Economic and Financial Markets Research
Economic Research, Mexico

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Banxico – Less hawkish tone opens the door for cuts, although the outlook remains challenging

- **In a unanimous decision, Banxico's Board kept the reference rate unchanged at 11.25%. This is a forecast we have held since late April, with the consensus view converging to this point only recently**
- **In our opinion, the tone was less hawkish, supported by:**
  - **(1) The change in the forward guidance, eliminating the comment that it is necessary to maintain the rate at its current level for an "extended period", mentioning now only "for some time";**
  - **(2) Downward revisions to headline inflation forecasts in the short-term, despite the core remaining unchanged. The estimate of the convergence to the target stood at 2Q25; and**
  - **(3) The balance of risks for prices remains tilted to the upside, with the inflationary outlook still challenging – albeit no longer characterized as very complex**
- **Specifically, we perceived a greater conviction regarding progress on disinflation in the country. In this sense:**
  - **(1) They eliminated the mention on the "resistance to decline" of the core component; and**
  - **(2) They removed the explicit mention on the effects from inflation shocks and their particular effects on services**
- **They recognized stability in headline inflation expectations among analysts for 2023, on top of mentioning that these declined for the core**
- **We believe adjustments in the statement increase the possibility that the easing cycle could begin in 1Q24…**
- **…nevertheless, we stray from the central bank's view on the path of inflation for the remainder of the year and in 2024**
- **In particular, we anticipate larger pressures in the non-core component –especially in agricultural items and energy–, on top of a continuous reluctance to decline of the core –concentrated in services**
- **As a result, we maintain our view that the easing cycle will begin in May 2024, with a first cut of 25bps. In addition, we reiterate our estimate on year-end levels for the rate this year and next at 11.25% and 9.25%, respectively**

Banxico: CPI forecasts
% y/y, quarterly average

	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25
Headline									
Current	4.6*	4.4	4.3	4.0	3.7	3.4	3.2	3.1	3.1
Previous	4.6	4.7	4.4	4.0	3.7	3.4	3.2	3.1	3.1
Difference (bps)	--	-30	-10	0	0	0	0	0	0
Core									
Current	6.2*	5.3	4.5	3.9	3.5	3.3	3.2	3.1	3.1
Previous	6.2	5.3	4.5	3.9	3.5	3.3	3.2	3.1	3.1
Difference (bps)	--	0	0	0	0	0	0	0	0

*Observed data
Source: Banxico


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Banxico's decisions in 2023

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

*Decision's minutes will be published on November 23rd
Source: Banxico

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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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