Scotiabank

GLOBAL ECONOMICS

LATAM FLASH

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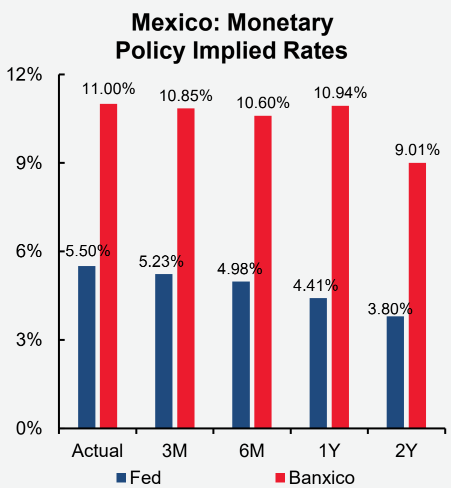
Mexico—Banxico Leaves Rate Unchanged at 11.0%

- **Banxico's Governing Board kept the rate unchanged at 11.0% in a 4–1 split vote.**
- **The dissenting vote was by Omar Mejia in favour of a 25bps cut.**
- **The statement considered that recent economic weakness partly offset the inflationary effect of the currency depreciation.**
- **The dovish tone opens the door to an additional cut at the August meeting.**
- **Implied rates converge to two cuts in the remainder of the year, in line with our expectation of a rate at 10.50% by the end of 2024.**

As widely expected, Banxico's Board of Governors left the interest rate unchanged at 11.0% but in a split 4–1 vote, with Omar Mejia dissenting in favour of a 25bps cut. The statement showed a dovish tone, opening the door to a cut at the next meeting in August.

According to the statement, "although the depreciation of the Mexican peso impacts the inflation forecast upwards, its effects are partly offset by those associated with the greater weakness exhibited by economic activity." In this sense, the Board of Governors considered that the balance of risks for economic activity is biased to the downside. On the other hand, it estimated that the inflation outlook remains subject to upside risks. Thus, Banxico revised up its inflation forecasts, albeit only marginally given recent economic weakness. The Board still expects inflation to converge to the 3.0% target by the end of 2025. The headline inflation expectation rose slightly in the short term (table 1), while the core inflation forecast suffered mixed changes over the forecast horizon (table 2). The upside risks to their forecasts were: 1) persistence of core inflation; 2) greater foreign exchange depreciation; 3) greater cost-related pressures; 4) climate-related impacts, and 5) the intensification of geopolitical conflicts. On the downside, the risks considered are: 1) weaker-than-anticipated economic activity; 2) a lower pass-through effect from some cost-related pressures, and 3) a lower-than-anticipated effect of the peso's depreciation on inflation.

Chart 1



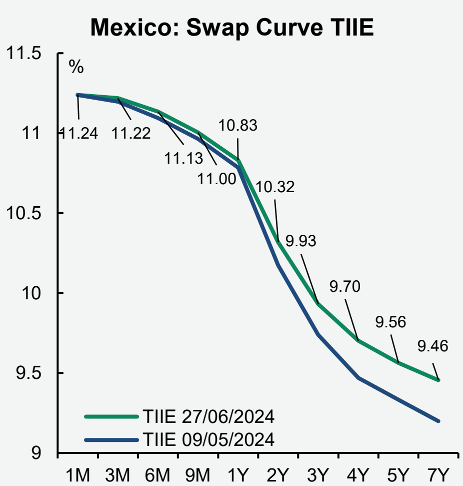
Sources: Scotiabank Economics, Bloomberg.

Table 1: Mexico—Banxico´s Headline Inflation Forecasts

Headline Inflation	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1	25Q2	25Q3	25Q4	26Q4	26Q5
Current (June. 24) a.o.p.	4.6%	4.4%	4.6%	4.7%	4.5%	4.0%	3.5%	3.3%	3.1%	3.0%	3.0%	3.0%
Previous (May. 24) a.o.p.	4.6%	4.4%	4.6%	4.6%	4.4%	4.0%	3.5%	3.3%	3.2%	3.0%	3.0%	-
Var. Current - Previous	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	-0.1%	0.0%	0.0%	-

Sources: Scotiabank Economics, Banxico.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

Table 2: Mexico—Banxico´s Core Inflation Forecasts

Core Inflation	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1	25Q2	25Q3	25Q4	26Q4	26Q5
Current (June. 24) a.o.p.	6.2%	5.3%	4.7%	4.2%	4.1%	3.9%	3.6%	3.3%	3.1%	3.0%	3.0%	3.0%
Previous (May. 24) a.o.p.	6.2%	5.3%	4.7%	4.3%	4.0%	3.8%	3.5%	3.3%	3.2%	3.0%	3.0%	-
Var. Current - Previous	0.0%	0.0%	0.0%	-0.1%	0.1%	0.1%	0.1%	0.0%	-0.1%	0.0%	0.0%	-

Sources: Scotiabank Economics, Banxico.

After the release of the statement, the implied monetary policy rate slightly moved to 10.60% in the six-month period, moving from one to two cuts expected for the remainder of the year, although this could change if core inflation and economic growth continue to fall, considering the dovish tone of the statement (chart 1). On the TIIE curve, long-term rates have been on the rise so far this year, reacting to the change in expectations, as the cutting cycle was previously expected to be more aggressive (chart 2). For the US, the implied rate has also been dropping, suggesting two cuts by the end of the year, although the tone of the FOMC has been more hawkish given the persistence of inflation and higher-than-expected growth. For the second half of 2024, we foresee volatility in local financial markets, particularly between September and November, owing to political developments related to the announced reforms and the 2025 fiscal budget in Mexico, and the elections in the US. This will create uncertainty regarding future decisions by both countries' central banks.

In our view, the dovish tone of the statement opens the door to an additional cut at the August meeting. However, we believe that the outlook faces a high degree of uncertainty, due to the behaviour of inflation, especially in its non-core items, as well as the political events that could foster volatility and risk aversion in financial markets. Thus, we maintain our expectation of a cut at the September meeting, and a rate of 10.50% in December of this year, with a data-dependent focus.

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