

Banxico minutes – Entering a new phase in the restrictive period

- Banxico published the minutes of the decision held on May 18th, in which they left the interest rate unchanged at 11.25% with a unanimous vote
- The document reaffirmed the less hawkish tone that we perceived in the statement and yesterday's [Quarterly Report](#). We highlight comments on:
 - (1) Improved inflationary conditions, as well as the perceptions that actions carried out have had an effect on the economy;
 - (2) The end of the tightening cycle, albeit with some doubts about the possible actions ahead;
 - (3) The forward guidance and the definition of the 'extended period'; and
 - (4) Necessary conditions for rate cuts to materialize
- Considering opinions in the document, the *Quarterly Report* presented yesterday, and our inflation expectations, we maintain our call that the reference rate will remain unchanged for the rest of the year. In addition, we still believe that cuts will materialize until 1Q24
- Local assets did not react to Banxico's minutes

Banxico's minutes reaffirm the change towards a less hawkish tone. The document expands on the different reasons behind the Board's unanimous vote to keep the rate unchanged in their [last decision](#). Among others, they included an improved inflation outlook, and the assessment about the impact that actions implemented so far have had on consumer behavior and the overall economy. After the information released in yesterday's 1Q23 *Quarterly Report*, today's most relevant developments came from: (1) Whether the end of the tightening cycle has been reached or if this is just a pause, apart from which could be the coming actions; (2) the forward guidance, specifically on the implications of maintaining the reference rate at the current level for an 'extended period'; and (3) the necessary conditions for cuts to start. Despite differences among the members on the optimal way to tackle these issues, they agreed on the need to remain cautious and data dependent—especially on inflation and its expectations—to choose the best path ahead. Based on the latter and our inflation forecasts for the remainder of the year—with the headline closing 2023 at 4.8% with downside risks, and the core at 5.6%—, we reiterate our call that Banxico will keep the reference rate unchanged this year at 11.25%. Subsequently, we expect: (1) The start of the tightening cycle in February 2024; and (2) accumulated cuts in said year of 275bps, with the reference rate reaching 8.50% by December.

Opinions from the different Board members. Given Banxico's update on the state of the economy and the inflationary outlook in yesterday's *Quarterly Report*, we believe that we have additional information to evaluate the stance of each member. In this sense, in the following table we outline our assessment on which comments were made by each of them:

June 1, 2023

www.banorte.com
@analisis_fundam

Alejandro Padilla Santana
Chief Economist and Head of Research
alejandro.padilla@banorte.com

Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research
and Financial Markets Strategy
juan.alderete.macal@banorte.com

Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com

Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com

Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com

Fixed income and FX Strategy

Manuel Jiménez Zaldívar
Director of Market Strategy
manuel.jimenez@banorte.com

Leslie Thalía Orozco Vélez
Senior Strategist, Fixed Income and FX
leslie.orozco.velez@banorte.com

Isaías Rodríguez Sobrino
Strategist, Fixed Income and FX
isaias.rodriguez.sobrino@banorte.com

Banxico's 2023 policy decisions

Date	Decision
February 9th	+50bps
March 30th	+25bps
May 18th	0bps
June 22 nd	--
August 10 th	--
September 28 th	--
November 9 th	--
December 14 th	--

