

Banxico minutes – Debating the relative stance with the Fed and the terminal rate

- Banxico published the minutes of the decision held on November 10th, in which they hiked the reference rate by 75bps to 10.00%, with a dissenting vote from Deputy Governor Gerardo Esquivel
- In our view, the document reaffirms the less hawkish tone that we perceived in the statement, recognizing a slight improvement in the inflationary outlook, albeit with prevailing risks
- The debate centered on the importance of the relative monetary stance –and the implications of decoupling from the Fed–, as well as the possible level of the terminal rate. Specifically, we highlight:
 - (1) The drivers behind local monetary policy actions relative to those from the Fed, and the reasons behind these adjustments;
 - (2) An ample debate over the implications of the terminal level for this cycle and the outlook ahead once it has been reached; and
 - (3) The magnitude of the next hikes and the factors that will define it
- All members agreed that the current stance is already restrictive and that hikes must continue. However, there is some divergence about the best path ahead
- Considering our call for the Fed and inflation dynamics, we still expect +50bps in December, with the rate by year-end at 10.50%, as well as a terminal level of 11.00% at the end of 1Q23
- Null reaction of local assets to the minutes

Banxico minutes reaffirm a less hawkish tone. In our opinion, the document has very relevant information about member's views regarding the factors that will drive upcoming decisions and the possible terminal level for the reference rate. Broadly speaking, we think that the document validates our call of a less hawkish tone in the last statement. Among the most relevant points, we highlight the discussion on three fronts: (1) Banxico's moves relative to those of the Fed, and their possible implications; (2) comments regarding the terminal rate level and the actions to be taken once it is reached; and (3) the magnitude of the upcoming move. In addition, comments on inflation focused on the core component and the risks related to it. Meanwhile, Gerardo Esquivel's reasons for his dissenting vote suggest that he could reiterate it in the near future, as well as helping us identify comments from the rest of the Board. Considering these, we believe there is consensus that the tightening cycle must continue. This is consistent with our call of an additional +50bps in December, taking the reference rate to 10.50% by the end of the year. After this, we expect two additional increases of 25bp each in February and March, taking the reference rate to 11.00%, which we estimate as the terminal level. Our estimate is based on identical moves for the Fed –with the costs of outweighing still high, especially on the financial stability front– and a still complex outlook for core inflation, [despite a downward revision to our forecast for the end of this year.](#)

November 24, 2022

[@analisis_fundam](http://www.banorte.com)

Alejandro Padilla
Chief Economist and Head of Research
alejandropadilla@banorte.com

Juan Carlos Alderete, CFA
Executive Director of Economic Research and Financial Markets Strategy
juan.alderete.magal@banorte.com

Francisco Flores
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com

Yazmin Pérez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com

Cintia Nava
Senior Economist, Mexico
cintia.nava.roa@banorte.com

Fixed income and FX Strategy

Manuel Jiménez
Director of Market Strategy
manueljimenez@banorte.com

Leslie Orozco
Senior Strategist, Fixed Income and FX
leslie.orozco.velez@banorte.com

Isaías Rodríguez
Strategist, Fixed Income and FX
isaias.rodriguez.sobrinho@banorte.com

Banxico's 2022 policy decisions

Date	Decision
February 10	+50bps
March 24	+50bps
May 12	+50bps
June 23	+75bps
August 11	+75bps
September 29	+75bps
November 10	+75bps
December 15	--

Source: Banxico


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



Document for distribution among the general public

Discussion about the best actions considering the Fed's tightening cycle. We believe that opinions did not change drastically relative to the [previous minutes](#), even when considering the dissenting vote. A point where we identified renewed interest was in how local adjustments relative to Fed decisions have taken place –and how they could be ahead. The clearest comment comes from Esquivel, arguing that it is desirable to decouple from the US monetary authority in a relatively favorable environment. On the rest, consensus is that following the Fed is not a mechanical decision, obeying several factors. One that stands out is that the inflationary cycle is synchronized between the two countries. In our opinion, Heath seems to show a greater aversion to decouple, talking about a specific spread of 600bps (current level) and that this could not materialize until inflation dynamics diverge and/or we have more information about the Fed's terminal rate. On a more moderate note, Rodríguez y Borja talk about conditions that so far have made these adjustments to happen in tandem, with additional factor that must be considered. Related to this, we present a table with our assessment of the main comments made by each member:

