

BBVA Research Flash

Mexico

Banxico: rate cut decision passed by simple majority. FED in the spotlight.

- The most recent rate cut decision, approved by the majority of board members, was based on the following arguments: 1) the fast and deep slowdown of domestic activity; 2) the expectation of a protracted economic slack that will prevent inflationary pressures; and 3) the inflation reduction.
- On the other hand, the members in favor of keeping the rate unchanged based their decision on the following reasons: 1) the possible risk episodes and their consequences on the financial stability that could stem from a FED tapering; and 2) a perception of inflation complacency from the markets given that the inflation target of 3% has not been met.
- It is worth noting that one of the members that voted for keeping the rate unchanged, agreed that there were arguments to justify a rate cut. However he pointed out that before voting in favor of a rate cut he preferred to await the FED decision and its consequences on the financial markets. Given that the FED did not taper, the possibility that this member maintains a dovish stance increases.
- Based on the minute of the last monetary policy meeting, the weaker than expected figures of domestic demand, and the recent exchange rate appreciation, we maintain our call of a 25 basis points rate cut in October.

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