

Banxico hikes 25bps, in line with our forecast

- Banxico just announced its monetary policy decision, in which the board decided to increase the reference rate by 25bps to 6.5%, in line with our forecast
- We believe that Banxico's 25bps rate hike was mainly explained by the Fed's 25bps hike in March
- Banxico acknowledged that the balance of risk for inflation didn't show a further deterioration, but highlighted the following risks:
 - (1) The direct and indirect impact of the gradual liberalization of gasoline prices in Mexico; although they highlighted the temporality of the effect, which shouldn't have a sustained impact on future price dynamics; and
 - (2) Despite the appreciation of the Mexican currency, the Board also acknowledged that the uncertainty surrounding external conditions persists
- Banxico also mentioned that the upside risks for their inflation outlook stem from the second-round effects coming from the upward trend in energy prices and the higher pass-through effect of the depreciation of the Mexican currency
- We highlight that for the first time, the monetary policy *communiqué* included the number of voting members in favor of the 25bps hike, which in this occasion was unanimous. We consider that this addition reinforces Banxico's effort to improve its communication
- In this context, we now believe that Banxico will increase the reference rate by an additional 50bps throughout 2017, although we do not rule out further increases in the reference rate in the event of other shocks to inflation
- Banxico's hiking cycle will be in tandem with the Fed's hikes in September (+25bps) and December (+25bps)
- The minutes of today's meeting will be published on April 12, and the next monetary policy announcement will be published in May 18
- Local bonds are rallying 4-6bps in the aftermath of today's communiqué from Banxico. News regarding economic policies during this quarter (Banxico's assessment on growth and inflation, operating surplus, and FEC's hedging program) suggests that the risk premia embedded in Mexican assets is likely to continue its downward trend. As a result, we hold our positive view for the belly of the Mbonos curve, with an attractive valuation for long positions in Mbonos Jun'22, Dec'23 and Dec'24

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- **The decision was from neutral to positive for MXN, broadly unchanged at 18.68 per dollar with an intraday low of 18.62 after the announcement. In our view, the tone is consistent with the outlook that Banxico will keep following the Fed, maintaining the stability and attractiveness of the carry trade particularly against other Latam countries that are biased towards rate cuts. Given the still positive global risk environment, USD/MXN is likely to trend towards its next relevant support at 18.46-18.50 per dollar, with a break lower opening the way towards the September 2016 intraday low at 18.28 and a Fibonacci level at 18.22 per dollar**

Disclaimer

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