Banxico saving the day… for the moment (by Jessica Roldán)

Banxico just cut the reference rate, in an out-of-calendar announcement, by 50 bps (from 6.50 to 6.0 %) The decision was unanimous.

Although this adjustment was imminent, the timing of its materialization was unclear. Remarkably, the action was done two days after Moody's, the rating agency that remained to assess sovereign and Pemex debt ratings, adjusted the former by one notch and the latter by two –sinking it below investment grade, after Fitch had done it almost a year ago– and amid a collapse in oil prices.

The Board expects a contraction of the economy that could go beyond 5%, with a balance of risks for output significantly tilted to the downside. Inflation prospects, it said, are less clear, as opposing forces could exert pressure at different points in time.

The communiqué ends reinforcing the data driven approach that the central bank has taken.

We perceive a neutral tone. Yet, we see an extra interest rate cut of 50 bps in the pipeline, which could very likely be by mid-May (i.e. by the next meeting on calendar). Afterwards, we expect the Bank to make a pause to reassess building up domestic risks.

The Central Bank also announced an ample spectrum of additional measures to strengthen credit channels, provide liquidity and help financial institutions' management of risk.

Announced measures are all within the scope of operations that the central bank can carry out on the basis of Banco de México's Law and account for MXN 750 billion, which together with the ones previously announced, amount a total of 3.3% of 2019 GDP. **The Central Bank reiterated that it will continue monitoring market conditions and act accordingly, which suggests that extra actions could come in the future. This, especially against the backdrop of almost null action on the fiscal side, is definitely good news.**

The list of measure is the following. Most of the details will be revealed in coming announcements.

1. Increase the level of liquidity during trading hours whenever deemed necessary.
2. Widen the eligibility of debt securities in the FLAO repos, and of collateral for foreign exchange hedges settled by differences in MXN, and for USD credit auctions.

3. Extend access to FLAO to development banks in order for them to obtain liquidity through collateralized credits or repos (same cost of 1.1 times Banco de México's reference rate).
4. Open a facility to repurchase government securities at longer terms than those of regular open market operations (cost of the repurchase agreement equivalent to 1.02 times the average of Banco de México's overnight interbank interest rate during the term of the transaction).
5. Implement a debt securities temporary swap facility to provide liquidity for trading instruments which, as a result of uncertainty and volatility, have observed lower liquidity and impaired trading conditions in the secondary market.
6. Implement a corporate securities repurchase facility through credit institutions in order to provide liquidity to short-term corporate securities and long-term corporate debt.
7. Open a financing facility for commercial and development banks to allow them to channel resources to these enterprises and individuals.
8. Temporarily open a financing facility for banks which will be guaranteed by credits to corporates that issue public debt, so that this financing can be channeled to micro, small- and medium-size enterprises in Mexico.
9. Implement swaps of government securities, in which it will receive long-term securities (10 years and longer) and will deliver other with maturities of up to 3 years (characteristics and terms of each swap will be determined in each auction call).
10. By order of the Exchange Commission: Incorporate into its foreign exchange intervention tools, the possibility to conduct hedge transactions settled by differences in US dollars. This will be done in order to operate during the hours when Mexican markets are closed.

Jessica Roldán Peña*
Chief Economist
jroldan@finamex.com.mx
+52 (55) 5209 2056

Víctor Gómez Ayala
Senior Economist
vgomez@finamex.com.mx
+52 (55) 5209 2151

Montserrat Aldave Hoyo
Economist
caldave@finamex.com.mx
+52 (55) 5209 2029