

Mexico Flash

A more dovish tone strengthens the rate cut perspectives, once inflation is below 4.0%.

Banxico ratify its dovish tone based on the increased downward risks on economic growth and on downward inflation perspectives

- According to the central bank, the downward risks on economic activity have intensified as a result of an important deceleration of domestic activity and more weakness from the global front.
- Banxico recognizes some upward inflation risks stemming from supply shocks, but considers that they could be offset by the downward risks stemming from the moderation of economic activity.
- In spite of recent peso depreciation, the argument of the relative monetary stance prevails. However it is worth noting that the downward risks on economic activity increased their weight on today's statement.
- Banxico mentions that recent movements in financial markets have been influenced by the uncertainty regarding the US monetary policy, but stresses that they have taken place in an orderly manner.
- It is worth mentioning that if the FED reduces the pace of asset purchases as a result of an improvement in the economic outlook, the downward bias on domestic activity could fade away and influence the domestic monetary stance.
- Based on the dovish tone of the communiqué, **BBVA Research maintains its call of a 50bp rate cut in September, once inflation is below 4.0%.** However, the improvement of economic perspectives and/ or instability in financial markets could reduce the probabilities of the rate cut.

Chart 1

Principal messages in monetary policy statements

	April 26th	June 7th	Assesment
Global context	• Downward risks on global activity remain - Weakness signals on economic activity continue • Favorable inflation perspectives in most countries	• Downward risks on global activity remain • The weakness of global economic activity has increased • Lower inflation outlook in most countries	Caution regarding downward risks on global economic activity. More optimism on inflation
Domestic activity	• Downward risks on domestic activity remain • Several indicators signal a moderation of economic growth	• Downward risks on domestic activity have intensified • Domestic activity has observed an important deceleration	Increased concern due to the heightened downward risks
Inflation	• In June inflation will start trending downward and will be between 3 and 4% in the 2H13 and close to 3% during 2014. • Core inflation will be close to 3% during most of 2013 and 2014.	• A slight inflation reduction is expected in June, but the downward trend will steepen from July onwards. Inflation will be between 3 and 4% in the 2H13 and close to 3% during 2014. • Core inflation will be even below 3% during most of 2013 and 2014. • Upward risks on inflation prevail (supply shocks), but the materialization of downward risks on economic activity could offset them.	More certainty regarding the convergence to the inflation target, although upward risks remain
Monetary policy decision	0.00	0.00	Dovish tone strengthens
MP rate	4.00	4.00	

Source: BBVA Research and Banxico

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