

Banxico – Current conditions support our view of a first cut in 2024

- In a unanimous decision, Banxico's Board kept the reference rate unchanged at 11.25%, in line with our call and consensus
- In our opinion, the tone was more hawkish at the margin. Particularly due to the upward adjustment in the short-term forecasts for core inflation and a balance of risks still skewed to the upside
- It is also relevant that the forward guidance was unchanged. Expanding on [our previous analysis](#) regarding the definition of the 'extended period', we believe that maintaining it implies a substantial reduction in the possibility of a cut in November
- We keep thinking that the probability of cuts in 2023 is low due to the persistence of challenges for inflation, tight room to maneuver in terms of the relative stance, as well as stronger economic activity. Therefore, we maintain our call that the first cut will occur until February 2024
- We maintain our preference on TIE-IRS payers at the front-end

Few changes suggest that Banxico is not in a hurry to modify its monetary stance. In line with expectations, the rate remained unchanged at 11.25% in a unanimous decision. At the margin, we believe the tone was more hawkish than in the [previous statement](#). In this sense, we highlight a slight upward revision in core inflation forecasts, key as concerns have centered on this component and on which monetary policy has the biggest incidence. The adjustment was by +10bps from 4Q23 to 2Q24. For us, this is relevant given that the trajectory for the headline had just one modification in 3Q23 (-30bps). Other points had no changes. Among them, we highlight the balance of risks for inflation (skewed to the upside) and the forward guidance. On the former, we believe that it is consistent that this did not change given adjustments to the estimates. On the latter, it is rather important that the expression 'extended period' remains. We believe that this refers to a defined time window, spanning between two or three decisions. As a result, it implies a significant reduction in the possibility of an adjustment in November, although still leaving the door open in December if conditions allow for it. However, we believe this will be difficult based on: (1) Our [inflation forecasts](#), which include a challenging outlook for the non-core and with the core above 5% y/y in the remainder of the year; (2) [higher-than-expected economic growth](#) (factor that Banxico also mentioned in the statement), especially with strength in the [labor market](#); (3) uncertainty regarding future Fed actions –even though this seems to have a lower weight in the institution's reaction function; and (4) an increase in market volatility. Therefore, we maintain our expectation that the easing cycle will begin with a 25bps cut in the February 2024 decision, with gradual cuts in 1H24 and faster reductions in the second half, taking the rate to 8.25% by the end of the year.

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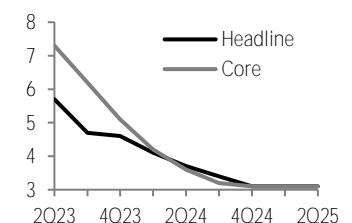
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Banxico's 2023 policy decisions

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

*Minutes of the decision to be released on August 24th. Source: Banxico

Banxico: Inflation forecasts % y/y, quarterly average



Source: Banxico

Winners of the 2023 award for best Mexico economic forecasters, granted by Focus Economics



Document for distribution among the general public

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