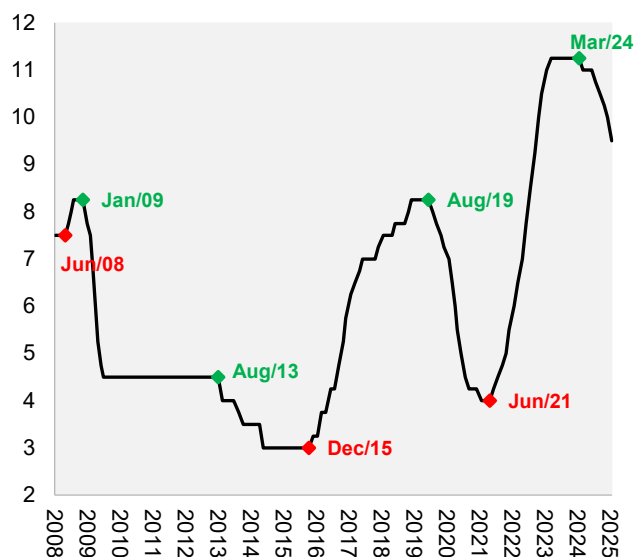


MEXICO – Interest rate cycles

- ▶ Following [our report](#) on interest rate cycles in Brazil, we now extend the analysis for monetary policy in Mexico.
- ▶ At its latest meeting in February, Banxico decided to cut rates by 50bps in a split decision (4x1) to 9.5%. In addition, the new forward guidance signaled another 50bps cut in the following meeting.
- ▶ This descriptive study analyzes 7 interest rate cycles since January 2008 to identify recurrences and patterns in monetary policy decisions. The first interesting fact is that for both Brazil and Mexico, interest rate cycles are symmetrical: during hiking and easing cycles monetary policy have similar magnitudes (no structural trend). The average pace of hikes and cuts is quite similar for Mexico, between 25bps and 50bps (average hike is 40bps and average cut is 39bps). The median pace is 25bps in both cases. The committee usually start and end cycles with a 25bps decision.
- ▶ Approximately 50% of the times Banxico went for a 25bps movement, while 50bps happened in roughly 40% of the decisions, leaving around 10% for 75bps (never above 75bps). Different from Brazil, where the central bank has eschewed intermittent strategies, Banxico has had some “on hold” meetings within cycles.
- ▶ Regarding the current cycle, our base case remains for the central bank to continue easing in 2025, cutting the monetary policy rate again by 50bps in March and then, as they approach the end of the cycle, choosing a more moderate pace of 25bps (YE25 8.5%).

This study analyzes 7 interest rate cycles in Mexico since January 2008 to identify recurrences and patterns in monetary policy decisions.

7 interest rate cycles (3 tightening cycles and 4 easing cycles)



Source: Banxico, Itaú

Following our report¹ on interest rate cycles in Brazil, we extend the analysis for monetary policy in Mexico.

The first interesting fact is that for both Brazil and Mexico interest rate cycles are symmetrical: during hiking and easing cycles monetary policy moves have similar magnitudes. Our Mexico database starts in January 2008², since then and until February this year, Banxico had 147 meetings³, in which rates were raised or reduced in 62 occasions (42% of the times). The average pace of hikes and cuts is quite similar, between 25bps and 50bps (average hike is 40bps and average cut is 39bps). The median pace is 25bps in both cases. The committee usually starts and end cycles with a 25bps movement.

Pace bps	Interest rates hiking cycles	Interest rates easing cycles
# movements	33	29
Min	25	25
Max	75	75
Average	40	39
Median	25	25
% 25bps	51.5%	55.2%
% 50bps	36.4%	34.5%
% 75bps	12.1%	10.3%

*Since Jan/08, current cycle until Feb/25

Approximately 50% of the times Banxico went for a 25bps movement, while 50bps happened in roughly 40% of the decisions, leaving around 10% for 75bps. Since 2008, Banxico never raised or reduced interest rates above 75bps, which is different from Brazil, although not entirely comparable, where the Selic experienced changes of 75bps or even above, including in the current hiking cycle.

