

Banxico minutes – Broader consensus of consecutive moves given a better inflation outlook

- Banxico released the minutes of the decision held on September 26th. At the time, they opted to cut the rate by 25bps to 10.50% with a split vote. As such, the document also included the arguments supporting the dissent from Jonathan Heath
- In our opinion, the document reaffirmed the more dovish tone from the [statement](#), talking with more certainty about future actions, although still with divisions within the Board
- Governor Victoria Rodríguez, and Deputy Governors Galia Borja and Omar Mejía, which in our view are more dovish, signaled that conditions could already be materializing to perform consecutive moves, even with the possibility of rethinking about its magnitude in coming meetings
- Despite voting for the cut, Irene Espinosa maintains a cautious stance. Jonathan Heath was more hawkish, noting his concerns on core inflation, particularly services
- In this context, we keep expecting 25bps cuts each in the November and December meetings, with the reference rate at 10.00% by YE24. Easing would extend to 2025, with an accumulated reduction of 200bps to 8.00% by the end of the year

The minutes corroborate a more dovish tone, supporting our view of cuts ahead. In our view, the document endorsed the less restrictive tone of the [statement](#), providing more information on members' views. This includes their analysis of the current outlook, expectations, and the conditions they will monitor in upcoming decisions. Thus, even though the vote was closer than in the previous meeting –4 to 1 vs. 3 to 2–, we continue to identify a relevant division within the Board. Those with a dovish bias –Governor Victoria Rodríguez, and Deputy Governors Galia Borja and Omar Mejía– and others with a more restrictive view –Irene Espinosa and Jonathan Heath. In this context, we consider that the most relevant point was the debate on upcoming adjustments, with the majority opting to support consecutive reductions if the inflationary outlook remains favorable. They even argued about possible changes in the magnitude if improvements extend further. Nonetheless, concerns remain, still supporting the need to remain data dependent. Considering these arguments in an environment where [core inflation appears to be consolidating below the 4% threshold](#) and with the Fed continuing to cut in its upcoming decisions, we maintain our conviction that the easing cycle will continue. Thus, we still expect two 25bps cuts each at the November and December meetings, with the reference rate closing 2024 at 10.00%. Easing would extend to 2025, with a cumulative reduction of 200bps –which implies 25bps reductions in each of the eight scheduled decisions– to close that year at 8.00%.

The dovish wing is considering continuity in cuts due to the current outlook, with the possibility of increasing the magnitude if conditions improve. Based on the progress in the disinflationary process, the discourse of the more dovish members left aside the gradual approach that was still evident in the [previous minutes](#). Thus, consensus now turned in favor of implementing consecutive cuts. In detail, and still showing some reticence, we believe Borja was the one who conditioned the continuity, commenting that “...if the distribution of risks to inflation continues improving, it may be advisable to adopt a path of continuous data-dependent adjustments.”. Mejía –who we recognize as the most dovish– mentioned that “...the inflationary context allows to anticipate the continuity in adjustments to the level of restriction...”. As such, the comments and latest actions support that this will be the path to follow going forward.

October 10, 2024



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Banxico's decisions in 2024

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

Source: Banxico



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In addition, some discussions emerged about the magnitude of upcoming moves. In this regard, Governor Rodríguez emphasized that *"...given the levels that core inflation has already attained, the magnitude of adjustments could be evaluated."*, consistent with her speeches on several media outlets in previous weeks. This was seconded by Mejía, mentioning that *"...in the absence of further shocks, discussions could begin regarding the level of reference rate cuts."* It is important to note that these members are also the ones who have given the most importance to the slowdown in economic activity, a factor that could be decisive for them in coming meetings.

Banorte's assessment on Board member's comments in the September 26th minutes

Bias	Member	Order in the minutes	Relevant comments
Hawkish	Jonathan Heath	2	"...initiating a cycle of monetary easing prematurely could send a signal of complacency and that we are content with the high levels of headline inflation..." "...it is necessary to break the persistence of services inflation in order to achieve a further decline in core inflation..." "...economic activity should not be overestimated in policy decisions, [...] more certainty is required regarding the direction and magnitude of the new phase in the economic cycle..."
	Irene Espinosa	4	"...easing the monetary restriction should be approached with great vigilance..." "...the proposed 25-basis point reduction to the reference rate indicates progress in the right direction; however, this does not imply that the fight against inflation is over..." "...although weak economic activity is expected to contribute to the disinflationary process, this possibility has not yet materialized..." "... if the distribution of risks to inflation continues improving, it may be advisable to adopt a path of continuous data-dependent adjustments."
	Galia Borja	3	"...despite the improved inflationary outlook, new bouts of volatility cannot be ruled out, which will continue to require caution from the central bank." "...the downward recalibration [...] has been both prudent and gradual, aiming to maintain a monetary policy stance that mitigates upward risks to inflation..."
	Victoria Rodríguez	1	"...given the levels that core inflation has already attained, the magnitude of adjustments could be evaluated." "...it should be communicated that, going forward, the inflationary environment is expected to allow for further reductions in the reference rate..." "...the supply shocks that exerted upward pressure on noncore inflation are dissipating and are expected to continue to do so..."
	Omar Mejía	5	"...in the absence of further shocks, discussions could begin regarding the level of reference rate cuts..." "...the inflationary context allows to anticipate the continuity in adjustments to the level of restriction..." "...that the magnitude of the Federal Reserve's reference rate cut, previously observed only during periods of marked economic weakness, creates room for adjustment in terms of the relative policy stance..."
Dovish			

Source: Banorte with information from Banxico

The hawkish wing is more concerned about inflation, although division within the group is also relevant. As we already mentioned, despite voting in favor of the rate cut, Espinosa maintains a more cautious stance. She recognized the positive evolution of inflation, albeit also evaluating relevant risks in the outlook. As pointed out in the previous table, she considers that the fight on this front is not over, emphasizing the performance of services' prices—which have shown a resistance to decline—, foreseeing that *"...said persistence could continue given the resilience of private consumption..."*. This also suggests that she is not as worried about economic activity as the rest of the Board. In this sense, she avoided expressing specific opinions on upcoming moves, reiterating data dependency as the guiding axis. In his dissent, Heath was clear in pointing out his concerns about inflation, highlighting the need to avoid complacency with high levels seen in previous periods. He does not agree with overweighting the effects of economic activity on prices. In line with this, he stressed that, despite the Fed's substantial cut, this was due to its dual mandate, so Banxico would not have to implement something similar. Considering these factors, we now think that Heath is the most hawkish member of the Board. In this context, we believe that he will continue to support maintaining a more restrictive stance if substantial improvements are not observed on inflation.

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