

## Sovereign Macro- Crisis in Banxico

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Over the last three years the institutional deterioration of Mexico has been persistent. All the progress made over the last 25 years to protect institutions and create autonomous bodies to solidify structural changes and minimize the risk of personal decisions by the executive is now at a critical juncture. The latest events surrounding the nomination of the new central bank governor undermine not only the independence but also the credibility of one of the most respected institutions in the country. As if it was easy to meet Banxico's constitutional mandate to keep the purchasing power of the currency, the current telenovela makes it even more difficult. Arturo Herrera was a choice that markets were willing to give the benefit of the doubt because he understood the importance of central bank decisions, investors were familiar with his character and most of all, everybody thought he was supported by the President and would implement policies independently.

There are many rumors about the reasons for the presidential tantrum but are now irrelevant. What matters is who comes next and what it means for policy. I have no clue who is the presidential favorite, but this person must be loyal, honest and mostly someone not connected or associated with "neoliberal" policies. AMLO will look for a disruptive personality, someone nobody had in their radar. So far there are a few names floating around like the Buenrostro sisters, Secretary Rogelio Ramirez de la O or a remote -very remote- possibility is that ADDL is reappointed. Lucia Buenrostro ([see link here](#)) has some experience in the UK with risk management and investment banking but doesn't seem to be an expert on monetary policy ([see here](#)); she has also been tainted with neoliberal influences. She is a graduate from Warwick University, a fine institution from which excellent analysts have graduated. Her sister Raquel has been a tough tax enforcer during the AMLO administration but as far as I know, she has no experience in central banking although the president considers her one of his most loyal collaborators. Lastly, Secretary Ramirez de la O is a possibility, but his work has been as a consultant and we haven't yet seen any significant contributions to macro policy. The three of them are fine professionals with long and distinguished careers but they are not central bankers.

I see three possible scenarios: 1. Lucia is nominated 2. Ramirez de la O goes to Banxico and Raquel goes to the Treasury and 3. ADDL is reappointed. As analysts we are always trained to look for an outcome that would satisfy markets. For me the best possible outcome would be Ramirez de la O to Banxico and Raquel Buenrostro to Hacienda. I would be hesitant to say that Lucia's appointment would be good news mainly because her lack of experience in the field, not a seasoned professional in central banking. Also, her leadership skills are untested, and these will be very important to create consensus. On balance the board will likely turn more dovish.

Impact. I believe that the gradual pace of normalization will continue. The yield curve is likely to bear steepen and the currency to come under further pressure. Credit spreads might widen. More broadly I don't see Banxico stopping its hiking cycle in 2022 because at the current pace it will overlap with the start of the FED's own. This monkey wrench will keep uncertainty high and the curve must reflect a larger risk premium.

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