

Mexico Watch

Banxico preview – on hold in February leaving the door open for March

Key takeaways

- We expect Banxico to remain on hold on February 8 with the policy rate at 11.25%. The decision is likely to be unanimous.
- We expect Banxico to keep the same forward language: policy rate on hold "for some time". Banxico to highlight falling core.
- We believe Banxico could still cut in March, even if the Fed cuts later in the year, if both headline and core trend down.

Banxico will likely remain on hold

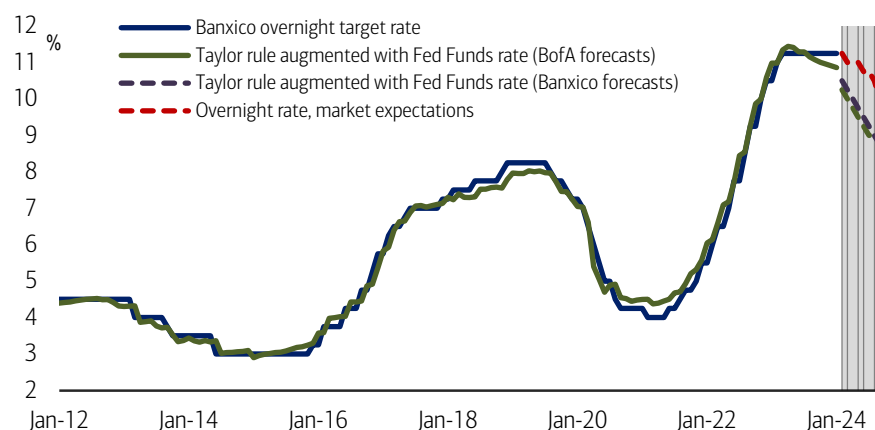
We expect Banxico to remain on hold with its policy rate target at 11.25% on February 8. We expect a unanimous decision. Banxico changed its language in November and is signaling potential cuts starting in 1Q. With activity [surprising to the downside](#) in 4Q (0.3% qoq saar) and [core trending down](#) the door remains open, in our view, for a cut in 1Q. Banxico is likely to highlight the weakness in activity and the trend in core. Banxico needs to see headline trending down again, but we believe this could happen as soon as 2H January. If Banxico removes the upside risks to inflation it will signal a cut in March.

Could Banxico cut ahead of the Fed?

All else equal Banxico would likely prefer to move in lockstep with the Fed at the beginning of the cycle and from a normative perspective we believe Banxico [should not start a cutting cycle now](#). But Banxico could start to cut ahead of the Fed now that the Fed has moved to a neutral bias given the deceleration in activity and the trend in core. Banxico has signaled a gradual cycle starting soon, so we expect Banxico to cut in March.

Exhibit 3: Taylor rule

Taylor rule points to cuts, given falling core and weak growth



Source: BofA Global Research, Bloomberg, Banxico

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GEM Economics
LatAm | Mexico

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Exhibit 1: Relevant dates

Upcoming relevant rates

	MP meeting	MP minutes	Quarterly report
Feb-24	Thu, 8 Feb	Thu, 22 Feb	Wed, 28 Feb
Mar-24	Thu, 21 Mar		
Apr-24		Thu, 4 Apr	
May-24	Thu, 9 May	Thu, 23 May	Wed, 29 May
Jun-24	Thu, 27 Jun		
Jul-24		Thu, 11 Jul	
Aug-24	Thu, 8 Aug	Thu, 22 Aug	Wed, 28 Aug
Sep-24	Thu, 26 Sep		
Oct-24		Thu, 10 Oct	
Nov-24	Thu, 14 Nov	Thu, 28 Nov	Wed, 27 Nov
Dec-24	Thu, 19 Dec		

Source: BofA Global Research, Banco de Mexico
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Exhibit 2: Relevant data

