

MNI Banxico Review – September 2022

Executive Summary:

- **Banxico raised rates by 75bps to 9.25%, alongside expectations**
- **The bank re-instated their rate differential with the Fed in a unanimous decision**
- **Consensus sees further tightening in November, with terminal rate eyed at 10.50 – 11.00%**

Banxico raised policy rates by 75bps, alongside expectations, in September, accompanied by a relatively neutral policy statement. The missive pointed to the likelihood for further tightening in Mexico, with the bank to “assess the magnitude of the upward adjustments in the reference rate [...] based on the prevailing conditions.”

The bank made sharp upward revisions to both their headline and core inflation forecasts, pushing projections higher by 0.1ppts for Q3'22, 0.5ppts for Q4'22 and higher by 0.8 - 1.1ppts through 2023. While, the longer-term inflation views were kept broadly unchanged, they remain above the top-end of the bank's target.

Sell-side consensus is forming around September's hike bringing Banxico closer to (but not at) the peak of the tightening cycle, with most seeing a further Fed-matching 75bps hike in November. Peak rates are now forecasted at 10.50 – 11.00%, with the bank reaching this level at the end of Q1 next year.

All-in-all a relatively neutral rate decision, broadly inline with expectations (hike of 75bps, higher inflation forecasts this year and the next) and resulting in little market pushback. USDMXN trades lower on the week, but a bullish outlook remains intact. This follows the recovery from levels just below support at 19.8126, the Aug 15 low. Resistance at 20.2944, the Sep 1 high, has been breached. The clear break strengthens bullish conditions and opens 20.8335, the Aug 3 high. On the downside, initial support lies at 20.0978, the 50-day EMA.

Link to full statement: <https://www.banxico.org.mx/publications-and-press/announcements-of-monetary-policy-decisions/%7B5D6CCFE7-FBBC-A653-1AAF-FFFE47A1C4E0%7D.pdf>

The complete set of revised inflation forecasts were set out in the following table within the statement:

Forecasts for Headline and Core Inflation
Annual percentage change of quarterly average indices

	2021		2022		2023				2024				
	III	IV	I	II	III	IV	I	II	III	IV	I	II	III
Headline (CPI)													
Current (29/09/2022) ^{1/}	5.8	7.0	7.3	7.8	8.6	8.6	7.9	6.0	4.8	4.0	3.7	3.4	3.1
Previous (11/08/2022) ^{2/}	5.8	7.0	7.3	7.8	8.5	8.1	7.1	5.0	3.7	3.2	3.1	3.1	
Core													
Current (29/09/2022) ^{1/}	4.8	5.6	6.5	7.3	8.0	8.2	7.3	6.2	5.0	4.1	3.6	3.2	3.0
Previous (11/08/2022) ^{2/}	4.8	5.6	6.5	7.3	7.9	7.6	6.5	5.1	3.8	3.2	3.1	3.0	
Memo													
Annualized seasonally adjusted quarterly variation in percent^{3/}													
Current - Headline ^{1/}	5.8	7.2	7.5	10.7	8.9	7.4	4.5	3.3	4.2	4.0	3.2	2.3	2.9
Current - Core ^{1/}	5.9	6.6	8.3	8.7	8.5	7.1	5.0	4.2	3.8	3.3	3.2	2.8	2.7

1/ Forecast starting September 2022.

2/ Forecast starting August 2022. See monetary policy statement of August 11, 2022. Forecast included in the Quarterly Report April-June 2022.

3/ See [methodological note](#) on the seasonal adjustment process.

Source: INEGI for observed annual variation figures and Banco de México for seasonally adjusted figures and forecasts.

Note: Shaded areas correspond to observed figures.

Dates to Watch:

- October 07 – Release of September CPI Data
- October 13 – Release of September meeting minutes
- November 10 – Next Banxico Meeting

Analyst Views (Alphabetical Order)

Bank of America: Sees peak rates at 11.00% in March 2023

- The statement is hawkish, as Banxico continues to see the balance of risk for inflation as significantly biased to the upside. We do not see headline or core inflation converging to 3%. The increase in forecasts is in line with our view that Banxico will continue hiking. Even after the economy decelerates, Banxico continues to see downside risks for activity.
- We expect Banxico to hike 75bp in November, followed by a 50bp hike in December to put the policy rate at 10.50% by year-end. We then expect Banxico to hike 25bp each in February and March to put the rate at 11.00%. We see upside risks in the short term to our Banxico call and downside risks towards the end of the Fed hiking cycle. We do not expect cuts in 2023.

