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Chart 1

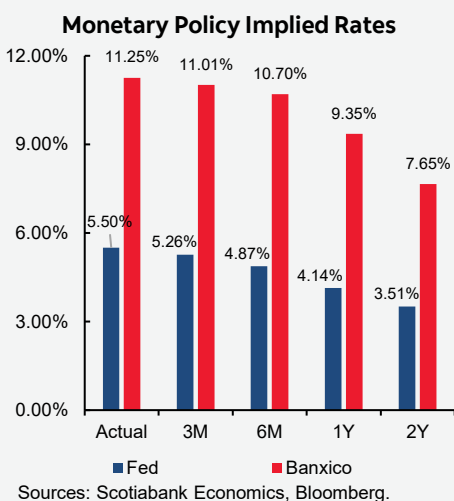
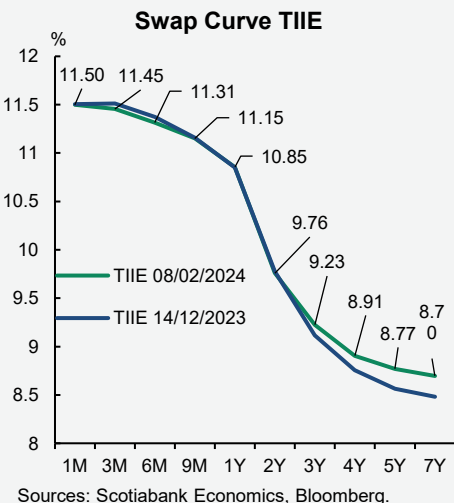


Chart 2



Mexico—Banxico Leaves Policy Rate Unchanged As Expected

- **Non-core food and energy inflation upsurge doesn't seem to stop Banxico's conviction to cut in March**

Banxico's meeting left the policy rate unchanged at 11.25%, as it was widely expected, reinforcing the forward guidance to a first cut at its March meeting. However, the Board of Governors revised its short-term forecast of headline inflation upward again, while still expecting it to reach the target in 2025, and revised core inflation slightly downward in 2024Q1 (table 1). In this regard, the key change in the statement was highlighting that “in the next monetary policy meetings, it will assess, depending on available information, the possibility of adjusting the reference rate.”

Table 1: Mexico—Banxico's Headline and Core Inflation Forecasts

Headline Inflation	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1	25Q2	25Q3	25Q4
Current (Feb. 23) a.o.p.	7.5%	5.7%	4.6%	4.4%	4.7%	4.3%	3.9%	3.5%	3.2%	3.1%	3.1%	3.1%
Previous (Dec. 23) a.o.p.	7.5%	5.7%	4.6%	4.4%	4.3%	4.1%	3.8%	3.5%	3.2%	3.1%	3.1%	3.1%
Var. Current - Previous	0.0%	0.0%	0.0%	0.0%	0.4%	0.2%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%

Core Inflation	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1	25Q2	25Q3	25Q4
Current (Feb. 23) a.o.p.	8.3%	7.3%	6.2%	5.3%	4.6%	4.1%	3.7%	3.5%	3.2%	3.1%	3.1%	3.1%
Previous (Dec. 23) a.o.p.	8.3%	7.3%	6.2%	5.4%	4.7%	4.1%	3.7%	3.5%	3.2%	3.1%	3.1%	3.1%
Var. Current - Previous	0.0%	0.0%	0.0%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Sources: Scotiabank Economics, Banxico.

All in all, it seems that Banxico feels somewhat comfortable with the core inflation trend, which is more aligned with the monetary policy stance, despite the recent upsurge in non-core items. In this sense, the rebound in inflation in recent months was enough for Banxico to modify its short-term forecast, owing to upward revisions in the non-core part (food and energy). Nevertheless, the statement reiterates that the balance of risks remains skewed to the upside, and includes among the upside risks adverse climate events, and an escalation in geopolitical conflicts, in addition to the risks mentioned in previous statements (persistence of core items inflation, exchange rate depreciation, cost pressures, and a greater than expected resilience of the economy). In this regard, the statement mentions that “disinflation process is expected to continue, in view of the monetary policy stance and the easing of the shocks generated by the pandemic and the war in Ukraine.”

Going forward, we believe that having explicitly mentioned “the possibility of adjusting the reference rate” in the following meetings, together with keeping the expected path of core inflation unchanged, reinforces the view of a first cut in the March meeting.

In the Citibanamex survey, there is a broad consensus on the first 25 basis points cuts occurring in March; however, inflation prints could encourage changes in the expected year-end interest rate level, implying the possibility that the pace of Banxico's cuts will be slower than previously expected. For the time being, the TIEE curve maintains levels close to 9.25% in the two-year node, with no significant changes in the short term, in comparison to the curve observed in December's decision.

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