

## Banxico – Still waiting for the Fed

- Banxico released today its monetary policy decision, in which the board decided to leave the reference rate unchanged at 3%, as it was widely expected, particularly after what the U.S. Fed did back on Thursday
- According to Banxico statement, cyclical conditions of the Mexican economy continue show weakness, while inflation will remain below the 3% target in 2015
- In particular, the board members warned again that: “...any actions from the U.S. Fed could have additional repercussions on the Mexican exchange rate, inflation expectations, and the overall price dynamics...”
- The minutes of today’s meeting will be released on October 5, and the next monetary policy announcement will take place on October 29
- In contrast with previous central bank *communiqué*, the Foreign Exchange Commission (FEC) did not publish any statement regarding the auction mechanisms of dollars...
- ... however, U.S. dollar auctions will remain in place until September 30
- No market reaction at all followed Banxico *communiqué*

**Monetary policy decision – Still waiting for the Fed.** Banxico just released its monetary policy decision, in which the board decided to leave the reference rate unchanged at 3%, as it was widely expected. In our opinion, Banxico sees no need to move the current monetary policy given that the balance of risks for both growth and inflation remained unchanged vs. previous meeting. However, Banxico highlighted its concern with the uncertainty surrounding the Fed’s normalization of monetary policy, and its effect on the exchange rate given that: “...any actions from the U.S. Fed could have additional repercussions on the Mexican exchange rate, inflation expectations, and the overall price dynamics...”. In this context, we continue to believe that Banxico remains “tied” to the Fed’s monetary actions.

**The slow recovery of the Mexican economy continues.** In our opinion, the tone of the statement regarding Mexico’s economic growth is marginally more positive than in July’s statement. In particular, the central bank considers that the recent figures suggest that Mexico’s exports have begun to recover, while investment continues to show an upward trend. Additionally, Banxico highlighted that most of the economic indicators associated with domestic demand have shown better growth prospects. However, the board considers that the slack in Mexico’s economy remains, which will not translate into demand-side pressures on prices.

September 21, 2015

www.banorte.com  
www.ixe.com.mx  
@analisis\_fundam

### Gabriel Casillas

Chief Economist and Head of Research  
gabriel.casillas@banorte.com

### Delia Paredes

Executive Director of Economic Analysis  
delia.paredes@banorte.com

### Alejandro Cervantes

Senior Economist, Mexico  
alejandrocervantes@banorte.com

### Fixed income and FX Strategy

### Alejandro Padilla

Head Strategist - Fixed-Income and FX  
alejandropadilla@banorte.com

### Juan Carlos Alderete, CFA

FX Strategist  
juan.alderete.mactal@banorte.com

**Relative monetary conditions and exchange rate remain the most important factors in Banxico's decision-making process.** The monetary authority concludes that cyclical conditions of the Mexican economy continued to show weakness while inflation will remain below the target in 2015. However, as it was abovementioned, board members warned again that: *"...any actions from the U.S. Fed could have additional repercussions on the Mexican exchange rate, inflation expectations, and the overall price dynamics..."*. In this context, the board will pay particular attention to *"... the pass-through of the exchange rate to inflation, the relative monetary conditions between Mexico and the United States, and the evolution of the slack in the economy..."*.

**We maintain our view that the central bank's next move will be a hike, immediately after the Fed.** While Banxico's central scenario seems to be of economic activity weakness and inflation below target until year-end, the prospects of higher rates in the United States pose a significant risk to exchange rate and inflation levels in Mexico. Given this, we believe that Banxico's next move will be a rate hike, immediately after the Fed starts its normalization of monetary policy in December 15-16. This implies that the central bank could be raising rates at its next regular meeting on December 17.

**No news from the Foreign Exchange Commission (FEC).** The FEC –formed by members from Banxico and MoF, in charge of FX policy–, did not publish any communiqué today, as it was the case in Banxico's previous interest rate announcement (back in July 30th). Even though some market participants were expecting some news from the FEC, we highlight that USD auctions will continue to be in place until September 30th. As a result, FEC officials still have some time to assess post-Fed FX dynamics. Going forward, we anticipate the FEC will renew the USD auctions as they are (US\$200mn with and with no minimum price) until the end of October.

*From our fixed income and FX strategy team*

**No market reaction followed Banxico's communiqué.** Mexican securities observed a muted reaction following Banxico's policy decision, as investors continue digesting the news coming from the Federal Reserve last week. In this context, last Friday we recommended profit-taking in our trade idea to receive 9-month TIEE-IRS (9x1) at the target level of 3.65% opened back on September 3rd. This strategy had a total holding period return of 26bps, consisting of 20bps of capital appreciation and 6bps of carry + roll-down. However, we acknowledge that the short-end of the yield curve remains attractive *vis-à-vis* other EM, taking into consideration implied cumulative rate hikes priced in for the following 12 months. In the FX market, the Mexican peso weakened momentarily from 16.68 up to 16.75 per dollar, currently trading at 16.68. In our view, some participants may have bet for a rate hike or a more hawkish bias. Moreover, some of the pressure could also stem from expectations of an extension and/or modification of the daily USD sales by the Foreign Exchange Commission (FEC), which did not materialize. We remain defensive on the peso, buying USD/MXN on dips. Last week's Fed decision to not hike rates while keeping the signal about the potential pace of normalization in 2016 and 2017 unchanged will keep uncertainty elevated. Banxico's strong vigilance of relative monetary conditions to the US signals that low carry with respect to other EM (which we believe has provided some support to the peso in recent weeks) maintains the currency's vulnerability to external risks. All in all, we expect USD/MXN to continue in a wide range between 16.45/50 and up to its recent minimum of 16.36 as main supports, with a gradual upward trend towards its main resistances located at 16.80 and 17.00 per dollar.

**Disclaimer**

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

**GRUPO FINANCIERO BANORTE S.A.B. de C.V.**
**Research and Strategy**

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

**Economic Analysis**

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Rey Saúl Torres Olivares	Analyst	saul.torres@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

**Fixed income and FX Strategy**

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Juan Carlos Alderete Macal, CFA	FX Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

**Equity Strategy**

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Víctor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates/Financials/ Mining/ Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
Marisol Huerta Mondragón	Equity Research Analyst – Food/Beverages	marisol.huerta.mondragon@banorte.com	(55) 1670 - 1746
José Itzamna Espitia Hernández	Equity Research Analyst – Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto parts	valentin.mendoza@banorte.com	(55) 1670 - 2250
María de la Paz Orozco García	Analyst	maripaz.orozco@banorte.com	(55) 1670 - 2251

**Corporate Debt**

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@banorte.com	(55) 1670 - 2248

**Wholesale Banking**

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Jorge de la Vega Grajales	Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Private Banking	lpietrini@ixe.com.mx	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Asset Management	pimentelr@ixe.com.mx	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	International Banking	rvelazquez@ixe.com.mx	(55) 5268 - 9879
Víctor Antonio Roldan Ferrer	Transactional Banking	vrolan@ixe.com.mx	(55) 5004 - 1454