

Central Banks

An overly cautious Banxico cut its policy rate to 7.25%

There is still plenty of room to cut rates; we expect the monetary policy stance to reach neutrality by the summer of next year

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- **Split vote with only one member voting for lowering the rate to 7.00% as opposed to two members in November**
- **The statement had only two changes and both represented hawkish tweaks: i) the warning that in Banxico's view the minimum wage increase could lead to cost-related pressures; and ii) that these pressures could locate their inflation forecasts "moderately above the levels anticipated in the last quarterly report"**
- **Today's statement reinforces our view of a gradual rate cut cycle: we expect the policy rate to reach 6.0% by August 2020**
- **In our opinion, a faster easing pace and a looser monetary policy stance are warranted but we expect Banxico to remain cautious**

Banxico remains overly cautious, the wording had hawkish tweaks and one member changed its vote from a faster pace of easing to a more gradual one

In a split decision, Banxico cut its policy rate by 25bp for the fourth consecutive meeting, to 7.25%, as widely expected. Only one member voted for lowering the rate to 7.00% as opposed to two members in November. In our note prior to today's meeting we argued that a faster easing pace was warranted but that we expected Banxico to remain cautious and lean for a 25bp cut (see) in both today's meeting and following meetings in the first half of next year. That is, today's hawkish wording along with a larger and overwhelming majority (4 to 1) voting for a 25bp cut reinforces our view of a very gradual easing cycle.

The wording of the statement was little changed, as Banxico remains overly cautious, and in our view, it strikes a more hawkish tone. The statement had only two changes and both represented hawkish tweaks: i) the warning that in Banxico's view the minimum wage increase could lead to cost-related pressures; and ii) that these pressures could locate their inflation forecasts "moderately above the levels anticipated in the last quarterly report". Most likely, deputy governor Gerardo Esquivel was alone in his view that a faster pace of easing was warranted. He has not been able to convince other members about the need to ease the monetary policy stance in a context of soft inflation, lower risks, a strong and outperforming MXN, and an increasingly negative output gap. Therefore, we anticipate that Banxico will cut the policy rate by 25bp in each of the next five meetings, bringing it to 6.0% in August 2020.

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