

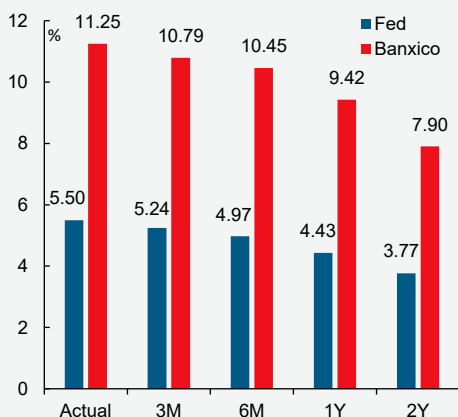
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Chart 1

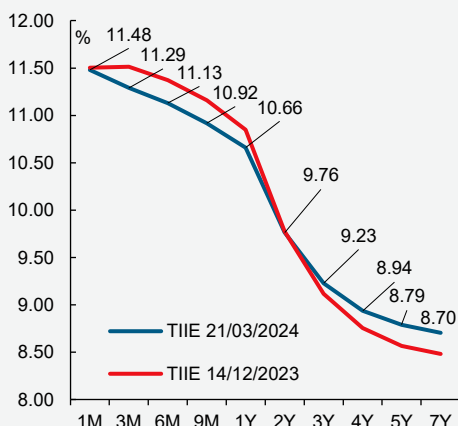
#### Monetary Policy Implied Rates



Sources: Scotiabank Economics, Bloomberg.

Chart 2

#### Swap Curve TIIE



Sources: Scotiabank Economics, Bloomberg.

## Mexico—Banxico Delivers the First 25bps Cut As Expected

- The Board of Governors' decision was divided, with Deputy Governor Irene Espinosa voting for keeping the rate unchanged.
- Banxico's forecasts of headline and core inflation rose slightly for the following quarters.
- The statement leaves the door open for a further cut at the May meeting.

Banco de México's Board of Governors cut the target interest rate for the first time since 2020, from 11.25% to 11.0%, in line with market and analysts' expectations. However, it revised upward once more the headline and core inflation expectations for the following quarters—now forecasting they will reach the target in 2025 (table 1). The statement stressed that “in the next monetary policy meetings, it will make its decisions depending on available information” leaving the door open to a consecutive cut at the next meeting in May. However, we believe that this cutting cycle will be paused, so we see the next cut as more likely to happen at later meetings.

Table 1: Mexico - Banxico's Headline and Core Inflation Forecasts (%)

Headline Inflation	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1	25Q2	25Q3	25Q4	26Q4
Current (Mar. 23) e.o.p.	7.5	5.7	4.6	4.4	4.6	4.4	4.0	3.6	3.2	3.1	3.1	3.1	3.1
Previous (Feb. 23) e.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	3.1
Var. Current - Previous	0.0	0.0	0.0	0.0	-0.1	0.1	0.1	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	26Q4
Current (Mar. 23) e.o.p.	8.3	7.3	6.2	5.3	4.7	4.2	3.8	3.5	3.2	3.1	3.1	3.1	3.1
Previous (Feb. 23) e.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	3.1
Var. Current - Previous	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Scotiabank Economics, Banxico.

In February, inflation fell more than expected, after a rebound observed since the last quarter of the previous year, derived from increases in non-core components. Despite this, the slight increase in Banxico's inflation forecasts suggests a slower disinflationary process going forward. In this sense, the balance of risks in the statement remained biased to the upside, pointing to the stickiness of core inflation, exchange rate depreciation, greater cost pressures, greater than expected resilience in the economy, climate effects, and escalation of geopolitical conflicts. Downside risks remain however, with the possibility of a greater than anticipated slowdown in the global economy, a weaker pass-through of cost pressures, and the impact of a stronger peso so far on mitigating price pressures.

The statement highlighted that, with this decision, the policy stance remains restrictive and conducive to the convergence of inflation to the 3% target. Considering the details of the minutes of the previous meeting, we believe that the argument of some of the members that policy remains restrictive relies on the restrictive stance of the real policy rate, which has increased as inflation declined (the real policy rate is the nominal rate minus inflation). With this, we believe that the Board of Governors has some confidence that inflation will maintain a downward trend and will consider changes in inflation expectations in the following meetings. Thus, we still see some uncertainty in inflation behaviour that could lead to changes in expectations, so we believe it is appropriate to maintain a data-dependent stance.

In the Citibanamex survey, the consensus of analysts anticipates a year-end rate of 9.50%, which implies consecutive 25bps cuts in each of the remaining six meetings of the year, or fewer but larger 50% cuts in case the cycle was to be paused and not continuous. However, some analysts see a year-end rate at 10%, implying a slower cycle of cuts.

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March 21, 2024

As for the exchange rate, it depreciated since this morning but with volatility, as it was observed in a range of \$16.67–\$16.78, which went on to recover to around \$16.72 at the time of the decision. It was more affected by the Fed's decision yesterday in fact, rising to \$16.84 even though the Fed kept its rate unchanged. For the time being, it seems that the peso had already discounted the monetary policy announcement and is shaping up to remain solid despite future rate cuts by Banxico.

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