

Central Banks

Monetary rate unchanged at 3.0%. Attention pinned on the Fed against the possible risk posed by consolidating convergence towards the target

Iván Martínez Urquijo

The country's monetary stance relative to the US and the behaviour of the exchange rate are the variables in which Banxico is most interested, in the light of the risk that the Fed's normalisation cycle may be compromising the likelihood of achieving, and consolidating, convergence with the inflation target

- The evolution of economic slack seems to carry rather less weight in the current situation. For the first time since July 2013, Banxico is making no reference to “efficient convergence” of inflation, even when it points up the weakness of the economic cycle and a deterioration in the balance of risks in activity
- By contrast, it is the first time that the central bank has mentioned market expectations about the date of the first rise in US federal fund rates and its close relation to Fed's communication
- The weakness in the rate of economic activity at the start of the year is acknowledged, in the light of less momentum in exports, the feeble consumption indicators and the continuing fall in oil production
- The balance of risks for inflation is estimated to have changed little from the previous meeting. This takes into account the fact that, for the moment, the exchange rate pass-through to inflation remains as expected. Furthermore, the bank repeats its aim of consolidating convergence with the 3.0% target over the course of 2015
- Assessment. The central bank stresses that it is not only seeking to achieve convergence for inflation with the 3.0% target, but also to keep it there. At the moment, the beginning of the monetary policy normalisation cycle in the US, and its negative effects on inflation, represent the biggest threat in achieving this goal. Therefore, we expect Banxico to modify its stance along with the Fed by the third quarter of this year. Note that the weak economic cycle in Mexico vs. that of the US might cause the rate of growth in Mexico's benchmark rates to be less than in the US.

Table 1
Highlights from recent statements

| | Jan-29th-15 | Mar-26th-15 | Bottom line* |
|-------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|
| Global context | <ul style="list-style-type: none"> World economic growth is still weak, but with differences across countries The US economic recovery strengthens The balance of risks of economic activity impaired further | <ul style="list-style-type: none"> World economic growth remains weak US economic growth tempered The balance of risks of economic activity remains unchanged relative to the latest meeting. | Mixed signals as US recovery continues |
| Economic activity | <ul style="list-style-type: none"> Downside risks to economic activity linger. Economic growth shows a moderate recovery The economic slack prevails Private consumption does not show signals of recovery. Public expenditure effects on growth are limited. | <ul style="list-style-type: none"> The balance of risks impaired. Economic activity exhibits weakness The economic slack prevails Private consumption remains weak, the fall in oil production continues. | Dovish tone |
| Inflation | <ul style="list-style-type: none"> Balance of risks with no major changes Protracted peso depreciation is the major risk factor Headline inflation in line with perspectives It is estimated that headline inflation will be at 3.0% around first half of 2015 | <ul style="list-style-type: none"> Balance of risks with no major changes Additional peso depreciation is the major risk factor The evolution of inflation has been favorable Exchange rate passthrough to prices has been in line with central bank's expectations It is expected that inflation will remain close to 3.0% in the coming months. | Neutral tone |
| Policy decision | 0.00 | 0.00 | |
| Rate | 3.00 | 3.00 | |

* Own interpretation based on the tone and wording of the Policy Statement

Source: BBVA Research based on monetary policy statements.

Disclaimer

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research and BBVA Bancomer S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer on behalf of itself and is provided for information purposes only. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA Bancomer, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.