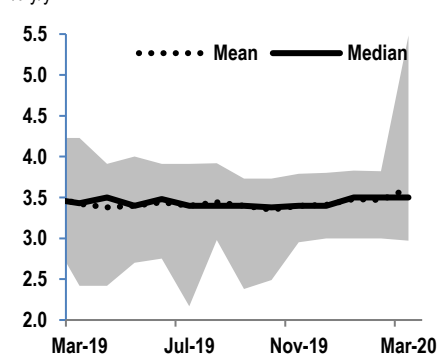
Medium- and long-term expectations unchanged from previous survey. Medium-term expectations (1-4 years) and long-term expectations (5-8 years) stand at 3.5%, now adding 10 months at this exact level. In a similar fashion, estimates for core inflation for the medium-term were also unchanged. Nevertheless, expectations for this component in the long term were actually revised 4bps up, to 3.48%.

Headline inflation expectations for 2020
% y/y



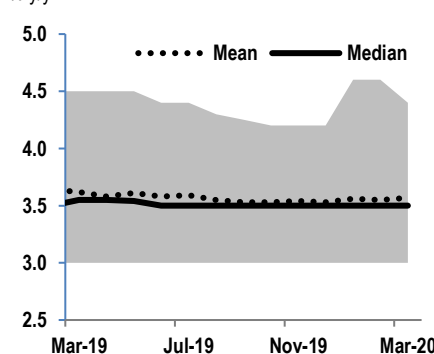
Source: Banxico

Core inflation expectations for 2021
% y/y



Source: Banxico

Inflation expectations in the medium term
% y/y



Source: Banxico

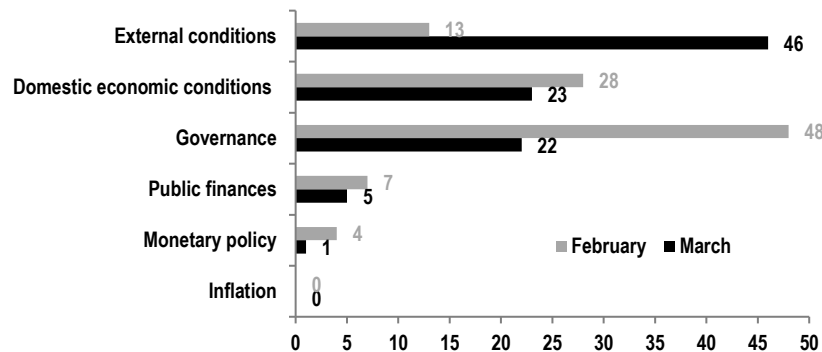
The reference rate is now expected at 5.50% by year-end. This implies an additional reduction of 100bps, in line with our call. Regarding the path, the information suggests a 50bps cut in 2Q20, unchanged during 3Q, and finally -50bps in the last quarter of the year. In contrast, we anticipate Banxico to front-load cuts, with 50bps in each of the next two monetary policy meetings, which are scheduled for May and June, which would result in an accumulated reduction of 100bps in 2Q20.

Analysts' exchange-rate expectations for 2020 consistent with current levels. The estimate for year-end came in at USD/MXN 21.95, up from 19.50 and relatively similar to our 22.00. On the dispersion, the minimum stands at 19.80, while the high contemplates a steep depreciation to 26.25. For 2021, consensus expects it to finish at 21.70, above the 20.00 from previous survey, with a range of estimates still wide (minimum: 19.61; maximum: 25.50).

Given the COVID-19 pandemic, external conditions are now the main obstacle for economic growth. According to the analysts surveyed, the main factors –as grouped by categories– that are likely to have an impact on economic growth are: (1) External conditions with 46% of responses; (2) Domestic economic conditions at 23%; and (3) governance with 22%. Within the first one, weakness in external markets and the world economy (30%) and global financial instability (9%) are the most relevant.

Main factors that are likely to impact economic growth

Distribution of responses



Source: Banxico

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We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Jorge Antonio Izquierdo Lobato and Eridani Ruibal Ortega, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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