Banxico Watch

Banxico remains in a hawkish mood…

Javier Amador / Iván Fernández
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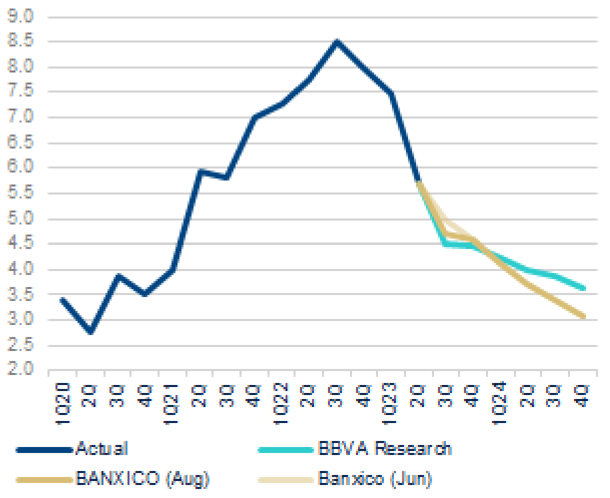
… and insists it will stay on the sidelines "for an extended period"

- As widely expected, in an unanimous decision, **Banxico kept the policy rate steady at 11.25%** for the third meeting in a row. As we anticipated, it did not send any signal about a possible start of a rate cut cycle in coming meetings (see). The wording of the statement was broadly unchanged and **continues to strike a hawkish tone**. Banxico brought its headline inflation path closer to our forecasts (Figure 1), but downplayed the downward revision to its 3Q23 headline inflation forecast, from 5.0 to 4.7%. The Governing Board repeated that the balance of risks to the inflation outlook "remains biased to the upside" and, more importantly, **continued to signal its intention to keep the policy rate unchanged "at its current level for an extended period."** This hawkishness was in line with Banxico's June meeting minutes which showed members' agreement on the need for "caution" in the current disinflationary stage, as well as with recent hawkish comments by Deputy Governor Jonathan Heath regarding Banxico's likely need to hold its current restrictive stance "for a while" and wait for it to take effect.
- **Hints about the roadmap for a rate cut cycle ahead would have been particularly useful** now as some Latin American countries such as Brazil and Chile have started an easing cycle **but, as we thought (see), they were unlikely as Banxico was set to remain cautious and backward-looking.** By retaining in the policy paragraph its intention to keep the policy rate unchanged for an extended period, **Banxico is signaling that a rate cut cycle is unlikely to start as soon as in November (i.e., in two meetings) as we had penciled in our baseline scenario.** Yet, we continue to be somewhat more optimistic about the inflation outlook in the next few months and thus, we think that the real exante policy rate is likely to increase a little bit more by November than what Banxico is currently anticipating. As we argued in our note yesterday, there was a risk that faced with a strong economy and sticky services inflation, Banxico would decide to remain backward looking and signal it was likely to extend the very restrictive stance for longer, as it did today. Thus, **we think that after today's statement the odds of a rate cut in November have decreased.**
- **Looking ahead, we continue to think that Banxico should start a rate cut cycle in 4Q, now probably in December, to avoid a further tightening of the monetary policy stance**, even if the Fed ends up hiking rates one more time or is still holding rates steady at that point in time. Today's meeting minutes to be released in a couple of weeks could offer us some insights regarding the emerging concerns expressed by some members in June regarding the risk of an excessively restrictive stance amidst declining inflation expectations. Yet, risks of a probable further delay of the rate cut cycle to 1Q24 increased somewhat after today's statement.

Banxico brought its 3Q23 headline inflation forecasts closer to ours…

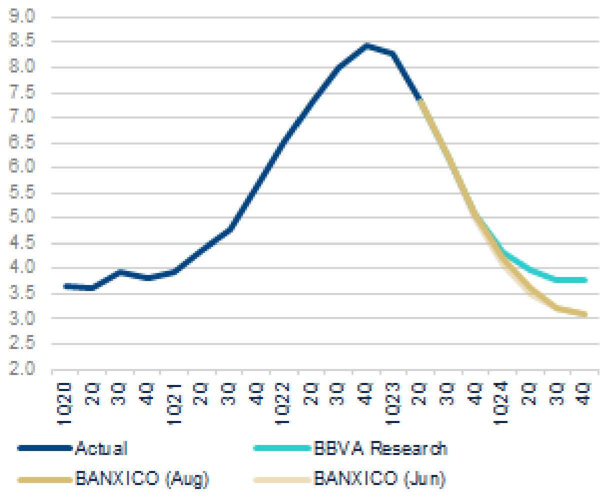
Figure 1. **HEADLINE INFLATION OUTLOOK**
(YOY % CHANGE, QUARTERLY AVERAGE)



Source: BBVA Research based on data by Banxico and INEGI.

… and kept its core inflation expected path broadly unchanged

Figure 2. **CORE INFLATION OUTLOOK**
(YOY % CHANGE, QUARTERLY AVERAGE)



Source: BBVA Research based on data by Banxico and INEGI.

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