

Contributors

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## Mexico—Banxico Minutes Maintain Fed Link

- Banxico published the [minutes](#) corresponding to November's decision, where in a 4-to-1 vote (75bps vs. 50bps) the bank decided to increase the monetary policy rate by 75 basis points for the fourth time, to 10.00%. **Our expectation for the next decision is for a 50bps increase**, however, the restrictive tone in the minutes, where the majority highlights the need to maintain a restrictive level in the rate "until inflation starts to follow a clear and sustained downward trajectory" **leads us to think that there is a high possibility of another 75bps increase.**
- In the **global environment**, most agreed that growth prospects for 2023 have continued to deteriorate due to geopolitical tensions, the slowdown in China, and tightening financial conditions. However, lower pressures on commodity prices and supply chains, as well as the strength of the labour market in some countries, are factors that have contributed to a moderate economic recovery at the end of this year. In addition, they highlighted that the strength of the dollar could have an impact on global financial stability, increasing borrowing costs and leading to capital outflows in emerging markets.
- Regarding **economic activity in Mexico**, most agreed that the economic recovery continues to be heterogeneous, supported by manufacturing and the export sector, and to some extent tertiary activities, which have so far benefited from remittances. However, important risks persist going forward that contribute to the balance of risks to growth being skewed to the downside: the slowdown in the U.S. economy, declines in consumption determinants such as consumer confidence and average real income, and lagging investment.
- Regarding **inflation**, the majority highlighted that, despite the decrease in headline inflation, core inflation continues to be pressured by both external factors, which have a direct impact on production and input costs, and internal factors, derived from wage revisions. The Board also continues to be concerned about the deterioration in inflation expectations, with all members highlighting the increase in medium-term expectations. As such, Banxico cannot ignore certain signals that indicate a process of de-anchoring in inflation expectations (i.e., discrepancies between forecasts and analysts' expectations, wage increases). Given the above, it is very clear to us that: 1) **Banxico will continue to raise the rate** and maintain a restrictive stance in 2023, and 2) **The relative position with the Federal Reserve is crucial**, due to the synchronization between both economies and to maintain an orderly functioning of the exchange market, **so at least for the December decision, we do not expect to see a differentiation.**

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