

## Mexico Watch

# Banxico preview – Banxico likely to cut 25bp in a split decision

## Key takeaways

- We expect Banxico to cut 25bp on March 21, to put the policy rate at 11.00%. The decision is likely to be split.
- We expect Banxico to maintain an upside bias on inflation. We do not expect forward guidance on future cuts.
- We expect this to be the beginning of a gradual cutting cycle. The risk is that the cut is postponed to May.

## Banxico will likely cut 25bp on March 21

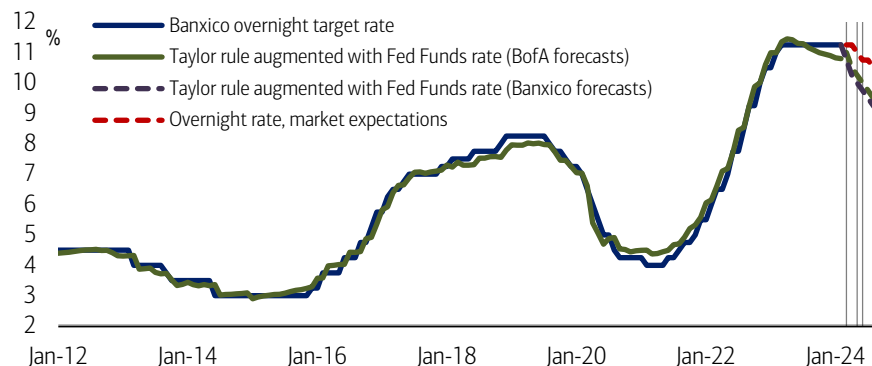
We expect Banxico to cut the policy rate target by 25bp to 11.00% on March 21. We expect a split decision, with votes going either 3-2 or 4-1, with a statement still highlighting upside risks to inflation. Banxico has signaled for some time its intentions to cut, fueled by [weaker activity](#) (0.3% qoq saar in 4Q23) and [further easing of headline inflation](#) (4.4% yoy in February). We do not expect Banxico to provide forward guidance on future cuts. The risk is that the cut is postponed to May.

## Banxico will anticipate the Fed

If Banxico cuts on March 21 [it will anticipate the Fed](#), which we expect to cut until June (with risks skewed to a later cut). We expect Banxico to do a gradual cutting cycle with 25bp clips at each meeting. Banxico could skip some meetings, until the Fed cuts or the economy decelerates or both, when we expect Banxico could accelerate the pace. We expect the policy rate at 9.25% by year end. The risk to the latter is to the upside, and it is a function of the Fed, MXN, Mexican inflation, and the Mexican economy. We still believe the cut is too early given where inflation and inflation expectations are, so we do not see inflation converging to 3.0% anytime soon.

### Exhibit 3: Taylor rule

Taylor rule points to deeper cuts than what the market expects



Source: BofA Global Research, Bloomberg, Banco de Mexico. Vertical lines are future monetary policy meetings.

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### Exhibit 1: Relevant dates

Upcoming relevant rates

	MP meeting	MP minutes	Quarterly report
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
Feb-22	GDP qoq saar	4Q F	1.21%	0.33%	4.31%
Feb-22	GDP yoy	4Q F	2.40%	2.46%	3.51%
Feb-22	GDP FY	2023	-	3.20%	3.90%
Feb-29	Unemployment	Feb	2.80%	2.85%	2.61%
Mar-07	CPI yoy	Feb	4.42%	4.40%	4.88%
Mar-07	CPI mom	Feb	0.12%	0.09%	0.89%
Mar-07	CPI core yoy	Feb	4.63%	4.64%	4.76%
Mar-07	CPI core mom	Feb	0.48%	0.49%	0.40%
Mar-07	Biweekly CPI yoy	2H Feb	4.39%	4.35%	4.45%
Mar-07	Biweekly CPI	2H Feb	0.11%	0.06%	-
Mar-07	Biweekly core	2H Feb	4.63%	4.66%	4.63%
Mar-07	Biweekly core CPI yoy	Feb	0.15%	0.19%	0.24%
Mar-07	Biweekly core CPI	Feb	0.15%	0.19%	0.24%
Mar-12	Nominal wages	Feb	-	8.63%	8.04%

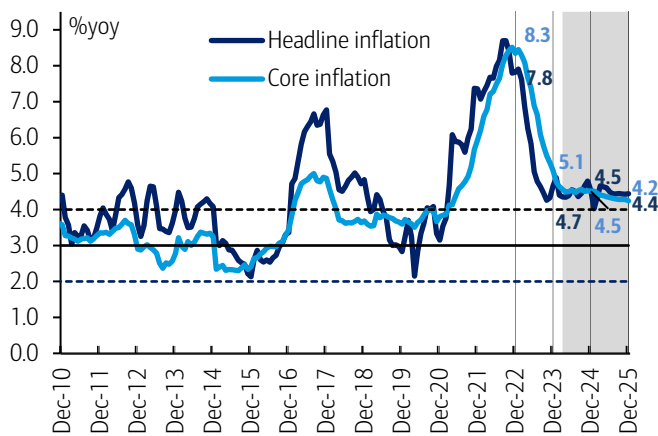
Source: BofA Global Research, Bloomberg  
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### Relevant reports

[Feb 29. Banxico will anticipate the Fed](#)  
[Mar 07. Headline inflation fell again, this could be enough for Banxico to cut](#)

