

Banxico Minutes – Did Banxico discuss calendar changes to its monetary policy announcements?

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- This week (Thursday, June 18), Banxico will publish the minutes of its June 4 monetary policy meeting, in which the board left the reference rate unchanged at 3%
- In our view, the tone of Banxico's minutes will be quite similar to the last *communiqué*, in which their attention was focused on the timing at which the U.S. Fed will begin its hiking cycle
- It will be interesting to see some discussion regarding the time gap between the FOMC and Banxico meeting schedules
- In particular, we believe that the Board members may have discussed the possibility to make some calendar changes to its monetary policy announcements
- Even though we believe the decision was unanimous, a dissenter would give a strong signal to the market one way or the other
- Looking ahead, we continue to believe Banxico will start a hiking cycle right after the Fed

Same message as the last *communiqué*. This week (Thursday, June 18), Banco de Mexico will publish the minutes of its monetary policy meeting held back on June 4, in which the board decided to leave the reference rate unchanged at 3%, as it was widely expected. In our view, the tone of Banxico's minutes will be quite similar to the last *communiqué*, mainly focused on two issues: (1) The balance of risks for economic growth continues to be relatively weak, with no concerns regarding inflation; and (2) their attention is focused on the timing at which the U.S. Fed will begin its hiking cycle, given that any actions from the U.S. Fed could have repercussions on the Mexican exchange rate and inflation expectations.

Potential delay in the Fed's normalization process. While Banxico's board members believe that market participants expect a more restrictive monetary stance from the U.S. Fed, they stressed out that "... *In response to weakness in economic activity [in the US] in the first quarter and to the revisions in growth expectations for 2015, consensus agrees that the date of the first increase in the reference rate will be delayed, and that the pace of subsequent increases will be gradual...*".

Marginally more positive tone in terms of growth... In our opinion, the tone of the last statement regarding economic growth was marginally more positive than in the statement published in April. While the central bank considers that the balance of risks for both, global and the Mexican economy has not changed since the last meeting, Banxico highlights the improvement in non-oil exports and the fact that some indicators of consumption seem to be recovering. However, they also highlighted that the recovery of investment has been significantly slower, while industrial output remain subdued as a result of lower levels of oil production.

Relative monetary conditions and exchange rate remain the most important factors in Banxico’s decision making process. The monetary authority highlighted in their last monetary policy statement that Mexico’s cyclical conditions show weakness, while inflation will remain below the 3% target in 2015. However, as it was abovementioned, the board members warned that: “...the Fed’s actions could have repercussions on the exchange rate and inflation expectations...”. In this regard, Banxico’s board of governors will pay particular attention to “... the relative monetary conditions between Mexico and the United States, the exchange rate and the evolution of the slack in the economy...”

Time gap between the FOMC and Banxico meeting schedules. As we have mentioned throughout our publications, the central bank is in no hurry to raise the reference rate, given Mexico’s moderate growth, inflation at 3%, and without any inflationary pressures on the horizon. If Banxico intends to “follow the Fed” it would be convenient for Banxico to “pay-to-see the Fed’s hand”. However, Banxico’s monetary policy meetings will take place between four and five weeks after the Fed meetings, which could qualify as an “eternal gap” for fixed-income and derivatives traders (refer to the table below). We believe that this could be a decisive factor that could trigger Banxico to raise rates in an intra-meeting fashion. Moreover, if the Fed begins to hike in December, Banxico will no longer have a regular monetary policy meeting scheduled this year after the Fed’s meeting. We believe it would be advisable for the board to modify its calendar, so that the next monetary policy announcements could take place exactly one day after the FOMC. While this change could trigger some movements in the FX and TIIIE futures market, we believe that these movements will be non-disruptive, nor highly distortionary. Conversely, Banxico could remove a source of uncertainty.

Dates of the upcoming monetary policy decisions

	FOMC	Banxico	Difference (in days)
1	Wed 17-Jun	Thu 23-Jul	36
2	Wed 29-Jul	Thu 3-Sep	36
3	Thu 17-Sep	Thu 15-Oct	28
4	Wed 28-Oct	Thu 3-Dec	36
5	Wed 16-Dec	--	--

Source: US Fed and Banco de México

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 weakness and inflation below target until year-end, the prospects of higher rates in the United States pose a significant risk to the exchange rate dynamics 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 hiking cycle in September 16-17. This implies that the central bank could be raising rates in the next regular meeting on October 15th, four weeks after the Fed's first rate hike. Nevertheless, we cannot rule out that, since this four-week period could create a high volatility scenario in domestic financial markets, there is the possibility that Banxico could act preemptively, if and only if, the board perceives higher risks to inflation and/or financial stability.

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