

Latam Daily: Rate Decision Day in Mexico and Peru

- **Central banks:** In a close call, we expect a -25 bps cut today from Mexico's Banxico; another hold from Peru's BCRP widely anticipated

CENTRAL BANKS: IN A CLOSE CALL, WE EXPECT A -25 BPS CUT TODAY FROM MEXICO'S BANXICO; ANOTHER HOLD FROM PERU'S BCRP WIDELY ANTICIPATED

Mexico. Banxico's Board is scheduled to announced its latest rate decision today at 14:00 EST and in a close call, the Scotiabank Economics team in CDMX expects a -25 bps cut in the target rate from 4.25% to 4.00% (chart 1) to end the Board's three-month "pause" in the easing cycle. The consensus of analysts also expects a cut. The move would follow the split 3-2 decision to hold at the Board's last meeting on December 17 (see our December 18 [Latam Daily](#) for details) where Directors Heath and Equivel called for a -25 bps cut. The addition of new Board member Galia Borja adds uncertainty to today's meetings as little is known about her views on monetary policy and the current state of the Mexican economy.

Since December's meeting, data that would factor into the Board's decision have been mixed—but tilt toward further easing. Inflation was higher than expected in January (chart 2 and see our February 10 [Latam Daily](#)), but most of the upturn originated in non-core prices (chart 2 again) and core services prices continue to moderate (chart 3). Annual inflation is expected to soften later this year (chart 1, again). Credit data through December showed a further decline in private-sector borrowing, the formal job market remains soft, no new and significant fiscal support appears to be forthcoming, the COVID-19 pandemic is surging again in Mexico, and public-health restrictions have been re-tightened. Moreover, January data showed the auto sector began 2021 on a weak foot.

Nevertheless, this rate decision remains finely balanced, particularly following recent communications from Deputy Governor Heath, who [indicated](#) that a cut might not be forthcoming until April or May. Part of our Mexico City team's call for a cut today reflects the difficulty of extending the Board's easing "pause" under the current circumstances. The data are rather too soft for a further delay in easing and if the Board sits on its hands today it risks precipitating a tightening in financial conditions in the face of multiple challenges. As it is, real rates in Mexico remain quite high compared with the rest of Latam and developed markets (see our February 5 [Latam Charts](#) report, the Key Economic Charts appendix).

In the end, whichever way the Board falls today, we expect its statement to load the Directors' decision with caveats. A hold will almost certainly be couched with dovish language, while a cut is likely to be accompanied by cautions that the Board's future deliberations would be highly data dependent ahead of making any further cuts.

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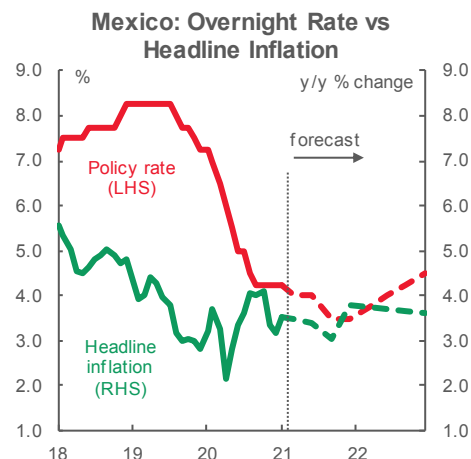
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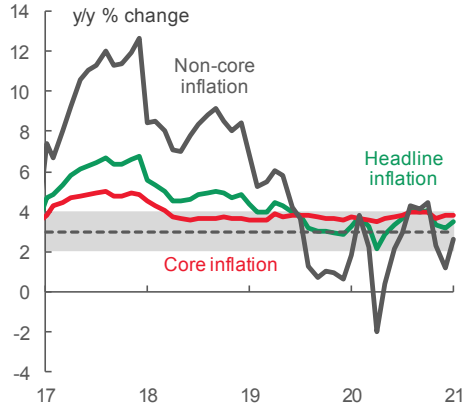
Chart 1



Sources: Scotiabank Economics, Banxico, INEGI.

Chart 2

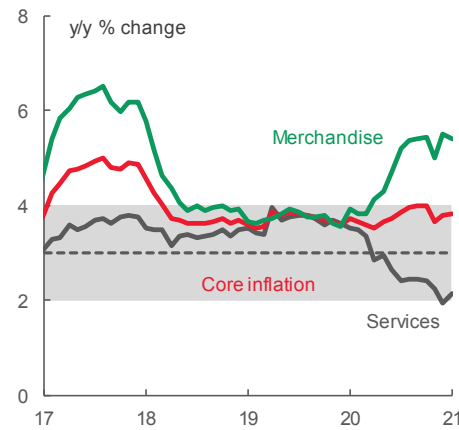
Mexico: Monthly Inflation & Its Main Components



Sources: Scotiabank Economics, INEGI.

Chart 3

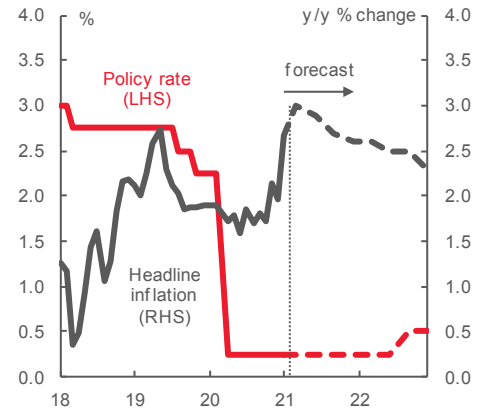
Mexico: Monthly Core Inflation



Sources: Scotiabank Economics, INEGI.

Chart 4

Peru: BCRP Reference Rate vs Headline Inflation



Sources: Scotiabank Economics, BCRP, INEI.

Peru. The BCRP Board’s next monetary-policy decision is scheduled to be released today at 18:00 EST and another hold of the benchmark policy rate at 0.25% is widely expected (chart 4). The reference rate has been at this level since it was cut by -100 bps from 1.25% by the Board on April 9, 2020. In the [statement](#) from the Board’s last meeting on Thursday, January 14, it signalled that it is looking for a reduction in long-term rates and it reinforced its decidedly expansionary stance by activating interest-rate swaps on long-term loans to bring down yields, particularly on mortgage lending.

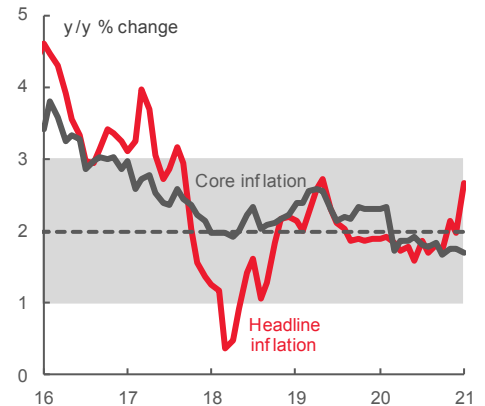
Our team in Lima expects today’s statement to acknowledge the recent rise in headline inflation (chart 5), but it does not anticipate a substantial change from the Board’s previous characterization of its inflation-related views. This is despite the surprising jump in January’s headline inflation numbers (see our February 2 [Latam Daily](#) for details), an upward revision in our inflation forecast (see the [Latam Daily](#) from February 8), and some creep higher in inflation expectations to around 2% y/y. On the other hand, core inflation remains well contained at 1.7% y/y and new COVID-19 restrictions could soften demand and price pressures.

We continue to pencil in a first rate hike in Q3-2022 (chart 4, again).

—Brett House

Chart 5

Peru: Headline & Core Inflation



Sources: Scotiabank Economics, BCRP, INEI.

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