December 14, 2023

Banxico – Forward guidance continuity reinforces our view of a first rate cut in March

- **In a unanimous decision, Banxico's Board kept the reference rate unchanged at 11.25%, in line with our estimate and consensus**
- **We consider that the most relevant development was that the forward guidance was not adjusted, repeating that "*…the reference rate must be maintained at its current level for some time…*"**
- **We also noted the upward revisions to headline and core inflation forecasts for 2024, which makes the statement's narrative marginally more hawkish**
- **They mentioned that this change incorporates a more gradual decline in processed foods and services within core inflation**
- **In terms of global monetary policy, they eliminated the statement referring to rates remaining at high levels for an extended period, which we believe was related, at least in part, to the less restrictive tone shown by the Fed yesterday**
- **Nevertheless, the rest of the release was very similar to the one of the previous decision, taking into account that:**
  (1) Convergence of inflation to the target remained in 2Q25;
  (2) The balance of risks for prices is still tilted to the upside, with the drivers unchanged; and
  (3) Activity is still characterized as exhibiting robust growth, coupled with labor market strength
- **In our opinion, all these factors significantly reduce the possibility of the first cut materializing in the meeting to be held on February 2024**
- **In addition, we believe it is consistent with and orderly and efficient management of the bank's communications. This leads us to believe that, to signal more clearly an eventual start of easier policy, we would need to see a more substantial change in the forward guidance and the tone**
- **We expect the latter adjustment to happen in February. As a result, we reiterate our call of a first 25bps cut in March**
- **After this, we expect a pause in May –in line with previous comments that suggest non-consecutive actions–, with cuts resuming in June, August and September by the same magnitude. Lastly, we see 50bps cuts in each of the last two meetings of the year, taking the reference rate by December 2024 to 9.25%**

Banxico: CPI forecasts
% y/y, quarterly average

	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
Headline										
Current	4.6*	4.4	4.3	4.1	3.8	3.5	3.2	3.1	3.1	3.1
Previous	4.6*	4.4	4.3	4.0	3.7	3.4	3.2	3.1	3.1	--
Difference (bps)	--	0	0	10	10	10	0	0	0	--
Core										
Current	6.2*	5.4	4.7	4.1	3.7	3.5	3.2	3.1	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)	--	10	20	20	20	20	0	0	0	--

*Actual 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*	0bps

*The minutes of the decision will be published on January 4th, 2024
Source: Banxico

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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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