

BBVA Research Flash

Mexico

Banxico. Rate cut on December 2nd if the exchange rate permits it.

- The central bank goes strengthens its dovish tone in comparison with its august announcement. This last announcement contributed to a rate cut expectation by some analysts (19% of total) for the present meeting. In today's statement Banxico stresses the possible convenience of a rate cut depending on the global growth and its implication on the Mexican economy.
- Banxico underlines that the exchange rate is anchored in the medium term by economic fundamentals. This along with the low exchange rate pass-through to prices allows that inflation expectations have not changes significantly, which supports the perspective of a rate cut in December.
- The current BBVA Research scenario established a protracted monetary pause with a first rate hike in 2013, biased to a rate cut in December. However, in light of the recent announcement, we change our perspective to a rate cut of 25 basis points in December with further rate cuts depending on the global scenario. Notwithstanding, there is a bias to keep the rate in 4.5% if the exchange rate volatility and levels increase to levels similar o higher to those seen during the last weeks or the US economic growth surprises to the upside.

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