# Banxico – We see a terminal rate of 11.50% after a moderation in the hiking pace

March 30, 2023

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- **Today, Banxico's Board raised the reference rate by 25bps to 11.25%, in line with our call and consensus expectations**
- **The decision was unanimous, as in the previous occasion. We believe the tone of the statement was less hawkish, noting that:**
  **(1) The forward guidance leaves the door open to an additional hike in the next meeting;**
  **(2) Concerns over inflation seem to have decreased, noting the marginal downward revision in the forecast for the headline this year;**
  **(3) Changes in the balance of risks for prices, recognizing recently positive dynamics due to some factors; and**
  **(4) The expected convergence to the target remained at 4Q24**
- **In addition, they elaborated about the situation of the global and local banking sector, noting our country's strength**
- **Considering changes to the statement, along with our view for the Fed and improvements in the inflation outlook, we now expect only one more 25bps hike in May. This implies a terminal rate of 11.50% (previous: 11.75%), level at which it would stand at least until the end of the year. Nevertheless, risks remain tilted to the upside, possibly resulting in additional rate increases**
- **The market sees the end of the hiking cycle very near**

**Banxico hikes 25bps, in line with expectations.** With this, the reference rate reaches 11.25%. The vote was unanimous, as in the previous decision. We believe the statement showed a less hawkish tone, with important changes in several fronts. In our opinion, the most relevant one was in the forward guidance, which has become quite important in the last few decisions. Specifically, they now mention that "*...For its upcoming decision, the Board will take into account the inflation outlook, considering the monetary policy stance already attained...*". We believe this leaves the door open to an additional increase in May, albeit also suggesting that the end of the tightening cycle might be very close, or even that it may have already been reached. On the other hand, adjustments to their inflation forecasts were much more modest –especially for the headline– (see section below). They reaffirmed their confidence and the resilience of the domestic financial sector amid problems in the US and Europe. Considering these changes, as well as our view of fewer Fed hikes given risks on the banking sector in that country –including their potential impact on growth and inflation– and a slight improvement in the inflation outlook, we adjust our call. Specifically, we now anticipate only one more 25bps hike in May, taking the rate to 11.50%, which would be its terminal level for this cycle. After this, we expect it to remain unchanged at least for the remainder of the year, with cuts materializing sometime in 1H24.

**Banxico's 2023 policy decisions**

| Date | Decision |
|---|---|
| February 9th | +50bps |
| March 30th* | +25bps |
| May 18th | -- |
| June 22nd | -- |
| August 10th | -- |
| September 28th | -- |
| November 9th | -- |
| December 14th | -- |

*Minutes of the decision to be released on April 13th. Source: Banxico

**Lower concerns on inflation, albeit with the core still in focus.** Similar to previous decisions, this latter component remains in the eye of the storm. The Board mentioned again pressures in processed foods and in some services. Nevertheless, it seems that the outlook for the headline improved, at least at the margin, considering downward surprises in the last three fortnights and revisions in both inflation forecasts. Regarding the latter, the average adjustment to the trajectories in 2023 was -10bps for the headline, while for the core it was by +8bps. For 2024 there were no revisions. As such, their expectation for the convergence to the target remained at 4Q24. We highlight that adjustments were considerably more modest than in the previous decision. Nevertheless, the balance of risks is still skewed to the upside, albeit in our opinion with lower conviction considering. Specifically, the main points both to the upside and downside were the same, albeit with changes in the remaining ones. Within the former, we note greater attention on the effects of an exchange rate depreciation given higher volatility. Meanwhile, in the latter, we point to a more relevant weight on the possibility of lower cost pressures.

**Recognizing US and European banking problems, with a limited impact on our country.** The Board stated that these difficulties have had a limited impact in Mexico's financial system, while reaffirming that local banking institutions exceed regulatory requirements in terms of liquidity and capitalization. They will remain attentive to its evolution and any impact to the domestic financial market, but the tone suggests high confidence in its resilience. In contrast with the Fed –which indicated that these issues could impact growth and inflation to the downside–, Banxico did not comment further. Nevertheless, it will be very interesting to analyze members' opinions on this issue in the minutes. If the US or the global economy decelerate, it could indeed benefit inflation; nevertheless, and contrary to said country, this could well be compensated by additional currency losses.

**CPI forecasts**

% y/y, quarterly average

| | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | 1Q25 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Headline** | | | | | | | | | | |
| Current | 8.0* | 7.5 | 6.3 | 5.3 | 4.8 | 4.2 | 3.7 | 3.4 | 3.1 | 3.1 |
| Previous | 8.0* | 7.7 | 6.4 | 5.3 | 4.9 | 4.2 | 3.7 | 3.4 | 3.1 | -- |
| Difference (bps) | -- | -20 | -10 | 0 | -10 | 0 | 0 | 0 | 0 | -- |
| **Core** | | | | | | | | | | |
| Current | 8.4* | 8.3 | 7.5 | 6.2 | 5.0 | 4.1 | 3.5 | 3.2 | 3.1 | 3.1 |
| Previous | 8.4* | 8.2 | 7.3 | 6.2 | 5.0 | 4.1 | 3.5 | 3.2 | 3.1 | -- |
| Difference (bps) | -- | 10 | 20 | 0 | 0 | 0 | 0 | 0 | 0 | -- |

Source: Banco de México. *Observed data

*From our Fixed Income and FX strategy team*

**The market sees the end of the hiking cycle very near.** The reaction of local rates was subdued, as the market was convinced of a 25bps increase. However, the tone of the statement was interpreted as less hawkish, so Mbonos and TIIE-IRS swaps erased the modest losses of the session, averaging gains of 5bps and 11bps, respectively. The market will continue to assess whether Banxico will raise the benchmark rate for one last time in May (+25bps) before ending the restrictive cycle that began in June 2021.

It is worth noting that, during the recent financial turmoil, the curve priced-in a view of benchmark rate cuts for the second half of the year of up to -102bps; however, this view has lost steam to -72bps, following more optimism about the banking sector. Going forward, we believe that short-term rates will continue to correct this scenario and nominal yield curves will deepen their inversion once again. The spread between 2- and 30-year Mbonos stands at -130bps after narrowing to -107bps during the latest stress episode, and -184bps at the beginning of the month. Furthermore, the Mexican peso erased all session's gains, going from 18.05 to 18.12 per dollar. Subsequently, it stabilized at 18.10 (-0.1%). In our view, the Mexican peso will maintain an appreciation bias, supported by high interest rates and solid macroeconomic fundamentals. Hence, we see very feasible a new attempt to breach the technical floor of 18.00 per dollar in the short-term.

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**We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Daniel Sebastián Sosa Aguilar and Andrea Muñoz Sánchez, 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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