

# Mexico Flash

## No change in fondeo rate. Inflation slump leads to a dovish tone

- **The recent decrease of inflation and the improvement of the balance of risks leads to a dovish tone.** Monetary policy stance remains linked to the inflation downtrend, however, the current statement stresses that if it consolidates a rate cut would be advisable in order to ease the adjustment of the economy to a situation of less economic growth and less inflation.
- The downward risks on domestic activity linger as a result of a balance of risks of world activity that maintains its impairment, although it improved marginally.
- The central bank stresses that its expectations of headline inflation in 2013 lie below 2012's, while it expects core inflation to be under 3.0%.
- Banxico changed from a hawkish tone to a dovish one in a matter of two months. This is different from the graduality we have witnessed in the past.
- In light of this communiqué, **BBVA Research keeps its perspective of a monetary pause in the next months.** However, as economic activity moderates, if inflation reaches the inflation target during a period that suggest that inflation is contained, a rate cut cannot be dismissed.

Chart 1

Principal messages in monetary policy statements

	November 30	January 18	Assessment*
<b>Global context</b>	<ul style="list-style-type: none"> <li>• <b>Downward risks for global growth remain</b></li> <li>• Highlights: i) The possibility of a fiscal adjustment in the US is already affecting its private investment.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Downward risks for global growth remain, although the balance has improved marginally.</b></li> </ul>	<b>The pessimistic tone in global output remains</b>
<b>Economic Activity</b>	<ul style="list-style-type: none"> <li>• Risk balance for growth <b>deteriorates marginally in the short term</b>, as reflected by the increased downward risks for the global economy, and <b>in particular for the US.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Risk balance for growth <b>remains impaired as a result of downward risks on world economy.</b></li> </ul>	<b>Downward risks linger</b>
<b>Inflation</b>	<ul style="list-style-type: none"> <li>• <b>If the downward changes in the headline and core inflation trends are not confirmed, an upward adjustment will have to be made to the reference rate.</b></li> <li>• The upward risks in the short term have <b>reduced marginally.</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>If the downward changes in the headline and core inflation trends are confirmed, a rate cut would be advisable.</b></li> <li>• The inflationary balance of risks improved</li> </ul>	<b>If inflation reaches its target and suggests that it is under control, a rate cut cannot be dismissed</b>
<b>Policy decision</b>	0.00	0.00	<b>Dovish tone</b>
<b>Policy rate</b>	4.50	4.50	

\* Interpretation by BBVA Research of Banxico's opinion in accordance with the latest monetary policy statement.

Source: BBVA Research and Banxico

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