BBVA Research

Central Banks

Banxico not ready to change its stance

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- **No signs that Banxico is ready to shift into easing mode**
- **Wording stayed hawkish but had a slight dovish tweak**
- **We continue to expect the next move in the monetary policy rate to be down, but not until 3Q**

Hawkish statement signals wait-and-see approach

As expected by all analysts and fully priced into markets left the monetary policy rate unchanged at 8.25%. The decision was unanimous as we anticipated. The wording and tone of the statement remained hawkish, signaling that rate cuts are still not in the table. Broadly speaking, the Board did not soften its tone. Banxico is clearly no longer in a ready-to-hike disposition since the previous decision in February, but, as we anticipated, it shifted to a cautious wait-and-see approach (see) and not (yet) to an easing bias.

The monetary policy paragraph remained unchanged. The Board repeated that it will "maintain a prudent monetary policy stance" and will adjust rates in a "timely and firm manner" if needed. The Board also repeated that the balance of risks to inflation remains tilted to the upside. Banxico highlighted that inflation has fallen this year and acknowledged that core inflation edged down, but minimized it noting that core food prices have increased recently. Besides, the Board highlighted the risk of sticky core inflation. Banxico also acknowledged the recent decline in analysts and market implied inflation expectations, but stressed that these "remain at high levels" and above target. In our view, the statement added a slight dovish tweak by mentioning "some of the [inflation] risks factors to the downside have intensified". Yet, Banxico stressed "there are others that could push it upwards in greater magnitude and divert it from the expected trajectory".

Bottom-line. In spite of the anticipated hawkish tone in today's statement, we think that Banxico is likely to shift to an easing bias sooner rather than later. There are several reasons for this: the Fed is on the sidelines, the MXN is relatively stable in spite of the risks, headline inflation should fall below 4.0% from the summer onwards, core will likely remain stable, the economy is weakening, the output gap is widening, and the real exante monetary policy rate is clearly restrictive. In our view, the case for an easing cycle will become strong in a few months' time. We think Banxico will start easing its monetary stance in August and we forecast 50bp of rate cuts this year (bringing down the policy rate to 7.75% by year-end) and another 100bp of cuts next year (to 6.75%).