

Banxico minutes – Upcoming decisions will depend on inflationary surprises

- Banxico released the minutes of the decision held on May 9th, in which the Board decided, unanimously, to keep the rate at 11.00%
- In our opinion, the document showed a more hawkish tone than the statement. This was reflected on members' comments regarding their concerns about services' inflation. As a result, they doubled-down on the need to maintain a high data-dependency mode in upcoming decisions
- Nevertheless, we saw greater divergence in the most adequate language for the forward guidance, with the most dovish wing more emphatic in talking about (gradual) adjustments to the reference rate
- In this context, we reiterate our call of a 25bps cut in the June 27th decision, taking the rate to 10.75%. After this, a pause will likely follow, with reductions resuming in September and becoming consecutive through the remainder of the year, closing December at 10.00%

Minutes with a more hawkish tone at the margin. In our view, the document showed a more restrictive tone relative to the [statement](#). One of the driving ideas in members' comments were their concerns about the performance of services' inflation, showing a higher-than-expected persistence to the upside. Given this, and in the same vein as [other communications](#), all of them spoke about the need to remain data-dependent in upcoming monetary policy decisions. Nevertheless, we did perceive a greater divergence on the adequate language to convey in the forward guidance. The most dovish members –which we identify as Governor Victoria Rodríguez, Omar Mejía, and Galia Borja– were more emphatic in signaling the possibility of adjustments (or even cuts); meanwhile, those with a hawkish tilt warned against doing so. In this context, we maintain our call of a 25bps reduction in the next decision –on June 27th–, taking the rate to 10.75%. Following this and factoring in the messages about the convenience to proceed in a gradual and prudent manner, we keep expecting a pause in August. Cuts would resume in September, becoming consecutive thereafter, taking the rate to 10.00% by year-end.

Concerns on services' inflation are growing. The Board considered that recent increases in headline inflation have responded to an increase in the non-core component. As such, most saw that the core kept declining, although at a more marginal pace, agreeing that said decline was mainly attributed to goods. With this, they noted that inflation in services has persisted at higher levels than previously anticipated and still hasn't shown an inflection point to the downside. On this, some mentioned that *"...it has remained above 5% despite the monetary tightening..."*. Turning to the monetary policy section, four of the five participants recognized this phenomenon. This situation leads us to believe that dynamics in this component will be key to determine possible actions that can be taken in following meetings.

Data-dependency will remain key going forward. All members –although only four explicitly– highlighted that current conditions call for an evaluation of available figures in the following decisions. In their arguments, they signaled that their expectation that the effects from previous inflationary shocks will take longer to fade out given the pressures on services (as mentioned previously). This makes it necessary to see further progress to decide on additional rate moves. All of them considered this point clearly, noting some specific comments (with some of them in the table on the following page). As a result, we think that inflation in the next two fortnights will be critical for the June 27th decision, especially relative to the institution's forecasts.

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Banxico's decisions in 2024

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

Source: Banxico



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Banorte's assessment on Board member's comments in the May 9th minutes

Bias	Member	Order in the minutes	Relevant comments
 Hawkish	Irene Espinosa	2	<i>"...the achieved monetary restriction should be firmly maintained."</i> <i>"...looking ahead, commitment to the primary goal must be strengthened and that a forward-looking and data dependent approach should be prioritized, avoiding any premature adjustments..."</i> <i>"...the reduction in the reference rate in the March decision, which he/she considered premature, incurred a social cost, as it required extending the monetary restriction for a longer period."</i>
	Jonathan Heath	4	<i>"...no additional fine-tuning of the target rate can be made, either now or in the following months, and a restrictive stance should be maintained for an extended period."</i> <i>"...adjustments to the reference rate should be more spaced out and more gradual than as anticipated by analysts."</i> <i>"...in the second half of the year there would be greater clarity to make fine adjustments, even more gradual than anticipated, and only if conditions warrant it."</i>
	Galia Borja	3	<i>"...if the evolution of macroeconomic conditions is consistent with updated inflation forecasts, it may be appropriate to reassess any space for recalibrating the level of monetary restriction once again."</i> <i>"...monetary conditions remain notably restrictive..."</i> <i>"... the pace and scale of possible adjustments in the monetary policy stance should continue to be gradual to ensure the transmission to less sensitive components..."</i>
	Omar Mejía	5	<i>"...an adjustment to the policy rate at the next meeting could be considered if the intermediate inflation targets, such as the inflation forecast, are met."</i> <i>"...the current policy stance is highly restrictive and that, even with additional adjustments..."</i> <i>"...a less adverse risk outlook [...] and thus it does not require keeping the monetary policy stance at historically restrictive levels..."</i>
	Victoria Rodríguez	1	<i>"...the inflationary environment is such that it allows to consider potential reference rate cuts going forward, with decisions contingent on the inflation outlook."</i> <i>"...subsequent reductions should be gradual given the higher-than-anticipated persistence in services inflation..." previously anticipated."</i> <i>"...it is essential to continue weighing the undeniable progress achieved in Mexico's disinflationary process against the challenges that still prevail..."</i>
	Dovish		

Source: Banorte with information from Banxico

Important differences in the most convenient language for the forward guidance. Regarding this, we identified a greater divergence among the members. We saw two clearly defined groups. The comments from Galia Borja and Omar Mejía were quite similar, highlighting the use of the word 'adjustment' –albeit referring to cuts–, although with the latter more explicit regarding the moment as he talked about the *"...next meeting..."*. Meanwhile, the former only commented that *"...it may be appropriate to reassess any space for recalibrating the level of monetary restriction..."*. Meanwhile, Victoria Rodríguez was more explicit in using the word 'cut', although also subject to upcoming data. In the second group we place Irene Espinosa and Jonathan Heath. The former stated that the monetary authority should avoid *"...any premature adjustments..."* in the future. On the other hand, Heath elaborated that *"...no additional fine-tuning of the target rate can be made..."*. However, a quite relevant point at the end of his presentation was the addition that *"...if inflation and its expectations remain persistently outside the variability range, the possibility of assessing the degree of monetary restriction required to achieve the 3% target should be considered..."*. The latter makes us think that he does not believe that hikes could be completely off the table. Above all, if his estimated level for the adequate ex-ante real rate in the current backdrop (between 7.0% to 7.5%) and/or the long-term neutral are revised upwards.

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