

## Latam Daily: Mexico Central Bank Meeting Minutes and New Inflation Forecast

- Mexico: Banxico meeting minutes; Review of our inflation forecast

### MEXICO: BANXICO MEETING MINUTES; REVIEW OF OUR INFLATION FORECAST

#### I. Banxico Meeting Minutes from September 30 Meeting

Mexico's Central Bank, Banxico, released its [minutes from the September 30<sup>th</sup> monetary policy meeting](#), giving us additional insights into the thought process of the bank's board members. [At the meeting](#), the board voted for a 25 bps hike (bringing the new rate to 4.75%) in a more hawkish vote (3–2 split) than in the previous meeting.

#### Highlights from Banxico's meeting minutes:

- **On the imported inflation front, most board members still see external price shocks as driven primarily by commodity price shocks, as well as supply chain disruptions.** Two members of the board also see aggressive fiscal stimulus to consumers, and a decomposition of demand away from services towards goods as part of the story. Overall, this is fairly neutral. The demand side shocks seen by the board are still only acknowledged by a minority.
- **Most board members acknowledged that, although monetary stimulus globally should remain for some time, the FOMC is contemplating the start of its tapering.** Again, this is neutral as only one member of the board spoke about the risk of a taper tantrum, and only one spoke about a rising probability of a 2022 lift off in US policy rates. Banxico often refers to relative monetary conditions as one of the drivers of domestic policy but given that Mexico is front running the Fed, a start of the US hiking cycle likely loses relevance, unless we have disorderly market behavior.
- **On the domestic side, most of the board acknowledged that the recovery process continues, but spare capacity remains, and the recovery pace slowed in recent data prints.** Most of the board remains concerned over the weakness in investment. Overall, we think this part of the discussion is not as relevant for monetary policy. Banxico estimates that the output gap should be virtually shut by the end of 2022 (which most of the board spoke about in the minutes, and the bank's technical staff wrote in the Quarterly Inflation Report), and its estimates of "neutral rates" put it close to 6.0%. Accordingly, our view of policy settings being at neutral by the end of next year seem consistent. However, it's also worth bearing in mind that the TIE curve now discounts a terminal rate at 7.5%, which would be on the tight side.
- **On the inflation front, it seems like the acceleration we saw in September caught most of the board off guard, which could have contributed to the shift of deputy governor Galia Borja to the pro-tightening camp.** Most of the board also seems concerned both by the

#### CONTACTS

**Adriana Vega**  
613.564.5204  
Scotiabank Economics  
[adriana.vega@scotiabank.com](mailto:adriana.vega@scotiabank.com)

**Guillermo Arbe**  
+51.1.211.6052 (Peru)  
Scotiabank Peru  
[guillermo.arbe@scotiabank.com.pe](mailto:guillermo.arbe@scotiabank.com.pe)

**Sergio Olarte**  
+57.1.745.6300 Ext. 9166 (Colombia)  
Scotiabank Colombia  
[sergio.olarte@scotiabankcolpatria.com](mailto:sergio.olarte@scotiabankcolpatria.com)

**Jorge Selaive**  
+56.2.2619.5435 (Chile)  
Scotiabank Chile  
[jorge.selaive@scotiabank.cl](mailto:jorge.selaive@scotiabank.cl)

**Eduardo Suárez**  
+52.55.9179.5174 (Mexico)  
Scotiabank Mexico  
[esuarezm@scotiabank.com.mx](mailto:esuarezm@scotiabank.com.mx)

continued upward trend in core inflation, and its prolonged period above 4% (the upper boundary of the target range). It's worth noting that although a large share of core inflation pressures has come from merchandise, two members of the board noted the upward swing in services inflation over recent prints. We think this will accelerate into year end, both as a result of base effects, but also the continued reopening of the economy. It's also worth noting that the majority of the board highlighted the continued rise in inflation expectations.

- **The majority of the board also saw most of the current inflationary pressures as being transitory in nature, but they also highlighted the risks that inflation inertia could settle in due to contamination in the price formation process.** As we noted following the release of Banxico's report on regional economies, 55% of manufacturing and 60% of services company executives said they planned to increase their prices at a similar or faster pace over the coming 12 months. This risk seems to be a major factor driving the inflationary spike—and concerns at the board over it.
- **In terms of risks to inflation, the majority also considers that over the policy horizon, the balance of risks remains tilted to the upside.** Esquivel is currently the sole member of the board opposing hikes, and his comment this week seems to shut the door on any near-term shift in camp, given he said in the minutes that "interest rate hikes are ineffective and inefficient".

Table 1

## Mexico: Inflation

	2021				2022				2023			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>Revised</b>	4.7	5.9	6.0	6.3	5.4	3.7	3.5	3.6	3.4	3.3	3.7	3.5
<b>Previous</b>	4.7	5.9	6.0	6.0	5.5	3.8	3.3	3.5	3.4	3.2	3.6	3.5

Sources: Scotiabank Economics.

## II. Revised Inflation Forecast

Regarding our own inflation forecasts, we mostly made upwards revisions to our expected profile for the coming year and a half (table 1), with the bulk of the shocks coming from core inflation. Towards the end of 2021 we expect the contribution in services inflation to rise, but we anticipate that overall core inflation will remain a problem. We are not yet making changes to our expected monetary policy path, but see risks clearly tilted towards a terminal rate on the "tight" side of the range as rising due to both expected price increases from producers, but also because with the length and severity of the inflation shock, the risks of contamination are rising.

—Eduardo Suárez

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

**This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.**

<sup>TM</sup> Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including; Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V, Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.