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

We expect inflation to remain above target, with end 2024 at 4.5%

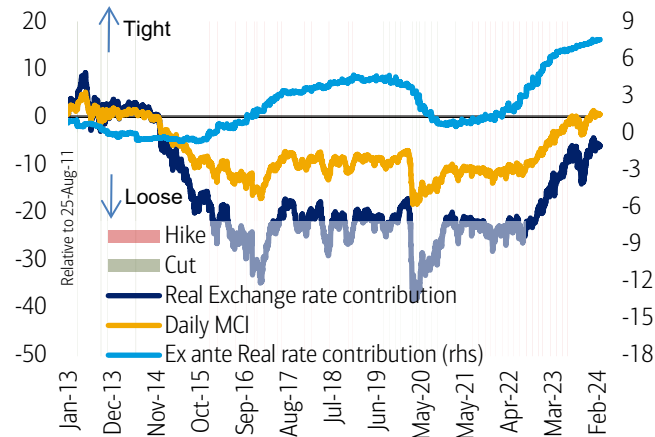


Source: BofA Global Research estimates

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**Exhibit 6: Monetary conditions index (MCI)**

Monetary conditions are becoming tighter and now MCI is positive

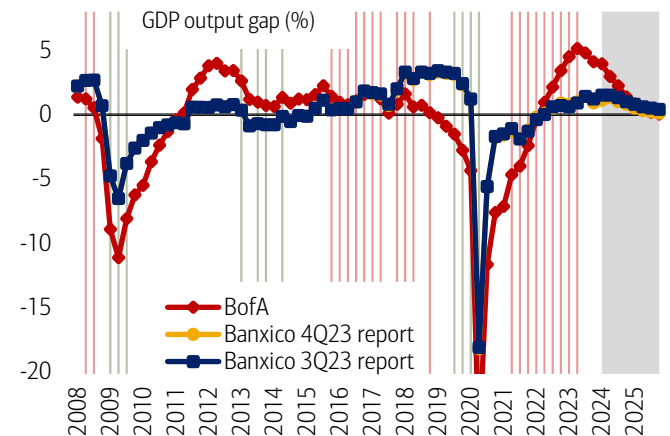


Source: BofA Global Research, Banco de Mexico, Haver

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**Exhibit 5: Output gap**

We still believe the economy is more heated than Banxico's estimates

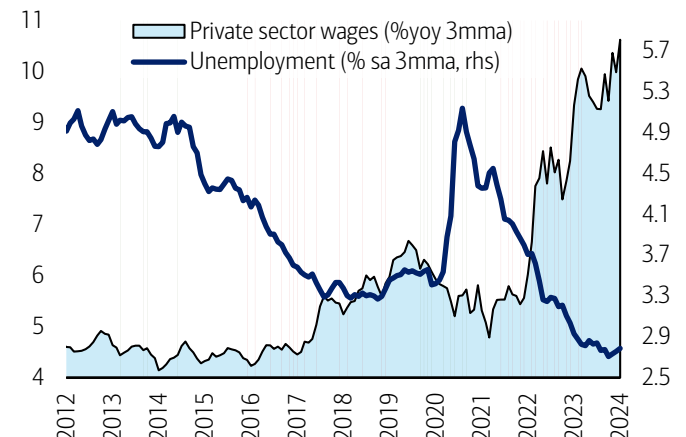


Source: BofA Global Research, Banxico

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**Exhibit 7: Unemployment and wage growth**

Unemployment is increasing although wages keep growing at high rates

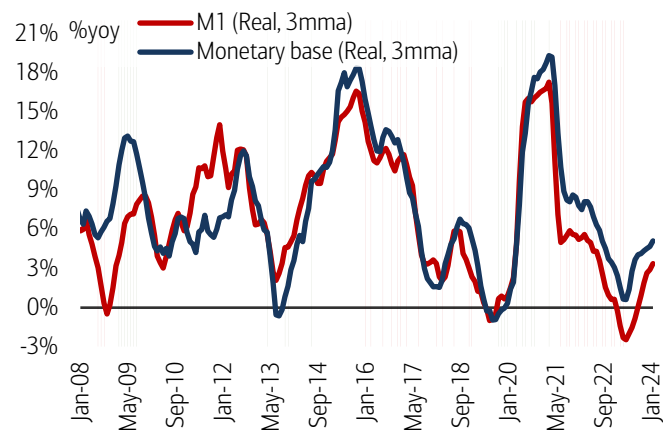


Source: BofA Global Research, INEGI

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**Exhibit 8: Money aggregates' growth**

Monetary aggregates have been growing at high rates for some time now

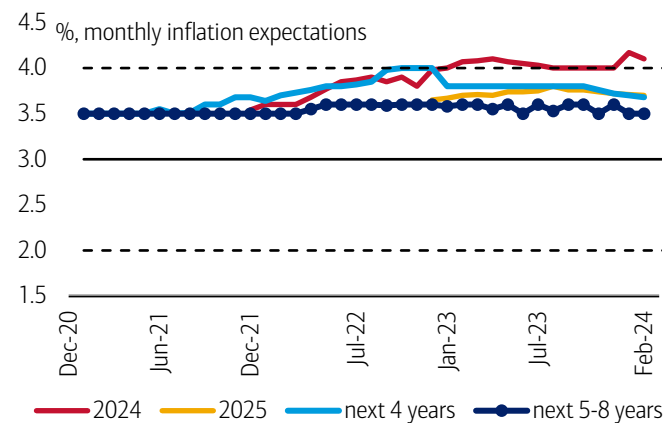


Source: BofA Global Research, Banco de Mexico

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**Exhibit 9: Analysts' inflation expectations**

Short term expectations are still above target



Source: BofA Global Research, Banco de Mexico

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