

Central Banks

Banxico stays hawkish; a period of an extended monetary policy pause the most likely scenario

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- **Banxico did not soften its tone; likely to remain hawkish in the near-term**
- **Banxico unlikely to soften its stance in the near-term but the wording tempered the ready-to-hike disposition of the previous statement**
- **We continue to expect the next move in the monetary policy rate to be down, but not until later in the year**

Easing unlikely until late in the year

As widely expected, in line with analysts' consensus and priced into markets, in a unanimous decision Banxico decided to leave the monetary policy rate unchanged at 8.25%. The wording of the statement stayed hawkish. In the monetary policy paragraph, the Board repeated that it will "maintain a prudent monetary policy stance" and will adjust rates in a "timely and firm manner" if needed, but eliminated the reference of the readiness to "strengthening the monetary policy position" where appropriate. In our view, this softens the ready-to-hike disposition of the previous statement.

Nonetheless, Banxico did not soften its tone. The Board acknowledged the recent decline in inflation, but minimized it noting that core inflation remains sticky, not mentioning the decline from 3.68% in December to 3.60% in January and instead highlighting that it barely moved "from 3.63% in November to 3.60% in January". The statement acknowledged the recent decline in long-term breakeven inflation expectations, but stressed that these "remain at high levels". The Board repeated that the balance of risks to inflation remains tilted to the upside.

Bottom-line: Overall, as we expected, the statement signals that further tightening seems unlikely but at the same time, the Board stayed hawkish and kept a cautious wait-and-see approach in the near-term. We continue to expect the next movement in rates to be down, but not until late in the year.

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