Scotiabank.

GLOBAL ECONOMICS

LATAM FLASH

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Contributors

Miguel Saldaña, Economist
+52.55.5123.1718 (Mexico)
msaldanab@scotiabank.com.mx

Brian Pérez, Quant Analyst
+52.55.5123.1221 (Mexico)
bperezgu@scotiabank.com.mx

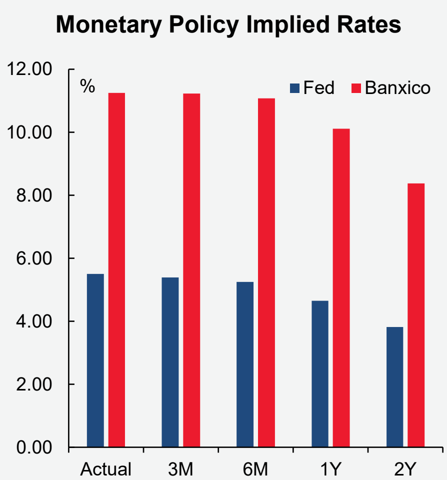
Mexico—Banxico Leaves Rate Unchanged

Banxico left its monetary policy rate unchanged in a unanimous decision at 11.25%, as widely expected. In addition, the Board revised downward its average headline inflation forecast for 2023-Q4 and 2024-Q1, to 4.4% y/y and 4.3% y/y, respectively. The Governing Board highlighted that the inflation outlook remains complicated, although the disinflationary process has improved. The statement noted that "in order to achieve an orderly and sustained convergence of headline inflation to the 3% target, the reference rate must be maintained at its current level for some time".

The change in the headline inflation short-term forecast suggests that the central bank expects a slower pace in non-core inflation for the remainder of the year, which has been particularly low during the year. Nevertheless, as it is the most volatile component of inflation, we do not rule out the possibility of seeing some upticks in the coming months. On the other hand, the central bank kept its core inflation forecasts unchanged, and repeated that the persistence of core inflation poses an upside risk to the outlook. Other upside risks mentioned were an exchange rate depreciation and higher cost pressures. In this sense, we believe that the expected pace of economic growth in the coming year could generate inflation pressures through higher demand for products and services. In addition, the possibility of another double-digit increase in the minimum wage could foster labour cost pressures for the following year.

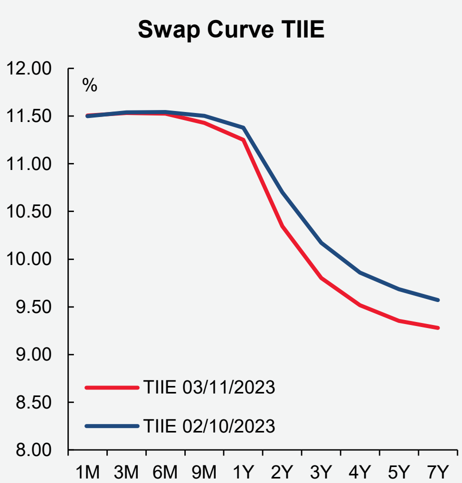
In terms of private sector expectations, the consensus of analysts foresees that the cutting cycle would start in 2024Q2, ending that year at 9.25%, although some analysts expect the first cut to occur even earlier, in 2024Q1. After the statement, implied rates were slightly lower than the levels seen last week, implying markets now anticipate slightly lower rates in the next two years owing to the little forward guidance provided by Banxico's statement. In fact, the current swap curve is below the curve observed after the September meeting. This is in contrast to what the markets are expecting from the Fed, as implied monetary policy rates increased this week after Jerome Powell's speeches. On the other hand, the exchange rate showed a strong depreciation of around 30 cents since the release of the statement to close to $17.80 USDMXN.

Chart 1



Sources: Scotiabank Economics, Bloomberg.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

Table 1: Mexico - Banxico´s Headline and Core Inflation Forecasts

Headline Inflation (%)	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1	25Q2	25Q3
Current (Nov. 23) e.o.p.	8.5	8.0	7.5	5.7	4.6	4.4	4.3	4.0	3.7	3.4	3.2	3.1	3.1
Previous (Sep. 23) e.o.p.	8.5	8.0	7.5	5.7	4.6	4.7	4.4	4.0	3.7	3.4	3.2	3.1	3.1
Var. Current - Previous (%)	0.0	0.0	0.0	0.0	0.0	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Core Inflation (%)	**22Q3**	**22Q4**	**23Q1**	**23Q2**	**23Q3**	**23Q4**	**24Q1**	**24Q2**	**24Q3**	**24Q4**	**25Q1**	**25Q2**	**25Q3**
Current (Nov. 23) e.o.p.	8.0	8.4	8.3	7.3	6.2	5.3	4.5	3.9	3.5	3.3	3.2	3.1	3.1
Previous (Sep. 23) e.o.p.	8.0	8.4	8.3	7.3	6.2	5.3	4.5	3.9	3.5	3.3	3.2	3.1	3.1
Var. Current - Previous (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Scotiabank Economics, Banxico.