

Banxico minutes – Greater concerns on activity and lower core inflation lead us to expect a cut in August

- Banxico released the minutes of the decision held on June 27th, in which, by a majority vote, the Board decided to keep the rate at 11.00%. As such, the document also includes the reasons behind Omar Mejía's dissent supporting -25bps
- In our opinion, the document not only reinforced the more dovish tone of the [statement](#), but expanded upon it. As such, the divergence we had seen in the previous [minutes](#) widened, with two groups clearly marked
- More dovish members, which we believe are Governor Victoria Rodríguez, Galia Borja and Omar Mejía, gave a larger weight to the possible impact of an economic deceleration on prices
- On the contrary, hawkish participants –still Irene Espinosa and Jonathan Heath– argue that upside risks for inflation persist. Given this, they believe a more prudent and cautious approach should be maintained
- In this context, and also considering [a better outlook for core inflation](#), we now expect a 25bps cut on August 8th, taking the rate to 10.75%. After this, we expect pauses in September and November, with another 25bps reduction in December. As such, the rate would close the year at 10.50%

Minutes show a greater divergence between Board members. In our opinion, the document not only reaffirmed the less restrictive tone of the [statement](#), but expanded upon it. We also found it relevant that differences in the comments from the members –already notorious in the [last minutes](#)– widened further, clearly defining two groups with differentiated views about possible actions in upcoming meetings. The dominant wing, which drives the dovish tone, would be made up by Governor Victoria Rodríguez, Galia Borja, and Omar Mejía. The main driving topic was their concerns about the deceleration of economic activity and its resulting impact on prices. On the contrary, Irene Espinosa and Jonathan Heath, which remain more hawkish, seem more concerned on the inflationary backdrop, and to a lesser extent, financial conditions. Taking this into account, along with a [better view for core inflation](#) in coming months, we believe the next cut will materialize sooner than previously expected. As such, we see a 25bps reduction in the August 8th –very likely with a majority vote–, taking the rate to 10.75%. Afterwards, and considering a challenging geopolitical context, we forecast pauses in September and November. Moreover, we see an additional 25bps reduction in December, taking the rate to 10.50%.

Relatively dovish members are weighing progress in the disinflationary process, with a larger deceleration as a downward risk for prices. The latter in spite of the lack of support of Omar Mejía's preferred cut by either Victoria Rodríguez or Galia Borja. Specifically, Borja and Rodríguez gave a larger weight to the bout of financial volatility before the decision, on top of not adjusting the rate to gain time for evaluating the progress on inflation dynamics. Leaving this aside, the three share the view that the disinflationary process has advanced, in turn supported by the current restriction – which would remain in place even with additional cuts. Moreover, we believe that two of them, Rodríguez and Mejía, stressed the downward path of the core despite adjustments higher in the headline. Moreover, the latter stated that they must “...refrain from overweighing the evolution of non-core inflation, over which monetary policy has little incidence...”. Finally, the point that garnered most attention is related to expectations of a larger economic deceleration –a point that Borja stressed in our podcast, [Norte Económico](#) (available only in Spanish)– and its possible implications on the price formation process. As a result, all of them suggested that rate adjustments could be discussed and continue in coming meetings, as seen in the table below.

July 11, 2024



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Banxico's decisions in 2024

Date	Decision
February 8 th	0bps
March 21 st	-25bps
May 9 th	0bps
June 27 th	0bps
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 Jun 27th minutes

Bias	Member	Order in the minutes	Relevant comments
Hawkish	Irene Espinosa	2	<p>"...a risk management approach should be prioritized in an environment of increasing uncertainty, fueled by idiosyncratic and external shocks."</p> <p>"...a reference rate cut would come as a surprise to most market participants and could increase exchange rate volatility and raise inflation expectations."</p> <p>"...the strength of consumption and, to a lesser extent, of investment, as well as the fiscal policy outlook, would imply a lesser-than anticipated deterioration for economic activity for the remainder of 2024."</p>
	Jonathan Heath	4	<p>"...it is not necessary to lower the reference rate before there is greater certainty that inflation, specifically core inflation [...] show a downward trend and displays a clear convergence to the 3% target."</p> <p>"...a high and prolonged restrictive stance is required given its lagged effects on aggregate demand and the low effectiveness of its transmission mechanisms."</p> <p>"...changes in slack conditions or the tightening of financial conditions should continue to be of secondary consideration."</p>
	Galia Borja	3	<p>"...if macroeconomic conditions [...] contribute to fostering a more favorable price dynamic, it would be appropriate to resume the downward adjustments..."</p> <p>"...this decision seeks to manage both upward and downward risks to inflation and to foster an orderly adjustment of markets..."</p> <p>"...it is appropriate on this occasion to extend the pause in order to continue assessing both the disinflation process and the monetary policy transmission mechanism."</p>
	Omar Mejía	1	<p>"...progress in disinflation and the prevailing degree of monetary restriction allow to discuss possible reference rate cuts and, in his/her opinion, this will be undertaken in upcoming monetary policy meetings."</p> <p>"...emphasized that this decision, which implies extending the pause in reference rate adjustments, does not mean that the possibility of lowering the reference rate in future meetings is no longer considered."</p> <p>"...disinflation is projected to continue throughout the forecast horizon."</p>
	Victoria Rodríguez	5	<p>"...it is also appropriate to conduct monetary policy with a prospective approach and refrain from overweighing the evolution of non-core inflation..."</p> <p>"...making additional adjustments to the reference rate does not imply abandoning a restrictive policy stance, which will remain necessary throughout the forecast horizon, given the challenges that prevail."</p>
Dovish			<p>"...failing to address changes in the inflation outlook in a timely manner, such as the current intensification of risks to the downside, could imply larger adjustments in the future."</p>

Source: Banorte with information from Banxico

The hawkish wing maintains greater concerns about the inflation outlook and the impact of other upside risks. Lastly, most of the arguments made by Irene Espinosa and Jonathan Heath were similar to those in previous documents, when they addressed the need to remain data dependent. However, there were new points that strengthen their more restrictive stance. Espinosa pointed out that she does not expect a deeper economic slowdown, which contrasts with other views. On the other hand, Heath mentioned that signals sent must be careful in an environment of greater uncertainty, on top of emphasizing that it is necessary to maintain a restrictive stance to ensure the convergence to the target. However, we consider him to be marginally less hawkish than Espinosa as he still addressed a number of factors and conditions that would eventually allow for a 'fine-tuning' of the reference rate.

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