

Central Banks

Monetary rate unchanged in 3.0%. The dovish tone remains as the improvement in economic activity is bounded to the external demand

Iván Martínez Urquijo, Arnoldo López Marmolejo

No relevant changes in the tone with respect to the previous communiqué. Banxico highlights an improvement in external demand but also stresses that domestic expenditure does not show clear signs of recovery.

Banxico highlights the recent improvement in exports given the considerable recovery in the US in the second quarter. However, it also stresses that domestic expenditure does not show clear signs of recovery and that probably the output gap will remain in negative terrain until the last part of 2015.

In terms of prices, the central bank points out that in the last months annual inflation behaved in line with its expectations and clearly below 4 per cent. In addition, it reiterates that general annual inflation will fall to levels close to 3.0% from January 2015. This would suggest that the short term real rate would not remain below zero for a prolonged period of time. In sum, given the favorable behavior of inflation, the central bank considers that the balance of risks for inflation continues being favorable.

With respect to the global economy, Banxico considers that downside risks remain. Although, it points out that economic activity in the US showed a considerable recovery after the contraction in the first quarter.

After the rate cut in June and Banxico's explicit claim that no further rate cuts were advisable in the foreseeable future, we consider that there will be no changes in the monetary policy rate in the rest of the year.

Chart 1
Highlights from recent statements

	25-Apr-14	06-Jun-14	11-Jul-14	Bottom line*
Global context	<ul style="list-style-type: none"> • Economic growth perspectives improve marginally ; • US economic activity picked-up and is expected to improve in coming quarters; • Some downside risks prevail • Low global inflation 	<ul style="list-style-type: none"> • World economic growth moderated • US economic activity was weaker than expected in the first quarte. • Downside risks prevail • Low global inflation 	<ul style="list-style-type: none"> • World economic growth was lower than expected but there are signs of a slight improvement • Considerable recovery in the US in the second quarter • Downside risks prevail • Low global inflation 	Improvement in the US but weakness in other geographical areas
Economic activity	<ul style="list-style-type: none"> • The balance of risks of economic activity improved marginally. • There is an early improvement of some components of aggregate demand • The economic slack remains 	<ul style="list-style-type: none"> • The weakness of domestic demand surpassed the improvement of exports • The GDP growth for 2014 will be lower than expected two weeks ago • The economic slack has increased • Downside risks are biased to the downside 	<ul style="list-style-type: none"> • More dynamic exports, domestic expenditure does not show clear signs of recovery • The economic slack prevails • The output gap will remain in negative terrain until the last part of 2015 	Dovish tone
Inflation	<p>The balance of risks remains stable based on:</p> <ul style="list-style-type: none"> • The absence of second round effects on prices. • The inflation drop below 4.0% and the decrease of short term expectations. 	<ul style="list-style-type: none"> • The balance of risks improved • There are high probabilities that general inflation will be close to 3.0% from January 2015 	<ul style="list-style-type: none"> • The balance of risks continues being favourable • It is expected that general inflation will be close to 3.0% from January 2015 	Dovish tone
Policy decision	0.00	-0.50	0.00	
Rate	3.50	3.00	3.00	

Source: BBVA Research with Banxico's information.

Disclaimer

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research and BBVA Bancomer S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer on behalf of itself and is provided for information purposes only. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA Bancomer, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.