iSent-Banxico: Itaú's Central Bank sentiment classifier for Mexico

▶ Following the methodology already implemented for Brazil and Chile, this report presents iSent-Banxico, Itaú's Central Bank sentiment index for Mexico. iSent is a sentiment classifier based on GPT-4, developed by our data science team using sentences published in the Bank of Mexico's monetary policy statements and minutes.

▶ iSent-Banxico shows strong alignment with current and future interest rate shifts in Mexico, with a contemporaneous correlation of approximately 0.8. The index accurately identifies the main recent cycles, including the rate hikes following the pandemic and the subsequent easing once the shock was under control. Banxico iSent suggests slightly less dovish communication at the margin, which is consistent with the current easing pace of 25bps, compared to the 50bps implemented during the first half of 2025.

▶ iSent does not indicate that the current easing cycle is near its end, which we find consistent with the board's official dovish communication. Given the FOMC's current expectations for the easing cycle, Banxico seems inclined to continue cutting rates as long as the data, particularly inflation and the USDMXN, allows them to do so.

Following the methodology already implemented for Brazil and Chile[1], this report presents iSent-Banxico, Itaú's Central Bank sentiment index for Mexico. Central bank (CB) communications are crucial for guiding expectations, especially in inflation-targeting frameworks, managing the economy, and implementing monetary policy. A vast body of literature has explored the use of natural language processing (NLP) to analyze central bank communications. Effective NLP models have the potential to address several challenges faced by central bank watchers. They can mitigate human biases, automate the classification of documents written in various languages and time zones, and create a fast and historically comparable assessment of complex messages.

iSent is a sentiment classifier based on GPT-4, developed by our data science team using sentences from the Bank of Mexico's (Banxico) monetary policy statements and minutes since 2000. Our classification unit is a sentence. Each sentence is attributed a sentiment class, which can be dovish, neutral, hawkish, or out-of-context. The index is constructed based on the relative presence of each class.

The core of our strategy involved creating a GPT prompt capable of effective classification, while minimizing data contamination. We developed a general persona described as a central bank watcher and outlined basic scenarios that should be viewed as hawkish (high inflation, strong activity, etc.) and dovish (low inflation, weak activity, etc.). The index ranges from -1 (dovish) to +1 (hawkish).
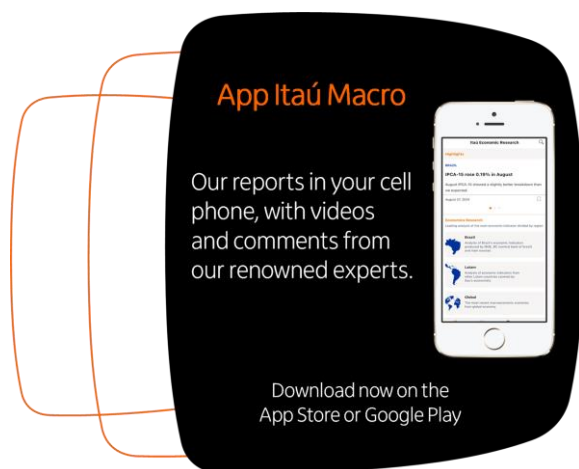
iSent-Banxico closely aligns with current and future interest rate shifts in Mexico, showing a correlation of approximately 0.8. The index accurately identifies the main recent cycles, including the rate hikes following the pandemic and the subsequent easing once the shock was under control.

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[1] Available at https://macroattachment.cloud.itau.com.br/attachments/7e3f56b3-5113-4a7b-b3a1-f2bdc292dbce/20240705_MACRO_VISION_iSent.pdf

Correlation Matriz - Mexico		
	Δ Monetary policy rate, t	Δ Monetary policy rate, t+1
iSent Mexico	0.84	0.75
Δ Monetary policy rate, t	1	0.81
Δ Monetary policy rate, t+1	0.81	1

The index indicates slightly less dovish communication at the margin, consistent with the current easing pace of 25bps, compared to the 50bps pace implemented during the first half of 2025. After delivering cuts of 25bps in 2024, Banxico published a very important document at the beginning of this year, the "Programa Monetario", in which the staff acknowledged that the board had been cautious in easing rates up to that point, providing them with a cushion for more easing ahead. This made it possible for them to temporarily accelerate the pace to 50bps given the remaining easing budget available. After a certain point, when the monetary policy rate reached 8%, they returned to the more cautious pace of 25 bps.

iSent-Banxico

delta(monetary policy rate), t+1
iSent (rhs)
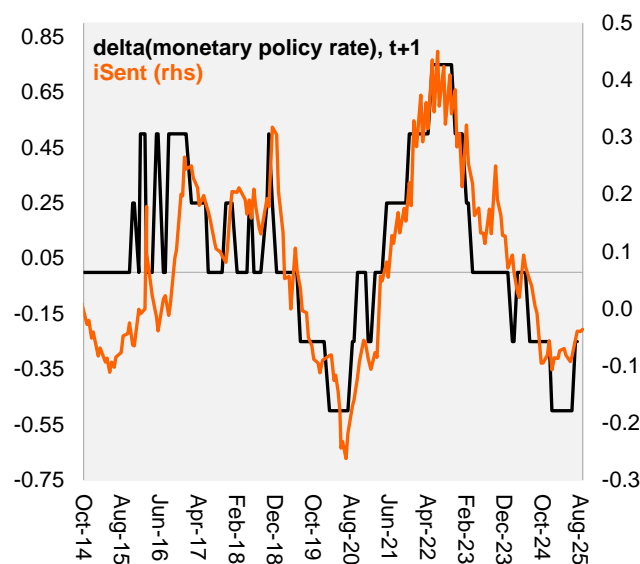
Source: Banxico, Itaú

iSen-Banxico does not suggest that the current easing cycle is nearing its end, which aligns with the board's official dovish communication. Given the current expectations for the easing cycle by the FOMC, Banxico seems inclined to continue cutting rates as long as the data, particularly inflation and the USDMXN, allows them to do so.

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