

Banxico QR – Higher growth would limit the possibility of rate cuts soon

- Banxico published today its 2Q23 *Quarterly Report* (QR). In our view, the document reaffirms the hawkish tone from the latest releases, supporting the view that we are far from the start of easing
- GDP for this year was revised to 3.0% from 2.3% (Banorte: 3.0%). For 2024, it stands at 2.1% from 1.6% (Banorte: 1.8%). Inflation forecasts were unchanged relative to the [previous statement](#)
- Questions centered on the possible conditions that must be met for a rate cut later this year. Nevertheless, answers only reaffirmed the need for additional time for the consolidation of the disinflationary process, staying cautious
- They also released the calendar for 2024's decisions, with meetings once again close to those of the Fed
- We reiterate our view that the reference rate will remain unchanged for the remainder of the year, at 11.25%. After this, we expect cuts to begin on the February 8th meeting
- Gains in TIEE-IRS payers at the front-end despite scarce news

More economic optimism in the *Quarterly Report*. The 2Q23 *Quarterly Report* (QR) was presented today in a press conference led by Governor Victoria Rodríguez. In line with expectations, they adjusted several estimates. We note GDP for 2023, now at 3.0% from 2.3%, with next year also stronger at 2.1% (previous: 1.6%). In our opinion, a relevant consequence of this was that they now estimate a positive output gap until 2Q24. This could mean higher risks of demand-side inflationary pressures. As usual, the inflation path and its balance of risks were unchanged from the [previous statement](#). We also noted several questions about the possible conditions that need to be met for a rate cut later this year. Nevertheless, answers only reaffirmed the need for additional time for the consolidation of the disinflationary process, staying cautious. In this sense, they did not provide further details on the forward guidance and/or the meaning of the 'extended period' with the rate at its current level. Overall, we believe the document and Board members' responses reaffirmed the hawkish tone of the last decision and [minutes](#). Considering this, we reiterate our call, which we have held since late April, that the rate will stand at 11.25% for the remainder of the year, with the first cut materializing on the February 8th meeting (-25bps).

Questions focused on the eventual start of an easing cycle, although with few details and additional guidance from Banxico. Several topics were covered, including the timing of the beginning of rate cuts; questions about the fintech law and how it is affecting the sector; revisions to growth; and monetary policy transmission channels. Overall, we felt that not much new information was provided on the outlook. The topic about the possible meaning of the 'extended period of the rate at the current level' was avoided, despite being asked on many occasions, which we consider as a sign that they remain very cautious.

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Banxico's 2023 policy decisions

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

Source: Banxico

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



Document for distribution among the general public

Overall, we perceived a still hawkish tone. Governor Rodríguez reaffirmed that we are already in a disinflationary process. However, the reduction in price pressures will not be linear and the road to convergence is still long. Therefore, time is needed to consolidate said process. She also reiterated that the discussion on whether to cut the rate has not been addressed by the Board. Deputy Governor Borja said that the ex ante real interest rate is now at 6.9%, well above the upper limit of neutrality of 3.4%. Therefore, the monetary stance is ‘notoriously restrictive’. Nonetheless, it is consistent with bringing inflation to target over the forecast horizon. We also found relevant her mention that the bank’s only goal is inflation, so the interest rate could reach whatever level it needs to achieve to comply with that goal.

They reiterated that the balance of risks for inflation is tilted to the upside, with forecasts unchanged. As usual, the inflation trajectory was the same as in the last decision. On the balance of risks, the driving factors were unchanged and in the same order as in the statement. During the press conference, Deputy Governor Jonathan Heath reiterated that inflationary pressures remain high –despite their moderation in recent months–, which makes it necessary to let transmission channels act. Likewise, Governor Rodríguez expressed that the outlook ahead remains complex and uncertain.

