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Chart 1

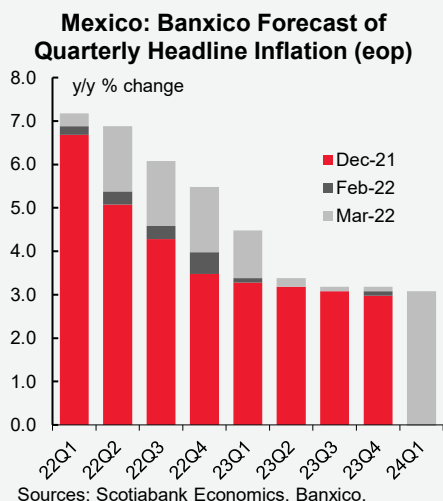
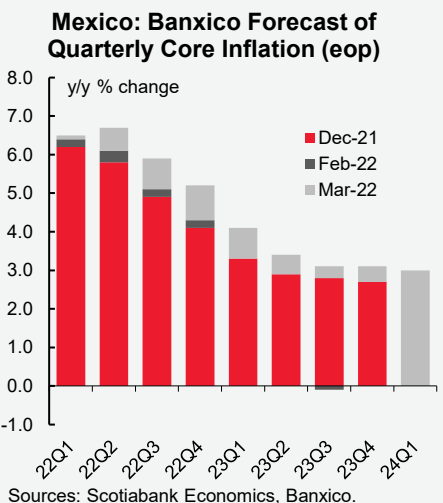


Chart 2



Mexico—Another 50 bps Rate Hike

- Banxico hiked its key policy rate by 50 basis points for the third consecutive time, to 6.50%.
- In explaining the move, the central bank cited ongoing price pressures and geopolitical factors driving up global commodity prices that threaten to unleash inflation expectations. Banxico has significantly raised its forecast of inflation.
- Scotiabank now expects at least one more 50 bps hike in the current tightening cycle and a policy rate of 8.25% by end-2022.

BANXICO HIKES POLICY RATE 50 BPS TO 6.50%, AS BROADLY EXPECTED

In a unanimous decision and in line with the analysts surveyed by Bloomberg and Citibanamex, Banxico raised its monetary policy rate by 50 basis points for the third consecutive time. The decision was announced unexpectedly at the president's morning conference prior to Banxico's official statement, sparking criticism among financial sector specialists. Notably, the vote in favor of a 50 bps hike was supported by Deputy Governor Esquivel, who had opted for a less restrictive stance since June 2021.

The statement announcing the decision highlights the deterioration in the balance of risks for inflation resulting from higher external price pressures because of the pandemic and Russia's invasion of Ukraine, as well as the depreciation of the exchange rate and the persistence of core inflation. In this regard, Banxico significantly revised upward its inflation forecasts for 2022 and 2023 (chart 1, chart 2), and now expects inflation to return to target in the first quarter of 2024.

Given the current price dynamics, deteriorating expectations, uncertainty in the economic environment and tightening global financial conditions, we anticipate at least one more 50 bps increase in the current hiking cycle. Moreover, we now expect the central bank policy rate to be 8.25% by end-2022.

While inflation in the first half of March was below consensus, the outlook has worsened in recent weeks. According to INEGI, in the first fortnight of March, inflation came in at 7.29% y/y (chart 3), below consensus and the previous reading of 7.34% y/y. By components, core inflation moved marginally from 6.67% y/y to 6.68% y/y (chart 4), below the 6.73% y/y consensus. The increase was driven by merchandise prices, which remain on an upward trajectory, rising from 8.45% y/y to 8.54% y/y, the highest rate of increase since the second half of June 2000. Services inflation moderated from 4.66% y/y to 4.57% y/y. Non-core inflation likewise moderated, from 9.34% y/y to 9.10% y/y, with energy prices rising slightly from 4.57% y/y to 4.60% y/y, offset by lower food prices inflation (chart 5) that declined from 16.54% y/y to 15.93% y/y.

On a sequential two-week basis, headline inflation came in at 0.48% 2w/2w, marginally higher than the previous biweekly period level of 0.42% 2w/2w but below consensus (0.53% 2w/2w). Core inflation also surprised downward at 0.35% 2w/2w (0.32% 2w/2w previously, 0.41% 2w/2w consensus). Merchandise prices rose from 0.41% 2w/2w to 0.49% 2w/2w, and services stood at 0.20% 2w/2w (0.21% 2w/2w previously). Non-core inflation increased to 0.86% 2w/2w (0.71% 2w/2w previously). It is worth highlighting the increase in the energy component, which rose 1.82% 2w/2w from 0.52% previously.

In recent weeks, inflation expectations have further increased owing to the war in Ukraine and a deterioration in the economic and financial global environment. **In this regard, earlier this week we updated our inflation forecast from 4.75% to 5.50% for 2022, in line with Banxico's revisions to its forecasts, and revised upward our call on the policy rate at end-2022 to 8.25%.**

Chart 3

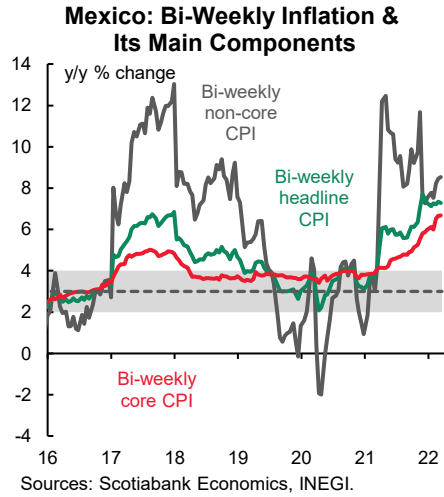


Chart 4

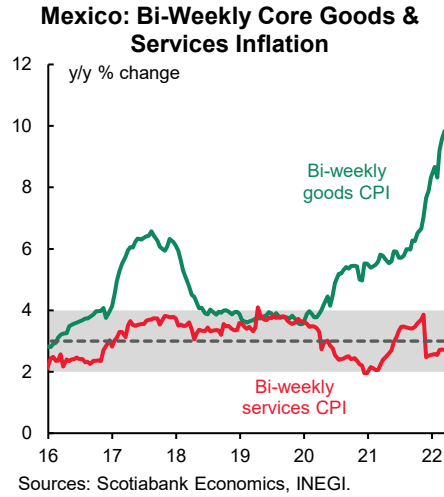
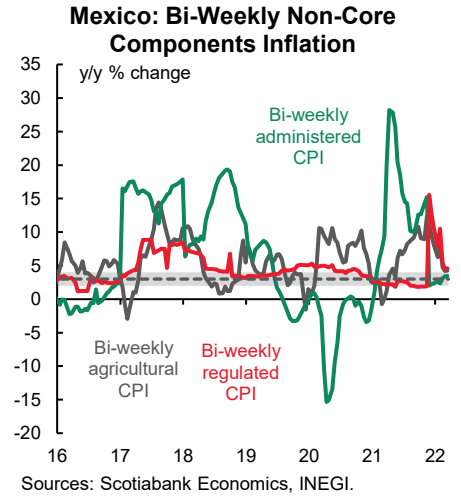


Chart 5



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