

Banxico Flash

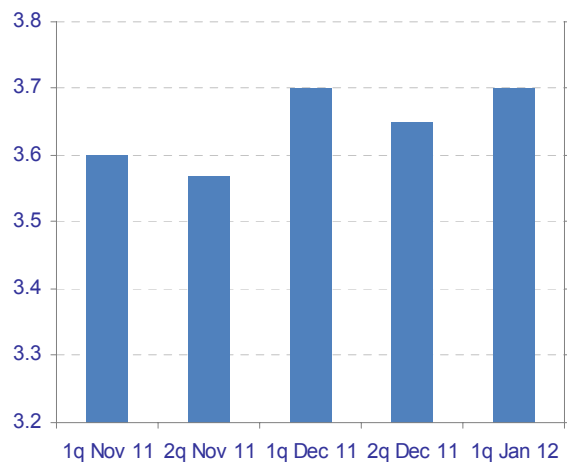
México

Banxico, January 20th Monetary Policy decision: No change in fondeo rate

- The neutrality tone will stay
- A GDP growth around 4%, along with a December inflation figure above expectations and an exchange rate depreciation during the 4Q11 support a “wait and see” stance.
- Banxico’s recent communication and current BBVA Research’s forecasts on economic activity and inflation are consistent with a monetary pause during 2012. A rate cut, though not dismissed, depends on a deep impairment of the global economy.

Since last August, Banxico’s policy statements adopted a dovish tone, emphasizing the impairment of global economic activity. In December, last meeting’s minutes showed a debate across the Board over the economic activity and, in particular, over the inflation balance of risks, that concluded with a neutral policy stance for the months coming. The evolution of Banxico’s communication along with BBVA Research’s forecast of an upward trending inflation (3.8% on average in 2012, 0.44% higher than in 2011) and a moderate GDP growth (3.3% in 2012) lead us to think that the monetary pause will remain during 2012. However, odds of a rate cut increase if there is a deep impairment of global economic activity.

Chart 1
Expectation of annual inflation in December 2012 by survey date



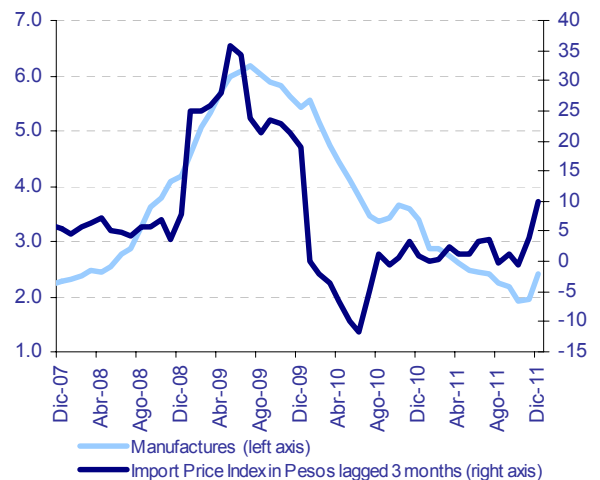
Source: BBVA Research and Financial Market Analysts' Forecast Survey - Banamex

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Chart 2
Inflation in manufactures and imports (y/y %)



Source: Bloomberg

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