

## Banxico – The easing cycle will resume in February

- In a majority decision, Banxico left the reference rate unchanged at 4.25%, in line with our expectations
- Two members voted for a 25bps cut, to 4.00%, while in the previous decision there was only one dissenter. Taking this into account we think the statement was more dovish than the previous one, which we judged as neutral
- Moreover, we highlight:
  - (1) The recognition of positive news about the vaccine, expectations of additional fiscal stimulus in the US, and less geopolitical uncertainty (likely because of the election in that country)
  - (2) Comments about the positive effect on prices of extended discounts in “*El Buen Fin*” (Mexico’s Black Friday), as in the [Quarterly Report](#)
  - (3) The addition that “...it is imperative to safeguard the institutional framework...”
- We adjust our inflation forecast for year-end 2021 to 3.7% from 4.2%
- We expect Banxico to cut the reference rate by 25pb in three consecutive decisions starting on February 2021. Moreover, we reiterate our call of accumulated cuts next year of 75bps, to 3.50%
- We recommend receiving 6-month TIE-IRS (6x1)

**Banxico keeps the reference rate at 4.25%.** The decision was in line with our view and consensus, with only a few analysts anticipating a cut. In this sense, the decision was not unanimous, with two Board members favoring -25bps, to 4.00%. We believe the tone was more dovish when compared to the previous statement, which we judged as neutral. Coupled with two dissenters instead of only one in November, we also noted that: (1) The positive effect on prices of extended discounts in “*El Buen Fin*”, as in the latest [Quarterly Report](#); and (2) the comment that inflation expectations for 2020 declined, as opposed to increasing previously. Given recent price dynamics, among other factors mentioned below, we now expect Banxico to cut the reference rate by 25pb in three consecutive decisions starting on February 2021. Moreover, we reiterate our call of accumulated cuts next year of 75bps, to 3.50%

December 17th, 2020 Statement Word Cloud



Source: Banorte with data from Banxico

December 17, 2020

[www.banorte.com](http://www.banorte.com)  
[@analisis\\_fundam](mailto:@analisis_fundam)

Gabriel Casillas  
Chief Economist and Head of Research  
[gabriel.casillas@banorte.com](mailto:gabriel.casillas@banorte.com)

Alejandro Padilla  
Executive Director of Economic Research  
and Financial Markets Strategy  
[alejandropadilla@banorte.com](mailto:alejandropadilla@banorte.com)

Juan Carlos Alderete, CFA  
Director of Economic Research  
[juan.alderete.magal@banorte.com](mailto:juan.alderete.magal@banorte.com)

Francisco Flores  
Senior Economist, Mexico  
[francisco.flores.serrano@banorte.com](mailto:francisco.flores.serrano@banorte.com)

Fixed income and FX Strategy

Manuel Jiménez  
Director of Market Strategy  
[manueljimenez@banorte.com](mailto:manueljimenez@banorte.com)

Santiago Leal Singer  
Senior Strategist, Fixed-Income and FX  
[santiago.leal@banorte.com](mailto:santiago.leal@banorte.com)

Leslie Orozco  
Strategist, Fixed Income and FX  
[leslie.oroazco.velez@banorte.com](mailto:leslie.oroazco.velez@banorte.com)

Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



Document for distribution among the general public

November 12th, 2020 Statement Word Cloud



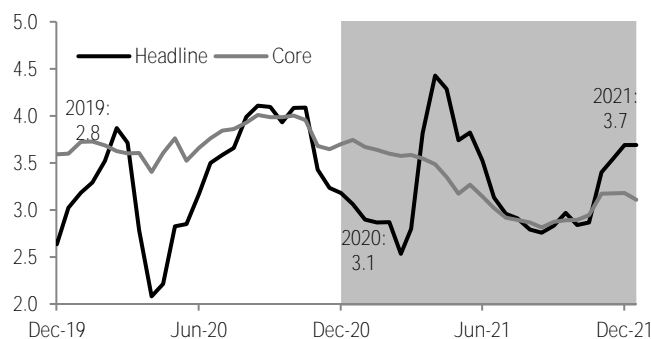
Source: Banorte with data from Banxico

**Acknowledging a better economic outlook.** The Board noted some positive news globally, among them the development of vaccines against COVID-19, expectations of additional fiscal stimulus in the US, and less geopolitical uncertainty (likely because of the election in that country). For Mexico, they mentioned that the recovery continued to improve at the start of 4Q20, although with [signs of slowing down at the end of the year](#). Either way, the balance of risks remains tilted to the downside.

**Inflation has improved, but the path is still very uncertain.** Regarding prices, the central bank mentioned the strong and recent decline, [to 3.33% in November](#), lowest since May and within the target range. Nevertheless, the balance of risks remains uncertain. We should mention that since the 3Q20 Quarterly Report they mentioned the strong effect lower on prices because of extended discounts in “*El Buen Fin*”, which is still the main risk to the downside. The rest remained unchanged relative to said document. The adjustments on upside risks were marginal, with more focus on the possibility of a new composition in spending towards goods that induces pressures in relative prices, along cost-related pressures for firms. In this backdrop, Banxico keeps stressing the high level of uncertainty around inflation forecasts, which justified the need for a pause in the easing cycle.

