

Banxico's monetary policy decision

Banxico's next hike will depend on FX dynamics

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- Banxico just announced its monetary policy decision
- As expected, the board decided to maintain the reference rate at 7.5%
- It is worth mentioning that the decision was unanimous
- We consider that Banxico's *communiqué* was in line with the last monetary policy statement, where we highlight the following points:
 - (1) Board members emphasized the recent appreciation of the Mexican currency after the last monetary policy meeting, which explained the upward shift in short-run interest rates and the lower interest rates in the medium and long part of the curve;
 - (2) Although Banxico's board mentioned that the balance of risks for inflation continues to observe an upward bias, they emphasized that headline inflation maintained a downward trend reaching 5.04% in March from 5.55% in January; similarly core inflation stood at 4.02% in March from 4.56 in January;
 - (3) Despite the higher investment and the marginal recovery in industrial production, the Mexican economy continues to face significant risk factors; hence the balance of risks for growth maintains a downward bias; and
 - (4) The central bank emphasized that it will remain vigilant with respect to the relative monetary stance between Mexico and the US
- We consider that the central bank's communication improved considerably with today's *communiqué*, given that the monetary authority is now comparing inflation's actual trajectory with Banxico's forecasts published in the last quarterly report. Similarly, we highlight the reduction in the number of pages. We believe that today's changes add to the greater accountability effort of this new Board
- We maintain our call that year-end reference rate will stand at 7.25%
- In addition, we continue to expect a 25bps hike in 2Q18, although our level of conviction has decreased given the favorable behavior of the exchange rate, as a result of the lower uncertainty regarding NAFTA's renegotiation prospects

From our fixed income and FX strategy team

- Local rates remained on the bullish side following Banxico's decision to stay put and a less hawkish rhetoric in its policy communiqué. Mexican bonds registered a 2bps rally today with investors pricing in only 7bps of implied rate hikes this quarter and 13bps of easing by year-end. We hold our trade idea of long positions in 7- to 10-year Mbonos, taking into account current valuations and the possibility of further appreciation. For more details in terms of our trade recommendations please refer to: "Fixed-Income and FX Weekly", <[pdf](#)>, released on April 9th

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- The MXN weakened from about 18.15 to 18.19 after the announcement. Despite the less hawkish tone, carry remains high and Banxico reaffirmed its firm stance. We stay neutral and on the sidelines in USD/MXN positions, recognizing the cross-currents of potentially positive NAFTA news in the short-term and high carry on the one hand, but skewed risks in case of negative surprises coming from the presidential race and modest risk premium on the other

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