Economic and Financial Markets Research
Economic Research, Mexico

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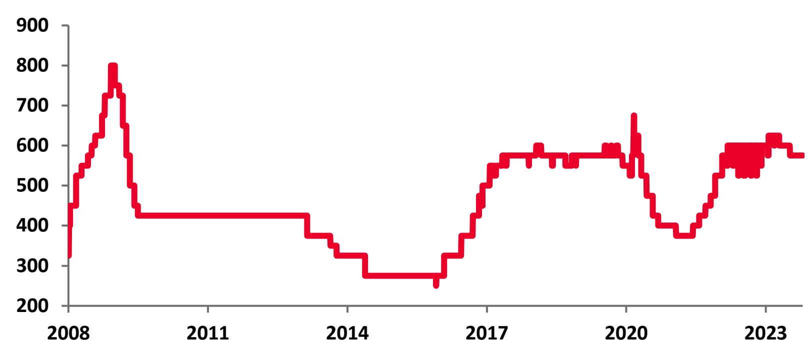
Mexico Economics – View from the Top

- **Banxico will maintain its reference rate at 11.25% for sixth consecutive meeting. In addition, they will likely reiterate that it will remain at that level "for an extended period"**
- **The relative monetary stance, both with the US along with other EM peers has reduced the room for maneuver locally. This despite domestic monetary conditions having turned significantly tighter**

Banxico will leave the rate unchanged at 11.25%. In its seventh meeting of the year, we expect the central bank to hold the target rate at 11.25%, level where it has been since the March 30th decision. The statement will maintain a hawkish tone, consistent with a complex outlook for monetary policy. On some of the most relevant points that are included in the release, we anticipate: (1) Upward revisions in headline and core inflation forecasts, with changes between 10 and 30bps in coming quarters; (2) a balance of risks to prices still skewed to the upside; (3) maintaining the phrase regarding the convenience of an 'extended period' with the rate at the current level; and (4) reaffirming a constructive view on economic activity. On top of these points, other factors that tend to not be included in the statement also suggest additional caution, expanding on some of them in the following sections.

The relative stance with the Fed remains for the moment, although the spread could narrow at the margin towards the end of the year… As expected, the Federal Reserve left the range for the Fed funds rate at 5.25% to 5.50%. A hawkish tone prevailed, but still without clear forward guidance. Considering this, we maintain our expectation of an additional 25bps hike in December, which would narrow the rate spread to 550bps from 600bps at the end of last year (using the upper end of the US rate range). Even though Banxico has reduced the importance of said central bank's actions for its own decisions –based on comments from several Board members–, we still believe that it is a very relevant factor and that it does reduce to some degree the room for maneuver locally.

Spread between the Fed funds rate and Banxico's reference rate*
Basis points



*Using the upper end of the Fed funds rate range
Source: Banorte with data from the Federal Reserve and Banxico

...while, for other EMs expectations of cuts have moderated. In addition, there have been central bank decisions in several emerging countries recently. Focusing on the surprises, we highlight Chile's decision last week. Specifically, the monetary authority cut its reference rate by 50bps to 9.00%, modest relative to consensus expectations which had penciled in a 75bps reduction. Moving on to other peers, although many of the adjustments have been in line with expectations –such as Brazil's 50bps cut to 12.25% this week–, they were less dovish, with expectations about cuts in other latitudes having moderated significantly.

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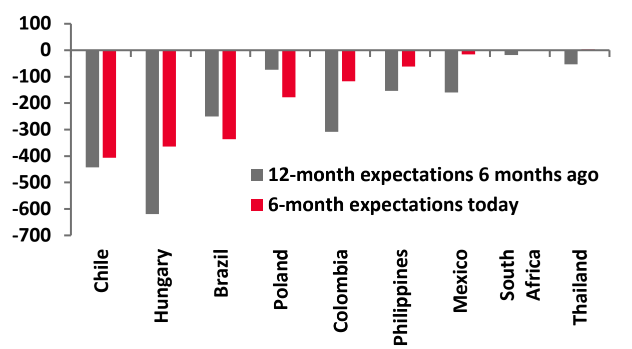
As seen in the chart below on the left, implied expectations in market instruments regarding rate cuts over the next six months for most emerging countries have moderated. Specifically, last May, the average accumulated expected cut was -231bps. Now it is -164bps. For Mexico, it currently only incorporates a 16bps reduction vs -160bps previously. We believe that this is consistent with our view that Banxico's first cut will materialize until May 2024. This is slightly later than expected by most analysts, focusing on February or March of next year. Despite the latter, the decision will ultimately depend on the evolution of inflation and economic data, similar to what we have seen in other countries.

