

Banxico Survey – Mixed revisions still suggest a highly uncertain environment

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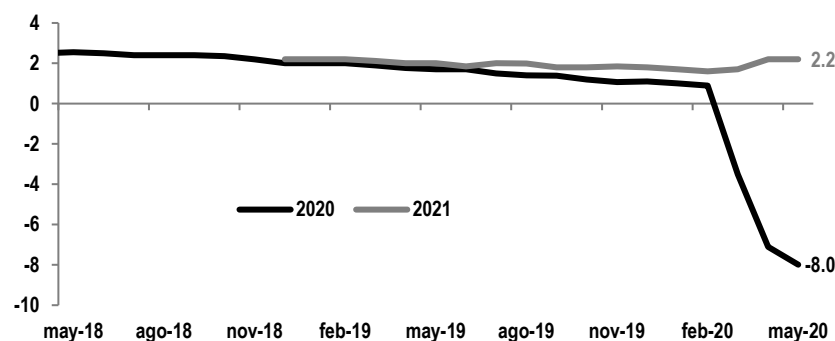
- Banxico just published its survey of expectations for May
- Unlike the previous month, revisions to macroeconomic forecasts were more moderate, although a wide range of forecasts remain, consistent with the high levels of uncertainty
- In this sense, the GDP estimate for 2020 came in at -8.0% y/y, closer to our expectation of -7.8% but below the -7.1% seen in the previous survey. For 2021 it was unchanged at 2.2% (Banorte: 1.5%)
- Consensus expects inflation at 3.07% at the end of 2020, 17bps above the previous survey and closer 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 4.50% by year-end, also in line with our view. In addition, the path is similar to ours, anticipating -50bps in 2Q20 and another -50bps in 3Q20
- The year-end forecast for the USD/MXN exchange rate was practically unchanged, coming in at 23.02 pesos per dollar (previous: 23.05; Banorte: 22.00)

Banxico published its survey of expectations for May. In our opinion, the results are consistent with the relative slowdown in new developments we have seen. In addition, the adjustments were more moderate, with forecasts showing some signs of a possible convergence. In this sense, while forecast ranges have narrowed, they remain dispersed under historical standards, still reflecting uncertainty around the scenario.

The GDP forecast for 2020 is revised down for a third month in a row. Analysts adjusted their estimate from -7.1% to -8.0% (as seen in the following chart), slightly below our expectations (-7.8%). While dispersion has narrowed, it remains high, with the minimum at -12.0% and the maximum at -6.0%. For 2021, expectations came in at 2.2%, unchanged from previous survey (minimum: 0.4%; maximum: 5.7%). Finally, long-term growth (10-year average) is still expected at 2.0%.

GDP growth estimates

% y/y



Source: Banxico

Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*

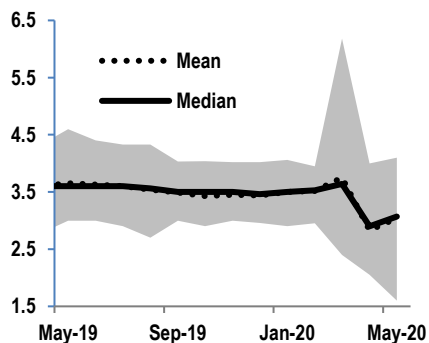


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Year-end inflation sees an upward revision after recent dynamics. The figure forecasted for 2020 came in at 3.07%, 17bps above the previous survey and closer to our 3.2% estimate. Volatility within the estimate was actually higher relative to the last forecast, with a maximum of 4.1% and a minimum of 1.6%, as seen in the chart on the left. The forecast for core inflation came in at 3.5%, 10bps above the previous estimate. Expectations for the next twelve months stand at 3.61%, suggesting a negative impact from the base effect given this year's dynamics. Finally, estimates for year-end 2021 point to headline inflation at 3.45%, with the core component also climbing by a similar magnitude (3.47%).