Relevant data since the last meeting

	Event	For	Surv.	Actual	Prior
Jan-09	CPI yoy	Dec	4.57%	4.66%	4.32%
Jan-09	CPI mom	Dec	0.62%	0.71%	0.64%
Jan-09	CPI core yoy	Dec	5.15%	5.09%	5.30%
Jan-09	CPI core mom	Dec	0.49%	0.44%	0.26%
Jan-24	Bi-weekly CPI yoy	1H Jan	4.78%	4.90%	4.86%
Jan-24	Bi-weekly CPI	1H Jan	0.38%	0.49%	0.48%
Jan-24	Bi-weekly core CPI yoy	1H Jan	4.78%	4.78%	4.98%
Jan-24	Bi-weekly core CPI	1H Jan	0.25%	0.25%	-0.01%
Jan-25	Unemp. nsa	Dec	2.61%	2.61%	2.71%
Jan-30	GDP qoq saar	4Q P	1.21%	0.33%	4.35%
Jan-30	GDP yoy	4Q P	3.00%	2.40%	3.30%

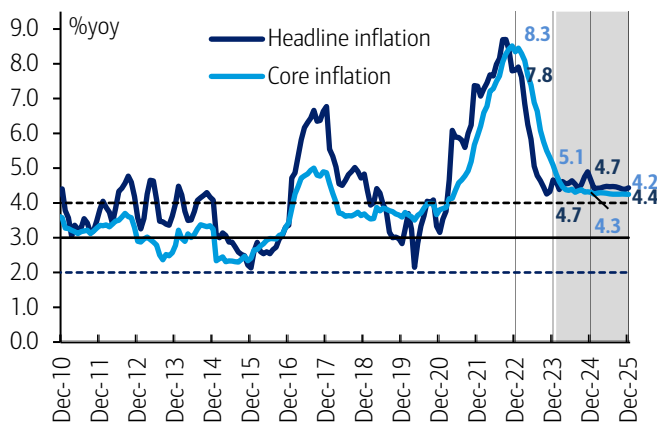
Source: BofA Global research, Bloomberg
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Relevant reports

[Jan. 9 – Headline increases, but core inflation improves in December](#)
[Jan. 11 – Mexico: Top 5 \(macro\) questions for 2024](#)
[Mexico Watch: Mexico's GDP decelerated significantly in 4Q 2023 across the board 30 January 2024](#)

Exhibit 4: Inflation forecasts (2024-2025, % yoy)

We expect inflation to remain above target, with end 2024 at 4.7%

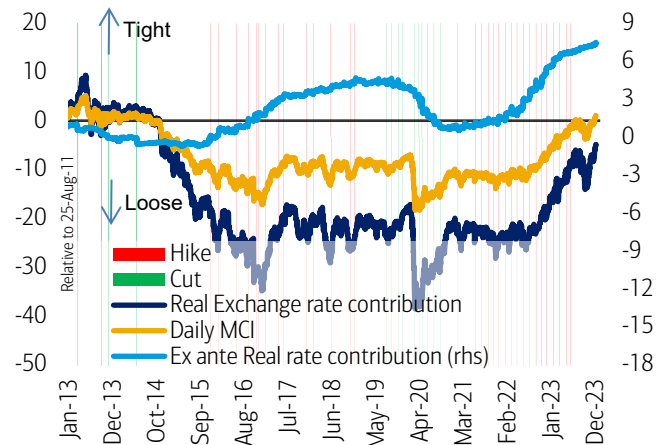


Source: BofA Global Research estimates

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Exhibit 6: Monetary conditions index (MCI)

