

# Banxico Flash

Fondeo rate remains at 3.5%. Banxico tamed its dovish tone by indicating that economic activity improved marginally

- Banxico tamed the dovish tone of its last statement based on a marginal advance of exports and government expenditure and an early improvement of some indicators of consumption and investment.
- Banxico acknowledged that current data suggests that first quarter growth will be slower than previously forecasted. However, the recent pick-up of US economic activity led to an improvement in the balance of risks of domestic activity.
- Regarding prices, the balance of risks remained stable as annual inflation dropped below 4% and the short term expectations decreased.
- On the global front, the statement pointed out that economic growth expectations improved marginally supported by the US recovery and by less uncertainty in financial markets.
- Bottom line: We reckon that the favorable expectations of foreign demand and the resilience of the services sector could lead to tame the dovish tone of the previous statement. We share the expectation that exports and public expenditure will support a stronger economic growth in the coming quarters without prompting demand side pressures on prices. Our forecasts of inflation rate in December decreased to 3.7% YoY. In this context we maintain our perspective of a protracted monetary pause.

Chart 1

## Highlights from recent statements

	21-Mar-14	25-Apr-14	Bottom line*
<b>Global context</b>	<ul style="list-style-type: none"> <li>• <b>Economic growth perspectives improve:</b> US improvement below expectations; <b>growth perspectives for emerging economies decreased</b></li> <li>• <b>Considerable downside risks prevail</b></li> <li>• Low global inflation</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Economic growth perspectives improve marginally ;</b></li> <li>• <b>US economic activity picked-up</b> and is expected to improve in coming quarters;</li> <li>• <b>Some downside risks prevail</b></li> <li>• Low global inflation</li> </ul>	<b>Optimism on US economic activity</b>
<b>Economic activity</b>	<ul style="list-style-type: none"> <li>• <b>The balance of risks of economic activity has not improved notoriously.</b></li> <li>• <b>There is no signal of a clear recovery of aggregate demand</b></li> <li>• The economic slack remains</li> </ul>	<ul style="list-style-type: none"> <li>• <b>The balance of risks</b> of economic activity <b>improved marginally.</b></li> <li>• There is an <b>early improvement of some components of aggregate demand</b></li> <li>• The economic slack remains</li> </ul>	<b>Less dovish tone</b>
<b>Inflation</b>	<ul style="list-style-type: none"> <li>• <b>Improvement</b> of the balance of risks</li> <li>• <b>Recent inflation figures support the expectation that the recent inflation increase has been transitory and has not affected the price formation process.</b></li> </ul>	<p>The balance of risks remains stable based on:</p> <ul style="list-style-type: none"> <li>• The <b>absence of second round effects</b> on prices.</li> <li>• The <b>inflation drop below 4.0%</b> and the <b>decrease of short term expectations.</b></li> </ul>	<b>slightly dovish tone</b>
<b>Policy decision</b>	0.00	0.00	<b>A protracted monetary pause</b>
<b>Rate</b>	3.50	3.50	

\* Own interpretation based on the tone and wording of the Policy Statement

Source: BBVA Research and Banxico

Arnoldo López Marmolejo  
Arnoldo.lopez@bbva.com

Iván Martínez Urquijo  
Ivan.martinez.2@bbva.com

Av. Universidad 1200, Col. Xoco, México 03339 D.F. | researchmexico@bbva.bancomer.com | www.bbva.com | Follow us on Twitter

### Disclaimer

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research and BBVA Bancomer S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer on behalf of itself and is provided for information purposes only. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA Bancomer, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.