March 21, 2024

Banxico – First rate cut, but the language points to a pause in the next meeting

- **In a split decision, Banxico's Board cut the reference rate by 25bps to 11.00%, in line with our view and consensus. We highlight the comment that, with this adjustment, the monetary stance remains in restrictive territory**
- **The tone of the statement was similar to the one of the previous meeting, although we do highlight some points that, in our view, aim to signal that today's move does not imply the start of an easing cycle, just as we expected. Among them, we note:**
  - **(1) Adjustments in the forward guidance, stating that "*…in the next monetary policy meetings, it will make its decisions depending on available information…*", albeit removing the line from the previous statement that talked about "*…the possibility of adjusting the reference rate…*";**
  - **(2) Despite progress in the disinflationary process, they recognized that "*…challenges and risks* […] *prevail, which requires monetary policy to continue being managed prudently…*";**
  - **(3) The marginal upward adjustment in the path for headline inflation (+5bps on average in 2024), with a slightly higher revision to the core (+8bps on average in the same period); and**
  - **(4) The dissent from Deputy Governor Irene Espinosa, which favored to keep the rate unchanged at 11.25%**
- **The balance of risks for inflation remains skewed to the upside, with a small adjustment in one of the factors that makes it up that suggests some progress in overall conditions for the core. In addition, the estimated convergence to the target is still expected in 2Q25**
- **Regarding local activity, they expect higher dynamism in 1Q24 relative to 4Q23, with further strength in the labor market**
- **We consider that the changes in the statement, an inflation outlook that continues to pose risks, and uncertainty about the possible evolution of the monetary stance relative to the US support our call, held since late November, that the monetary authority will opt for a pause in its May 9th decision**
- **Afterwards, we still expect cuts to resume in June, easing consecutively in -25bps steps for the remainder of 2024. This would take the reference rate to 9.75% by the end of December**

Banxico: CPI forecasts
% y/y, quarterly average

	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26
Headline										
Current	4.4*	4.6	4.4	4.0	3.6	3.2	3.1	3.1	3.1	3.1
Previous	4.4*	4.7	4.3	3.9	3.5	3.2	3.1	3.1	3.1	
Difference (bps)	--	-10	10	10	10	0	0	0	0	--
Core										
Current	5.3*	4.7	4.2	3.8	3.5	3.2	3.1	3.1	3.1	3.1
Previous	5.3*	4.6	4.1	3.7	3.5	3.2	3.1	3.1	3.1	
Difference (bps)	--	10	10	10	0	0	0	0	0	--

*Actual data
Source: Banxico


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Banxico's decisions in 2024

Date	Decision
February 8th	0bps
March 21st*	-25bps
May 9th	--
June 27th	--
August 8th	--
September 26th	--
November 14th	--
December 19th	--

*The minutes of the decision will be published on April 4th
Source: Banxico

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