		start	end	cycle (bps)	duration (meetings)	Meetings on hold during the cycle	Meetings on hold after the end of the cycle	Pace bps					
								1st 3 meetings	Last 3 meetings	Min	Max	Average	Median
Interest rates easing cycles	Jan-09	8.25	4.50	375	7	-	32	50/25/75	75/50/25	25	75	54	50
	Aug/13	4.50	3.00	150	11	7	11	50/25/25	- / - /50	25	50	38	25/50
	Aug/19	8.25	4.00	425	14	2	2	25/25/25	50/25/25	25	50	35	25
	Mar/24*	11.25	9.50	175	8	2	-	25/25/25	25/25/50	25	50	29	25
Interest rates hiking	Jun/08	7.50	8.25	75	3	-	3	25/25/25	-	25	25	25	25
	Dec/15	3.00	8.25	525	25	10	4	25/50/50	25/25/25	25	50	35	25
	Jun/21	4.00	11.25	725	15	-	7	25/25/25	50/25/25	25	75	48	50

*Current cycle until the Feb/25 meeting

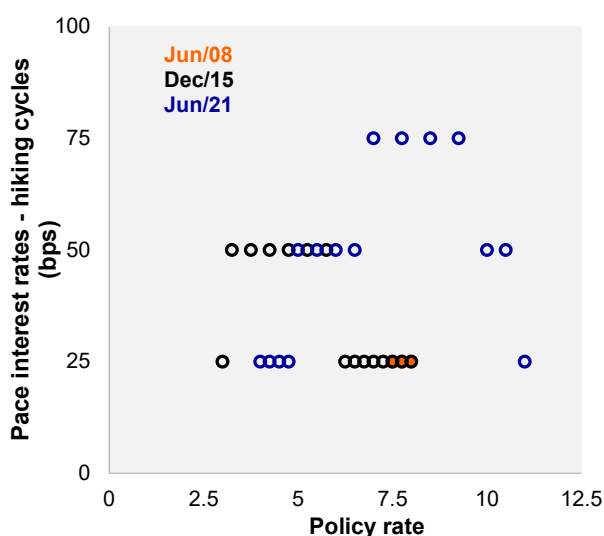
Different from Brazil, where the central bank has eschewed intermittent strategies, Banxico has had some “on hold” meetings within cycles. This was true for most of the analyzed cycles, except for June/08, with 3 meetings raising rates before cutting again in January/09 in the context of the Great Financial Crisis, and at the June/2021 cycle, where Banxico raised rates from 4.0% to 11.25% non-stop after the pandemic inflation shock.

¹ The study is available on https://macroattachment.cloud.itaubr.com.br/attachments/7d61afb4-9453-4d6e-a1dd-21c93e2922a9/20250127_MACRO_VISION_InterestRate_Cycle.pdf

² As of January 21, 2008, Banxico adopted as its operational objective the overnight interbank interest rate, also known as the “Target for the Overnight Interbank Interest Rate” or “bank funding rate”, replacing the balance on current accounts that banks maintain in the Bank itself (objective known as “the short”).

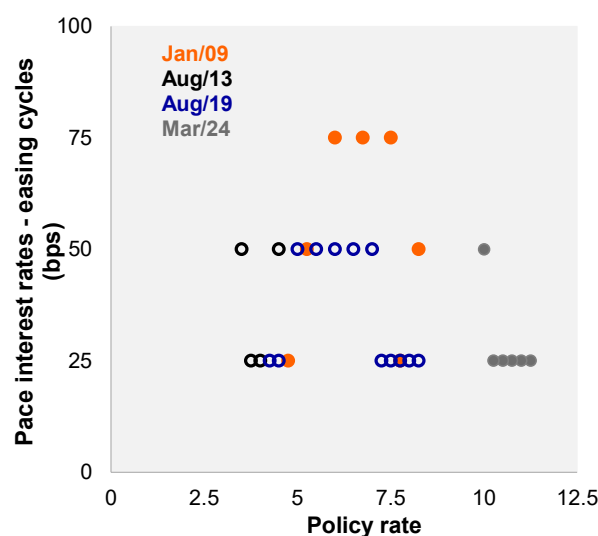
³ 8 meetings per year since 2011, except for 2020 due to the pandemic with 9 meetings.

