

Banxico minutes – Hawkish tone given the adverse inflationary environment

- Banxico published today the minutes of its monetary policy meeting held back on May 18, in which the board decided unanimously to increase the reference rate by 25bps to 6.75%
- We highlight that Roberto del Cueto did not assist to the monetary policy meeting, so the decision was taken by only four members
- The discussions focused on the following topics:
 - (1) The upward trend in headline and core inflation, as a result of the higher pass-through effect of the depreciation of the Mexican currency to prices and the liberalization of energy prices
 - (2) Banxico's expectations that the Fed will hike at least two times the Fed's funds range throughout the remainder of the year, as well as discussions of the Fed's balance sheet;
 - (3) One Board member highlighted that Banxico has space to decouple itself from further Fed hikes; however, the rest of the Board emphasized that inflation has to start a downward trend towards the target in order to begin any discussions regarding this topic
 - (4) In first quarter, the Mexican economy maintained a similar growth to the one observed in 4Q16; however, the Board did highlight the recovery of external demand, despite the downward trend in investment; and
 - (5) The absence of slack in the Mexican labor market
- In this context, we continue to believe that the central bank will increase the reference rate by another 75bps throughout the year. We consider that Banxico's next hike will take place in June 22, right after the Fed

From our fixed income and FX research team:

- Banxico's minutes released today with a hawkish rhetoric similar to its QIR published yesterday, are suggesting that the yield curve will continue flattening. In terms of strategy, we reiterate our negative view in the local rates, mainly in short-term instruments, in a context in which the market could adjust their mid- and long-term expectations about Banxico's reference rate. In our view, these securities could experience additional pressures. On the other hand, we still recommend a cautious stance on directional positions in spite of a more attractive valuation in the 5- to 7-year zone in Mbonos

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- **The Mexican peso gained after the minutes, going from 18.63 to 18.57 per dollar in a mixed environment among EM currencies. Banxico's hawkish bias will likely maintain the peso's attractiveness and resilience as long as global risk appetite remains high. Nevertheless, we suggest waiting for the results of the local election to engage in new positions, with first support at the 18.50-18.55 zone and resistance around 18.77-18.80 per dollar**

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