

Banxico – ‘Extended’ seems to imply that September is not an option for a cut

- Today, Banxico’s Board kept the reference rate unchanged at 11.25%, in line with our call and consensus. The decision was unanimous
- The tone was very similar to the previous meeting despite the downward revision in the central bank’s inflation path –especially for the headline
- In our view, the most relevant element was that the forward guidance was unchanged. We believe an ‘extended period’ implies two or three decisions with no changes. In turn, this would mean: (1) A significant reduction in the probability of a September easing; and that (2) there is a ‘live’ possibility of a first cut either in November or December
- However, we believe that inflationary conditions –especially core dynamics– and Fed actions –more hawkish– will limit the room to maneuver for Banxico. Therefore, we reiterate our view that cuts will begin until February 2024

Banxico keeps its guidance of an ‘extended period’. As we expected, the rate was kept at 11.25% in a unanimous decision. We believe the tone was similar to the [previous statement](#), considering: (1) Some language adjustments about the global monetary stance, coupled with a better economic outlook; and (2) a reduction in inflation forecasts, with the headline 18bps lower on average during the next four quarters. Despite of the latter, the balance of risks for prices remains tilted to the upside. In our view, the most relevant element was that the forward guidance was unchanged, reaffirming that “...it will be necessary to maintain the reference rate at its current level for an extended period...”.

Given that prevailing doubts are centered on how long this may mean, we note some of the members latest comments on this, giving a more detailed and numeric value (in decisions). At the 1Q23 [Quarterly Report](#), Governor Rodríguez indicated that this would be two more meetings without changes. On the other hand, Deputy Governor Heath, at a BMV event, commented that “...if we say for an extended period, then the interpretation is at least three...”. This prompts us to believe that: (1) They refer to a ‘fixed’ period; and (2) that by repeating it today, this window has shifted further ahead. Therefore, the probability of a September cut has decreased meaningfully. However, the possibility of a first rate cut either in November or December remains ‘live’. On the other hand, it should be noted that these comments were made before the Fed’s last decision, where they alluded to an additional accumulated hike of 50bps. Although the weight of the relative monetary stance in Banxico’s reaction function has likely declined, we do think that it narrows the room to maneuver, either to cut much earlier and/or by a larger magnitude. In addition, core inflation dynamics will remain difficult, which warrants more caution, especially given more [risks for the non-core](#). As such, we hold our call that the first cut will be in February 2024. Furthermore, we await for the minutes of this meeting to see if there are more details about the ‘extended period’, and/or updated opinions by Board members given the latest events and data.

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Banxico’s 2023 policy decisions

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

*Minutes of the decision to be released on July 6th. Source: Banxico

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