

Banxico Survey – Strong downward revision for inflation and the exchange rate in 2020

December 1, 2020

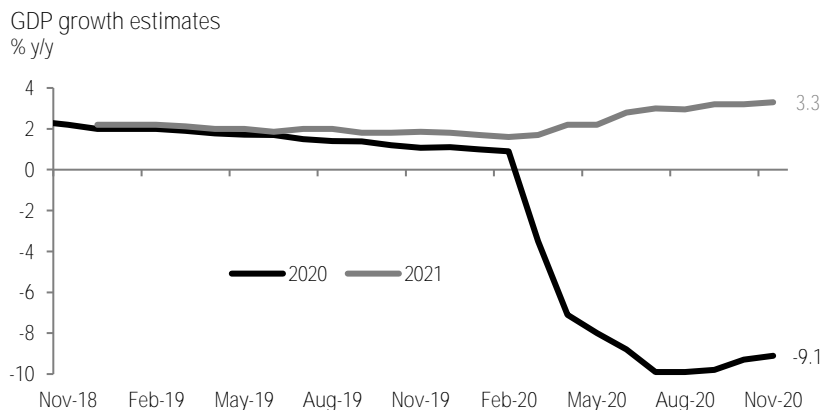
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- Banxico just published its survey of expectations from private sector analysts for November
- Overall, forecasts reflected significant changes in the scenario, specifically for inflation and the exchange rate. Meanwhile, those for GDP were more stable, incorporating 3Q20 data
- The GDP estimate for this year was revised up, to -9.1% y/y from -9.3%, closer to our -9.0%. For 2021, it was adjusted slightly up, to 3.3% from 3.2% (Banorte: 4.1%)
- Consensus expects inflation at 3.64% at the end of 2020, 31bps below the previous survey after the strong surprise in the first half of November (Banorte: 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 its current level and our call. For 2021, consensus sees an additional 25bps cut, to 4.00%
- The year-end forecast for the USD/MXN exchange rate was revised down to 20.50 pesos per dollar from 21.69, in line with our estimate. For 2021, it is expected at 21.20 per dollar (Banorte: 19.80)

GDP forecast for 2020 improves a tick. Analysts revised their activity estimate for this year to -9.1% y/y from -9.3% (as seen in the following chart), adding three months to the upside. Nevertheless, it is still below our -9.0% and the -8.9% from the central bank. On top of the upward adjustment, dispersion in the estimate narrowed, with the minimum climbing to -10.0% and the high at -8.4%. This is also consistent with less data to be forecasted, with only 4Q20 left to be published. For 2021, expectations were also slightly better at 3.3%, 10bps higher than the previous month (minimum: 1.7%; maximum: 5.6%). Finally, long-term growth (10-year average) is expected at 1.90% (previous: 1.95%).



Source: Banxico

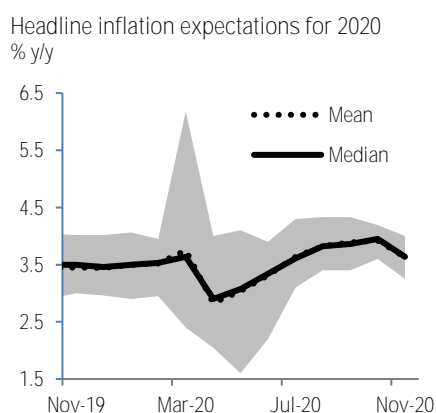
Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



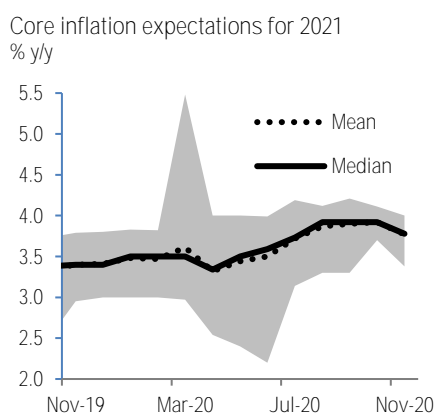
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Year-end inflation down strongly after surprising in 1H-November. The figure forecasted for 2020 came in at 3.64%, 31bps below the previous survey, and now below our 3.7% after three months of staying higher. The range was wider relative to the last estimate, with a maximum of 4.0% and a minimum of 3.3%, as seen in the chart below on the left. This is consistent with the [downward surprise in the last print](#). Core inflation came in at 3.78%, 14bps below October's figure and also below our 3.9% forecast. Expectations for the next twelve months stand at 3.60%. Finally, estimates for year-end 2021 point to headline inflation at 3.60%, with the core component at 3.50%.

