

Banxico Survey – Downward revision for GDP and inflation in 2020

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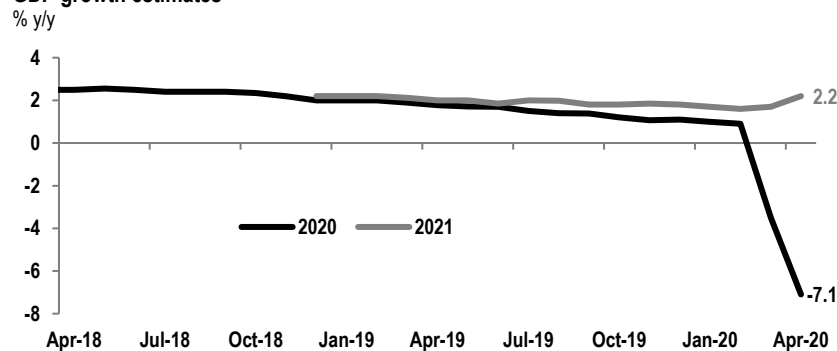
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- Banxico just published its survey of expectations for April
- In line with the previous month, we saw very sizable revisions and a wide degree of dispersion around macroeconomic forecasts, reflecting the deterioration and high uncertainty about the outlook
- In this sense, the GDP estimate for 2020 came in at -7.1% y/y, closer to our expectation of -7.8% and considerably below the -3.5% seen in the previous survey. Nevertheless, for 2021 it was actually up, to 2.2% from 1.7% (Banorte: 1.5%)
- Consensus expects inflation at 2.90% at the end of 2020, 74bps below the previous survey and also lower than our 3.2%. 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 5.00% by year-end, slightly more hawkish than our view (4.75%). Nevertheless, the path is different relative to ours, anticipating -50bps in 2Q and another -50bps in 3Q (Banorte: -125bps in 2Q20)
- The year-end forecast for the USD/MXN exchange rate was adjusted once again, coming in at 23.05 pesos per dollar (previous: 21.95; Banorte: 22.00)

Banxico published its survey of expectations for April. In our opinion, the results are consistent with the additional 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 gradually as more information becomes available, in order to make more accurate evaluations.

The GDP forecast for 2020 is revised down for a second month in a row. Analysts adjusted their estimate from -3.5% to -7.1% (as seen in the following chart), slightly below our expectations (-7.8%). There is still a high degree of dispersion, albeit less than in the previous survey, with the minimum at -12.0% and the maximum at -3.6%. For 2021, expectations came in at 2.2%, 50bps higher than in the previous survey (minimum: 0.4%; maximum: 6.7%). Finally, long-term growth (10-year average) is still expected at 2.0%.

GDP growth estimates



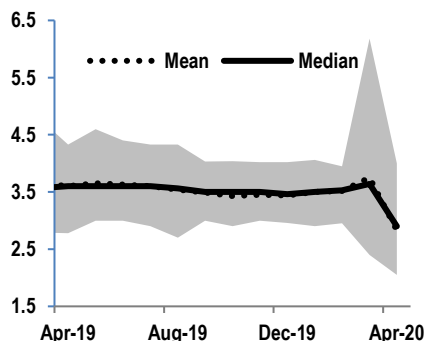
Source: Banxico

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Year-end inflation sees a strong downward revision. The figure forecasted for 2020 came in at 2.90%, 74bps below the previous survey and lower than our 3.2% estimate. Volatility within the estimate was lower relative to the last forecast, with a maximum of 4.0% and a minimum of 2.1%, as seen in the chart on the left. The forecast for core inflation came in at 3.4%, 10bps below the previous estimate. Expectations for the next twelve months stand at 3.81%, suggesting a negative impact from the base effect given this year’s dynamics. 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%).

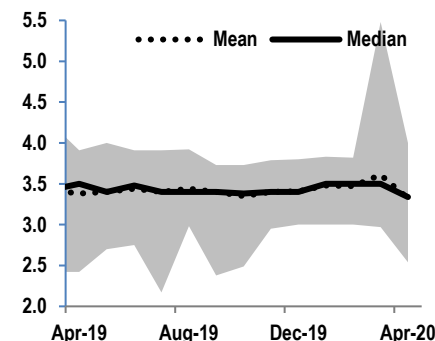
Medium- and long-term expectations unchanged from the previous survey. Medium-term expectations (1-4 years) and long-term expectations (5-8 years) stand at 3.5%, now adding 11 months at this exact level. Estimates for core inflation for the medium-term were also unchanged. Nevertheless, expectations for this component in the long term were actually revised 3bps down, to 3.45%.

Headline inflation expectations for 2020
% y/y



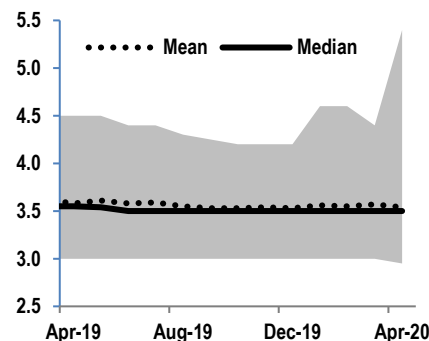
Source: Banxico

Core inflation expectations for 2021
% y/y



Source: Banxico

Inflation expectations in the medium term
% y/y



Source: Banxico

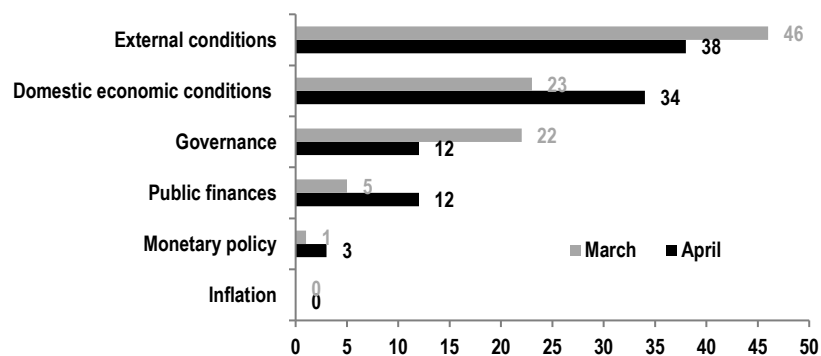
The reference rate is now expected at 5.00% by year-end. This implies an additional reduction of 100bps, less so than our expectation of -125bps. Regarding the path, the information suggests a 50bps cut in 2Q20, and also -50bps during 3Q, and unchanged in the last quarter of the year. In contrast, we anticipate Banxico to front-load cuts, with -50bps in the May 14th meeting and -75bps in June, which would result in an accumulated reduction of 125bps in 2Q20.

Analysts’ exchange-rate expectations for 2020 get revised up again. The estimate for year-end came in at USD/MXN 23.05, up from 21.95 and surpassing our 22.00. On the relative dispersion, the minimum stands at 20.84, while the high contemplates a steep depreciation to 26.25. For 2021, consensus expects a finish at 22.39, above the 21.70 from the previous survey, with a range of estimates still wide (minimum: 20.18; maximum: 25.68).

External conditions continue to be the main obstacle for economic growth, albeit with internal conditions closing in. According to analysts surveyed, the main factors –as grouped by categories– that are likely to have an impact on economic growth are: (1) External conditions with 38% of responses; (2) domestic economic conditions at 34%; and (3) & (4) governance and public finances both at 12%. Within the first one, weakness in external markets and the world economy (26%) and crude oil prices (5%) are the most relevant. Meanwhile, in the second one, we highlight uncertainty about the domestic economic situation (15%) and weakness in the domestic market (14%).

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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