

Banxico increased by 50bps the reference rate, in line with our forecast

- Banxico just announced its monetary policy decision, in which the board decided to increase by 50bps the reference rate to 4.75%, in line with our forecast
- The monetary authority expressed concern regarding the volatility of the Mexican currency, particularly given that it could induce a higher pass-through effect to prices, and a deterioration of inflation expectations
- Looking ahead, we continue to forecast a highly volatile exchange rate market, given:
 - (1) The US elections;
 - (2) The volatility in oil prices; and
 - (3) The expectation of a 25bps hike in the Fed's fund rate in December
- To the above-mentioned factors, we add the higher risk of an impending crisis at Deutsche Bank
- Regarding the US election, our base case scenario is that Hillary Clinton will win the elections, thus we believe that Banxico will increase by 25bps the reference rate in December to 5% (vs our previous 50bps hike call)
- However, if Donald Trump wins the election, we believe that Banxico will probably increase by 75bps the reference rate at its November monetary policy meeting and then again at December's to 6.25%
- If the US election yields a controversial result for any of the presidential candidates, we believe that Banxico will probably wait until December to adjust the monetary policy
- The minutes of this meeting will be published on October 13, and the next monetary policy announcement will take place on the 17th of November, 9 days after the US election
- The Mexican yield curve held a flattening bias in the aftermath of Banxico's decision. Given recent dynamics, we acknowledge a more attractive valuation in the long-end, however awaiting for better entry levels for long directional strategies
- MXN could extend its recent gains in coming days. Nevertheless, we remain on the sidelines waiting better entry levels for USD/MXN longs, attractive around 19.00-19.10 per dollar

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