Monetary conditions have continued to tighten despite that the last hike happened in March. Another relevant point to consider due to the sharp increases in government bond yields since the middle of the year –which were exacerbated in September and October– are the effects that they have on financial and monetary conditions. In Mexico, according to our index –which considers deviations on real interest rates and the exchange rate– the tightening in monetary conditions had peaked in March, shortly before the last hike from the central bank. After that, they moderated at the margin until mid-June (see graph below right). However, since that date we have seen a rebound, with the metric even surpassing previous highs. In our view, these increases could help compensate for a more challenging inflationary outlook. In turn, they allow the central bank to leave the reference rate unchanged. However, we do not believe they warrant rate cuts, at least for now, especially considering evidence that the economy is overheated.

Rate cut expectations on emerging economies*

Accumulated bps in the next six months. Difference relative to the highest point of monetary tightening

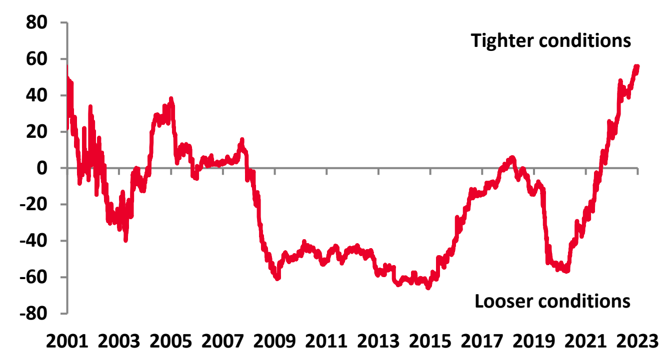


*For expectations seen six months ago, 12-month ahead forecasts are used to incorporate the same time frame

Source: Banorte with data from Bloomberg

Monetary conditions index

Deviations from real interest rates and exchange rate



Source: Banorte with data from Banxico, PIP, JP Morgan

Calendar of economic events

Date	Time (ET)	Event or indicator	Period	Unit	Banorte	Consensus	Previous
Mon 6-Nov	7:00am	Consumer confidence*	October	index	47.0	--	46.8
Tue 7-Nov	10:00am	International reserves	Nov-3	US$ bn	--	--	204.2
Tue 7-Nov	10:00am	Govt. auction of 1-, 3-, 6-, and 24-month Cetes, 3-year Mbono (Sep'26), 20-year Udibono (Nov'43) and 1-, and 3-year Bondes F					
Tue 7-Nov	3:30pm	Citibanamex survey of economic expectations					
Thu 9-Nov	7:00am	CPI inflation	October	% m/m	0.36	0.40	0.44
				% y/y	4.24	4.28	4.45
		Core		% m/m	0.39	0.38	0.36
				% y/y	5.51	5.49	5.76
Thu 9-Nov		Banxico's monetary policy decision	Nov-9		11.25	11.25	11.25
Fri 10-Nov		Wage negotiations	October	%	--	--	5.1
Fri 10-Nov	7:00am	Industrial production	September	% y/y	3.8	4.0	5.2
		sa		% m/m	0.1	0.2	0.3
		Mining		% m/m	-0.2	--	1.6
		Utilities		% m/m	-0.5	--	2.6
		Construction		% m/m	0.3	--	2.4
		Manufacturing		% m/m	0.0	--	-0.7

*Seasonally adjusted figures. Source: Banorte with figures from INEGI, Banxico, and Bloomberg

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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 Thalía 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, Paula Lozoya Valadez, 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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