CPI forecasts

% y/y, quarterly average

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25
Headline	7.5*	5.7*	4.7	4.6	4.1	3.7	3.4	3.1	3.1	3.1
Core	8.3*	7.3*	6.2	5.1	4.2	3.6	3.2	3.1	3.1	3.1

Source: Banco de México. *Observed data

Higher GDP in 2023 and 2024, with an ‘overheated’ economy. They revised their estimate for this year upward by 70bps to 3.0%, with a range between 2.5% and 3.5%. This is in line with our latest revision, but slightly above consensus (banking sector survey: 2.9%). The adjustment is in large part on 2Q23 strength. For 2024, the estimate was adjusted to 2.1% from 1.6% (range: 1.3% to 2.9%), acknowledging a larger inertial boost from this year. They keep considering that US activity will decelerate –which would limit the pace of progress–, albeit with domestic demand still resilient. More importantly, the updated output gap shows that it is already positive (*i.e.* growth above potential) and will remain so until 2Q24, a couple of quarters before the estimated time of the convergence of inflation to the target. For us, this is very relevant as the prevalence of this situation implies an environment in which demand-side price pressures could materialize more easily, translating into additional risks.

Other estimate changes. Banxico raised its forecasts for job creation affiliated to IMSS for this year and next, consistent with their updated economic outlook. On external accounts, wider deficits are broadly anticipated for both the trade balance and current account. For more details, see the tables below.

Banxico's Forecasts

Current Report (2Q23)

	2023	2024
GDP (% y/y)		
Central scenario	3.0	2.1
Range	2.5 to 3.5	1.3 to 2.9
Employment (thousands)	670 to 830	570 to 770
Trade Balance (bn)	-30.6 to -24.1 (-1.7% to -1.3% of GDP)	-30.4 to -22.2 (-1.7% to -1.2% of GDP)
Current account (bn)	-31.6 to -21.5 (-1.8% to -1.2% of GDP)	-28.6 to -15.6 (-1.6% to -0.8% of GDP)

Source: Banxico

Banxico's Forecasts

Previous Report (1Q23)

	2023	2024
GDP (% y/y)		
Central scenario	2.3	1.6
Range	1.7 to 2.9	0.6 to 2.6
Employment (thousands)	600 to 800	530 to 730
Trade Balance (bn)	-26.9 to -20.9 (-1.6% to -1.2% of GDP)	-28.9 to -20.9 (-1.7% to -1.2% of GDP)
Current account (bn)	-22.3 to -12.3 (-1.3% to -0.7% of GDP)	-19.8 to -7.7 (-1.2% to -0.4% of GDP)

Source: Banxico

Calendar for 2024's monetary policy decisions. For the second year in a row, next year's calendar of monetary policy decisions was included. In line with previous years, the meetings will take place with a maximum delay of two weeks vs those of the Fed –although with most just one week apart– as shown in the following table. Also as on previous occasions, the minutes will be published two weeks after the decision except for December's, due to the holiday period.

Monetary policy meetings

Month	Federal Reserve	Banxico
January	31	--
February	--	8
March	20	21
April	--	--
May	1	9
June	12	27
July	31	--
August	--	8
September	18	26
October	--	--
November	7	14
December	18	19

Source: Banxico, Federal Reserva

From our Fixed Income and FX strategy team

Gains in TIEE-IRS payers at the front-end despite scarce news. Expectations of higher-for-longer consolidated after the report. Losses in Mbonos picked up, diverging from US Treasuries. The curve has been pricing-in a lower probability of a first rate cut in December (-15bps vs -42bps at the beginning of the month). In line with our call, TIEE-IRS payers at the front-end have benefited from this. For example, the 1-year tenor (13x1) is at 11.18%, +27bps month-to-date. Despite of the latter, we see short-term rates extending their upward move until the December rate cut is fully priced out. Hence, we keep favoring payers in this section. Meanwhile, the MXN extended gains to 16.74 per dollar (+0.3%), close to 16.90 yesterday. In addition, 1-month risk reversals fell to 2.78vols from 2.85, with a downward trend all August. Coupled with net long MXN positions in futures above US\$2 billion, these reflect optimism about the currency in the short-term. In this backdrop, we expect the peso to remain defensive, supported by its volatility-adjusted carry and solid macro fundamentals relative to other EMs.

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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, Juan Carlos Mercado Garduño, Daniel Sebastián Sosa Aguilar, Jazmin Daniela Cuautencos Mora 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.

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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.

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