Economic and Financial Markets Research
Economic Research, Mexico

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Banxico minutes – Setting the stage for a rate cut in March

- **Banxico released the minutes of the decision held on February 8th, where they left the reference rate unchanged at 11.25% with a unanimous vote**
- **The document showed a less hawkish tone, similar to the statement. We highlight relevant comments in three fronts:**
  - **(1) The debate regarding how soon adjustments can be made –consistent with the change in the forward guidance–, with two members emphasizing that the direction is down;**
  - **(2) Different opinions regarding if that said changes will be gradual; and**
  - **(3) The need to remain data dependent to determine the beginning of cuts and/or the following moves**
- **Nevertheless, we highlight several comments on inflation, with some members focusing on the performance of the core, leaving to the side the recent shocks on the non-core**
- **As such, we believe the communication clearly supports our view of a first interest rate reduction of 25bps in the following meeting (March 21st), followed by a pause in May and with cuts resuming in June**
- **However, we revise our forecast for the end of the year to 9.75% (previous: 9.25%) after the recent adjustment to our monetary policy forecasts for the Fed (total cuts in 2024: -75bps)**

Minutes support the view that cuts are close. In our view, the document validated the less hawkish tone of the statement, on top of providing more information on the discussions that triggered the changes to the forward guidance. Specifically, we highlight comments on three fronts: (1) The assessment that adjustments to the reference rate could be made, with two members emphasizing that the direction is down –quoting different factors for this; (2) different opinions on whether such rate changes will be gradual; and (3) the need to maintain data dependence when executing potential cuts. On inflation, focus was on the core, highlighting some improvements. Considering these points, we believe signals are aligned for a first 25bps cut in the next decision (March 21st). Furthermore, we maintain our view of a pause in May, giving some weight to the view of gradualism. Thereafter, cuts would resume in June at the same magnitude. On the other hand, we changed our estimate for the level of the benchmark rate at year-end, expecting it to be 9.75% (previous: 9.25%). In particular, we consider our view of less monetary easing in the US, which would limit the space in terms of relative stance, among other factors.

There is room for 'adjustments', although conditions for triggering them are different for each member. In particular, we see a bias from four of the five members towards a combination of factors that could open up the possibility to start making adjustments to the reference rate. At least two of them explicitly suggest that it would be to the downside (a cut), although we think they all lean in this direction. Only one participant, who we think is Deputy Governor Irene Espinosa, talks about how it would be risky to commit to a specific time frame. Thus, we think she remains as the most hawkish participant, and that there is even a high probability that she will oppose a cut in the next decision. Moving on to other members, we believe there is some consensus that monetary tightening in real terms could be –or become– excessive, requiring a lower reference rate to avoid it.


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Banxico's decisions in 2024

Date	Decision
February 8th	0bps
March 21st	--
May 9th	--
June 27th	--
August 8th	--
September 26th	--
November 14th	--
December 19th	--

Source: Banxico

However, the degree of concern and caution about the various variables in play would seem to be driving the possibility of 'gradual' changes. Thus, three members speak explicitly that this should be the strategy, in our view being Governor Victoria Rodriguez and Deputy Governors Jonathan Heath and Omar Mejía. We outline other relevant quotes and our opinion on the skew of each member on the following table.

Banorte's assessment on Board member's comments in the February 8th minutes

Bias	Member	Order in the minutes	Relevant comments
Hawkish	Irene Espinosa	2	*"...it is extremely risky to include forward guidance and therefore, in his/her opinion, a data-dependent approach should be reinforced…"* *"... stated that a tone of caution should be maintained in this monetary policy statement, given an environment in which the balance of risks for inflation remains biased to the upside…"* *"...it may be necessary to maintain the current level of the reference rate longer than anticipated by market consensus cannot be ruled out…"*
	Jonathan Heath	3	*"...any eventual downward adjustment to the referencerate should not be interpreted as the beginning of a monetary easing cycle."* *"...subsequent monetary policy decisions will be completely dependent on the evolution of the data…"* *"...before beginning a cycle of consecutive reference rate cuts, core inflation and, particularly, its services subcomponent, must show less persistence and consolidate into a downward trajectory…"*
	Victoria Rodríguez	1	*"...at the next monetary policy decision meeting, depending on available information, the appropriateness of lowering the reference rate can be assessed…"* *"...given the challenges, whenever macroeconomic conditions allow for cuts in the reference rate, these would be gradual…"* *"...it should be considered that the non-core component is highly volatile and that core inflation better reflects the trend in inflation.""*
	Galia Borja	4	*"… looking ahead, given the expected disinflation and the passive increase in the real interest rate, if the reference rate is not adjusted, the ratio between both gaps could increase significantly and above what is necessary."* *"...if macroeconomic conditions allow, the prevailing level of restriction could be pondered…"* *"…while the core one, which is the most sensitive to monetary policy, has continued to decline…"*
Dovish	Omar Mejía	5	*"...adjustments to the policy stance will be gradual, given the expected non-linearity of the disinflationary process, which would allow an evaluation of its behavior…"* *"...that downward adjustments in the interest rate would not prevent the continuation of a restrictive stance…"* *"...considered it relevant progress that the recent disinflationary process has been guided by the core component…"*

Source: Banorte with information from Banxico

The disinflationary process continued in the core component. Banxico's Board considered that decline in inflation has been significant, although the balance of risks is still skewed to the upside. Most members recognized the disinflationary process in the core component, with some of them highlighting the persistence to the upside of services. Specifically, we believe that Deputy Governor Heath considers this as a barrier to make consecutive cuts. At the same time, this supports the vision of a gradual adjustment trajectory, as was already mentioned. Finally, some members highlighted that the volatility in the non-core. In that regard, we consider relevant the statement that *"…it will be necessary to make sure that the rebound in non-core inflation does not spill over to core inflation..."*, which we also attribute to Heath.

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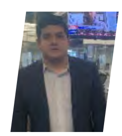

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