

Banxico Preview – No hike but still *hawkish*

August 1, 2018

- Tomorrow, at 2:00 p.m. (ET), Banxico will announce its monetary policy decision
- We do not expect changes in the reference rate, although we expect the monetary authority to remain hawkish and cautious in a still highly uncertain backdrop
- Consensus does not expect any change in the reference rate, while rate futures assign a 24% probability to a rate hike

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On hold but with a hawkish tone. Tomorrow, at 2:00 p.m. (ET), Banxico will announce its monetary policy decision, the first one after the July 1st election. We do not expect changes in the reference rate, which stands is at 7.75%, although we believe that the statement will continue to maintain a hawkish tone, cautious in a still highly uncertain backdrop. We will focus in particular in Banxico's assessment of: (1) Inflation and the exchange rate, with the first picking up temporarily since last meeting, while the Mexican peso has appreciated from USD/MXN20.88 in mid-June to USD/MXN18.59 at the beginning of today's session; (2) the relative monetary stance v.s. the U.S., after we expect the FOMC not to make any changes to the Fed funds range at today's meeting but will point to a rate hike in September; and (3) the evolution of the output gap and the slack in the economy.

Consensus does not expect any changes, although future rates assign greater probability. According to Bloomberg the survey, only 5 analysts expect a rate increase while the rest of economists (20) do not see Banxico moving rates at this meeting. Meanwhile, the futures market discounts a 25 bp hike with a probability of 24% today.

Looking ahead, we anticipate Banxico to leave the reference rate unchanged in the next 18 months. Nevertheless, we believe that the central bank will leave the door open to further increases, so we acknowledge the possibility of a rate hike if the scenario deteriorates, both in terms of exchange rate and inflation, as well as in the case of a weakening of fiscal conditions. We do not expect this last aspect to take place given the firm commitment of the new administration –taking office at the end of the year–, with sound public finances.

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