

Banxico Survey – Both GDP and inflation revised slightly higher

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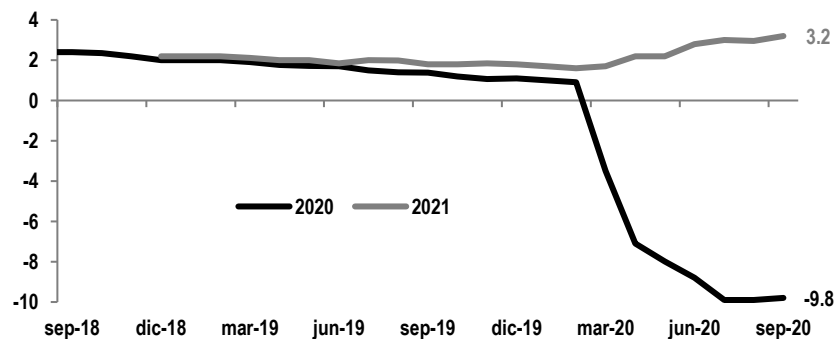
- Banxico just published its survey of expectations for September
- Similar to the previous survey, dispersion kept declining, even with some improvements in GDP and despite higher inflation
- The GDP estimate for 2020 was revised up to -9.8% y/y from -9.9%, matching our forecast. For 2021 it was adjusted more sharply to 3.2% from 3.0% previous (Banorte: 1.8%)
- Consensus expects inflation at 3.86% at the end of 2020, only 4bps above the previous survey and still above 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. This implies no further rate cuts for the remainder of the year
- The year-end forecast for the USD/MXN exchange rate was revised down to 22.00 pesos per dollar from 22.60, matching our estimate. For 2021, it is expected at 22.25 per dollar

Banxico published its survey of expectations for September. Most forecasts continued to echo the recent relative stability in financial markets. Meanwhile, estimates on economic activity improved marginally, in line with recent data. Nevertheless, inflation was also adjusted higher, also probably influenced by recent dynamics.

GDP forecast for 2020 improves marginally. Analysts revised their activity estimate for this year to -9.8% y/y from -9.9% (as seen in the following chart), matching our view. Dispersion continues to narrow, with the minimum climbing to -11.2% and the maximum staying at -8.3%. For 2021, expectations came in at 3.2%, 20bps higher relative to the previous estimate (minimum: 1.7%; maximum: 6.0%). Finally, long-term growth (10-year average) is expected at 2.0% (previous: 1.9%).

GDP growth estimates

% y/y



Source: Banxico

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



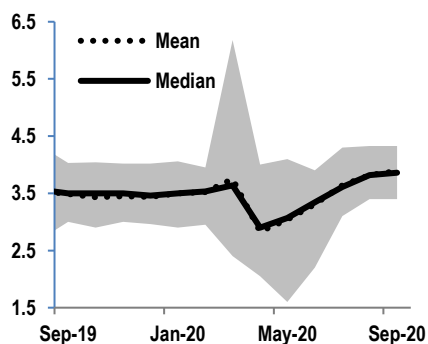
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Year-end inflation adjusted slightly up. The figure forecasted for 2020 came in at 3.86%, 4bps above the previous survey, and still higher than our 3.7%. The range was unchanged relative to the last forecast, with a maximum of 4.3% and a minimum of 3.4%, as seen in the chart on the left. The forecast for core inflation came in at 3.92%, in line with the previous estimate and matching our call. Expectations for the next twelve months stand at 3.43%. Finally, estimates for year-end 2021 point to headline inflation at 3.55%, with the core component at 3.50%.

Medium- and long-term expectations anchored slightly above target. Medium-term (1-4 years) and long-term expectations (5-8 years) stand at 3.5%, adding thirteen months at this exact level. Moreover, estimates for medium- and long-term core inflation, were also unchanged at 3.5%.

Headline inflation expectations for 2020

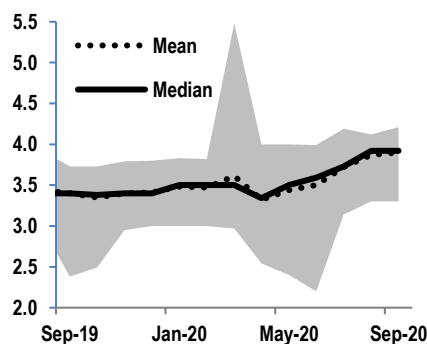
% y/y



Source: Banxico

Core inflation expectations for 2021

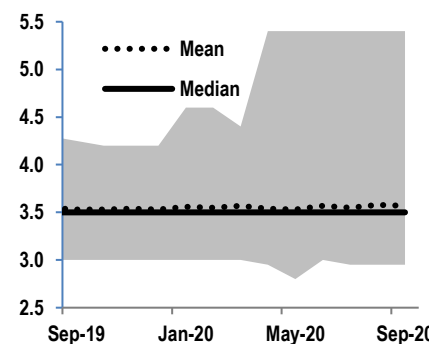
% y/y



Source: Banxico

Inflation expectations in the medium term

% y/y



Source: Banxico

No further rate cuts this year. This implies that the reference rate will remain at 4.25% until December, in line with our estimate. Going into 2021, and unlike our forecast, they expect one additional 25bps cut to 4.00%. Specifically, the trajectory suggests this could happen sometime in 1Q21.

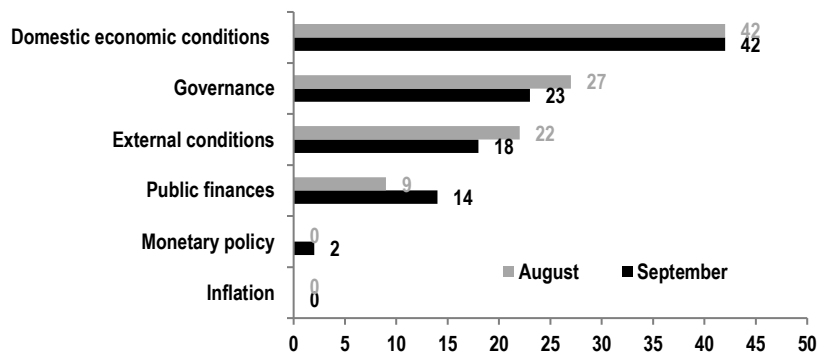
Exchange-rate expectations revised down. The estimate for year-end came in at USD/MXN 22.00, sharply below the 22.60 of the previous survey given its recent adjustment, and now in line with our estimate. On dispersion, the minimum remained at 20.75, while the high contemplates a depreciation to 23.86, slightly lower than the previous 24.22. For 2021, consensus expects a finish at 22.25 per dollar, lower than the previous 22.50, with the range showing slightly tighter adjustments (minimum: 20.53; maximum: 24.53).

Domestic economic conditions still the main obstacle for economic growth.

The main factors –as grouped by categories– that are likely to impact economic growth are: (1) Domestic economic conditions, with 42% of responses; (2) governance at 23%; (3) external conditions at 18%; and (4) public finances at 14%. Within the first one, we highlight weakness in the domestic market (22%) and uncertainty about the domestic situation (14%). In the second one, uncertainty around external markets (17%) is the most important.

Main factors that are likely to impact economic growth

Distribution of responses



Source: Banxico

Analyst Certification

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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