

Banxico Survey – Strong revisions for inflation in 2021 continue

August 2, 2021

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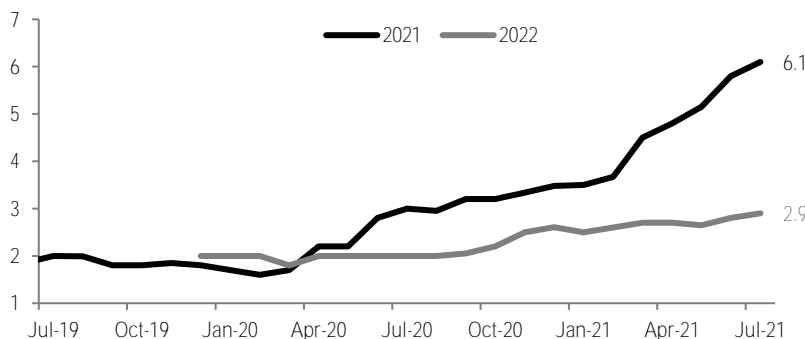
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- Banxico just published its survey of expectations from private sector analysts for July
- Forecasts for 2021 were adjusted once again, noting a strong modification for inflation for a sixth month in a row. Meanwhile, GDP and monetary policy forecasts showed marginal revisions
- The GDP estimate for 2021 was adjusted to 6.1% y/y from 5.8%, closer to our 6.2%. For 2022, it was also revised up, to 2.9% (previous: 2.8%)
- Consensus expects inflation at 6.0% at the end of the year, 40bps higher than the previous survey (Banorte: 6.1%). This is consistent with the view of increased pressures so far in the year. For 2022 it was practically unchanged at 3.7%. Medium-term expectations returned to 3.5%, while the long-term was unchanged at the same level
- On the central bank’s reference rate, analysts now expect it at 5.00% by year end, which implies three additional 25bps hikes. This contrasts with our call of 25bps hikes in each of the four remaining scheduled meetings, taking the rate to 5.25%
- The year-end forecast for the USD/MXN exchange rate was revised to 20.38 pesos per dollar from 20.35, still above our 20.20. For 2022, it was unchanged at 21.00 per dollar

Higher growth for 2021 for a sixth month in a row. Analysts revised their GDP expectations for this year to 6.0% y/y (as seen in the following chart) from 5.8% in the previous survey. We should say that these forecasts were compiled before the release of the 2Q21 preliminary print –which surprised slightly lower–, so we will pay close attention to adjustments in the next survey. With this, it is closer to our 6.2%. The minimum sees an expansion of 5.0% (previous: 4.1%), and the maximum of 7.7% (previous: 6.8%). This has the same range than in the previous survey. For 2022, the median was up by 10bps to 2.9% (minimum: 2.0%; maximum: 4.1%). Finally, long-term growth (10-year average) was marginally better, at 2.2% (previous: 2.1%).

GDP growth estimates
% y/y

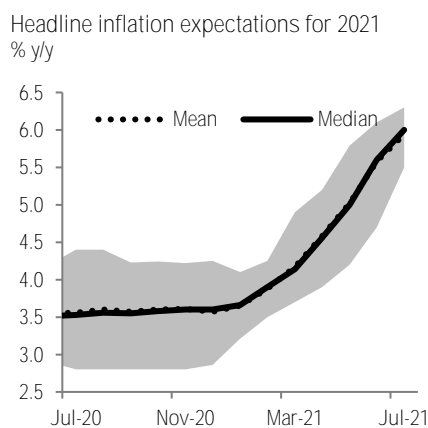


Source: Banxico

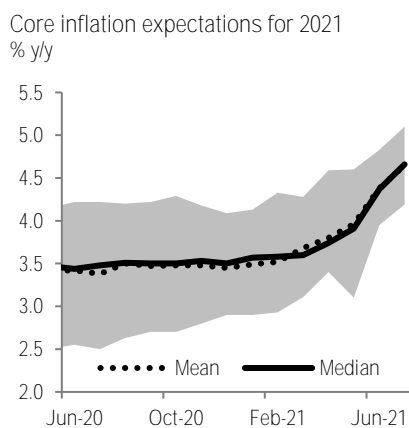
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Year-end inflation higher once again. The figure for end-2021 came at 6.0%, 40bps above the previous survey and with a +240bps adjustment in the last six months. This is consistent with our most recent update, expecting the year-end print at 6.1%. In our view, estimates keep adjusting higher given prevailing upward surprises in bi-weekly data, due to both higher commodities (in turn pushing other prices) as well as from changes in consumption patterns. The range was narrower, with a maximum of 6.3% (previous: 6.1%) and minimum of 5.5% (previous: 4.7%), as seen in the chart below on the left. Core inflation came in at 4.7%, matching our estimate. Expectations for the next twelve months rose to 3.5%. Finally, estimates for year-end 2022 point to the headline at 3.7%, with the core at the same level.

