

Contributors

Brian Pérez, Quant Analyst
+52.55.5123.1221 (Mexico)
bperezgu@scotiabank.com.mx

Miguel Saldaña, Economist
+52.55.5123.1718 (Mexico)
msaldanab@scotiabank.com.mx

Chart 1

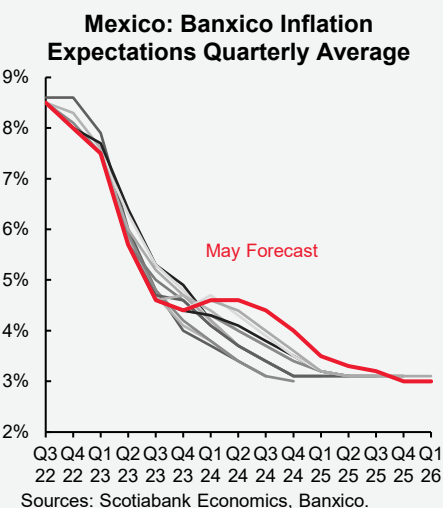
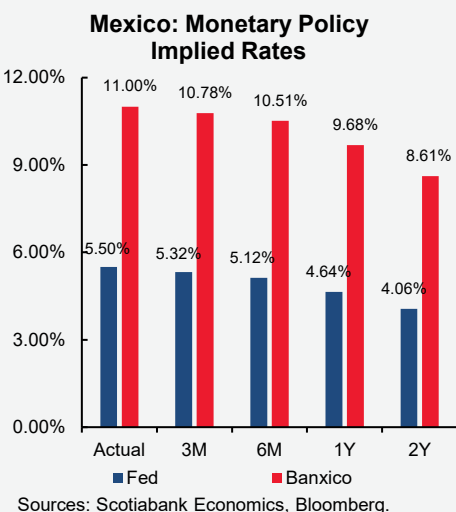


Chart 2



Mexico—Banxico Holds Rate in Unanimous Decision

- As expected, Banxico held the rate unchanged, but revised up inflation forecasts

In line with the consensus, Banxico left the interest rate unchanged, at 11.0%, in a unanimous vote. Additionally, the Governing Board revised short-term inflation expectations upward again, while expecting it to reach the target of 3.0% in the last quarter of 2025.

After cutting the rate for the first time at the March meeting in a split vote, Banxico unanimously adopted a more restrictive stance this time by leaving the rate unchanged. During the March meeting, Deputy Governor Irene Espinosa warned about the upward risks to inflation, highlighting the increase in fiscal spending and wage pressures. Since then, private-sector analysts revised their inflation expectations upwards, the Federal Reserve adopted a more bullish tone—with the market now pricing in a single cut this year—and SHCP (Ministry of Finance) revised upwards the deficit and the debt expected for this year to a 30-year high level. All of this has led to an increase in the year-end rate expectation by analysts, now at 10.0%, implying fewer rate cuts during the remainder of the year.

April's inflation print (which came out on the same day the decision was announced) showed headline inflation edged up more than expected, from 4.42% to 4.65% y/y, while the less volatile components (core inflation) decelerated more than expected, from 4.55% to 4.37% (table 1). However, in core inflation, the services component continued to show marked stickiness, reinforcing concerns around wage cost pressures. In addition, recent climate events (droughts in most of the country), domestic security problems and international uncertainty further complicate the inflation outlook in the short term. In this sense, despite constant upward revisions, Banxico's inflation forecasts remain below private-sector expectations over most of the forecast horizon. In our opinion, the continuous revisions to Banxico's forecasts could hinder their communication efforts and complicate the process of anchoring inflation expectations, particularly in the current environment of high uncertainty about price dynamics, which would inject further uncertainty in the trajectory of monetary policy.

Table 1: Mexico—Banxico's Headline & Core Inflation Forecasts

Headline Inflation	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1	25Q2	25Q3	25Q4	26Q4
Current (May. 23) a.o.p.	7.5%	5.7%	4.6%	4.4%	4.6%	4.6%	4.4%	4.0%	3.5%	3.3%	3.2%	3.0%	3.0%
Previous (March. 23) a.o.p.	7.5%	5.7%	4.6%	4.4%	4.6%	4.4%	4.0%	3.6%	3.2%	3.1%	3.1%	3.1%	3.1%
Var. Current - Previous	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.4%	0.4%	0.3%	0.2%	0.1%	-0.1%	-0.1%
Core Inflation	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1	25Q2	25Q3	25Q4	26Q4
Current (May. 23) a.o.p.	8.3%	7.3%	6.2%	5.3%	4.7%	4.3%	4.0%	3.8%	3.5%	3.3%	3.2%	3.0%	3.0%
Previous (March. 23) a.o.p.	8.3%	7.3%	6.2%	5.3%	4.7%	4.2%	3.8%	3.5%	3.2%	3.1%	3.1%	3.1%	3.1%
Var. Current - Previous	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%	0.3%	0.2%	0.1%	-0.1%	-0.1%

Sources: Scotiabank Economics, Banxico.

In the latest Citibanamex Survey, analysts expected the next rate cut to happen in June. Furthermore, the median year-end rate forecast stood at 10.0% for 2024, and 7.75% for 2025. For the moment, we agree with the consensus on the next cut and the year-end rate for 2024. However, in an environment marked by both external and internal high uncertainty, we believe that hawkish scenarios are also possible, where Banxico delivers the next cut in the second half of the year and at a slower pace. In this regard, the implicit rate is 10.51%, discounting two rate cuts in the next six months; in the next two years the implicit rate stands at 8.61% discounting a total of -239bps. Upside risks to this outlook include persistently high core inflation, a more hawkish Fed, and political uncertainty in Mexico and the United States. Such episodes could lead to a more restrictive scenario with few, and slower, cuts. On the other hand, lower-than-expected economic activity and a low USDMXN represent some of the downside risks to the inflation outlook for the coming months which could lead to further cuts by Banxico.

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.

™ 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.