

Banxico – An unsurprising 50bps hike, with eyes turning to the Fed

- In a majority decision (4-1), Banxico's Board decided today to hike the reference rate by 50bps to 6.00%, in line with our call and consensus
- In our view, the statement shows a more hawkish bias at the margin. Deputy Governor Gerardo Esquivel was the only dissenter, favoring a 25bps hike to 5.75%. In addition, this was the first decision from new Governor Victoria Rodríguez
- We also highlight that:
 - (1) The revisions to inflation forecasts, both at the headline and the core, were higher than we anticipated;
 - (2) They mentioned that the duration and magnitude of inflation shocks have been larger than expected; and
 - (3) We noted higher concerns about the “additional” risks stemming from the tightening of global monetary and financial conditions, especially by the Fed
- We maintain our view of an accumulated increase of 125bps this year (five 25bps hikes), taking the reference rate to 7.25% by December. Nevertheless, risks of even more tightening have increased once again
- We reiterate our trade idea of paying 2-year TIEE-IRS (26x1), which remains attractive even after accumulated gains

Banxico hikes 50bps, in line with expectations. The rate increased by 50bps to 6.00%, in line with our call and consensus. The vote was 4-1, with Gerardo Esquivel as the only dissenter. As in the previous decision, he supported +25bps. It is important to mention that it was the first decision of the new Governor, Victoria Rodríguez. Despite of the latter, it is our take that the tone and structure was quite similar to recent communications, and in our view more hawkish at the margin. Specifically, we observed higher concerns about inflation –reflected in the magnitude of the upward revision to inflation forecasts– as well as with the inclusion of “additional” when talking about the risks from the tightening of global monetary and financial conditions, especially by the Fed. Given that we had few surprises, we maintain our call of 5 more hikes this year, taking the rate to 7.25%. However, risks of even further tightening have increased once again.

CPI forecasts

% y/y, quarterly average

	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
CPI									
Current	7.0*	6.9	5.4	4.6	4.0	3.4	3.2	3.1	3.1
Previous	7.1	6.7	5.1	4.3	3.5	3.3	3.2	3.1	3.0
Difference (bps)	--	20	30	30	50	10	0	0	10
Core									
Current	5.6*	6.4	6.1	5.1	4.3	3.3	2.9	2.7	2.7
Previous	5.6	6.2	5.8	4.9	4.1	3.3	2.9	2.8	2.7
Difference (bps)	--	20	30	20	20	0	0	-10	0

Source: Banco de México. *Observed data

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Winners of the award for best economic forecasters for Mexico in 2021, granted by *Refinitiv*



**STARMINE AWARDS
FOR REUTERS POLLS
FROM REFINITIV**

Banxico's 2022 policy decisions

Date	Decision
February 10	+50bps
March 24	--
May 12	--
June 23	--
August 11	--
September 29	--
November 10	--
December 15	--

Source: Banxico

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Moderate changes to the statement. Considering that this was the first decision of Governor Victoria Rodríguez, we believe changes in the form and substance of the statement were quite modest. Regarding growth, they eliminated comments about the reactivation and added the word “ample” when describing slack conditions, suggesting heightened concerns. Nevertheless, there was more weight on the issue of the relative monetary stance by adding the word “additional” to risks presented by the global backdrop. They added that both the duration as well as the magnitude of inflation shocks has been larger than expected, which is reflected in higher estimates, especially for 2022. Lastly, and on the contrary, they removed the characterization of the balance of risks for inflation as “having deteriorated”, albeit remaining tilted to the upside and only after the adjustment to the path mentioned above, which we think was larger than anticipated.

The tightening cycle will continue, with increasing pressures from the global backdrop. After today’s decision, which in our opinion was driven more by the domestic inflationary process, we think upcoming decisions will depend more on actions by the Fed. Local inflation conditions will keep weighing, albeit with their relative importance likely lower given the eminent start of the Fed’s restrictive cycle in March, [in line with our view](#). Thus, we reaffirm our estimate of an additional 125bps of accumulated hikes by Banxico this year, (five of +25bps each), taking place in March, May, June, September, and December, taking the reference rate to 7.25%. In our view, there are not enough reasons today to merit an additional adjustment. Despite of this, we see a larger risk that the tightening cycle could be even faster. First, due to the possibility of more decisive and faster hikes from the Fed, with a more hawkish rhetoric from their members in the last few weeks. Second, on potentially stronger domestic inflationary pressures, with our forecasted path still more pessimistic than Banxico’s despite today’s adjustment. Therefore, we will follow closely the upcoming minutes of this decision (on February 24th) and the 4Q21 *Quarterly Report* (March 2nd). Within them, detailed opinions of Governor Rodríguez on inflation, the relative monetary stance and economic activity, will be especially relevant.

From our fixed income and FX strategy team

We reiterate our trade idea of paying 2-year TIEE-IRS (26x1), which remains attractive even after accumulated gains. In a session characterized by widespread pressures on global fixed income, local rates had a limited reaction to Banxico’s decision. The Mbonos’ curve remained to the upside, with short- and mid-term securities up +9bps, while the long-end increased by +3bps. In addition, TIEE-28 IRS maintained a flattening bias, with the 2-year tenor (26x1) adjusting as much as +20bps. [We maintain our trade recommendation of paying this instrument](#) with a target of 8.10% and *stop-loss* at 7.15%, even after accumulated gains (current: 7.82%). In FX, the MXN was steady, hovering around the 20.50 psychological level. However, it stood among the weakest in the EM universe, down 0.5% to 20.58 per dollar. Looking ahead, we continue seeing additional dollar strength. Hence, we believe USD longs for trading purposes are attractive at levels close to 20.50 per dollar.

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, José Luis García Casales, Yazmín Selene Pérez Enríquez, José Itzamna Espitia Hernández, Carlos Hernández García, Paola Soto Leal, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Daniela Olea Suárez, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalia Orozco Vélez and Gerardo Daniel Valle Trujillo, 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

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