

## Banxico Watch

# Banxico lowers policy rate for the first time since March in a split decision...

Javier Amador / Iván Fernández / Carlos Serrano  
August 8, 2024

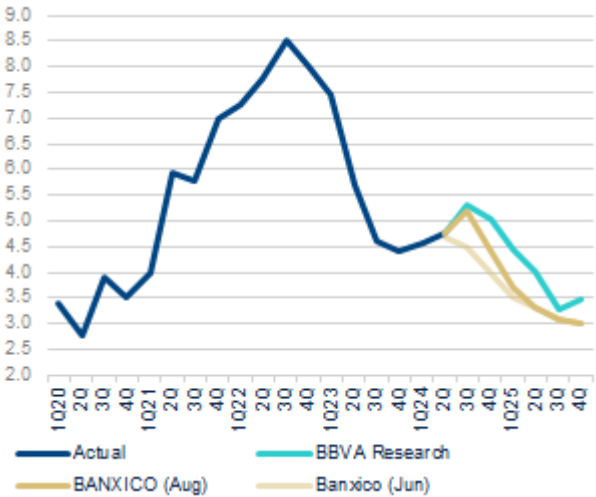
## ... and anticipates lower inflation pressures may allow further rate cuts going forward

- Banxico looked past the jump in headline inflation, rightly so in our view, with core inflation easing and cut the policy rate in a divided vote by 25bp to 10.75%, as we anticipated.** Three members of the Board voted to lower rates, while two others would have preferred to hold it steady. As we argued in our note two days ago ([see](#)), the decision was going to be a close call, but our base case was the split 3-2 rate-cut vote that took place today with a majority of the Board acknowledging a weakening economy and increased confidence about the inflation outlook. Analysts were divided, with only 10 out of 33 in the latest Banamex survey correctly predicting today's cut. Following peso's recent depreciation, the consensus pushed back its expectation for the next cut to September.
- The wording of the statement remained cautiously dovish and dismissed the two factors that could have made Banxico pushed back today's rate cut.** The first factor was the temporary inflation spike. Banxico acknowledged the recent jump in headline inflation to 5.6% YoY, but correctly pointed out that it was the "result of a significant increase in the non-core", and underscored that core inflation has eased for 18 months in a row and is down to 4.05% YoY. Although Banxico continues to think that the balance of risks to inflation remains biased to the upside, likely in view of the strong supply shocks that have affected the non-core component over the last two months, the revisions to their headline inflation forecasts were milder than we were expecting (see Figure 1). Banxico raised its average 4Q24 headline inflation forecast to 4.4% YoY from 4.0%, but still expects it to converge to the target in 4Q25. Besides, as we suggested, it fine-tuned its core inflation forecast for 3Q24 to the downside while it continued to expect a 3.9% YoY average in 4Q24, consistent with our year-end 3.8% YoY forecast. The second factor was the sharp depreciation over the past two weeks. It was mentioned, but it doesn't seem to have weighed on today's decision.
- The forward guidance continued to leave the door wide open for further cuts going forward.** After cutting rates for the first time since March looking past the recent (and likely) temporary inflation spike, Banxico reiterated that it would consider additional reductions going forward. Banxico anticipates that the negative effects of the latest supply shock "will dissipate over the next quarters". Although Banxico considers that "the outlook for inflation still calls for a restrictive monetary policy stance", it also thinks "that it is adequate to reduce the level of monetary restriction". Going forward, Banxico continues to seem concerned about the weakness in economic activity, acknowledging that it will consider "the effects" of this weakness along with the policy stance and the evolution of inflation when it decides on further rate adjustments.
- Looking ahead, Banxico's Board members will likely continue to have differing points of view in terms of the inflation outlook, likely leading to additional split decisions in future meetings.** Although we think that the current real rate continues to be overly restrictive and the Fed is set to start cutting rates in September

which will give further room for Banxico to cut rates, we anticipate that the rate-cut cycle will continue to be slower than warranted. We expect one additional rate cut this year (in November) followed by 25bp rate cuts at each meeting of 2025 that would bring down the policy rate to a still restrictive 8.5% in December 2025. An easier policy stance than currently expected in the US and/or much weaker economic activity in Mexico would probably tilt the balance towards a quicker rate cut cycle, but that is not currently our baseline scenario.

**Banxico brought closer its headline inflation expected path to ours for this and next quarters...**

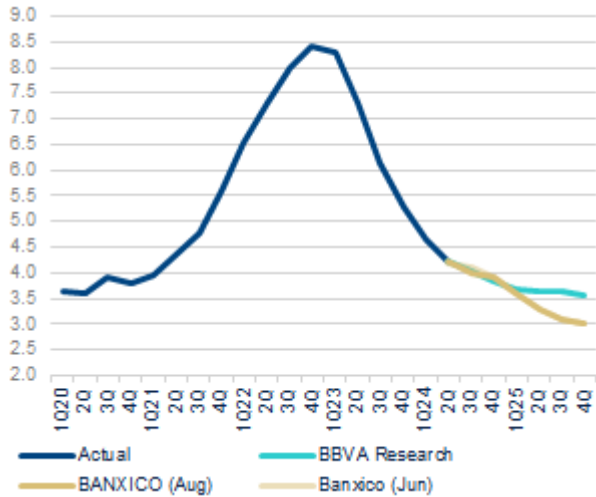
Figure 1. **HEADLINE INFLATION OUTLOOK**  
(YOY % CHANGE, QUARTERLY AVERAGE)



Source: BBVA Research / Banxico / INEGI

**... and left mostly unchanged its core inflation forecasts, which remain close to ours for 2Q-1Q25**

Figure 2. **CORE INFLATION OUTLOOK**  
(YOY % CHANGE, QUARTERLY AVERAGE)



Source: BBVA Research / Banxico / INEGI

## DISCLAIMER

The present document does not constitute an “Investment Recommendation”, as defined in Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (“MAR”). In particular, this document does not constitute “Investment Research” nor “Marketing Material”, for the purposes of article 36 of the Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (MIFID II).

Readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data or opinions regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorised by BBVA on its website [www.bbvaresearch.com](http://www.bbvaresearch.com).

### ENQUIRIES TO:

BBVA Research: Paseo de la Reforma 510, Colonia Juárez, C.P. 06600 Mexico City, Mexico.  
Tel.: +52 55 5621 3434  
[www.bbvaresearch.com](http://www.bbvaresearch.com)