

Banxico Survey – Modest changes in expectations at the start of the year

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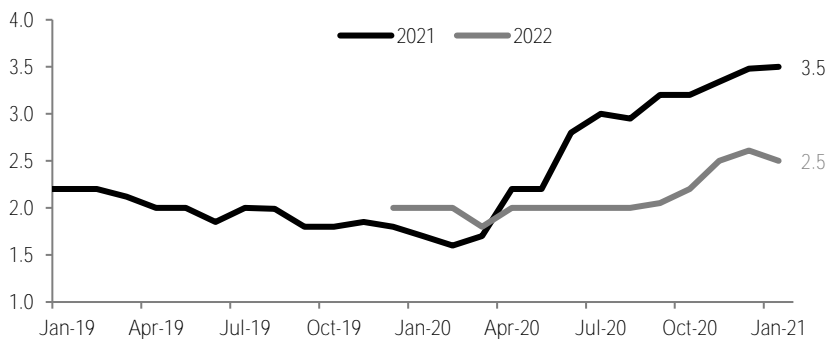
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- Banxico just published its survey of expectations from private sector analysts for January
- Overall, forecasts for 2021 showed modest changes, which is normal given the absence of relevant shocks and considering that it is still very early in the year
- The GDP estimate for 2021 was adjusted marginally higher, to 3.5% y/y from 3.4%, still below our +4.1%. For 2022, it is expected at 2.5%
- Consensus expects inflation at 3.66% at the end of the year, 6bps higher than the previous survey and practically in line with our 3.7%. For 2022, the estimate came in at 3.5%. Medium- and long-term expectations were unchanged at 3.5%, in line with our forecast
- Regarding the central bank’s reference rate, analysts expect an accumulated reduction of 50bps in 2021 relative to its current level, at 4.25%. Specifically, they anticipate two 25bps cuts, one in 1Q21 and the other in the second quarter
- The year-end forecast for the USD/MXN exchange rate was revised down, to 20.20 pesos per dollar from 20.53, still above our 19.80. For 2022, it is expected at 20.58 per dollar

GDP forecast for 2021 improves slightly. Analysts revised their GDP expectations for this year to 3.5% y/y (as seen in the following chart) from 3.4% in the previous survey. Nevertheless, it is still somewhat low relative to our forecast, at +4.1%. Specifically, the minimum points to an expansion of only 1.6%, with the maximum at 5.8%. This is a wider range than last month. For 2022, expectations were slightly lower at 2.5% from 2.6% (minimum: 1.5%; maximum: 4.5%). Finally, long-term growth (10-year average) is unchanged at 2.0%, level where it has hovered for close to a year and a half.

GDP growth estimates
% y/y



Source: Banxico

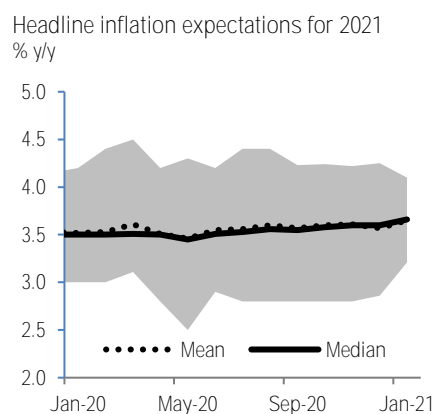
Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



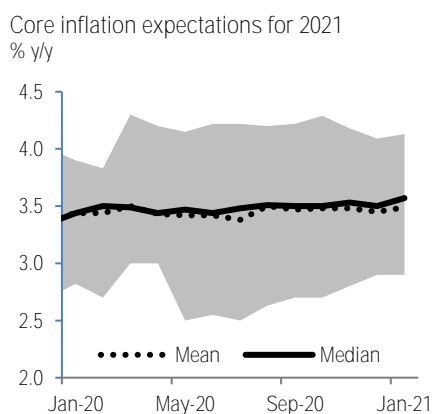
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Year-end inflation slightly up, possibly reflecting the upward surprise in 1H-Jan. The figure forecasted for 2021 came in at 3.66%, 6bps above the previous survey and closer to our 3.7%. The range was tighter relative to the last survey, with a maximum of 4.1% and minimum of 3.2%, as seen in the chart below on the left. Core inflation came in at 3.57%, 7bps higher relative to the previous survey and considerably above our forecast (3.1%). Expectations for the next twelve months stand at 3.52%. Finally, estimates for year-end 2022 point to headline inflation at 3.5%, with the core component at 3.4%.

