

Banxico Survey – Inflation revised slightly higher again, with GDP unchanged

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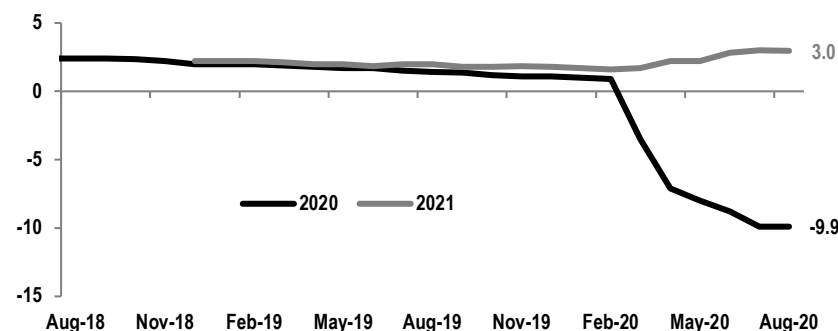
- Banxico just published its survey of expectations for August
- Similar to previous surveys, dispersion kept declining, with some forecasts more stable given a less volatile behavior in financial markets
- The GDP estimate for 2020 was unchanged at -9.9% y/y, practically matching our -9.8%. Likewise, GDP for 2021 remained at 3.0% (Banorte: 1.8%)
- Consensus expects inflation at 3.82% at the end of 2020, 21bps above the previous survey and surpassing our 3.7%. Medium- and long-term expectations were unchanged at 3.5%, in line with our forecast
- Regarding the central bank’s reference rate, analysts expect it at 4.25% by year-end, in line with our call. The expected path is also like ours, anticipating a cut in the remainder of 3Q20
- The year-end forecast for the USD/MXN exchange rate was practically unchanged at 22.60 pesos per dollar (previous: 22.65; Banorte: 22.00)

Banxico published its survey of expectations for August. Most forecasts continued to echo the relative stability recently seen in financial markets. Meanwhile, estimates on economic activity remained unchanged on signs of a recovery. Nevertheless, inflation kept its upward trend, in line with its recent performance.

GDP forecast for 2020 stabilizes after five consecutive downward revisions. Analysts maintained their estimate for 2020 at -9.9% y/y (as seen in the following chart), practically in line with our -9.8%. Dispersion continues to narrow, with the minimum climbing to -11.5% and the maximum staying at -8.4%. For 2021, expectations came in at 3.0%, also unchanged (minimum: 1.6%; maximum: 5.5%). Finally, long-term growth (10-year average) now expected at 1.90% (previous: 1.95%).

GDP growth estimates

% y/y



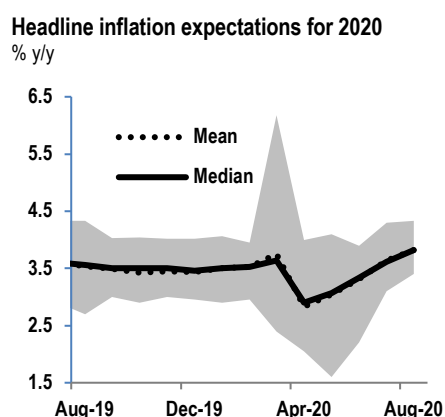
Source: Banxico

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

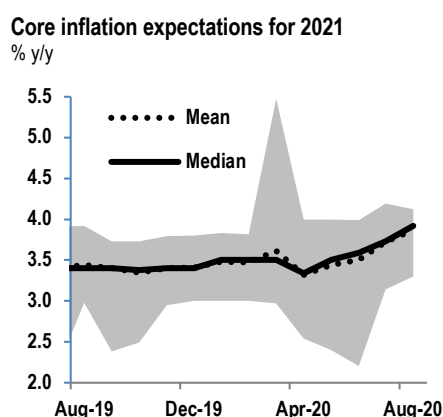

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Year-end inflation sees an upward revision once again. The figure forecasted for 2020 came in at 3.82%, 21bps above the previous survey, surpassing our 3.7%. Volatility within the estimate was lower relative to the last forecast, with a maximum of 4.3% and a minimum of 3.4%, as seen in the chart on the left. The forecast for core inflation came in at 3.92%, 19bps above the previous estimate, and matching our estimate. Expectations for the next twelve months stand at 3.58%. Finally, estimates for year-end 2021 point to headline inflation at 3.56%, with the core component climbing by a similar magnitude (3.51%).

