

## Banxico's decision – No changes in the foreseeable future

- Banxico just announced its monetary policy decision, in which the board unanimously decided maintain the reference rate at 7%, in line with both our and consensus forecast
- We believe that Banxico's decision was mainly explained by the following factors:
  - (1) Banxico acknowledged that the balance of risk for inflation didn't show a further deterioration, given that inflation is close to its peak and will start to fall in the fourth quarter;
  - (2) The restrictive monetary policy implemented since 2015 will continue to influence the behavior of inflation;
  - (3) The appreciation of the Mexican currency, given that the monetary authority emphasized that the exchange rate continues to be one of the main transmission channels of monetary policy; and
  - (4) The balance of risk for growth was changed to "neutral" given the lower probability of an unfavorable outcome in the future prospects of the commercial relation between Mexico and the US
- The central bank also emphasized the recent changes of Mexico's debt outlook to "stable" from "negative" made by several rating agencies (S&P and Fitch) given the Federal Government's effort to bolster Mexico's macroeconomic fundamentals
- Since Banxico's Board considers that inflation will converge to its 3% target towards the end of 2018, there aren't any inflationary pressures stemming from the demand, and the current level of the reference rate is consistent with the convergence of inflation to its 3% target, we still consider that the monetary authority will maintain the reference rate at 7% throughout the year
- Looking ahead, we believe that Banxico could start an easing cycle in the second half of 2018 (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 Banxico has room to reduce the reference rate between 150-200bps over the next two years, from which 100bps could take place in the second half of 2018

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*From our fixed income and FX strategy team*

- **Modest rally of 2-3bps in nominal rates following a neutral communiqué from the central bank. In terms of strategy we hold our trade idea opened yesterday of long positions in the 3-year Udibono Dec'20 with entry level of 3.05%, target of 2.90% and stop-loss of 3.15%. More details in our research note “We recommend long positions in the 3-year Udibono Dec'20” <[pdf](#)>, published August 10th, 2017**
  
- **In a similar fashion, MXN was broadly stable, gaining 0.3% to 17.90 per dollar today. In our view, the confirmation of a prudent stance suggests carry in peso longs will remain attractive for longer, supporting the currency going forward. We are currently on the sidelines in peso tactical positions on unfavorable technicals ahead of the first round of NAFTA negotiations. Nevertheless, we reiterate our better-than-consensus outlook for the currency by year-end, with a forecast of 18.10 per dollar**

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