

Banxico – Closed the door, but left it unlocked

- In a unanimous decision, Banxico cut the reference rate by 25bps to 4.25%, in line with consensus and our expectations
- In our view the statement is less dovish, with Banxico closing the door –at least for now– to more rate cuts during the rest of the year
- Specifically, we highlight at least four factors:
 - (1) In the sentence about the factors considered for the cut, they added “...although narrow...” when talking about the room for maneuver
 - (2) About the drivers going forward, they eliminated the comment about the “...available room...” for further easing
 - (3) They emphasized that the decision was based on the foreseen scenarios for inflation, stressing especially the latter
 - (4) That the decision was unanimous, contrary to our expectations of at least one dissenter favoring a more aggressive reduction
- On the other hand, downward risks for growth prevail and remain uncertain for inflation, with marginal changes relative to the previous communique
- Our linguistic analysis showed again higher importance of “inflation” especially the word “short” given recent dynamics. Moreover, “risks” gained relevance, with “economic activity” also stronger
- We maintain our call that the reference rate will stay unchanged for the rest of the year, closing at 4.25%, remaining at this level in 2021

Banxico cut the reference rate by 25bps to 4.25%. This was in line with our view and consensus expectations. The decision was unanimous, contrary with our call of the possibility of at least one dissenter. Given this situation, along the adjustments made to the statement (which was also shorter than previously), we think the tone was less dovish, especially when talking about the available room for additional cuts. In this respect, we believe that Banxico has closed the door –at least for now– for more reductions during the rest of the year. Therefore, we maintain our call that the reference rate will close 2020 at 4.25%, remaining at this level in 2021.

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Banxico's 2020 policy decisions

Date	Decision
February 13	-25bps
March 20 (intra-meeting)	-50bps
April 21 (intra-meeting)	-50bps
May 14	-50bps
June 25	-50bps
August 13	-50bps
September 24	-25bps
November 12	--
December 17	--

Source: Banxico

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



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September 24th, 2020 Statement Word Cloud



Source: Banorte with data from Banxico

August 13th, 2020 Statement Word Cloud



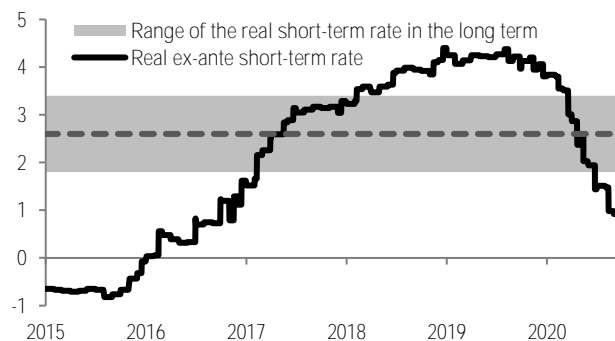
Source: Banorte with data from Banxico

Modest, but important, changes to the statement. Broadly speaking, we believe these had a less dovish bias, signaling that after this cut there is no additional room for more reductions, at least for now. When talking about the factors behind the decision, they said it was based on the foreseen scenarios “...for inflation...” and considering the room for maneuver, “...although narrow...”, that on balance these provide to monetary policy. Also, on factors to see going forward, they eliminated the phrase about the “...available room...” for further easing. It is our take these adjustments reflect that most members are comfortable with the current level of the rate and that they need additional information about lower inflation before more easing.

Balance of risks unchanged. On growth, they highlighted higher activity in [June](#) and [July](#), although stressing that the scenario remains uncertain and with downside risks. In this backdrop, we think signals for August are mixed. Nevertheless, changes to this section suggest this is not the main concern, with inflation remaining as the hot topic. After referring to the [recent increase in prices](#), they once again warned of pressures in goods at the core component. The balance of risks is still characterized as uncertain and did not show changes relative to the [previous statement](#), although we believe they could be skewed to the upside, at least in the short-term.

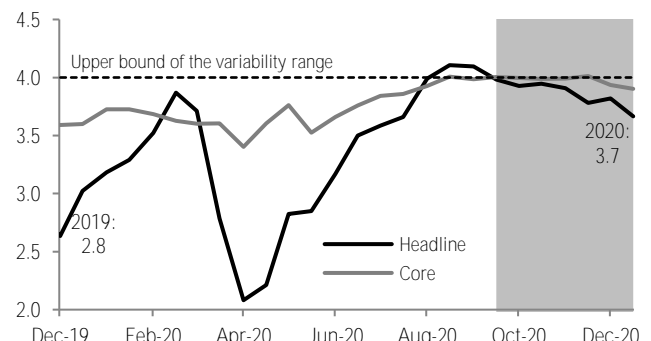
The reference rate will remain at 4.25% for the remainder of the year. We believe the adjustments to the statement suggest most members see the level of the real *ex ante* rate, positive (0.7%) and in easing territory (chart below, left), as adequate given uncertainty and the financial shock we are facing. On the other hand, according to our estimates (chart below, right), inflation will remain near the upper bound of the variability range at least until the end of October, the last print that we will know before the November 12th decision. Moreover, we still anticipate pressures on the Mexican peso due to the US elections (up to 2σ by late October), risk that has increased given the possibility of not having a clear winner on November 3rd. We add to the latter risks on the domestic front, among them the financial situation of Pemex and public finances, with a [2021 Budget Proposal](#) that we think is optimistic and austere. In this context, we believe the current easing cycle is over, with conditions still challenging at least in the short-term. Therefore, we reiterate our expectation that the rate will end the year at 4.25% and will be extended at this level throughout 2021, although with the door closed but left ‘unlocked’ for this latter year towards more cuts if conditions allow it.

Real *ex ante* short-term interest rate
% 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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