
Banxico keeps overnight rate unchanged at 8.25%.

February 07th 2019

Today, Banco de México decided unanimously to keep the overnight rate at 8.25%, in line with market expectations, specialists' surveys, and our forecast. This due to no significant changes in the evolution of inflation and its determinants, as well as to more slack in the economy.

Key takeaways

Global economy: Banxico confirms a slowdown in the expansion of the global economy in Q4 2018. This mainly attributed to: i) the effects of global trade tensions, ii) lower business confidence, and iii) the presence of temporary shocks. Likewise, it highlights that the outlook for global growth in 2019 and 2020 have been revised downwards. In addition, the Central Bank acknowledges the change in the tone of the Fed, and a better performance in international financial markets.

Mexican Economy: The Central Bank assesses that economic activity in Mexico would show a significant deceleration in Q4 2018, and that this could extend to the beginning of 2019. Moreover, Board members noted that the balance of risks for growth is tilted to the downside, and slack conditions increased.

Inflation: The communiqué states that inflation went down from 4.72% to 4.37% between November and January. The former due to lower increases in energy and cattle products prices, which were partially offset by increases in fruits and vegetables prices. Additionally, it emphasized that core inflation continues to show resilience to decrease. Banxico also signals that short-term inflation expectations have improved marginally and mainly due to the non-core component, and that medium- and long-term expectations continue above target. It also noted that although medium- and long-term inflation risk premia have decreased more slowly, their current levels remain relatively high.

In line with our expectation, the communiqué included elements that show a less hawkish stance: i) Banxico sees more slack in the economy, not only for the end of 2018 but for the beginning of 2019; ii) the reference to "structural risks for inflation arising from the possible adoption of policies that could produce profound changes in the price formation process" was eliminated; and iii) the specific mention of a possible future strengthening of monetary policy if conditions warrant was omitted. Notwithstanding, the Central Bank continues to worry about the persistence of core inflation and seems uncomfortable with the level of inflation expectations. Therefore, we still see the tone on the hawkish side.

It is worth noting that the Bank's pointed out the need to strengthen the rule of law and tackle corruption to strengthen the macroeconomic framework. We will closely follow the discussion within the minutes in this regard.

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