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GLOBAL ECONOMICS

LATAM DAILY

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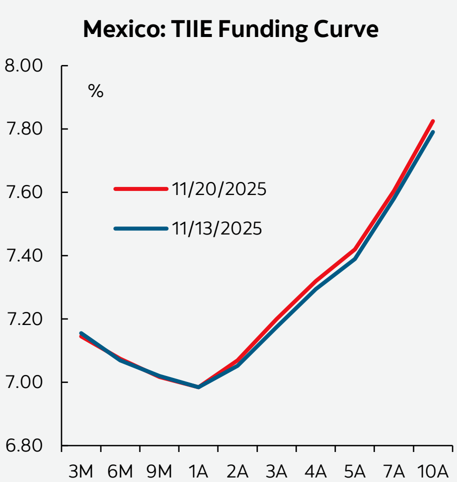
Chart 1



Source: Scotiabank Economics.

Latam Daily: Banxico Minutes Point to Split-Vote Cut in December

- **Mexico: The governing board sees room to continue with rate cuts in December; however, they leave the door open for a possible pause**

Most members' comments during the November 6th monetary policy meeting indicated that, despite being at the upper bound of the neutral range, they could continue with the easing cycle if economic conditions allow.

In the international environment, the Board highlights a global slowdown in economic activity with manufacturing weakness, inflation pressured by energy prices, and some central banks cutting rates to ease financial conditions.

In terms of the domestic outlook, the Board noted a contraction in economic activity due to industrial decline and weak domestic demand, while signs of lower dynamism in the labour market persist.

On inflation, most members acknowledged the moderation in the core component as well as mixed views on expectations. However, while the risk balance remains tilted to the upside, several members emphasized that headline inflation is within a variability range.

Despite a highly uncertain environment, we expect the December monetary policy decision to be split again, with the majority voting for a 25 basis point cut to 7.00%.

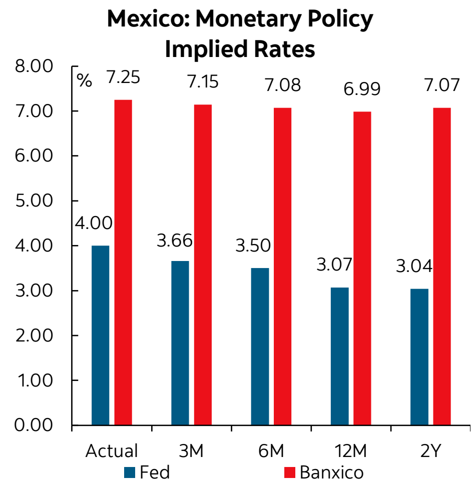
Banco de México published the minutes of the November 6th meeting, providing details on the discussion around inflation and monetary policy, with a majority decision to cut the reference rate by 25 basis points to 7.25%. Overall, we highlight that the Board members' arguments remain focused on inflation levels, emphasizing the lower persistence in the core component.

In this regard, despite upside risks, comments suggest that several members consider it appropriate to continue with adjustments in upcoming meetings. Conversely, Deputy Governor Heath's dissenting opinion stands out, as he argued that upward revisions to core inflation forecasts suggest its persistence has been underestimated. He also concluded that there are challenges in consolidating a downward inflation trajectory. Therefore, he suggested being more cautious until greater progress toward the 3.0% target is observed.

Regarding the international economy, they noted the slowdown in global economic activity across advanced and emerging economies, with persistent weakness in manufacturing and stronger performance in services. In the United States, growth remained stable, driven by high-tech investment, although signs of moderation in household spending and labour market risks were evident. Inflation increased slightly in most economies, partly due to higher energy prices, while core inflation remained persistent, especially in goods and services. In this context, several central banks continued cutting interest rates in response to weaker economic momentum, notably the Federal Reserve, which lowered its rate by 25 basis points for the second consecutive time. This stance has allowed moderate fluctuations and more relaxed financial conditions in markets, with equity indices trending upward and a slight appreciation of the dollar. Government bond yields in advanced economies and some emerging markets also declined, contributing to a more accommodative global financial environment.

Regarding Mexico's economy, in Q3 2025, economic activity contracted compared to previous quarters, with the drop in industrial production as the main adverse factor. It was also noted that around 75% of economic sectors are stagnant or show low dynamism, with moderation in services and construction contrasting with relatively strong growth in the primary sector. Private consumption showed resilience, supported by a rebound in imported goods, although consumption of domestic goods and services continued to decline. Investment remained weak, which, together with consumption, reflects a significant weakening of domestic demand. Non-automotive manufacturing exports to the U.S. boosted the external sector, favoured by the dynamism of the U.S. tech industry. Despite this, slack conditions persist in the economy, with a negative output gap and signs of cooling in the labour market, where negative formal employment variation, rising informality, and wage moderation could limit consumption in the coming months.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

Inflation in Mexico: In the first half of October 2025, headline inflation fell from 3.74% in early September to 3.63%, driven by a decline in non-core inflation from 2.01% to 1.58%, especially in agricultural components. Core inflation remained stable at 4.24%, holding steady over the last five readings, although sectoral pressures persist, mainly in services and food goods. Regarding inflation expectations for year-end 2025, views were mixed: some members noted slight downward adjustments, while others revised upward due to higher core expectations. Medium- and long-term expectations remain stable around 3.6%. The forecast that headline inflation will reach the target in Q3 2026 is maintained, although core inflation may take longer to moderate. The risk balance remains tilted to the upside, highlighting factors such as wage pressures, fiscal adjustments, volatility in non-core inflation, and trade tensions that could affect the inflation path.

Financial markets: Following the latest monetary policy decision, Mexican financial markets showed stability, reflected in limited exchange rate movements and historically low option volatility. The peso's appreciation during the year is attributed to preferential access to the U.S. market via USMCA and dollar weakness, while risk-adjusted rate differentials continue to favour the local currency. In the yield curve, short- and medium-term rates declined, while long-term rates rose slightly; overall, reductions compared to mid-year indicate compression of risk premiums. The stock market reached a record high driven by the materials sector, and credit continues to expand strongly. Looking ahead, USMCA renegotiation emerges as a potential risk to financial stability.

Monetary policy discussion: Most members agreed that the inflation outlook allows for continuing the easing cycle under a gradual approach, although upside risks and high core persistence remain. Some highlighted factors providing room for rate cuts, such as peso appreciation, weak domestic demand, and the Fed's more accommodative stance, while others (two members) warned that convergence to the 3% target could take longer than expected, requiring caution and flexibility in forward guidance. Overall, it was emphasized that adjustments should depend on data evolution, avoiding signaling an automatic cycle, and that communication should reinforce the commitment to price stability, maintaining credibility and carefully assessing internal and external risks.

Looking ahead: Based on members' comments, we believe the door remains open for a pause, although our baseline scenario is an additional 25 basis point cut at the December meeting, bringing the rate to 7.00%, likely with a split vote (probably two dissenting votes). However, we believe the next adjustment will depend on the Fed continuing its easing cycle, core inflation showing clearer signs of a downtrend, and the exchange rate maintaining strength against the dollar. Thus, we maintain our expectation of a 2025 terminal rate at 7.00%, although we do not rule out a year-end close at 7.25%.

—Rodolfo Mitchell, Miguel Saldaña & Martha Cordova