

Banxico minutes – Caution will reign in coming decisions after the first cut

- Banxico released the minutes of the decision held on March 21st, in which the Board decided by majority a 25bps cut, remembering the dissent from Deputy Governor Espinosa
- In our opinion, the document showed a more hawkish tone than the [statement](#). This is based on different members' opinions to remain cautious in coming decision, reflected in:
 - (1) The view from most members about the convenience of moving at a gradual pace, stressing that the cut does not imply a continuous easing cycle;
 - (2) The need for more information about the disinflationary process and macroeconomic conditions; and
 - (3) Expectations that they will maintain a restrictive stance throughout the forecast horizon, stating that the cycle could be slower and even with a higher terminal rate than in previous occasions
- Based on the latter, we believe that the minutes clearly support our view of a pause in the May 9th meeting, leaving the rate at 11.00%. After this, we still anticipate a 25bps cut in June
- In addition, considering the force of the statements made and a still challenging inflation outlook, we believe another pause could materialize in August. After this, we expect consecutive cuts from September onwards (by -25bps each). As a result, the reference rate would close this year at 10.00% (previous: 9.75%)

Minutes with a more hawkish tone, pointing to a pause in the next decision. In our view, the document showed a more restrictive tone relative to the one we perceived in the [statement](#). Specifically, we noted an emphasis on the need to proceed with caution, which was reflected throughout different comments from Board members. Some of the most important ones focused on: (1) The need to remain data-dependent; (2) the convenience of moving at a gradual pace in the following decisions; (3) challenges to communicate effectively to market participants the institution's cautious stance, which could be aimed at influencing expectations about future actions; and (4) expectations that they will maintain a restrictive stance throughout the forecast horizon. Considering this, we believe signals are aligned for the Board to opt for a pause in the next decision, which will be on May 9th, keeping it at 11.00%. We continue to anticipate -25bps in June, although we revise our view forward. Specifically, several comments on the possibility of no continuous cuts (which we discuss in more detail in the next section) and of a still challenging inflation outlook stood out. This leads us to believe that another pause will materialize in August, with consecutive cuts only starting in September (by -25bps each). As a result, the reference rate would close this year at 10.00% (previous forecast: 9.75%).

Data-dependency will be key for future decisions. Most members emphasized that the announced cut considered some progress in the disinflationary process relative to the level of restriction already achieved. However, one of the most repeated points was that further adjustments, when made, will be subject to the evolution of inflationary and macroeconomic conditions. Although this does not represent a major deviation from previous communications, the fact that they reaffirmed it after the first reduction provides greater weight to the comments about gradual and cautious actions.

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Banxico's decisions in 2024

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

Source: Banxico



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Gradual and non-continuous adjustments. We believe it is very relevant that, except for Deputy Governor Espinosa, the remaining four members gave some indication that this move should not be interpreted as the first of a series of adjustments. Starting with Governor Rodríguez, we believe she stated that “...when macroeconomic conditions allow for additional adjustments, these would be gradual...”. To this we add her participation in *Enfoque Noticias* last December, where she explicitly said that, depending on prevailing conditions, “...it might not be a cycle of continuous cuts...”. In our interpretation, this reaffirms her potential preference for a pause. On a more hawkish tone, Deputy Governor Heath expressed that it is not yet time to start an easing cycle, even mentioning it twice in the section attributed to him in the minutes. Similarly, Deputy Governor Borja stated that the cut should not be interpreted as a normalization process and that it will be a slower, longer-term cycle. More dovish, Deputy Governor Mejía acknowledged that the conduction of monetary policy should be gradual in both magnitude and timing. In this sense, we focus our attention on these comments, which are highlighted in bold in the following table.

Banorte’s assessment on Board member’s comments in the March 21st minutes

Bias	Member	Order in the minutes	Relevant comments
Hawkish	Irene Espinosa	2	<p>“...the fact that markets anticipate that inflation will be higher than our forecasts indicates that it is premature to begin reducing monetary restriction...”</p> <p>“...prudence must be exercised in the signals conveyed to the markets...”</p> <p>“...a reference rate cut could be interpreted by markets as Banco de México's tolerance to higher inflation levels...”</p>
	Jonathan Heath	3	<p>“...it is still not time to begin a rate cutting cycle...”</p> <p>“...before making an additional adjustment to the reference rate, there should be greater certainty about the convergence of inflation to its target...”</p> <p>“...that room to lower the target rate might be very limited...”</p>
	Victoria Rodríguez	1	<p>“...when macroeconomic conditions allow for additional adjustments, these would be gradual...”</p> <p>“... additional rate cuts would be made on a meeting-by-meeting...”</p> <p>“... [the cut] does not mean that the fight against inflation has come to an end, nor is it a sign of complacency...”</p>
	Galia Borja	4	<p>“...the proposed reduction should not be interpreted as a normalization process of monetary policy...”</p> <p>“...communication should encourage markets to adjust their expectations to what is likely to be a slower and longer-lasting cycle compared to past episodes...”</p> <p>“...it will be necessary to maintain a restrictive stance in the forecast horizon.”</p>
	Omar Mejía	5	<p>“He/she deemed it highly relevant that monetary policy should be implemented gradually, not only in terms of magnitude but duration.”</p> <p>“He/she noted that gradualism in terms of duration means that one adjustment does not imply a continuous cycle has begun.”</p> <p>“...maintaining a restrictive stance will continue to be necessary...”</p>
Dovish			

Source: Banorte with information from Banxico

It will be necessary to maintain a restrictive stance throughout the forecast horizon, probably with a more limited cycle than on previous episodes. Another point that resonated with us was that the cut still leaves the rate in restrictive territory. However, more relevant were: (1) The opinions of some members that it should remain in said territory throughout the forecast horizon (that currently extends until 1Q26); and (2) the possibility that the terminal rate will be higher-than-anticipated. Regarding these issues, we highlight the comments from Deputy Governors Borja, Heath and Mejía. The first argued that “...it likely to be a slower and longer-lasting cycle compared to past episodes...” and that “...it will be necessary to maintain a restrictive stance in the forecast horizon...”; the second one addressed the possibility that “...that room to lower the target rate might be very limited...”. Finally, the latter commented that, despite the need to adjust the real, ex-ante interest rate, “...this does not imply bringing it back to its pre-pandemic levels...”.

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