

Banxico to implement a 25bp preemptive hike next Thursday

- *Brexit* has increased the risk premia among global markets, adding significant pressure on emerging currencies, particularly on the Mexican peso
- It is our take that with long-standing macroeconomic stability and a set of approved structural reforms, Mexico is the best emerging economy in the world
- Moreover, we welcome today's additional government spending cutback of 31.7 billion pesos (US\$ 1.7bn or 0.2% of GDP), as another strong sign of the government's commitment to reach a balanced budget next year
- Nevertheless, the Mexican peso has been "*a victim of its own success*" – being the most traded emerging currency-, as the most important bearer of risk-aversion waves
- As a result, even though inflation in Mexico is quite low and there are no signs of demand-side inflationary pressures, we now believe Banxico will hike the reference rate by 25bps next Thursday in order to add to the country's effort to strengthen its macroeconomic framework
- Going forward, we continue to believe that Banxico will still get back to follow the Us Fed rate moves, which we do not expect until December...
- ...with the risk that Banxico might have to hike rates even more before that, in case pressures continue to build around the peso
- Here it is also our take that Banxico would prefer to hike rates instead of intervening in the FX market

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