



# Banxico's monetary policy decision

## Earthquake- and hurricane-driven transitory inflation spike

September 28, 2017

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- Banxico just announced its monetary policy decision
- As expected, the board unanimously decided to maintain the reference rate at 7%
- We now introduce a linguistic analysis of Banxico's *communiqué* (refer to the chart below), in which we believe that it maintained a similar tone to August's statement, where we highlight the following:
  - (1) Banxico referred to the transitory and limited adverse effects of recent earthquakes and hurricanes on inflation and growth;
  - (2) As a result, the central bank now believes that the balance of risks for inflation has deteriorated;
  - (3) The absence of slack in the labor market; that it has not yet translated into significant wage pressures on prices;
  - (4) The balance of risks for growth also deteriorated, given the perception of a higher probability of an unfavorable outcome in the prospects of the US-Mexican commercial relationship; and
  - (5) The restrictive monetary policy implemented since 2015 will continue to influence inflation dynamics
- Looking ahead, we continue to believe that Banxico could start an easing cycle in 2H18 (August) as inflation will start to converge towards the 3% target and most of the uncertainty will be significantly reduced by then
- We believe that market participants could probably take today's statement as hawkish, given recent slightly gloomy economic data, while the recent dovish rhetoric of certain board members, including their belief –that we share–, that inflation reached its peak back in August

Word cloud of September statement

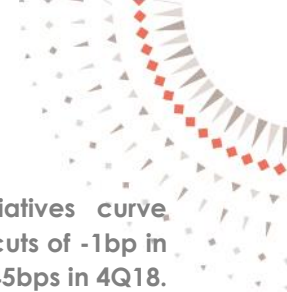


Source Banorte with Wordle

Word cloud of August statement



Source Banorte with Wordle

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- Regarding fixed-income, we believe the TIE-28 derivatives curve remains complacent about possible rate cuts, discounting cuts of -1bp in 4Q17, -8bps in 1Q18, -17bps in 2Q18, -35bps in 3Q18, and -45bps in 4Q18. In our view there is no strong anchor for this valuation, so local assets could be impacted by uncertainty stemming from global factors (i.e. Fiscal Reform in the US and NAFTA renegotiations)
  - Given current conditions, we recommend maintaining a defensive strategy via long positions in Udibono Dec'20. More details in our note "We recommend long positions in the 3-year Udibono Dec'20" <[PDF](#)>, published on August 9, 2017
  - The Mexican peso reacted marginally stronger to the decision, gaining 0.3% today to 18.16 per dollar. In our view, Banxico's cautious tone is still a supportive factor for the currency in terms of carry, although this type of strategy is vulnerable to a potential volatility pickup from relatively low levels
  - We stay cautious and suggest avoiding directional peso longs even after reaching the 18.10-18.15 zone previously identified as attractive for this position. For speculative, short-term trading purposes, we believe it is more adequate shifting to a neutral stance

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