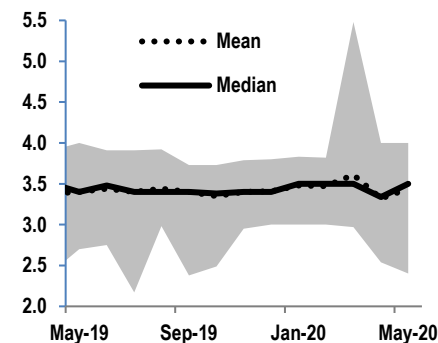
Medium- and long-term expectations unchanged from the previous survey. Medium-term expectations (1-4 years) and long-term expectations (5-8 years) stand at 3.5%, now adding a year at this exact level. Estimates for core inflation for the medium-term were also unchanged. Nevertheless, expectations for this component in the long term were actually revised 4bps up, to 3.49%.

Headline inflation expectations for 2020
% y/y



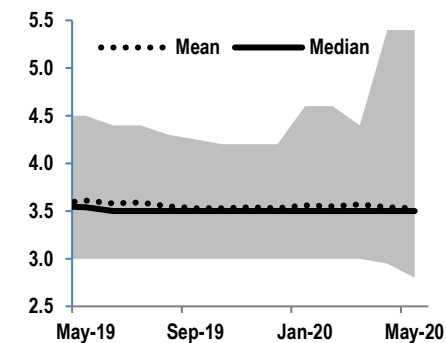
Source: Banxico

Core inflation expectations for 2021
% y/y



Source: Banxico

Inflation expectations in the medium term
% y/y



Source: Banxico

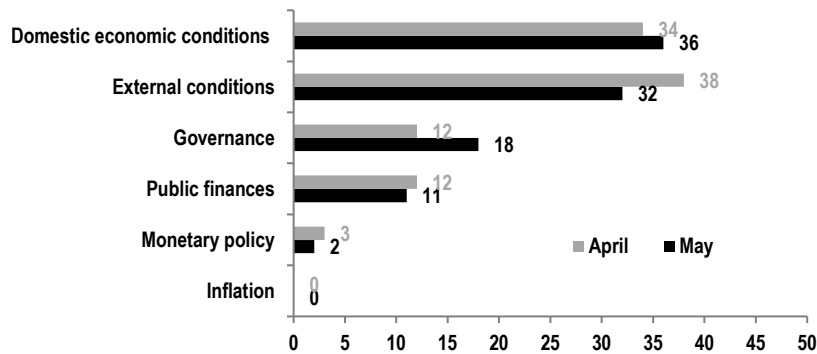
The reference rate is now expected at 4.50% by year-end. This implies an additional reduction of 100bps, in line with our expectation. Regarding the path, the information suggests a 50bps cut in 2Q20, and also -50bps during 3Q20, and unchanged in the last quarter of the year. In this sense, we anticipate Banxico to cut the rate by -50bps in the June 25th meeting and another -50bps in August 13th. Nevertheless, we do not rule out intra-meeting decisions if conditions call for them, although our conviction on this point has recently declined.

Analysts' exchange-rate expectations for 2020 practically unchanged. The estimate for year-end came in at USD/MXN 23.02, down from 23.05 and still far above 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 22.70, above the 22.39 from the previous survey, with a range of estimates still wide (minimum: 20.18; maximum: 25.80).

Internal conditions are now main obstacle for economic growth, albeit with external conditions still relatively close. According to analysts surveyed, the main factors –as grouped by categories– that are likely to have an impact on economic growth are: (1) Domestic economic conditions with 36% of responses; (2) external conditions at 32%; (3) governance at 18%; and (4) public finances at 11%. Within the first one, we highlight uncertainty about the domestic economic situation (17%) and weakness in the domestic market (14%). Meanwhile, in the second one, weakness in external markets and the world economy (30%) is 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, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Luis Leopoldo López Salinas, Jorge Antonio Izquierdo Lobato, Eridani Ruibal Ortega and Leslie Thalia Orozco Vélez, 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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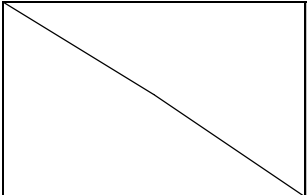
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