Source: Banxico

Document for distribution among the
general public

Banorte's assessment on Board member's comments in the May 18th minutes

Bias	Member	Order in the minutes	Relevant comments
Hawkish	Irene Espinosa	2	<p>"...it cannot be ruled out that a greater or lesser tightening may be required..."</p> <p>"...it should be stated that a pause does not imply that Banco de México's work has concluded, nor that it will necessarily be followed by a monetary easing..."</p> <p>"...the monetary policy stance should remain in restrictive territory within the entire planning horizon..."</p>
	Jonathan Heath	3	<p>"...the terminal rate has been attained, without implying that there will not be a further adjustment or that this is the end of the monetary restriction..."</p> <p>"...although it is venturesome to announce that the restrictive stance will be maintained throughout the horizon in which monetary policy operates, it is crucial to communicate that such stance needs to be maintained for an extended period..."</p> <p>"...an overly restrictive policy stance should be avoided, and, therefore, an interest rate cut would be eventually considered..."</p>
	Omar Mejía	4	<p>"...markets [...] continue discounting cuts in the reference rate in the near future, an expectation that he/she considered is not compatible with the convergence of inflation to its target..."</p> <p>"...all channels are working in the right direction to bring inflation back to its target over the forecast horizon..."</p> <p>"...the importance of maintaining a flexible and data dependent approach..."</p>
	Galia Borja	5	<p>"...Banco de México can resort to its communication as a tool to continue supporting the strength of the monetary policy stance..."</p> <p>"...there is no conclusive evidence of domestic inflationary pressures, if they were present, they would be already addressed with the restrictive level that has been attained..."</p> <p>"...it is reasonable to communicate that a restrictive policy stance will be maintained for as long as necessary to guarantee the convergence of inflation to the target..."</p>
	Victoria Rodríguez	1	<p>"...considered it difficult to anticipate the time during which the reference rate would remain at its current level..."</p> <p>"...considering the clearly restrictive levels of the ex-ante real interest rate, the attained monetary policy is solid and consistent with the disinflationary process..."</p> <p>"...a cautious approach should be maintained and the attained restrictive monetary stance should be allowed to continue operating..."</p>
Dovish			

Source: Banorte with information from Banxico

Monetary transmission mechanisms. We noted comments from several members (Victoria Rodríguez, Omar Mejía, and Galia Borja) on the effect that higher interest rates have in the inter-temporal decision between saving and spending, which can be seen through the composition of households' asset holdings. This subject was expanded upon on one of yesterday's *grey boxes* and suggests that the 'savings' transmission channel has indeed worked. Specifically, higher yields in investment instruments have triggered a portfolio rebalancing effect, favoring time deposits instead of assets on-demand (higher savings, which induce lower spending). It should be noted that the three members mentioning this are those that we identify with a more dovish tilt. Lastly, Jonathan Heath only stated that "...restrictive monetary policy will continue to operate through its transmission mechanisms...", without providing further details.

The end of the tightening cycle and actions ahead. We believe that consensus in the Board is that, with [March's hike](#), the rate has reached its terminal level. In this sense, both Governor Rodríguez and Deputy Governor Borja emphasized the need to let the restriction already achieved to operate. This suggests they would support leaving the rate unchanged in the following decision and/or decisions. Deputy Governor Heath echoed this, albeit being more flexible by stating that "...the terminal rate has been attained, without implying that there will not be a further adjustment...". With more uncertainty, Deputy Governor Espinosa added that "...it cannot be ruled out that a greater or lesser tightening may be required...". Even though we believe the central bank must maintain some flexibility, it is not entirely desirable to change the stance constantly and drastically. This could induce an unfavorable behavior in household and business expectations, as well as on the price and volatility of financial assets.

Implications about the ‘extended period’ of the current stance. All members weighed on this, with the general notion being that this period should be long enough to ensure that inflation converges to the target in the forecast horizon. Nevertheless, uncertainty prevails, with Governor Rodríguez saying that: “...he/she considered it difficult to anticipate the time during which the reference rate would remain at its current level...”. We believe Deputy Governor Espinosa was the most hawkish, as she suggested that “...it should be stated that a pause does not imply that Banco de México’s work has concluded, nor that it will necessarily be followed by a monetary easing...”. Deputy Governor Heath seems more closely anchored to the ex ante policy rate as a guiding post for upcoming decisions, talking about a desirable level between 6% to 7%. The first ‘phase’ would be to have a passive approach through the evolution in inflation expectations. Despite of their differences, all of them agreed that the outlook can be superseded by what happens to the data. In our view, this is consistent with the central bank’s prudent strategy.

Necessary conditions to start cutting rates. The main driver will be inflation, with some members providing more specific details about which metrics could be most adequate. In this regard, Deputy Governor Mejía provided further details, as he pointed out three conditions that must be achieved: (1) A clear downward trend in both headline and core inflation; (2) a ‘neutral’ balance of risks; and (3) inflation expectations in line with their historical averages. In addition, he mentioned that: “...markets, which continue discounting cuts in the reference rate in the near future, an expectation that he/she considered is not compatible with the convergence of inflation to its target...”. This is very similar to the response given by Irene Espinosa in the presser, ensuring that it is very unlikely to see a rate cut in September (as priced-in by TIIIE-IRS) based on current forecasts. Nevertheless, and despite her more dovish tone, Governor Rodríguez was more reticent as she mentioned that “...it is too early to begin discussing possible interest rate cuts...”.