Banorte's assessment on Board member's comments in the November 10th minutes

Bias	Member	Order in the minutes	Relevant comments
 Hawkish	Irene Espinosa	2	<i>"...the reference rate will continue increasing and that the magnitude of the upward adjustments will be determined based on available information..."</i> <i>"...it will be necessary to maintain a restrictive monetary policy stance throughout the planning horizon..."</i> <i>"...will not be possible until inflation starts to follow a clear and sustained downward trajectory..."</i>
	Jonathan Heath	4	<i>"...the interest rate spread should be maintained at least at 600 basis points with respect to the United States..."</i> <i>"...He/she mentioned that a level of 6% or higher interest rate (real ex-ante) would be desirable as its final level..."</i> <i>"...the upward cycle has not ended yet, although there is the possibility of reducing the pace of adjustment..."</i>
	Galia Borja	1	<i>"...which does not imply that Banco de México mechanically follows the steps taken by the Federal Reserve..."</i> <i>"...considered that it would be important to further increase the reference rate in order to maintain inflation..."</i> <i>"...the magnitude of future upward adjustments [...] considering the increases that have already been implemented in this hiking cycle and that the monetary policy stance is already in restrictive territory..."</i>
	Victoria Rodríguez	5	<i>"...a synchronization of the monetary cycles between Mexico and the United States is conditional to the type of shocks being confronted, and thus is not mechanical..."</i> <i>"...rather than providing a specific guide about the terminal level of the rate, a monetary policy stance that is consistent with a decrease in inflationary pressures, with an improvement in inflation expectations..."</i> <i>"...As for the next monetary policy decisions, he/she sustained that, given the high uncertainty regarding the inflationary shocks, it is necessary to maintain the required flexibility in each decision..."</i>
	Gerardo Esquivel	3	<i>"...It is important to point out that the proposed increase would imply a decoupling from the Federal Reserve and a reduction of the interest rate spread with the United States..."</i> <i>"...I consider it necessary to start reducing the pace of the hiking cycle. This would signal that we are nearing the cycle's terminal rate..."</i> <i>"...if an ex-ante real interest rate between 5 and 5.5% were to be attained, it would be well above the estimated neutral interest rate..."</i>
Dovish			

Source: Banorte with information from Banxico

Still no definition over the terminal level, albeit with an increasingly hot debate. There were three specific comments on the terminal rate, one more than in the last occasion. We believe that Heath turned more *hawkish*, stating that it would be desirable that said reference stands at 6% or higher (with his previous comments being "around 6%"). On the contrary, Esquivel reinforced his dovish stance, arguing that a level between 5% and 5.5% could have adverse effects on consumption, investment, and loans. Governor Rodríguez likely stated that, instead of giving a specific orientation about its level, they must consolidate a stance consistent with lower inflationary pressures. To put these numbers in context, the current real ex-ante rate based on 12-month expectations from Banxico's survey (at 5.46%) stands at 4.30%.

Assuming this remains constant in coming months, to reach Esquivel's range we would need between +70bps and +120bps more nominal rate hikes; to reach Heath's view, +170bps would be necessary (Banorte: +100bps). Something that seems clearer is that the rate will need to remain high in the forecast horizon, with Heath and Espinosa more emphatic on this point. Finally, regarding the magnitude of the next adjustment, Borja, Espinosa, and Rodríguez affirm that this will depend on prevailing conditions, with Heath explicitly arguing that the pace could slow down.

Concerns remain about the inflation path, especially for the core. Board members agreed that the decline in annual headline inflation in the last four fortnights (till then, with the count currently at five) does not fade out in any meaningful way the persistent pressures seen at the core level. Therefore, most of the discussion was centered on the latter's behavior and expected path. They highlighted that these pressures can be explained by higher mobility, the increase in companies' operating costs, and second-round effects from high food prices to related services. On inflation expectations, it was noted that those for the core kept increasing, both at the short- and medium-term horizons. To this it should be added that the balance of risks remains skewed to the upside. On this front, two factors were highlighted: (1) Price pressures that remain centered at the core; and (2) the possibility of renewed cost increases due to hiring conditions or wage revisions.