Rate hikes of 75bps only after the pandemic (Jun/21)...



Source: Banxico, Itaú

... and cuts of 75ps only at the Great Financial crisis (Jan/09)



*current cycle until Feb/25

Source: Banxico, Itaú

In terms of macroeconomic conditions, all cycles have differences in terms of inflation and output gap.

Average current inflation at the beginning of an easing or hiking cycle is 4.3% YoY and 4.4% YoY, respectively, both above its target of 3+/-1%. Also, most cycles start with the unemployment rate close to 4%. But when we look at core inflation at the margin, differences emerge: the 3MMA SAAR (3-months moving average of the seasonally adjusted annualized data) is below 4% for easing cycles and above 5% for hiking cycles.

Long term inflation expectations in Mexico historically are not anchored to the center of the 3% target.

Looking at Banxico’s survey, the 1-4 year expectations have a 3.58% average (3.53% median), whit a minimum value of 3.3% (maximum at 4%). Hiking and easing cycles in Mexico do not show a clear correlation with the level of inflation expectations.

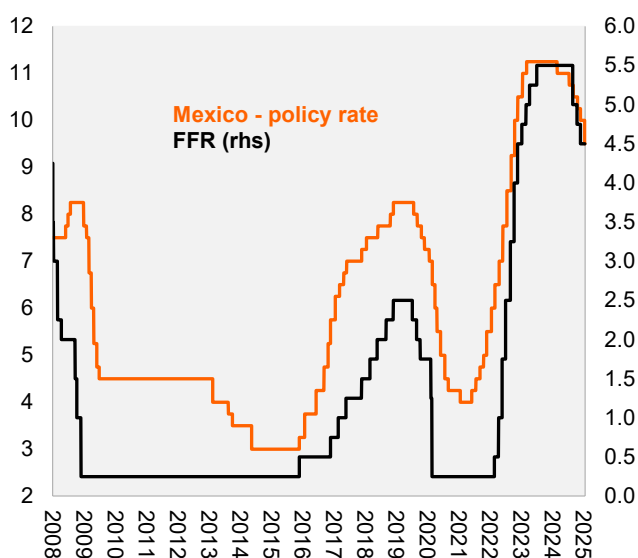
		Inflation and output gap (beginning of the cycle)					
		CPI YoY%	CPI core YoY%	CPI core 3MMA SAAR%	Expect 1Y	Expect long term	Unemployment
Interest rates easing cycles	Jan/09	6.3	5.5	5.3	4.0	3.5	4.7
	Aug/13	3.5	2.4	1.8	3.6	3.6	4.8
	Aug/19	3.2	3.8	3.5	3.8	3.5	3.5
	Mar/24*	4.4	4.6	4.4	4.0	3.7	2.7
Interest rates hiking cycles	Jun/08	5.3	4.8	6.3	3.8	3.5	3.7
	Dec/15	2.1	2.4	2.8	3.4	3.4	4.3
	Jun/21	5.9	4.6	6.3	3.4	3.6	4.0

*Current cycle until the Feb/25 meeting

Regarding the **neutral interest rate estimated by Banxico**, in August 2019 it was revised slightly up to 2.6% from 2.5%, and then revised up again in August 2024 to 2.7%.

Finally, Banxico and the FOMC have broadly coordinated cycles, but with some exceptions in magnitude and timing of the movements.

Coordinated monetary policy decision with the US



Source: Fed, Banxico, Itau

Regarding the current cycle, our base case remains for the central bank to continue easing in 2025, cutting again the monetary policy rate by 50-bp and then, as they approach the end of the cycle, choosing a more moderate pace of 25-bp (YE25 8.5%). This is like the previous easing cycle in 2019, when the board cut rates by 25bps in five meetings before changing the magnitude to 50bps. The inflation scenario remains challenging, with the Peso depreciation and tight labor market still posing risks. Banxico is scheduled to publish the quarterly inflation report on February 19. The following day (February 20), Banxico will release the monetary policy meeting minutes that should shed light on the decision and board dynamics with the new board composition, with new board member Cuadra already having voted in this meeting.

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