From our Fixed income and FX strategy team

Local assets did not react to Banxico’s minutes. The Mexican peso began the session as the top EM currency in a backdrop of global USD weakness. The USD/MXN moved from 17.70 to 17.55, equivalent to a 0.7% MXN gain. After Banxico’s minutes, it remained virtually unchanged. We continue to believe that the currency will maintain a defensive bias considering the ample rate spread to the US Fed at 600bps, macroeconomic stability, stronger GDP expectations and expected FDI benefits from nearshoring, among other factors. It is worth noting that uncertainty about a higher US terminal rate could open opportunities to buy USD for tactical positions at current levels, considering technical supports at 17.90-18.00. In fixed-income, local rates did not see meaningful adjustments after the minutes. Today, short- and medium-term Mbonos gained 2bps, while longer durations lost 3bps. TIIIE-28 IRS registered very few changes. Regarding market expectations, the curve is pricing-in 62bps of accumulated cuts this year, starting in September, from -54bps in the previous week. In our view, this scenario will not materialize, so we see an adjustment upwards in short-term rates.

Analyst Certification

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalia Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Daniel Sebastián Sosa Aguilar and Andrea Muñoz Sánchez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V. for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V. since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Alejandro Padilla Santana	Chief Economist and Head of Research	alejandro.padilla@banorte.com	(55) 1103 - 4043
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
María Fernanda Vargas Santoyo	Analyst	maria.vargas.santoyo@banorte.com	(55) 1103 - 4000

Economic Research

Juan Carlos Alderete Macal, CFA	Executive Director of Economic Research and Financial Markets Strategy	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Director of Economic Research, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Director of Economic Research, Global	katia.goya@banorte.com	(55) 1670 - 1821
Yazmín Selene Pérez Enríquez	Senior Economist, Mexico	yazmin.perez.enriquez@banorte.com	(55) 5268 - 1694
Cintia Gisela Nava Roa	Senior Economist, Mexico	cintia.nava.roa@banorte.com	(55) 1103 - 4000
Luis Leopoldo López Salinas	Manager Global Economist	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707

Market Strategy

Manuel Jiménez Zaldivar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
-------------------------	-----------------------------	----------------------------	------------------

Fixed income and FX Strategy

Leslie Thalia Orozco Vélez	Senior Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Isaias Rodríguez Sobrino	Strategist, Fixed Income, FX and Commodities	isaias.rodriguez.sobrino@banorte.com	(55) 1670 - 2144

Equity Strategy

Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Carlos Hernández García	Senior Strategist, Equity	carlos.hernandez.garcia@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Paola Soto Leal	Strategist, Equity	paola.soto.leal@banorte.com	(55) 1103 - 4000 x 1746

Corporate Debt

Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Quantitative Analysis

Alejandro Cervantes Llamas	Executive Director of Quantitative Analysis	alejandro.cervantes@banorte.com	(55) 1670 - 2972
José Luis García Casales	Director of Quantitative Analysis	jose.garcia.casales@banorte.com	(55) 8510 - 4608
Miguel Alejandro Calvo Domínguez	Senior Analyst, Quantitative Analysis	miguel.calvo@banorte.com	(55) 1670 - 2220
José De Jesús Ramírez Martínez	Senior Analyst, Quantitative Analysis	jose.ramirez.martinez@banorte.com	(55) 1103 - 4000
Daniel Sebastián Sosa Aguilar	Senior Analyst, Quantitative Analysis	daniel.sosa@banorte.com	(55) 1103 - 4000
Andrea Muñoz Sánchez	Analyst, Quantitative Analysis	andrea.munoz.sanchez@banorte.com	(55) 1103 - 4000

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5004 - 1282
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 5140
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8173 - 9127
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5249 - 6423
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5004 - 1051
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roltan.ferrer@banorte.com	(55) 1670 - 1899