

## Banxico Minutes – Banxico’s hike still tied to the U.S. Fed

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- **Tomorrow, Banxico will publish the minutes of its October 29<sup>th</sup> monetary policy meeting, in which the board left the reference rate unchanged at 3%**
- **In our view, minutes will confirm the monetary authority’s focus on the U.S. Fed’s hiking cycle**
- **In particular, we believe that the market will pay close attention to the discussions regarding Mexico’s economic growth, the exchange rate, and the relative monetary conditions, particularly vs. the U.S.**
- **We believe that decision was unanimous**
- **Looking ahead, we continue to believe Banxico will start a hiking cycle right after the Fed**

**Same message as in the last *communiqué*.** Tomorrow (10:00am, EST), Banco de Mexico will publish the minutes of its monetary policy meeting held back on October 29, in which the board decided to leave the reference rate unchanged at 3%, as it was widely expected. In our view, discussions during the meeting were focused on two issues: (1) The relative monetary conditions, particularly vs. those in the United States and exchange rate; and (2) the assessment of the balance of risks for growth and inflation. Moreover, we believe that the decision was unanimous.

**A slightly more negative tone in terms of growth.** In our opinion, the tone of October’s *communiqué* regarding Mexico’s economic growth was slightly more negative than in previous statement. In particular, the central bank considered that the recent figures suggest that exports have decelerated given the slower growth dynamics of external demand, while investment continues to show a weak expansion. Moreover, the board mentioned that they don’t see any demand-side pressure mounting on prices given the slack that remains in the economy. In addition, the board considered that the balance of risks for the Mexican economy has worsened in relation to September’s meeting.

**In our view, relative monetary conditions and exchange rate remain the most important factors in Banxico’s decision making process.** The monetary authority concluded that cyclical conditions of the Mexican economy continued to show weakness, while inflation will remain below the target in 2015. However, board members warned again that: “...*any actions from the U.S. Fed could have additional repercussions on the Mexican exchange rate, inflation expectations, and the overall price dynamics...*”. In this context, the board will pay particular attention to “... *the pass-through of the exchange rate to inflation, the relative monetary conditions between Mexico and the United States, and the evolution of the slack in the economy...*”.

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**We maintain our view that the central bank's next move will be a hike, immediately after the Fed in December.** 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 exchange rate and inflation levels in Mexico. Given these factors, we believe that Banxico's next move will be a rate hike, immediately after the Fed starts its normalization of monetary policy in December 15-16. This implies that the central bank could be raising rates at its next regular meeting on December 17. However, the central bank's more dovish stance in terms of growth relative to the Fed suggests that Banxico will adequate its monetary policy to Mexico's business cycle, and will not necessarily follow the Fed in 2016.

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