

# Banxico – Quite close to the end of the easing cycle

- Banxico decided today, in a split decision, to cut the reference rate by 50bps to 4.50%, in line with our expectations and consensus
- Specifically, one member favored to reduce the reference rate by 25bps, to 4.75%. We believe this vote was casted by Deputy Governor Javier Guzman, which we identify as relatively hawkish
- In our view, the tone was less dovish, particularly on inflation. In this respect, they added a statement that “...the available room to maneuver will depend on the evolution of the factors that have an incidence on the outlook for inflation and its expectations...”
- Our linguistic analysis showed a higher importance of “inflation” and other words associated to it, such as “effects”, “core”, and “pandemic”. In contrast, “economic activity” had a lower relative weight
- We reiterate our call of one additional rate cut of 50bps, to 4.00%, in the meeting to be held on September 24<sup>th</sup>. However, it is our take that after today’s decision, the risk is leaning towards more modest cuts

**Banxico cuts the reference rate by 50bps to 4.50%.** This was in line with our view and consensus expectations. Nevertheless, the decision was split (4-1), with one member favoring to cut only 25bps, to 4.75%. We believe this vote was by Deputy Governor Javier Guzman, which we identify as relatively hawkish. On the other hand, we perceived the statement’s tone as less dovish, with mixed changes to the statement but more cautious on inflation. We reiterate our call of one additional rate cut of 50bps, to 4.00%, in the meeting to be held on September 24<sup>th</sup>. However, it is our take that after today’s decision, the risk is leaning towards more modest cuts.

**Modest tweaks on growth, still dovish.** The central bank stated that the global economy started to improve in May and June, supported by policy measures. Despite of the latter, the environment remains highly uncertain. Domestically, the Board recognized [the historical decline of 2Q20 GDP](#) along signals of a recovery in June. Nevertheless, they stated that “...significant risks to the downside persist...”, reaffirming that they see greater economic slack as a result.

August 13th, 2020 Statement Word Cloud



Source: Banorte with data from Banxico

June 25th, 2020 Statement Word Cloud



Source: Banorte with data from Banxico

August 13, 2020

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**Banxico’s 2020 policy decisions**

Date	Decision
<a href="#">February 13</a>	-25bps
<a href="#">March 20</a> (intra-meeting)	-50bps
<a href="#">April 21</a> (intra-meeting)	-50bps
<a href="#">May 14</a>	-50bps
<a href="#">June 25</a>	-50bps
August 13	-50bps
September 24	--
November 12	--
December 17	--

Source: Banxico

Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



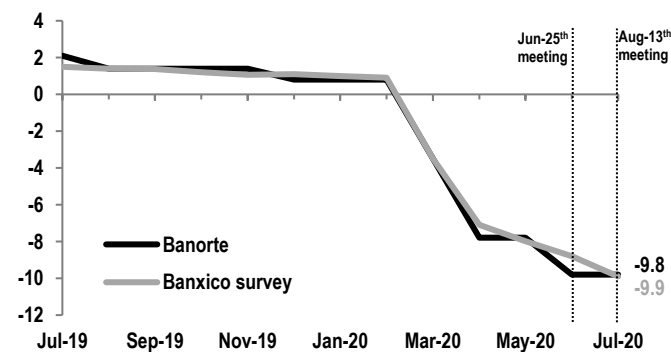
**STARMINE AWARDS FOR REUTERS POLLS FROM REFINITIV**

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**More cautious on inflation given recent dynamics.** We believe changes about prices were more important, recognizing the [pick-up of inflation to 3.62% y/y by the end of July](#). Although they added that social-distancing measures that could reduce demand for services as a downside risk, we highlight the inclusion of greater persistence of core inflation –currently at 3.85% y/y– as an upside, even despite the high degree of slack. More importantly though, Banxico reinforced –and reminded market participants– of its data-dependency, stating that “...*the available room to maneuver will depend on the evolution of the factors that have an incidence on the outlook for inflation and its expectations...*”. In our view, it is very relevant that this comment focused solely on prices, signaling that rate decisions will depend primarily on their evolution. Thus, it will be very important to see upcoming prints, surprises, and changes in Banxico’s 2Q20 *Quarterly Report* (on August 26<sup>th</sup>) as it could hint what the majority is thinking in this front.

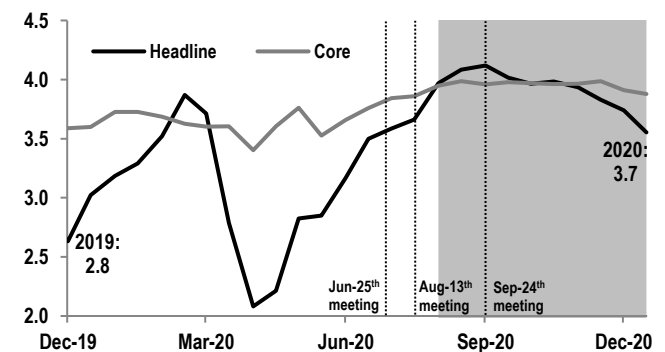
**We maintain our call of a 50bps cut on September 24<sup>th</sup>, albeit with the risk towards more modest easing.** We believe there is still room to cut because of two main factors. First, GDP forecasts for this year have been cut further in between the last two decisions (see chart below, left), suggesting some limit for inflationary pressures. To us, this was the main reason behind the inclusion of the phrase that “...*Although the recent increases in headline and core inflation affect their foreseen trajectories in the short term, both are expected to lay around 3% within the 12-24 month forecast horizon...*”. Second, and according to our calculations, a cut of this magnitude is still consistent with a positive real rate, which may be a lower bound for the majority. However, it is our take that after today’s less dovish tone and the dissenting vote, the risk is leaning towards more modest easing, which would be a 25bps cut in said meeting. In this respect, our inflation trajectory anticipates more pressures, with the headline expected at 4.12% y/y and the core at 3.96% in the 1H-Sep, the last print available by the time of the decision (see chart below, right). In addition, we do not rule out higher volatility due to the US election, which could pressure asset prices and capital flows. We note the meeting will be held just five days before the 1<sup>st</sup> presidential debate. We still think the process could prove difficult for Mexico, apart from the backdrop of high uncertainty due the pandemic and other domestic challenges. Therefore, we cannot rule out that an even more cautious stance prevails, particularly as 375bps of cuts have accumulated since the start of the easing cycle around one year ago.

**2020 GDP growth estimates**  
y/y



Source: Banxico, Banorte

**Inflation forecast**  
% y/y, bi-weekly frequency



Source: INEGI, Banorte

## Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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