



BANXICO PREVIEW: Bank of Mexico rate decision due Thursday February 10th 2022 at 1900GMT/14:00EST

- The bank is expected to hike rates by 50bps, although some are calling for 25bps hike.
- Eyes on the stance of new Governor Rodriguez.

SUMMARY: Banxico is expected to hike interest rates by 50bps to 6.0%, although there are risks of a dovish surprise with eight of 31 analysts surveyed by Bloomberg expecting a 25bps move. GDP data for Q4 confirmed that Mexico fell into recession in H2 2021, leaving the central bank with the challenge of tackling disappointing growth alongside hot inflation. January inflation data was marginally hotter than expected and remains at elevated levels. Meanwhile, there remains some questions on how the new governor will set policy, so this meeting will also be eyed to gauge her stance. Analysts at Oxford Economics argued that some members may prefer a smaller 25bps move to give it scope to react to future surprises, including a more aggressive normalisation process in the US. Meanwhile, there is a risk the new Governor could also side with the doves. Note: The rate decision is scheduled on the same day as the US January CPI release; EM currencies will likely trade off Fed expectations after the data, where there is a chance it could lift the Federal Funds Rate Target by a 50bps increment in March.

DATA: January inflation was hotter than expected on both headline and core. Headline M/M rose 0.59%, above the 0.55% expected and up from the prior 0.36%, although it was within the analyst forecast range of 0.50-0.65%. Y/Y cooled from the prior 7.13% to 7.07%, but was above the 7.02% expected, but it was also within forecast ranges. The Y/Y core measure also rose, rising to 6.21% from 5.94% and above the expected 6.16%. Given the report was only marginally above expectations, it will likely do little to influence Banxico's decision, although given it remains at very elevated levels and above the 2-4% inflation target range, a 50bps hike would be justified, although there are some calls for a 25bp move. Meanwhile, the latest GDP from Mexico marked two consecutive quarters of contraction, putting it into a technical recession, although Mexico's finance Minister caveated that the data did not take into account COVID related economic volatility and global supply chain issues, while supply bottlenecks, higher raw materials and higher costs of transportation are also hurting the Mexican economy. The Banxico now runs a battle between tackling high inflation and low growth.

NEW GOVERNOR: The February confab will be the first for new Governor Victoria Rodriguez Ceja, who was appointed at the start of the year. Oxford Economics thinks that her appointment, an inexperienced public sector economist, "could bring a decisive dovish turn to the traditionally hawkish board" however, it adds that "the more hawkish pivot of the US Fed erased the space for Banxico to take a long pause," and it sees the central bank continuing with rate hikes through Q1 2022 until rates hit the 6.00% terminal rate level, but notes that "Ceja's vote could tilt the odds in favor of the less hawkish members".

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