

LATIN AMERICA RAPID RESPONSE

Mexico Interest Rate Announcement (Sep.)

 28th September 2023

Banxico turns up its hawkish rhetoric

Mexico's central bank, as widely expected, left its policy rate unchanged at 11.25% at today's Board meeting and the accompanying statement remained very hawkish. We think Banxico will be the last major central bank in the region to begin an easing cycle, probably at its first meeting of 2024 in February. We currently think that the policy rate will be lowered by 200bp to 9.25%, by end-2024, but the risks are increasingly tilted towards rates staying high for longer.

The decision to leave policy setting unchanged was correctly predicted by all of the analysts, including ourselves, polled by Refinitiv ahead of the meeting. After delivering a cumulative 725bp of tightening, this was the fourth consecutive meeting at which interest rates have been left unchanged. The decision was once again unanimous.

Inflation pressures have continued to subside since Banxico's last Board meeting in August, with the headline rate dropping to 4.4% y/y in the first half of September. But that still left it above Banxico's 2-4% tolerance band. And services inflation, which Banxico officials have focused on amid concerns about the persistence of price pressures, remained above 5%. Strong services inflation largely reflects a tight labour market and rapid wage growth. At the same time, the economy has continued to hold up well – GDP expanded by 0.8% q/q in both Q1 and Q2 and the latest activity data point to a solid start to Q3.

All of this was reflected in a more hawkish accompanying statement. Banxico revised up its inflation forecasts throughout its forecast horizon – it now envisages inflation only returning to the 3% target by Q2 2025, compared with a previous forecast of Q4 2024. The Board reiterated its concerns about services inflation and added the resilience of the economy as a factor presenting an upside risk to inflation. Despite revising up its forecasts, Banxico still considers that the balance of risks to inflation are biased to the upside.

With the Board retaining its hawkish bias, Banxico is almost certainly on course to be the last major central bank in Latin America to begin an easing cycle. For now, we are sticking to our forecast that a first interest rate cut will be delivered in February and that the policy rate will end next year at 9.25%, which is higher than most analysts' projections.