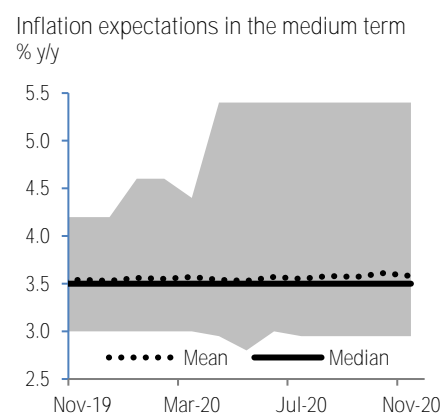
Medium- and long-term expectations anchored slightly above target. Medium-term (1-4 years) and long-term expectations (5-8 years) remain at 3.5%, adding fourteen months at this exact level. Moreover, estimates for medium- and long-term core inflation were also unchanged at 3.5%.



Source: Banxico



Source: Banxico



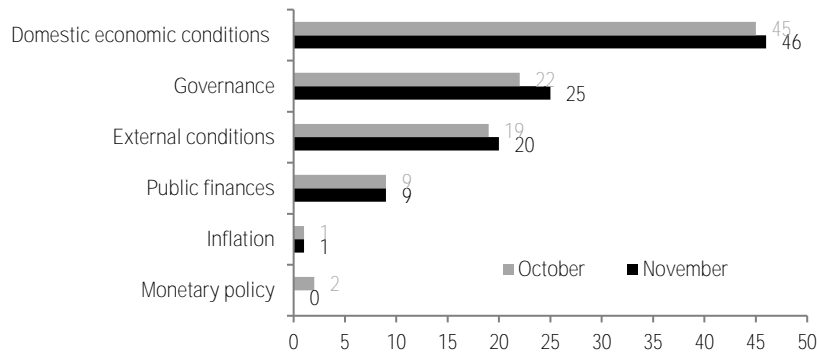
Source: Banxico

No changes expected in the reference rate in the remainder of the year, but with additional easing in 2021. In this sense, consensus suggests no cut in the upcoming December 17th meeting, in line with our view. Going into 2021, the expectation is that easing will resume in 3Q21, slightly later than our expectation, which puts it in 2Q21. As far as the magnitude, they only forecast a 25bps reduction, while we expect accumulated cuts between 50-75bps.

Exchange-rate expectations revised down, recognizing changes in the environment. The estimate for year-end came in at USD/MXN 20.50, sharply below the 21.69 of the previous survey, matching our [recently revised estimate](#). On dispersion, the minimum plunged to 19.70, while the high came in at 21.96, both lower than in the last survey. For 2021, consensus expects a finish at 21.20 per dollar, lower than the previous 22.00, with a tighter range (minimum: 19.00; maximum: 24.39), and high relative to our USD/MXN 19.80 forecast.

Domestic economic conditions still the main obstacle for growth. The main factors –as grouped by categories– that are likely to impact economic growth are: (1) Domestic economic conditions, with 46% of responses; (2) governance at 25%; (3) external conditions at 20%; and (4) public finances at 9%. Within the first one, we highlight uncertainty about the domestic situation (21%) and weakness in the domestic market (19%). In the second one, uncertainty about domestic policy (11%) is the most important.

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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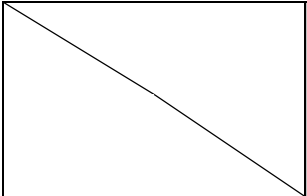
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