Monetary conditions are tight. Index is positive for first time since '14

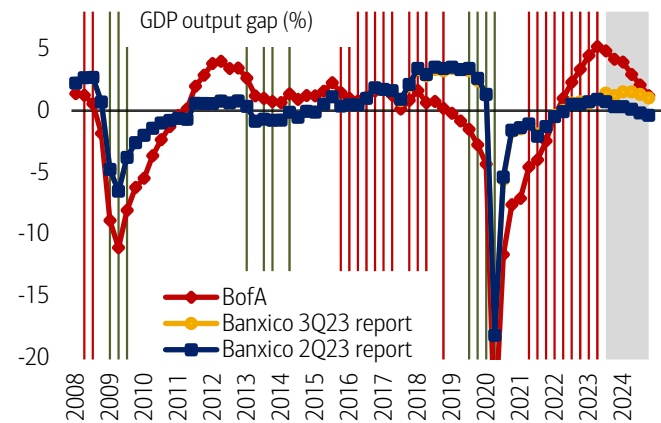


Source: BofA Global Research, Banco de Mexico, Haver

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Exhibit 5: Output gap

We recently estimated a less positive output gap given weak growth in 4Q23

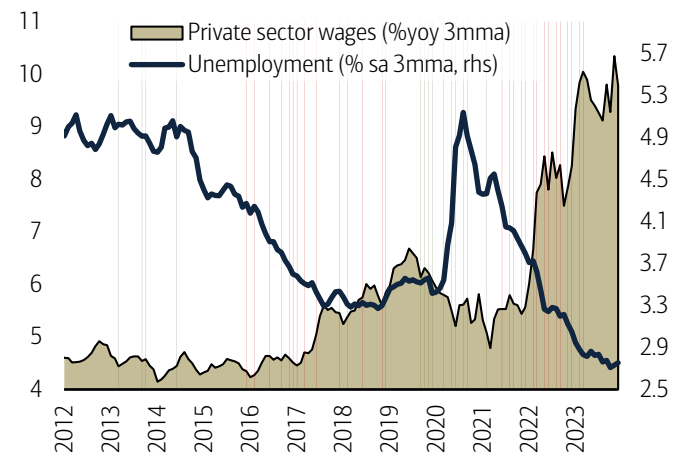


Source: BofA Global Research, Banxico

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Exhibit 7: Unemployment and wage growth

Unemployment hit record-low levels, while wages are still high

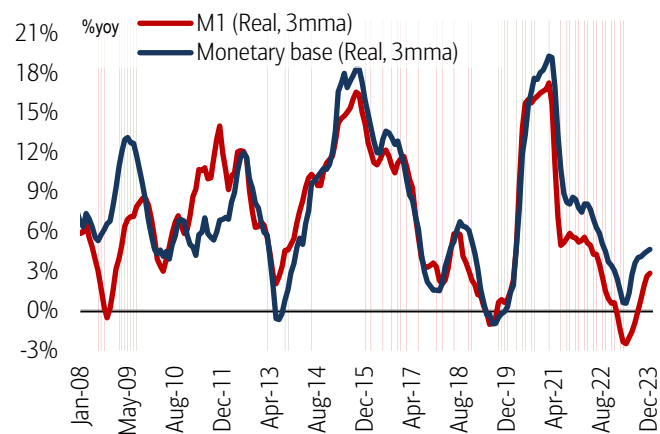


Source: BofA Global Research, INEGI

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Exhibit 8: Money aggregates' growth

Since August monetary base has grown above 4%, and M1 picked up

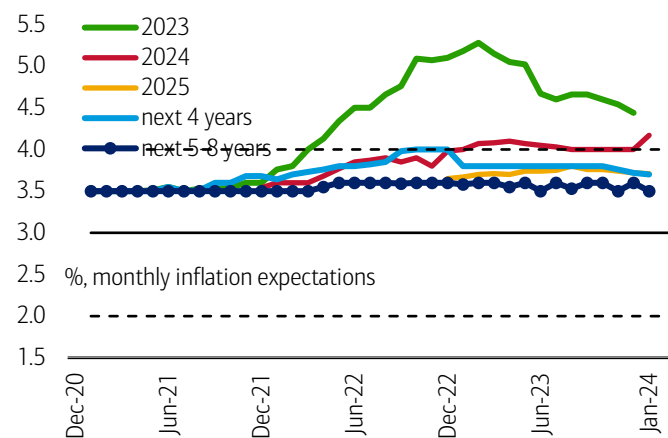


Source: BofA Global Research, Banco de Mexico

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Exhibit 9: Analysts' inflation expectations

Higher inflation expected for end 2024, while 2025's keeps decreasing



Source: BofA Global Research, Banco de Mexico

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