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Mexico—Banxico’s Third 75bps Hike to 9.25%

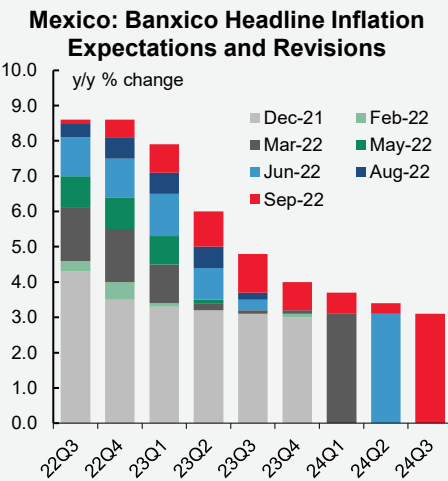
- Banxico delivered a 75bps hike in line with expectations.

As it was widely expected, **Banxico** delivered a third 75bps hike in a unanimous vote, increasing the rate to **9.25%**. Forward guidance remained practically unchanged from the previous decision, where Banxico stressed that it will evaluate “the prevailing conditions” in its next decisions. However, along with revisions to the timing of inflation convergence to target, the communiqué highlights the rather uncertain environment we are facing, where inflationary effects “will take longer to dissipate” aligning to the Fed’s *high for long* stance. In this scenario, **we now expect a terminal rate for 2022 at 10.50%**.

Banxico revised up its inflation forecasts: the new scenario sees inflation reaching 8.6% in Q322 (8.5% previously) and staying there until Q4-2022, with the largest revisions occurring in Q2-2023 and Q3-2023—up to 110bps to total inflation (chart 1) and 120bps to core inflation (chart 2). Additionally, it seems that Banxico has finally acknowledged that expecting to reach the inflation target in Q1-2024 was rather ambitious: **they now expect inflation will converge in Q3-2024 to 3.1%**.

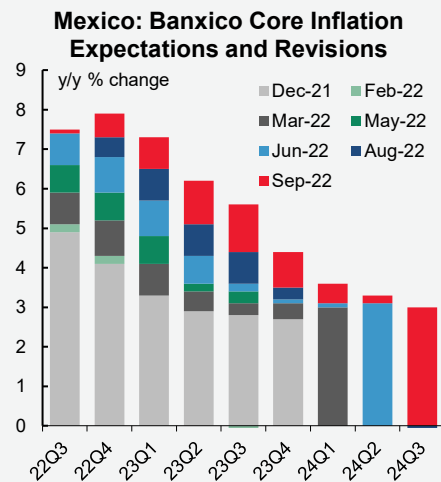
Again, conditions warranted a 75bps increase. Locally, despite the government’s anti-inflation package, **both inflation and inflation expectations keep increasing**, as imbalances between demand and supply along with droughts, pandemic control measures, and geopolitical tensions continue to push prices up worldwide. The truth is, after the last decision, where it seemed that some drivers of inflation were starting to recede and the word “forceful” disappeared from the statement, we thought Banxico would be able to start slowing the hiking pace. At this point, however, it is clear that Banxico, along with other central banks, cannot let its guard down yet, **and will probably need to hike by another 75bps in November**.

Chart 1



Sources: Scotiabank Economics, Banxico.

Chart 2



Sources: Scotiabank Economics, Banxico.

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