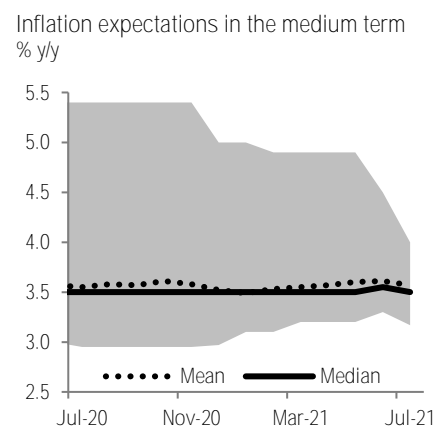
Medium-term expectations inch lower, while the long-term remains unchanged. Medium-term expectations (1-4 years) fell 5bps to 3.5%, back to levels that have prevailed for the last couple of years. Nevertheless, long-term expectations (5-8 years) remained at said level. Moreover, estimates for medium- and long-term core inflation were also unchanged, both at 3.5%.



Source: Banxico



Source: Banxico



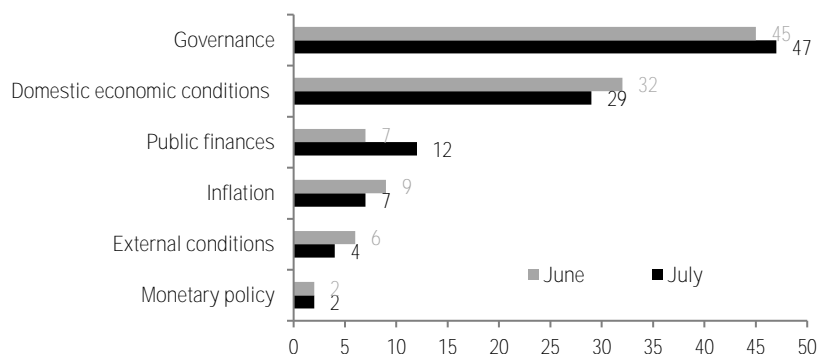
Source: Banxico

Analyst forecasts suggest Banxico will continue hiking in 2021. Specifically, consensus now expects the reference rate to close 2021 at 5.00%, implying three 25bps hikes in the year (previous: between two and three). This contrasts with our view that a hiking cycle has begun, with an accumulated 100bps increase carried out in 25bps clips in each of the four remaining meetings of the year. With this, the reference rate would end at 5.25%. For 2022, consensus point to a rate of 5.38%, with our estimate higher at 6.00%.

Exchange-rate for 2021 practically unchanged. The year-end estimate came in at USD/MXN 20.38, up from the 20.35 of the previous month, but still slightly above our 20.20. Both the minimum and maximum were unchanged, at 19.00 and 21.00, respectively. For 2022, consensus remained at 21.00 per dollar, with the low higher at 19.40 (previous: 19.25) and the maximum at 22.00, also with no modifications.

Governance remains as the main obstacle for growth. The main factors –grouped by categories–likely to impact GDP growth are: (1) Governance, with 47% of responses; (2) domestic economic conditions (29%); (3) public finances (12%); and (4) inflation (7%), among the most relevant. Within the first, we note public security issues (16%) and domestic political uncertainty (14%). In the second, uncertainty about the economic situation (10%) and domestic market weakness (10%).

Main factors likely to impact economic growth
% of responses



*Note: Percentages might not add up to 100 given rounding effects
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, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Alik Daniel García Álvarez, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo 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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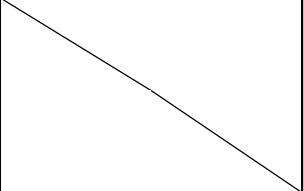
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