**We revise down our year-end 2021 inflation forecast.** We adjust our year-end estimate for 2021 to 3.7% from 4.2%, expecting an even larger decline in the core component, to 3.1% from 4.2% (see chart below). Overall, this is explained by a favorable performance in the latest data, which we expect to extend to December, while also anticipating a greater downward effect from economic slack. This would mainly keep services limited, including housing. Among the main drivers we highlight that: (1) [The 15% minimum wage increase](#) having a very low impact; (2) goods would moderate their advance, as we assume there will be no further supply disruptions due to the pandemic; (3) a modest uptick in government tariffs, influenced by the electoral year; (4) a marginal effect lower from the reduction in VAT in Southern Border municipalities; (5) upward pressures mainly in energy on the back of the global economic recovery; and (6) a rebound in categories that rely on more social interactions until 2H21, such as airfares and tourism related services, after significant progress is made in the vaccination process.

Inflation trajectory  
% y/y, bi-weekly frequency



Source: INEGI, Banorte

Inflation forecasts  
% y/y, quarterly average

	4Q20	1Q21	2Q21	3Q21	4Q21
Headline					
Banxico	3.6	3.6	4.3	3.1	3.3
Banorte	3.5	3.0	3.8	2.9	3.3
Core					
Banxico	3.8	3.9	3.6	3.0	3.1
Banorte	3.8	3.6	3.2	2.9	3.1

Source: Banxico, Banorte

#### Banxico's 2020 policy decisions

Date	Decision
<a href="#">February 13</a>	-25bps
<a href="#">March 20</a> (intra-meeting)	-50bps
<a href="#">April 21</a> (intra-meeting)	-50bps
<a href="#">May 14</a>	-50bps
<a href="#">June 25</a>	-50bps
<a href="#">August 13</a>	-50bps
<a href="#">September 24</a>	-25bps
<a href="#">November 12</a>	0bps
<a href="#">December 17</a>	0bps

Source: Banxico

#### Banxico's 2021 policy decisions

Date	Decision
February 11	--
March 25	--
May 13	--
June 24	--
August 12	--
September 30	--
November 11	--
December 16	--

Source: Banxico

**The central bank added a suggestion about the institutional framework.** We highlight that, in the statement, they added that “...it is imperative to safeguard the institutional framework...”. We think this is a response to the debate regarding [proposed changes to Banco de Mexico’s Law](#) about foreign currency deposits. In this sense, the decision to delay the vote until February was favorable, allowing for more time to do a more thorough analysis.

**Banxico will resume the easing cycle in February.** We adjust our expectations, now anticipating three consecutive 25bps cuts each, starting on February 11<sup>th</sup> (previous: first cut in 2Q21). After May, we do not expect further changes in the rate, ending the year at 3.50%. This is supported by: (1) The adjustment to our inflation forecasts, which by the end of January –last print to be published by the time of the next decision– would stand below 3%; (2) changes in the Board next year, expecting a dovish bias from incoming Deputy Governor, [Galia Borja](#), on top of the two members that voted for a cut today, which we believe were Deputy Governors Heath and Esquivel; (3) risks for growth at the start of 2021 given the pick-up in COVID-19 cases both globally and locally, with limited fiscal stimulus domestically; (4) a more positive scenario for financial inflows given extremely loose monetary policies in the rest of the world, on top of favorable news about the sovereign rating with the recent ratification by Fitch Ratings and [S&P Global Ratings](#); and (5) greater awareness over the risks to the central bank’s independence due to the amendments proposed to the law that governs its operations.

*From our fixed income and FX strategy team*

**We recommend receiving the 6-month TIIE-IRS (6x1).** After Banxico’s decision, the market experienced temporary and modest pressures in the short-end of the local yield curve yet closing with a positive performance both in the Mbonos and TIIE-IRS curves, averaging an appreciation of 3bps and 5bps, respectively. The market incorporates the possibility of further rate cuts starting in the 1Q21, pricing in -14bps for this period and -25bps for the 2Q21. This reveals an attractive valuation in short-term securities when considering our expectation of rate cuts resuming in February and for accumulated 75bps throughout the year. We therefore recommend receiving the 6-month TIIE-IRS (6x1), also holding a favorable view for long-term Mbonos. In the FX market, the Mexican peso depicted a limited reaction to the decision, trading between USD/MXN 19.75 and 19.85, closing the session 0.3% stronger vs the previous close at 19.82. In light of the possible liquidity deterioration in the following weeks we suggest buying USD in dips in short-term trading range defined by 19.70 and 20.35. Moreover, [we estimate next year’s trajectory](#) reaching up to USD/MXN 19.00.

## Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

## Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

## Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

## Last-twelve-month activities of the business areas.

**Grupo Financiero Banorte S.A.B. de C.V.**, through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

## Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

## Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

## Guide for investment recommendations.

	Reference
<b>BUY</b>	When the share expected performance is greater than the MEXBOL estimated performance.
<b>HOLD</b>	When the share expected performance is similar to the MEXBOL estimated performance.
<b>SELL</b>	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

## Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research and Financial Market Strategy			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Economic Research			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Juan Barbier Arizmendi, CFA	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746
Corporate Debt			
Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Economic Studies			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebaldos@banorte.com	(55) 5268 - 9996
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454