

Central Banks

# Banxico to deliver another 50bp hike, to 6.00%

Javier Amador / Carlos Serrano  
February 8, 2022

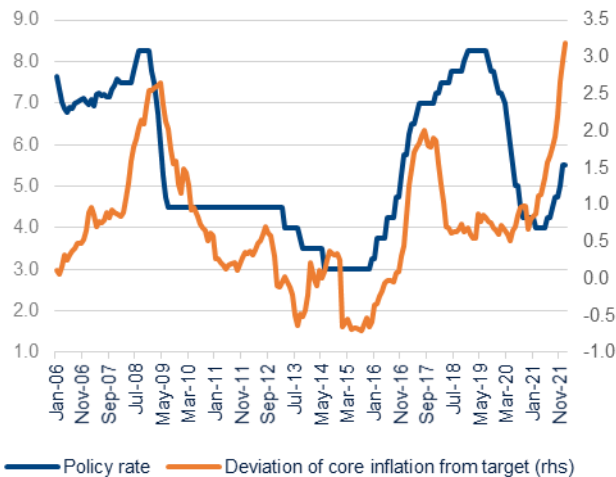
## Core inflation pressures will remain the focus of the Board

- **Banxico’s concerns on inflation likely did not ease since the last meeting** in which it increased the policy rate by 50bp, to 5.50%. Even if there are signs that headline inflation has peaked –the YoY rate eased to 7.1% in the first two weeks of January, from 7.4% in December–, core inflation remains in an upward trend. The further rise in core inflation, to 6.1% YoY –the highest reading in the inflation-targeting period– from 5.9% at the end of last year, will concern the Board and be its focus as it decides whether to hike the policy rate by 25 or 50bp. Moreover, core inflation is set to increase to 6.2% in Jan-Feb; we expect it to average 6.2% in 1Q22, up from a 5.6% average in 4Q21. In a context in which headline inflation is close to the inflation-targeting period all-time highs, is set to remain high throughout the year even if it trends lower each quarter, and core inflation is still trending higher and is set to decelerate more slowly than headline inflation, Banxico will likely think that a neutral rate (which we estimate to be 5.5%) is not appropriate. Core inflation’s expected deviation from 3.0% in January would mark a fresh high (see figure 1).
- **Banxico’s own core inflation measures will likely keep the Board hawkish.** As can be seen in figure 2, the trimmed mean core inflation trended sharply upwards throughout last year and reached 5.2% YoY in December, well-above the previous 4.5% last decade high. As core inflation pressures were becoming more broad-based since the start of last year, Banxico’s “supercore” measure was not showing signs of an upturn and had continued to move within the narrow 3.0-3.5% range in which it moved during the previous three years (see figure 2). Yet, in the second half of the year, the YoY rate of the supercore measure surged and reached 4.4% by year-end. This trend points to signs of second-round effects considering that the supercore measure responds largely to the slack of the economy (there is still plenty of it). For this reason, we think that Banxico will remain impatient with core inflation’s different measures and recent trends, and despite the softness of the economy –in a technical recession following the 0.1% QoQ fourth quarter fall in GDP– will lean to another 50bp rate hike, taking the policy rate to 6.00%. That is, we don’t think that the economic slowdown will give Banxico second thoughts for this policy decision. This especially considering that Banxico’s reaction function has been much more sensitive to observed, rather than expected, inflation.
- **Three of the four members that voted for a 50bp hike in December will likely remain on the same page, while the new Governor will face its first vote with core inflation at multi-decade highs, with signs of some second-round effects, with the need to anchor expectations in its first policy decision, and with consensus expectations anticipating a 50bp hike.** We expect a split decision as at least one Board member could prefer to hike by 25bp considering that additional hikes ahead are likely once the Fed starts its hiking cycle in March. In the most recent Banamex Survey, 23 out of 31 analysts, us among them, expected a 50bp hike this Thursday, that compares with less than half on analysts (12 out of 28), us among them, that were expecting that larger hike in the survey taken one month before, in January 5.
- **Looking ahead, we expect Banxico to raise the policy rate to 7.00% by year-end as both headline and core inflation remain above 4.0% throughout 2022.** Yet, we think that this week’s hike will be the last of 50bp and the central bank will return to a more gradual approach after this week’s expected 50bp hike, as core

