

Banxico minutes – 50bps hike as a response to the upward trend in both inflation and expectations

- Banxico published today the minutes of its monetary policy meeting held on December 15, in which the board decided unanimously to increase the reference rate by 50bps to 5.75%
- The discussions focused on the following topics:
 - (1) Banxico’s 50bps hike occurred as a result of the 25bps hike in the fed funds rate and the deterioration in both the current outlook and the expectations for inflation
 - (2) Headline and core inflation maintained an upward trend as a result of the exchange rate depreciation, which implies that the balance of risks for inflation has deteriorated;
 - (3) Inflation expectations in the short, medium and long term have increased as a result of the negative impact of supply-side shocks, among which the central bank highlighted the increase in the minimum wage, the expected increase in gasoline prices (the monetary policy announcement was 9 days prior to the MoF announcement of the increase in gasoline prices), and the recent hike in agricultural goods prices;
 - (4) Even though Mexico’s economic growth was higher in 3Q16, the balance of risks for growth deteriorated, mainly as a result of the uncertainty surrounding the impact of Donald Trump’s policies to the Mexican economy; and
 - (5) The fiscal actions acquire special relevance given that Mexico’s current public finance situation represents the major source of concern for investors
- Looking ahead, we continue to expect a 50bps rate hike in Banxico’s first monetary policy meeting on February 9, as a result of the significant increase in gasoline prices announced by the MoF on 27th of December. For more details see: *“Gasoline prices – Transition from a state-managed framework to a market-driven system”* <[pdf](#)>
- We maintain our recommendation of long positions in Udibonos Jun’19, Dec’20, and Jun’22. In our view, the minutes portray a greater concern about short-term inflation and the risks to the upside for mid- and long-term inflation expectations, supporting our preference for inflation-indexed securities as opposed to Mbonos as a defensive, relative value strategy

December 29, 2016

www.banorte.com
www.ixc.com.mx
@analisis_fundam

Gabriel Casillas

Chief Economist and Head of Research
gabriel.casillas@banorte.com

Delia Paredes

Executive Director of Economic Analysis
delia.paredes@banorte.com

Alejandro Cervantes

Senior Economist, Mexico
alejandro.cervantes@banorte.com

Francisco Flores

Economist, Mexico
francisco.flores.serrano@banorte.com

Fixed income and FX Strategy

Alejandro Padilla

Head Strategist - Fixed-Income and FX
alejandro.padilla@banorte.com

Juan Carlos Alderete, CFA

FX Strategist
juan.alderete.magal@banorte.com

Santiago Leal

Analyst Fixed Income and FX
santiago.leal@banorte.com

Document for distribution among public

- In particular, we highlight the Board’s recognition of:
 - (1) A greater demand for Udibonos as a mechanism to protect against inflation and the subsequent increase in inflation premiums, particularly in the short end; and
 - (2) Potential price pressures next year at least due to three factors that we have stressed since the beginning of December, namely a higher pass-through from peso weakness, gasoline price liberalization, and the increase in minimum wages. For details, see: “*Inflation 2017 – Increase in minimum wage will have a small, but not negligible effect*”, [pdf](#), published on December 8th, 2016, and “*Gasoline prices – Transition from a state managed framework to a market-driven system*” [pdf](#), published on December 27th, 2016

Disclaimer

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Juan Carlos Alderete Macal, CFA	FX Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates / Financials/ Mining / Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
Marisol Huerta Mondragón	Equity Research Analyst – Food / Beverages / Specialized Commerce	marisol.huerta.mondragon@banorte.com	(55) 1670 - 1746
José Itzamna Espitia Hernández	Equity Research Analyst – Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454