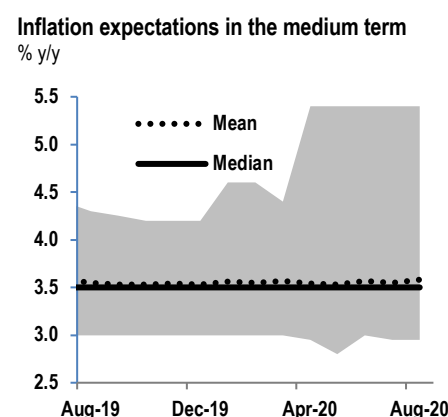
Medium- and long-term expectations unchanged from the previous survey. Medium-term expectations (1-4 years) and long-term expectations (5-8 years) stand at 3.5%, now adding thirteen months at this exact level. Estimates for medium-term core inflation were unchanged. Nevertheless, expectations for this component in the long-term were revised 2bps up, to 3.50%.



Source: Banxico



Source: Banxico



Source: Banxico

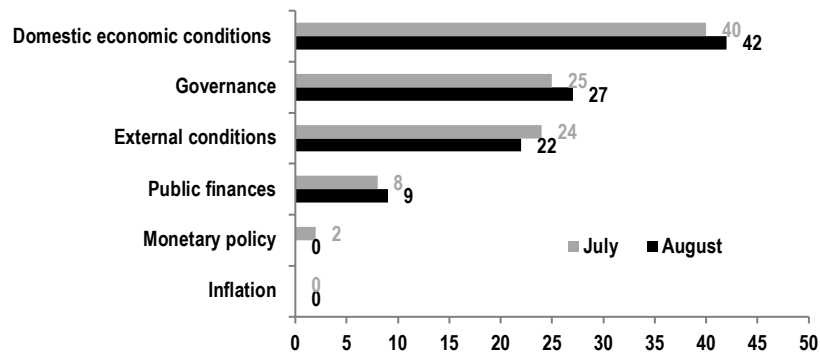
The reference rate is now expected at 4.25% by year-end. This implies an additional reduction of 25bps, in line with our estimate. Regarding the path, information suggests a 25bps cut in 3Q20 and unchanged in the last quarter of the year. Specifically, we anticipate the central bank to cut the rate by 25bps in the September 24th meeting, the only one remaining in 3Q20. Going into 2021, and consistent with our call, analysts expect it to remain at 4.25%.

Analysts' exchange-rate expectations for 2020 practically unchanged. The estimate for year-end came in at USD/MXN 22.60, virtually unchanged from 22.65 but closer to our 22.00. On the relative dispersion, the minimum remained at 21.37, while the high contemplating a depreciation to 24.22, slightly lower than the previous 24.33. For 2021, consensus expects a finish at 22.50 per dollar, unchanged from the previous survey, with the range of estimates also without adjustments (minimum: 20.53; maximum: 25.21).

Domestic economic conditions still the main obstacle for economic growth. 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 42% of responses; (2) governance at 27%; (3) external conditions at 22%; and (4) public finances at 9%. Within the first one, we highlight weakness in the domestic market (19%) and uncertainty about the domestic economic situation (18%). Meanwhile, in the second one, uncertainty around domestic politics (14%) 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, 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, Eridani Ruibal Ortega and Juan Barbier Arizmendi, 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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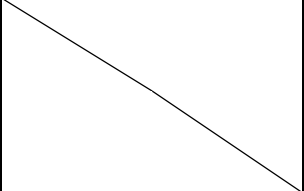
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