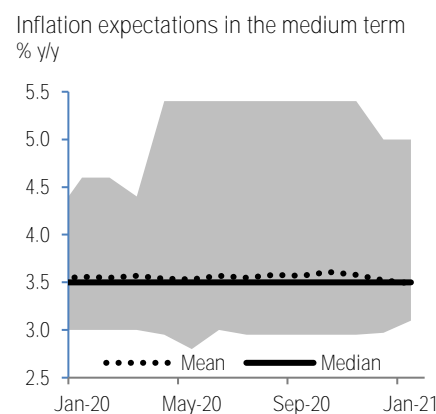
Medium- and long-term expectations anchored slightly above target. Medium-term (1-4 years) and long-term expectations (5-8 years) remain at 3.5%, adding fifteen months at this exact level. Moreover, estimates for medium- and long-term core inflation were also practically unchanged, with both at 3.5%.



Source: Banxico



Source: Banxico



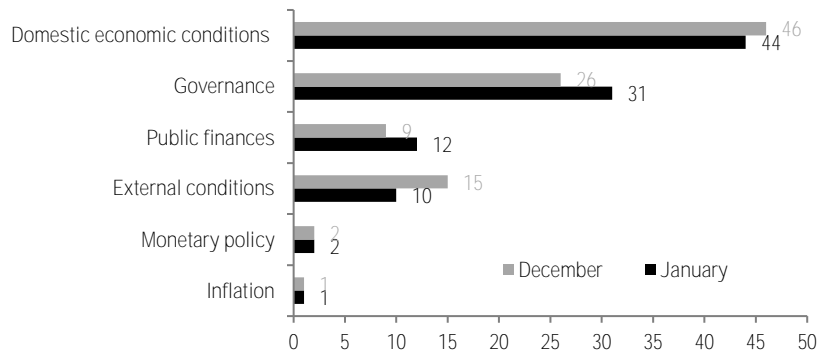
Source: Banxico

Banxico expected to resume the easing cycle in 2021 with a more aggressive stance. Consensus sees accumulated cuts during the year of 50bps (vs. -25bps in the previous survey). This is still more modest than our expectation of a total of -75bps. Regarding the path, the median signals one 25bps reduction in 1Q21, followed by another of the same magnitude in the second quarter. Meanwhile, we expect two cuts of 25bps in 1Q21, in February and March, followed by another in May's decision.

Exchange-rate expectations revised down. The year-end estimate came in at USD/MXN 20.20, lower than 20.53 previously, but still considerably above our 19.80 forecast. On dispersion, the minimum was adjusted to 18.50 and the high came in at 22.09, both closer to the mid-point than in the last survey. For 2022, consensus expects a finish at 20.58 per dollar, lower than 21.00 before, with a tighter range (minimum: 18.00; maximum: 23.31).

Domestic economic conditions still the main obstacle for growth. The main factors –grouped by categories– that are likely to impact economic growth are: (1) Domestic economic conditions, with 44% of responses; (2) governance at 31%; (3) public finances at 12%; and (4) external conditions at 10%. Within the first, we highlight weakness in the domestic market (19%) and uncertainty about the domestic situation (16%). In the second one, uncertainty about domestic policies (15%) is the most important.

Main factors likely to impact economic growth
% 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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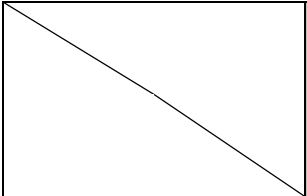
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