Central Banks

Banxico leaves rates and tone unchanged

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- **Banxico is far from ready to shift to an easing bias**
- **The Board continues on a cautious wait-and-see approach, not a ready-to-hike disposition**
- **We continue to think that Banxico is likely to shift to an easing bias in the second half of the year**

Little changed (hawkish) tone continues to signal cautious approach

As widely expected, Banxico 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 and was little changed from the previous one (March 28). As we anticipated (see), the hawkish tone continues to signal a cautious approach.

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. The Board continued to highlight core inflation’s stickiness and remains clearly focused on inflation risks. Interestingly, Banxico noted again that the risks to the growth outlook “remain biased to the downside” but the tone remained unchanged despite the contraction in GDP in Q1. Fortunately, given that the overly restrictive monetary policy stance is taking its toll on economic growth, the statement did not add any hawkish tweaks despite higher-than-expected core inflation in April. It does not seem that they become more concerned following the unexpected large jump in core inflation. The statement acknowledged that some of the rise reflected calendar effects (Easter was in April this year and in March last year) and more importantly, they pointed out that the increase will be transitory and that the current monetary stance is consistent with the convergence of inflation to its goal. Overall, Banxico continues on a cautious wait-and-see approach, not a ready-to-hike disposition.

Bottom-line. In spite of the anticipated hawkish tone in today’s statement, we continue to think that Banxico is likely to shift to an easing bias in the second half of the year. 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. We continue to expect an easing cycle to begin in Q3 and anticipate more rate cuts than markets and analysts are expecting this year and next. We remain comfortable with our view for an easing cycle to begin in the second half of the year and we are expecting 50bp of rate cuts this year and 100bp in 2020. In contrast, consensus is pricing in 75bp of cuts by year-end 2020.