

Banxico Flash

Mexico

Banxico will keep fondeo rate unchanged. It will continue signaling a monetary pause

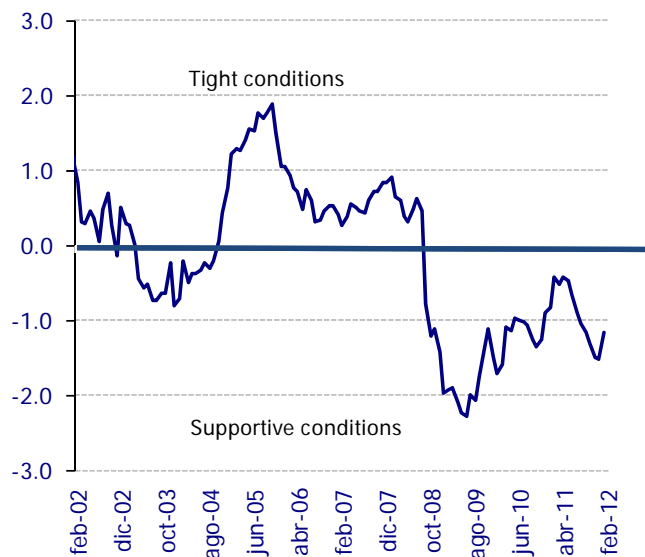
- The recent economic data supports Banxico's neutral stance
- BBVA Research's inflation and economic activity perspectives, in addition to Banxico's stance, are consistent with a monetary pause during 2012. The possibilities of a rate cut diminish.

In the last two months the changes to the economic landscape do not suggest a fondeo rate movement next Friday. However, these changes point to a reduction in the possibilities of a rate cut. Regarding the global economy, even as the recent developments in Europe and better than expected data in the US suggest a short run improvement in financial conditions, we expect the central bank will stress structural vulnerabilities that still prevail in both economies. With regards to domestic activity, the improvement of external demand may increase Banxico's forecast of economic activity for 2012. It is worth noting that BBVA Research's forecast is biased upwards from a base scenario of a GDP growth of 3.3 percent in 2012. Concerning prices, demand side pressures remain subdued and inflation remains close to the upper limit of Banxico's range. In fact, we expect inflation to be above 4 percent until September 2012. Given the current conditions, any remark about the possible effect of recent oil price increase on inflation will be relevant.

Altogether, recent Banxico's communication, in addition to BBVA's perspectives of an increase in inflation and a moderate GDP growth that seems greater than expected before, lead us to state that the monetary pause will remain during 2012. In addition, we consider that in this scenario, the possibilities of a rate cut start to vanish.

Chart 1

Monetary conditions index



Source: BBVA Research

Chart 2

Surprises on economic activity. Index (2002=100)



Source: BBVA Research with Bloomberg data. The index measures the difference between observed data and consensus expectations for seven economic activity variables in Mexico. Standardized index. Increase (decrease): positive surprise (negative surprise).

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