

# Banxico resumes easing cycle with a 25bps unanimous rate cut

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- In a unanimous decision, Banxico’s Board cut the reference rate by 25bps to 4.00%, in line with our call and consensus
- Contrary to the last two decisions, there were no dissenters. We believe the statement was slightly more dovish, albeit still remaining data dependent, especially on inflation
- Moreover, we highlight:
  - (1) The Board’s emphasis in the inflation ‘hump’ in the second quarter of the year due to a base effect;
  - (2) More explicit comments on different price dynamics between goods and services, with the overall path still consistent with the forecasts outlined in the last *Quarterly Report*
  - (3) Although they recognized higher economic growth in 4Q20, risks remain tilted to the downside, with ample slack
- Our linguistic analysis showed a higher importance of “headline” relative to “core”, talking about inflation. Moreover, we noted that the word “expectations” gained relevance
- We expect Banxico to cut by 25bps in each of the next two meetings, to be held on March and May. With this, the reference rate would decline to 3.50%, where we see the terminal level for this easing cycle
- We hold our trade idea of receiving the 6-month TIE-IRS (6x1) and start a new long strategy on the 3-year CPI-linked Udibono

**Banxico’s 2021** policy decisions

| Date         | Decision |
|--------------|----------|
| February 11  | -25bps   |
| March 25     | --       |
| May 13       | --       |
| June 24      | --       |
| August 12    | --       |
| September 30 | --       |
| November 11  | --       |
| December 16  | --       |

Source: Banxico

Relevant upcoming releases and events

| Date        | Event   |
|-------------|---|
| February 24 | Inflation (February 1H) GDP (4Q20) / GDP proxy (December) |
| February 25 | Banxico Minutes   |
| March 3     | Quarterly Report  |
| March 9     | Inflation (February)                                      |
| March 24    | Inflation (March 1H)                                      |
| March 25    | GDP proxy (January)                                       |
| March 25    | Monetary policy decision                                  |

Fuente: INEGI, Banxico, Banorte

**Banxico cuts the rate by 25bps, to 4.00%.** The decision was in line with our call and consensus. This happened after the pause in the easing cycle that started in November. More surprisingly though, the decision was unanimous, contrasting with the previous two meetings. We consider that the tone of the statement was slightly more dovish. Nevertheless, they remain cautious given uncertainty, signaling data and event dependency (see second table on the right). We also note adjustments on the section about inflation, which we believe suggests there is willingness to continue cutting rates. In this context, we reiterate our view of two additional 25bps reductions, one in the March 25<sup>th</sup> meeting and another on May 13<sup>th</sup>, taking the reference rate to 3.50%.

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



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February 11th, 2021 Statement Word Cloud



Source: Banorte with data from Banxico

December 17th, 2020 Statement Word Cloud



Source: Banorte with data from Banxico

**Adjustments on inflation comments.** The most relevant changes were in this front, resulting in a slightly more dovish tone. They added that they expect increases in headline inflation in the second quarter of the year, mainly on a base effect as a result of a decline in energy prices in 2020. We should remember that inflation plunged to 2.15% y/y in April of last year from 3.25% in March given strong adjustments in economic and financial variables at the start of the pandemic. Therefore, the base effect in 2021 will be challenging, with our inflation forecast estimating a high near 5% (see chart below). Explicitly mentioning this suggests that members will not overweight this fact in their upcoming decisions, as they expect it to revert in 2H21. Moreover, we believe it is relevant that they clearly stated that inflation in services (2.13% y/y in January) within the core component is much lower than in goods (5.41%). In our opinion, this reinforces the view of limited upward pressures given the ample levels of slack in the economy.

**Risks for growth prevail.** Changes about growth were very modest. Risks to the downside remain despite slightly [stronger than expected GDP in 4Q20](#). Global ones include the rise in virus infections, delays in vaccine production and distribution, the sufficiency of fiscal stimuli, and other tensions. In this sense, activity levels remain below those observed before the pandemic. Hence, the bias in this front remains very accommodative.

**We reiterate our call of two additional 25bps cuts this year.** These would be in the next two decisions, on March 25<sup>th</sup> and May 13<sup>th</sup>. The reference rate would reach 3.50%, level in which we see the terminal rate for this cycle. More importantly, we believe the fact that the vote was unanimous and that they included the comment about the ‘hump’ in inflation suggests that the window for easing is open again. Regarding the former, it is our take that a more dovish bias at the margin has been confirmed after the entrance of Deputy Governor Galia Borja to the Board. Nevertheless, they keep reinforcing their dependence to new data and events, which points to some caution. Hence, it will be even more important to see price dynamics to assess if the convergence to the 3% target is indeed materializing. This is particularly important as the evaluation will be more complicated due to distortions induced by the pandemic. Considering our inflation forecasts, growth expectations and ample degree of monetary and fiscal stimulus in other regions that has supported risk appetite, among other factors, we believe conditions remain favorable to continue reducing the reference rate.

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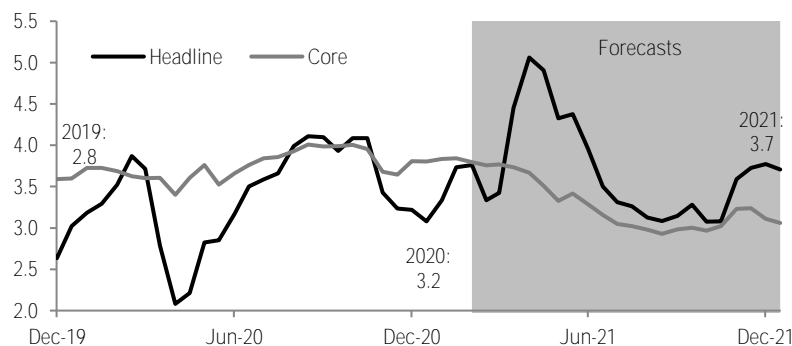
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**Banxico's 2020 policy decisions**

| 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   |
| <a href="#">August 13</a>                | -50bps   |
| <a href="#">September 24</a>             | -25bps   |
| <a href="#">November 12</a>              | 0bps     |
| <a href="#">December 17</a>              | 0bps     |

Source: Banxico

Inflation trajectory  
% y/y, bi-weekly frequency



Source: INEGI, Banorte

*From our fixed income and FX strategy team*

**We hold our trade idea of receiving the 6-month TIEE-IRS (6x1) and start a new long strategy on the 3-year CPI-linked Udibono.** The local fixed-income market rallied today following Banxico's decision, as the yield curve priced in a lower likelihood to this scenario. Mbonos and IRS closed today's session with an 11bps gain, with short-term securities outperforming longer tenors. Considering our view of further cuts going forward, we hold our trade recommendation of receiving the 6-month TIEE-28 IRS (6x1), a strategy that has gained 22bps since December 17<sup>th</sup>. We also consider appropriate to initiate long positions in the 3-year Udibono (Nov'23). Although these securities have enriched recently, inflation breakevens depict space for further increases in this region of the yield curve. In the FX market, the Mexican peso experienced a notably stable performance close to USD/MXN 19.95, revealing a market which clearly integrates the carry weakening for the currency in the following months. Nevertheless, in a relative value basis, the carry embedded in MXN remains attractive vis-à-vis other EM currencies.

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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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|             |   |
|-------------|---|
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