

## Rate Hikes in Mexico and Peru

- **Mexico:** Banxico delivered a somewhat dovish 25 bps hike on Thursday
- **Peru:** BCRP raises rates by four consecutive months but says it doesn't imply tightening cycle

### MEXICO: BANXICO DELIVERED A SOMEWHAT DOVISH 25 BPS HIKE ON THURSDAY

As was expected by the consensus of economists, but seemingly disappointing the MXN and what was discounted into TIEE, Banxico **hiked 25 bps** in its November 11 meeting (chart 1). The TIEE curve was almost fully pricing in a 50 bps hike in both this meeting and the next, while MXN was up almost 0.7% on the day. Following the decision, the peso retraced to almost flat versus the USD, suggesting markets were taken off guard by the less-hawkish decision. Heading into Thursday, about 80% of economists (including our house call) had anticipated a 25 bps move, and about 20% looked for a 50 bps hike. However, there had also been a discussion of the Board possibly ending up in a three way split, with one vote supporting no change, two votes voting for 25 bps, and two more for 50 bps. In the end, the final decision left the Board split the same way as in its previous decision, with four votes for +25 bps, and Deputy Governor Esquivel supporting no change. Key points in the statement include:

- **On the external front, the Board continued to see supply chain disruptions, fiscal stimulus, and a decomposition of spending towards merchandise (away from services) as the main drivers of global inflationary pressures—as well as commodity price shocks.** The Board also took note of the accelerating withdrawal of global monetary policy stimulus and cautioned this could affect monetary and financial conditions. In some ways, this seems to continue to support the view of inflationary pressures being temporary, but there also seems to be added caution on market stability/volatility in the face of policy reversal in core markets.
- **On the domestic front, the Board highlighted an economic contraction is likely in Q3, which is expected to reverse in the final quarter of the year, as well as an increase in financial market volatility.** However, the Board also noted that slack remains present in the economy, although performance by sector remains highly uneven.
- **Banxico highlighted the continued rise in both headline and core inflation in Mexico and noted the rise in inflation expectations for both 2021 and 2022, but highlighted that long term inflation expectations remain anchored.** With this, the argument of inflationary pressures being temporary is reinforced, but balanced against it (and likely supporting the hikes) is the counter argument of the need to avoid a contamination of the price formation process. On this same direction, it's worth noting that Banxico's balance of inflation risks is skewed 5:3 in favour of upside risks.
- **Banxico made important upward revisions to both headline and core inflation forecasts for the next 12 months,** but some modest downward revisions as we move into 2023 (table 1).

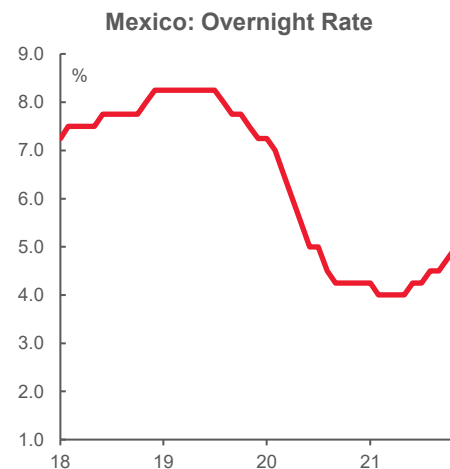
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Chart 1



Sources: Scotiabank Economics, Banxico.

- The tone of the statement did not show a material shift to the hawkish side, which we take as support for our view that the pace of hikes will continue to be **25 bps per meeting**, sustained without interruption until the first meeting of 2022, then followed by gradual tweaks to eventually take policy back to neutral settings (6.0%) at the end of 2022.

		2021				2022				2023		
		Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f
Headline	Revised	4.0%	6.0%	5.8%	6.8%	6.3%	4.8%	3.9%	3.3%	3.2%	3.2%	3.1%
	Previous	4.0%	6.0%	5.8%	6.2%	5.6%	4.3%	3.5%	3.4%	3.3%	3.2%	3.1%
	Difference	0.0%	0.0%	0.0%	0.6%	0.7%	0.5%	0.4%	-0.1%	-0.1%	0.0%	0.0%
Core	Revised	3.9%	4.4%	4.8%	5.5%	5.8%	5.3%	4.3%	3.5%	3.0%	2.7%	2.6%
	Previous	3.9%	4.4%	4.8%	5.3%	5.4%	4.8%	4.0%	3.4%	3.1%	2.9%	2.8%
	Difference	0.0%	0.0%	0.0%	0.2%	0.4%	0.5%	0.3%	0.1%	-0.1%	-0.2%	-0.2%

Sources: Scotiabank Economics, Banxico.

—Eduardo Suárez

## PERU: BCRP RAISES RATES BY FOUR CONSECUTIVE MONTHS BUT SAYS IT DOESN'T IMPLY TIGHTENING CYCLE

The Board of Peru's central bank (BCRP) raised its key interest rate by 50 bps to **2.00%** at its meeting on Thursday, November 11, in line with market consensus according to a Bloomberg survey, the interest rate swaps market (2.3% with a term of six months) and our own forecast. Inflation expectations are above the target range, putting pressure on the BCRP to react by raising its benchmark interest rate.

In our [Latam Weekly](#) (October 22, 2021) we raised our benchmark rate forecast from 1.50% to 2.50% for end-2021, so we expect a new increase of 50 bps for the December meeting. Later, in our [Latam Weekly](#) (November 5, 2021) we further raised our forecast from 3.50% to 4.00% for 2022. This materializes the bullish bias that we have already observed in interest rates. Despite this adjustment, monetary policy would not lose its expansionary orientation, as interest rates would remain in negative territory in real terms.

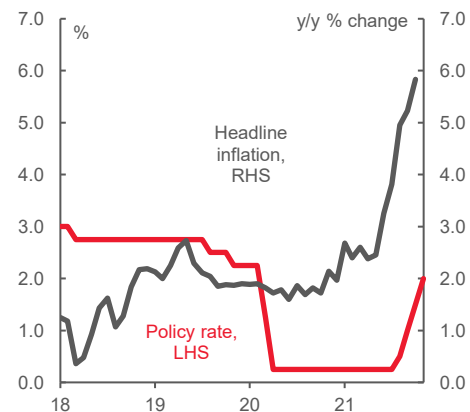
The BCRP's president had previously indicated that he would continue with his policy of gradually raising the benchmark interest rate (chart 2). Compared with other economies in the region, the reference rate in Peru is relatively low. The BCRP statement emphasizes it is best to keep the expansionary stance of monetary policy for a prolonged period through the gradual withdrawal of monetary stimulus. The real interest rate of the monetary policy remains in negative territory, at -1.6% in November after the decision, reaching above -2.0% for the first time in six months. Likewise, the Board further indicated that it will remain attentive to new information regarding inflation expectations and the evolution of economic activity "to consider, if necessary, modifications in the monetary policy position", a wording that has been used in cycles of interest rate hikes in the past.

The BCRP also pointed out that expectations about the economy continued to improve in October, although some indicators remain in negative territory. The president of the BCRP, Julio Velarde, recently pointed out that the economy could grow 13.2% this year, a rate higher than the forecast of 11.9% that the central bank made in September. Velarde pointed out that the higher growth rate is not only a consequence of a rebound but also of the actions taken by policymakers.

—Mario Guerrero

Chart 2

Peru: BCRP Reference Rate vs Headline Inflation



Sources: Scotiabank Economics, BCRP, INEI.

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