

México Flash

No change in fondeo rate. We expect a more dovish statement that will open the door to a rate cut

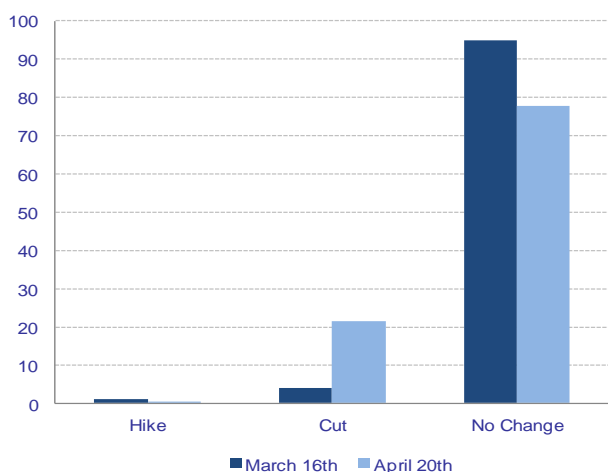
- The recent inflation figures support the stance of the majority of the Board members that regard a rate cut as advisable
- The persistence of core inflation around 3.3% and of mid-term inflation expectations around 3.5% support the opposite view of the rest of the Board
- The FOMC statement does not imply a further tightening of the Mexican monetary policy
- In our opinion, fondeo rate will remain unchanged at 4.5%. We expect a more dovish statement in line with the last minute, will open the door to a rate cut as long as inflation keeps improving and economic activity impairs

The uncertainty surrounding the next Friday monetary policy decision remains, as coming information does not support definitively neither the cut nor the pause. By the one hand, recent inflation figures support the stance of the majority of the Board members that regard a rate cut as advisable. However it is worth noting that the recent improvement in inflation has come from the noncore component, while the core and the mid and long-term inflation expectations remain above 3%.

On the other hand, the slightly more centrist FOMC statement continues stressing the moderate economic expansion and the expectations of a gradual decline in the unemployment rate. In addition, it expects a pickup in economic activity after some quarters of moderation in economic growth. The latter reduces the probability of a new round of monetary stimulus and therefore of a further tightening of Mexican monetary policy relative to other countries. In addition, the debate about the credibility costs that could arise from a rate cut as inflation and its expectations remain above the 3% target is an element that cannot be dismissed. Altogether, we maintain our stand that the fondeo rate will remain unchanged next Friday April 27th. However, we expect a dovish statement, in line with the most recent minute, as a result of an improvement of the inflation balance of risks. In addition, the statement could underline the possibility of a preventive cut in case of an impairment of economic activity.

Chart 1

Average probability of a rate movement in the next monetary policy meeting to be held on April 27th



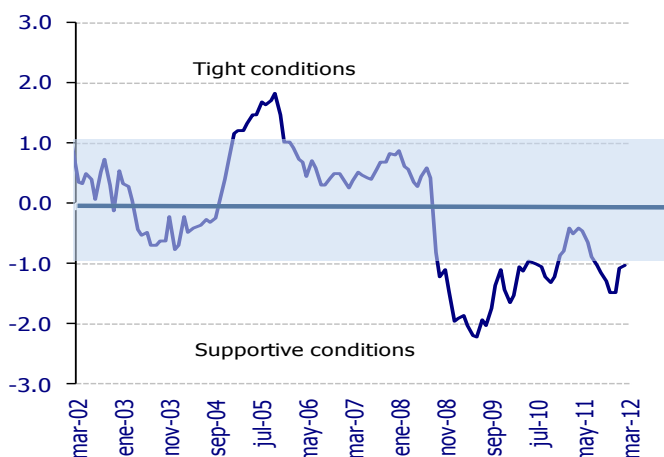
Source: Reuters

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Chart 2

Monetary conditions index



Source: BBVA Research.

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