MNI Banxico Review – Sell-Side Analyst Views: 12th February 2021

Banxico voted unanimously to cut rates by 25bps to 4.00% against mixed expectations, with a number of analysts eyeing no change in policy this month

Policy Statement: https://www.banxico.org.mx/publications-and-press/announcements-of-monetary-policy-decisions/%7BE44F7549-CD5F-D7FD-4E5A-C531255F7822%7D.pdf

Summary of sell-side analyst views:

- The majority of analysts interpreted yesterday's decision as dovish on the margin and see further cuts from Banxico over the first half of 2021.
- Notably, Goldman Sachs interpreted the statement as a hawkish development and suggest the potential of the cut being the final one in the cutting cycle, or at least for a while to come.

Sell-side Analyst Views (alphabetical order)

Citi: Maintains call for further 25bps cut in March

- Dovish surprise but more importantly a dovish message and a unanimous decision following two dissenters in the previous meeting.
- Economists maintain their call of another 25bp cut in March for a terminal rate of 3.75%, although they see greater risks for one or, at most, two further cuts. Further cuts should be priced in and that could impact the currency - remain long MXN.

Commerzbank: Watching how Banxico behave should fall in inflation not materialise

- Notes the decision didn't depend on Borja, as it was taken unanimously. The decision for "hawks" to join was only relevant as it might presume a clearly more dovish approach on the part of Banxico. However, such conclusions warrant caution.
- The way Banxico acted during the COVID-19 pandemic wasn't necessarily revealing for its general approach. What will be much more decisive will be how Banxico will behave if the projected fall in inflation over the course of the year doesn't materialise.

Goldman Sachs: Doesn't judge cut as dovish, could be last cut in cycle

- We do not judge the 5-0 unanimous decision to cut as dovish; in our assessment it was the hawkish language that likely made unanimity behind the cut possible.
- The fact that the MPC states the recent information allows for "a monetary policy adjustment" rather than for additional/further monetary adjustment, or for ending the pause and resuming the easing cycle is in our assessment a hawkish language choice inasmuch as it suggests that this could be the last cut of the cycle, or at least for a while.
- But in any case, the door for additional cuts is not totally shut and locked: future rate decisions will still be influenced by upcoming data.

JPMorgan: Still expects March and May rate cuts

- Still expect the board to cut 25bp next month and in May, bringing the policy rate to 3.5%.
- They think that the message that underlying (core) inflation should be close to target in the next couple of quarters and that headline inflation increases would be driven by base effects points to broader ease about future inflation dynamics, and one that could allow the bank to support a very weak economy.

TD Securities: Door remains open to further easing should inflation expectations hold

- A more exacting forecast for Q3 core inflation (3%) than the previously stated 12-24 month horizon. This statement is perhaps aimed at putting emphasis on the core inflation profile over that of headline.
- The balance of risks to the inflation outlook remains unchanged. So long as inflation expectations remain stable and there are no unexpected near-term shocks to prices, the door remains open to further easing.
- Maintain call for another 25bp cut at the next meeting but highlight the importance of future communications from the board.

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