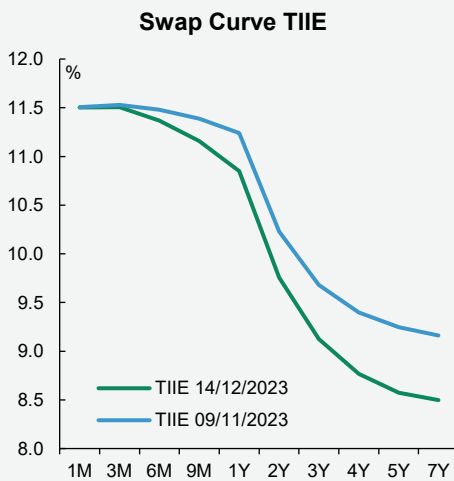


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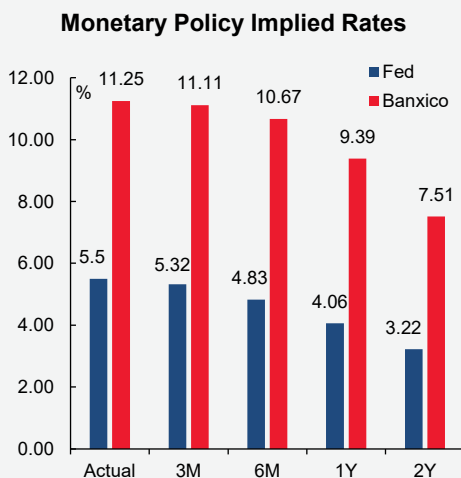
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Chart 1



Sources: Scotiabank Economics, Bloomberg.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

## Mexico—Banxico Maintains Rate of 11.25% As Expected

Banxico ended 2023 with an unchanged monetary policy target rate of 11.25%, as was widely expected. However, the Board of Governors revised upwards its expectations for headline and core inflation, while still expecting to reach the inflation target in the second quarter of 2025. Despite this, the statement mentioned that progress has been made in the disinflationary process, while the outlook remains complicated. The statement repeated the forward guidance that “the reference rate must be maintained at its current level for some time”.

Probably, the most relevant aspect of the statement is the upward change to inflation forecasts. This implies that Banxico believes that the disinflationary process will be slower than previously expected. Although several comments from Board members and the minutes of previous meetings suggest the cutting cycle would begin in the first quarter of 2024, expectations of higher inflation also imply a greater possibility of a slower pace of cuts.

Going forward, we maintain the expectation of a first rate cut in the first quarter of 2024. However, the possibility of staggered cuts is broader. This contrasts with the forward guidance given by the Fed at Wednesday’s meeting, where it signaled a steeper pace of monetary easing over the next year. Thus, the rate spread could widen in 2024, which could also explain the immediate movements in the exchange rate after Banxico’s decision. The USDMXN, which was trading as high as \$17.40 earlier in the session, fell to \$17.14 after the decision, driven by the neutral-hawkish tone of the statement, the increase in its inflation forecasts and upside risks in the horizon.

	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1	25Q2	25Q3	25Q4
<b>Headline Inflation</b>												
Current (Nov. 23) e.o.p.	7.5	5.7	4.6	4.4	4.3	4.1	3.8	3.5	3.2	3.1	3.1	3.1
Previous (Sep. 23) e.o.p.	7.5	5.7	4.6	4.4	4.3	4.0	3.7	3.4	3.2	3.1	3.1	
Var. Current - Previous	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	
<b>Core Inflation</b>												
Current (Nov. 23) e.o.p.	8.3	7.3	6.2	5.4	4.7	4.1	3.7	3.5	3.2	3.1	3.1	3.1
Previous (Sep. 23) e.o.p.	8.3	7.3	6.2	5.3	4.5	3.9	3.5	3.3	3.2	3.1	3.1	
Var. Current - Previous	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.0	0.0	0.0	

Sources: Scotiabank Economics, Banxico.

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