Barclays: Banxico to continue mirroring Fed

- Barclays continue to believe Banxico will hike 75bps on Nov 10, then 50bps on Dec 15, and will end its hiking cycle on Feb 9 with a 25bps rate hike, leaving the rate at 10.75%. In their view, Banxico will leave the rate at 10.75% for some time, until inflation proves that it is trending downwards to the target and the US Fed starts an easing cycle.
- Banxico delivered a message similar to that from the previous meeting amid an expected upward revision to the inflation forecasts. Barclays stick to their view that it will continue to mirror US Fed moves, leading to a 'terminal rate' of 10.75%.
- The board maintained the phrase that they "will assess the magnitude of the upward adjustments in the reference rate for its next policy decisions based on the prevailing conditions". This might imply some flexibility amid uncertainty on the next moves by the US Fed and current inflation persistence.
- The most important change was the projected inflation path in the next quarters amid a more challenging environment for inflation. They revised Q4 22 headline inflation significantly upwards to 8.6%, from 8.1%, as well as Q4 23 to 4.0%, from 3.2%.

Goldman Sachs: Rate decision as expected

- The Monetary Policy Committee hiked the policy rate by another 75bps, driving the policy rate to 9.25% in a unanimous decision. The decision was in line with Goldman's forecast and the market consensus.
- The forward guidance did not change: for the upcoming meetings the MPC will "assess the magnitude of the upward movements of the policy rate based on the prevailing conditions". The overall balance of risks for inflation did not change either.
- The MPC's forecasts for headline and core inflation were revised upwards throughout the entire forecasting horizon with convergence to the 3% target now delayed to 3Q2024 (from 1Q2024 in the Aug meeting). The updated projections show headline inflation now reaching 8.6% at end-2022 (and core 8.2%).
- In Goldman's assessment, the central bank headline/core forecasts for end-2022 are now realistic, but for end-2023 are still optimistic given Goldman's expectation of significant inertial inflation forces and accelerating wage growth.

JP Morgan: Now see the terminal rate at 10.75% from 10.25%

- Banxico hiked 75bps and hiked its inflation forecasts; JPM now see terminal rate at 10.75% from 10.25%.
- The tone of the statement was hawkish, but not more than what was incorporated in market pricing pre-meeting. Compared to JPM's outstanding forecast, however, they think the statement was enough to abandon their terminal rate target of 10.25% in favour of 10.75% by 1Q23.
- JP Morgan's forecasts for inflation in 2023 and in the medium term are still well above Banxico's - they forecast headline year-end 2023 inflation at 5.1% vs. Banxico's 4.0% and don't see convergence to mid-point target in the medium-term (4y out).

Morgan Stanley: See final 25bps hike in Feb, terminal rate at 10.75%

- The board made large upward revisions to their CPI projections for both core and headline. Those projections are more in line with Morgan Stanley's economists' inflation projections.
- Given Morgan Stanley's economists believe the Fed is the floor for Banxico, their economists now call for a 75bps hike in Banxico's Nov 10 rate decision.
- Their economists keep their call for a 50bps hike in Dec 2022 and now add another 25bps (final) hike at the Feb 9 meeting. The expected terminal rate is now 10.75%.

Scotiabank: Now expect a terminal rate for 2022 at 10.50%

- Banxico revised up its inflation forecasts: the new scenario sees inflation reaching 8.6% in Q322 (8.5% previously) and staying there until Q4-2022, with the largest revisions occurring in Q2-2023 and Q3-2023 - up to 110bps to total inflation and 120bps to core inflation.
- Additionally, it seems that Banxico has finally acknowledged that expecting to reach the inflation target in Q1-2024 was rather ambitious: they now expect inflation will converge in Q3-2024 to 3.1%.
- At this point, however, Scotiabank say it is clear that Banxico, along with other central banks, cannot let its guard down yet, and will probably need to hike by another 75bps in November.