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Mexico—Banxico Raised the Interest Rate by 50bps

As widely expected, Banxico raised the interest rate by 50bps to 10.50%, following four consecutive 75bps increases. The decision came in a 4-1 vote, with Deputy Governor Esquivel voting in favour of a 25bps hike. Deputy Governor Esquivel has been the most dovish member of the Board, and this could be his last policy meeting. Among the list of candidates to succeed him are top officials from SHCP, Banxico, and the banking supervisor CNBV; although it is still possible that Deputy Governor Esquivel may be re-nominated.

The forward guidance changed with respect to the previous decision. The statement now notes that “The Board considers it will still be necessary to raise the reference rate in its next monetary policy meeting. Subsequently, it will assess if the reference rate needs to be further adjusted as well as the pace of adjustments based on the prevailing conditions”. In addition, Banxico maintained its outlook of converging to the inflation target in 2024Q3, although it revised slightly downward its headline inflation forecasts in the short term. It also made upward adjustments to its core inflation expectations. The Board considered that the balance of risks in the inflation trajectory remains biased to the upside.

Banxico’s hike followed again the Fed’s move of a 50bps increase. However, the members of the Board have signaled a future decoupling of the Fed’s pace of hikes at upcoming meetings. In this regard, while the forward guidance does signal at least one additional hike, it gives no sign of maintaining the 50bps pace, which could mean a more dovish tone in future decisions. In contrast, the Fed showed a more restrictive stance at this week’s meeting, noting that most members of the Federal Open Market Committee (FOCM) now expect a rate of at least 5.25% by the end of 2023, and Powell mentioned that they do not anticipate cuts over the next year.

In November, both the headline and core inflation numbers came in below analysts’ estimates. However, the trajectory of inflation is still expected to converge to its target in the second half of 2024. The statement highlighted the decrease in headline inflation in November, which stood at 7.80%, reflecting the reduction of the non-core component. However, it highlighted the upward trend of core inflation, now at 8.51%, also marking the persistence of this component as the main upward risk. Other upside risks mentioned in the statement were external inflationary pressures from the pandemic, geopolitical ongoing conflict pressures, exchange rate depreciation, and greater cost-related pressures (these could include wage costs, although this was not specified). Downside risks were a greater slowdown in the global economy, a decline in the intensity of the geopolitical conflict, a better functioning of supply chains, lower pass-through effect of cost-related pressures, and a greater than expected effect of the government’s anti-inflationary plan.

All things considered, our outlook is for a terminal rate of 11.00%, derived from two additional 25bps increases during the first quarter of 2023, and starting the downward cycle in the last quarter, to end the year at 10.50%.

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

Headline (y/y % change)	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4
Dec. '22 (eop)	7.3	7.8	8.5	8.1	7.5	5.9	4.8	4.2	3.8	3.4	3.1	3.0
Nov. '22 (eop)	7.3	7.8	8.5	8.3	7.6	5.8	4.7	4.1	3.8	3.4	3.1	
Change	0.0	0.0	0.0	-0.2	-0.1	0.1	0.1	0.1	0.0	0.0	0.0	3.0
Core (y/y % change)	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4
Dec. '22 (eop)	6.5	7.3	8.0	8.5	7.8	6.7	5.5	4.3	3.7	3.2	3.0	3.0
Nov. '22 (eop)	6.5	7.3	8.0	8.3	7.5	6.4	5.2	4.1	3.6	3.2	3.0	
Change	0.0	0.0	0.0	0.2	0.3	0.3	0.3	0.2	0.1	0.0	0.0	3.0

Sources: Scotiabank Economics, Banxico.

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