

## Banxico's 50bps hike, as a result of higher inflation

- Banxico just announced its monetary policy decision, in which the board decided to increase the reference rate by 50bps to 6.25%, in line with our forecast
- We believe that Banxico's 50bps rate hike was mainly explained by the deterioration of short and medium-term inflation expectations
- Moreover, Banxico did acknowledge that the balance of risk for inflation deteriorated as a result of:
  - (1) The direct and indirect impact of the gradual liberalization of gasoline prices in Mexico; although they highlighted the temporality of the effect, which shouldn't have a sustained impact on future price dynamics; and
  - (2) The pass-through effect of FX depreciation to relative prices, particularly regarding goods and services
- Banxico also mentioned that the upside risks for their inflation outlook stem from the second-round effects coming from the upward trend in energy prices and the higher pass-through effect of the depreciation of the Mexican currency
- The central bank also emphasized that –given the current economic environment–, one of its main goals consists in minimizing the above-mentioned second-round effects, as well as maintaining inflation expectations anchored
- In this context, we believe that Banxico will increase the reference rate by an additional 150bps throughout 2017
- The minutes of today's meeting (to be published February 19) and the Quarterly Inflation Report (to be published March 1<sup>st</sup>) will provide additional information in order to assess the timing and magnitude of Banxico's next rate hikes
- In the aftermath of today's communiqué, we continue acknowledging a more attractive relative valuation in the mid part of the yield curve vis-à-vis longer terms. The 5y10y slope in TIIE-IRS curve is reaching interesting levels for a steepener position. We believe there is a more attractive valuation in a 5y10y steepener, currently at 33bps. We wait for a more attractive entry level of 30bps for trading this position as we believe it could end 1Q17 around 45bps, especially when taking into account the current level of the 5y5y forward rate at 8.07%, which in our view is already taking into account a reasonable scenario in terms of monetary conditions in coming years

February 9, 2017

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

- **The Mexican peso extended gains after the decision, from 20.42 per dollar up to 20.3062 as its best intraday level and back to 20.34, +0.7% on the day. The reaction was modest as markets were mostly discounting this scenario. We remain on the sidelines for now, waiting for more stable conditions for new directional positions albeit with a positive backdrop for long MXN for trading purposes with a limited risk exposure, possibly with an extension towards the support zone ranging from 20.13 (Fibonacci level) to 20.22 (100-day MA) in coming days**

**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
José Itzamna Espitia Hernández	Equity Research Analyst – Airlines / 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
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454