

Banxico – 50bps hike with a resounding message, in line with our call

- In a majority decision (4-1), Banxico’s Board decided today to hike the reference rate by 50bps to 5.50%, [in line with our call](#), but contrary to analysts’ consensus
- In our view, the statement shows an even more hawkish bias. Deputy Governor Gerardo Esquivel was the only dissenter, favoring a 25bps hike to 5.25%
- We also highlight that:
 - (1) Inflation forecasts were revised upwards, mostly for the next four quarters, both the headline and the core;
 - (2) The central bank noted a more restrictive policy stance in advanced and emerging economies, as inflation pressures remain elevated; and
 - (3) The phrase about “mainly” transitory shocks behind inflation shocks was removed, with the convergence to target now expected by 4Q23
- We reiterate our view of accumulated hikes of +125bps in 2022, taking the reference rate to 6.75% by year-end. Specifically, we expect increases in February (+50bps), June (+25bps), September (+25bps), and December (+25bps)
- Pressures on short-term local rates and MXN gains, assimilating Banxico’s decision and more hawkish tone

Banxico hikes 50bps, in line with our call. The rate increased by 50bps to 5.50%, in line with our call, but contrary to consensus. The vote was 4-1, with Gerardo Esquivel as the only dissenter. However, and in contrast to recent decisions, this time he voted for a 25bps hike. We believe the tone is even more hawkish than in the previous statement. We once again identified greater concerns about the inflation outlook, on top of the recognition of a more complex backdrop due to a stronger tightening of monetary policy around the world. Regarding the former, we saw significant upward adjustments in inflation forecasts –especially for 2022– with the convergence to the target delayed by one quarter, to 4Q23. Given a statement and tone with no surprises relative to our view, we reiterate our projected path of the reference rate. We expect an accumulated increase of 125bps in 2022, taking it to 6.75% by year-end. Specifically, we see hikes in February (+50bps), June (+25bps), September (+25bps), and December (+25bps).

CPI forecasts
% y/y, quarterly average

	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
CPI										
Current	5.8*	7.1	6.7	5.1	4.3	3.5	3.3	3.2	3.1	3.0
Previous	5.8*	6.8	6.3	4.8	3.9	3.3	3.2	3.2	3.1	--
Difference (bps)		30	40	30	40	20	10	0	0	--
Core										
Current	4.8*	5.6	6.2	5.8	4.9	4.1	3.3	2.9	2.8	2.7
Previous	4.8*	5.5	5.8	5.3	4.3	3.5	3.0	2.7	2.6	--
Difference (bps)		10	40	50	60	60	30	20	20	--

Source: Banco de México. *Observed data

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Banxico’s 2021 policy decisions

Date	Decision
February 11	-25bps
March 25	0bps
May 13	0bps
June 24	+25bps
August 12	+25bps
September 30	+25bps
November 11	+25bps
December 16	+50bps

Source: Banxico

Document for distribution among the general public

Resounding message over the deterioration in the inflation outlook. On top of voting details, we identified other very relevant changes in this front. First, the Board recognized higher inflationary pressures by adjusting their trajectory upwards through all of 2022, not just in the short-term. Second, they added that medium-term inflation expectations rose. Third, the withdrawal from the statement that the factors that have affected price dynamics “are largely considered to be transitory”. Fourth, upside risks incorporated core inflation persistence “at high levels”. Fifth, they removed the characterization of the “reinforcement” of the policy stance. Sixth, the balance of risks deteriorated once again and remains to the upside. On the decision, we consider the key statement was that: “...*The Governing Board evaluated the magnitude and diversity of the shocks that have affected inflation and the factors that determine it, along with the risk of price formation becoming contaminated, and the challenges posed by the ongoing tightening of monetary and financial global conditions...*”.

Signs of recovery and market volatility. On growth, they affirmed that information until October showed signs of reactivation, in line with our view. However, they maintained that it remains heterogeneous and with slack conditions. On markets, they noted a depreciation of the exchange rate and adjustments in medium- and long-term rates since the previous decision, impacted by a more challenging external backdrop.

Today’s decision validates our expected path of the rate ahead. Considering the magnitude of the adjustment, the direction of the votes, and the tone of the statement, we think our estimates going forward gain additional credence. Specifically, we reiterate our view of an accumulated increase of +125bps in 2022, taking the rate to 6.75% by the end of said year. On the path, we identify two main niches. The first one remains associated to the response to the current inflationary process and the need to influence medium- and long-term expectations, anticipating a 50bps hike in February’s meeting. This is based on a still complex outlook for prices in the short term, with a view that is still more pessimistic than Banxico for 1Q22. After this, and especially relevant after the more hawkish message from the Fed yesterday, we anticipate three additional 25bps hikes in June, September, and December, matching adjustments in the same magnitude from the US central bank.

From our fixed income and FX strategy team

Pressures on short-term local rates and MXN gains, assimilating Banxico’s decision and more hawkish tone. Local rates were under pressure after a higher increase than the one priced-in by the market, which incorporated an implied hike of +35bps today. Specifically, the Mbonos’ curve diluted session gains of about 4bps in mid-term securities, reversing to an average selloff of the same magnitude and up to +12bps in short-term tenors. The 10-year benchmark, Mbono May’31, is trading at 7.37%, barely unchanged to yesterday’s close. TIEE-28 IRS exhibited broader movements, with a relevant flattening of the curve. The short-end depreciated as much as +16bps, while the long-end adjusted around -2bps. It is worth mentioning that the decision took place in a very dynamic session as government bonds globally keep digesting the monetary policy decisions by the Fed, BoE and ECB.

For now, the market is still pricing-in a more aggressive stance by Banxico (+175bps by year-end 2022, discounting today's move) relative to our call of a reference rate at 6.75% in December of said year (equivalent to +125bps). In terms of strategy, we prefer to hold for better opportunities in directional strategies, especially in the long-end of the Mbonos' curve and given an environment of high inflation pressures, meaningful adjustments in global monetary policies and high volatility, expressed through important movements in the curve's slope.

In the FX market, the MXN extended gains and is the strongest currency in the EM universe for a second day in a row. The Mexican peso moved from 20.90 to 20.78 per dollar, returning to its 50-day moving average and stabilizing near 20.80, equivalent to a 1.0% appreciation after gaining in the same magnitude yesterday. However, we recognize that the attractiveness of the currency's carry as an anchor is relatively limited when comparing it to other EM central banks. Moreover, we continue seeing additional dollar strength ahead, underpinned by the economy's strong cyclical position and the more hawkish tone of the Fed in its latest decision. Considering the abovementioned factors, we hold our year-end forecast of USD/MXN 21.10 and opt for a bias in favor of USD longs on dips, albeit still waiting for better entry levels.

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, José Itzamna Espitia Hernández, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalia Orozco Vélez and Gerardo Daniel Valle Trujillo, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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