inflation starts to ease in the second quarter, in a context of a weak economy and a monetary policy rate that will reach restrictive territory. The inflation rate will decrease regardless of Banxico’s actions, as the current inflationary episode is largely explained by supply and external factors, and monetary policy is not well suited to tackle them.

**BANXICO WILL LIKELY THINK THAT THE CURRENT NEUTRAL POLICY RATE IS STILL NOT APPROPRIATE...**

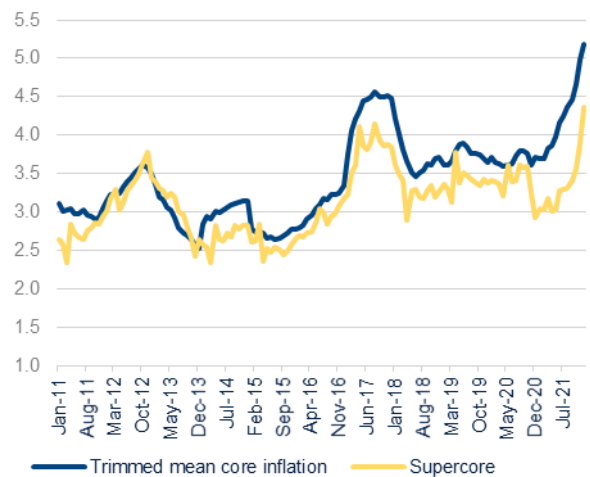
Figure 1. **MONETARY POLIC RATE AND DEVIATION OF CORE INFLATION FROM 3.0% TARGET (% AND PP)**



Sources: BBVA Research / Banxico / INEGI

**... CONCERNS LIKELY INCREASED IN THE INTERMEETING PERIOD WITH THE SUPERCORE MEASURE SURGING FURTHER**

Figure 2. **TRIMMED MEAN CORE INFLATION & SUPERCORE\* (YOY % CHANGE)**



\* Components respond to a greater extent to the slack in the economy  
Sources: BBVA Research / Banxico

## DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

**Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report.** Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is 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 and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

**The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.**

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

This document is provided in the United Kingdom solely to those persons to whom it may be addressed according to the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and it is not to be directly or indirectly delivered to or distributed among any other type of persons or entities. In particular, this document is only aimed at and can be delivered to the following persons or entities (i) those outside the United Kingdom, (ii) those with expertise regarding investments as mentioned under Section 19(5) of Order 2001, (iii) high net worth entities and any other person or entity under Section 49(1) of Order 2001 to whom the contents hereof can be legally revealed.

The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA Bancomer and the rest of BBVA Group who are not members of FINRA (Financial Industry Regulatory Authority), are not subject to the rules of disclosure for these members.

**"BBVA Bancomer, BBVA and its subsidiaries, among which is BBVA Global Markets Research, are subject to the Corporate Policy Group in the field of BBVA Securities Markets. In each jurisdiction in which BBVA is active in the Securities Markets, the policy is complemented by an Internal Code of Conduct which complements the policy and guidelines in conjunction with other established guidelines to prevent and avoid conflicts of interest with respect to recommendations issued by analysts among which is the separation of areas. Corporate Policy is available at: [www.bbva.com](http://www.bbva.com) / Corporate Governance / Conduct in Securities Markets".**

### ENQUIRIES TO:

BBVA Research – BBVA: Paseo de la Reforma 510, Colonia Juárez, C.P. 06600 Mexico City, Mexico.

Tel.: +52 55 5621 3434

[bbvaresearch@bbva.com](mailto:bbvaresearch@bbva.com) [www.bbvaresearch.com](http://www.bbvaresearch.com)