From our Fixed income and FX strategy team

Null reaction of local assets to the minutes. Local rates remained virtually unchanged after the release. It is worth noting that the US market is closed today for Thanksgiving, so trading volumes are low. In this backdrop, both Mbonos and TIE-IRS swaps are mostly unchanged relative to the previous close. In our view, the document lacks information that could modify the market's view about monetary policy in coming months. In this context, swaps are pricing-in that Banxico concludes its tightening cycle at 10.92%, as well as a strong conviction of a more modest pace in December (+59bps). This scenario is quite close to our call of 11.00% by the end of 1Q23. Later, the market sees a decoupling between Mexico and the US at the start of the easing cycle, adjusting -180bps and -40bps in 2H23, respectively. Given unusual bond volatility and the shape of the curve, we reaffirm our preference for relative value strategies. However, we recognize that long-term Mbonos still have room for gains despite the 80bps rally seen so far in November. Specifically, we keep flagging the tenors Nov'38 and Nov'42.

In the FX market, the dollar extends losses seen in the previous two sessions, assimilating the Fed minutes that signaled a less aggressive hiking pace ahead. The DXY and BBDXY are losing 0.2% and 0.3%, in the same order. The Mexican peso remains virtually unchanged at 19.36 per dollar, outlining a 0.4% weekly gain. We believe that the room for further appreciation is increasingly limited. Despite its recent setback, it is our take that the USD will benefit from the increased probability of a recession in 2023. We suggest buying USD/MXN at current levels for short-term tactical trading.

Analyst Certification

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalia Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Daniel Sebastián Sosa Aguilar and Salvador Austria Valencia 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
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	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			
Alejandro Padilla Santana	Chief Economist and Head of Research	alejandro.padilla@banorte.com	(55) 1103 - 4043
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
María Fernanda Vargas Santoyo	Analyst	maria.vargas.santoyo@banorte.com	(55) 1103 - 4000
Economic Research			
Juan Carlos Alderete Macal, CFA	Executive Director of Economic Research and Financial Markets Strategy	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Director of Economic Research, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Director of Economic Research, Global	katia.goya@banorte.com	(55) 1670 - 1821
Yazmín Selene Pérez Enríquez	Senior Economist, Mexico	yazmin.perez.enriquez@banorte.com	(55) 5268 - 1694
Cintia Gisela Nava Roa	Senior Economist, Mexico	cintia.nava.roa@banorte.com	(55) 1103 - 4000
Luis Leopoldo López Salinas	Manager Global Economist	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldivar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Leslie Thalia Orozco Vélez	Senior Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Isaias Rodríguez Sobrino	Strategist, Fixed Income, FX and Commodities	isaias.rodriguez.sobrino@banorte.com	(55) 1670 - 2144
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
Carlos Hernández García	Senior Strategist, Equity	carlos.hernandez.garcia@banorte.com	(55) 1670 - 2250
Victor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Paola Soto Leal	Analyst	paola.soto.leal@banorte.com	(55) 1103 - 4000 x 1746
Corporate Debt			
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugo.a.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Quantitative Analysis			
Alejandro Cervantes Llamas	Executive Director of Quantitative Analysis	alejandro.cervantes@banorte.com	(55) 1670 - 2972
José Luis García Casales	Director of Quantitative Analysis	jose.garcia.casales@banorte.com	(55) 8510 - 4608
Daniela Olea Suárez	Senior Analyst, Quantitative Analysis	daniela.olea.suarez@banorte.com	(55) 1103 - 4000
Miguel Alejandro Calvo Domínguez	Senior Analyst, Quantitative Analysis	miguel.calvo@banorte.com	(55) 1670 - 2220
José De Jesús Ramírez Martínez	Senior Analyst, Quantitative Analysis	jose.ramirez.martinez@banorte.com	(55) 1103 - 4000
Daniel Sebastián Sosa Aguilar	Analyst, Quantitative Analysis	daniel.sosa@banorte.com	(55) 1103 - 4000
Salvador Austria Valencia	Analyst, Quantitative Analysis	salvador.austria.valencia@banorte.com	(55) 1103 - 4000
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5004 - 1282
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 - 5140
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) 8173 - 9127
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) 5249 - 6423
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) 5004 - 1051
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 1670 - 1899