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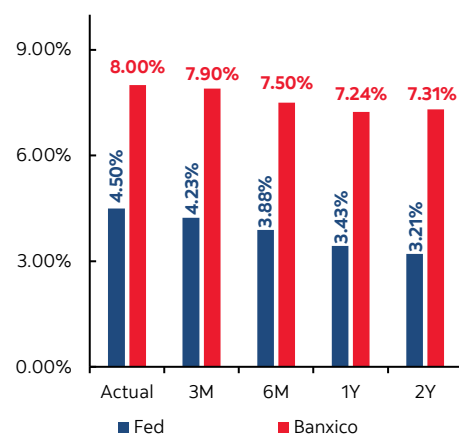
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Mexico—Banxico's Split Vote Signals the End of Aggressive Rate Cuts

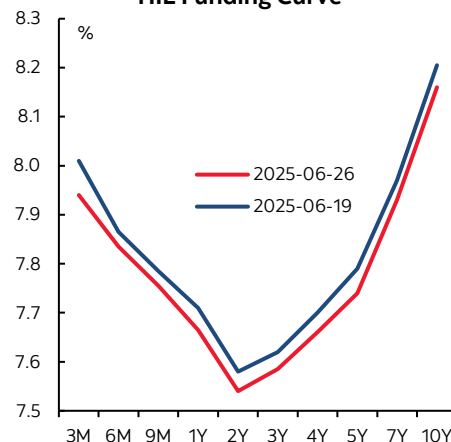
- Banco de México's Governing Board decided to cut the policy interest rate in a divided decision by 50 basis points to 8.00%, in line with consensus expectations.
- Inflation forecasts for both headline and core inflation were revised upward in the short term due to the recent rebound above 4.0%, although convergence to the 3.0% target is still expected by Q3 2026.
- The statement highlighted the recent increase in goods prices and a slow deceleration in services inflation, while maintaining an upward-skewed balance of inflation risks.
- We consider the tone of the statement as less dovish, as it removed forward guidance for another 50 bps cut. Therefore, the next meeting could again result in a split vote, possibly favouring a 25 bps cut.
- Our year-end 2025 rate forecast remains at 7.50%, subject to inflation dynamics and the interest rate spread between Mexico and the U.S.

The Governing Board of Banco de México cut the benchmark interest rate by 50 basis points to 8.00%, in line with consensus expectations, though this time in a split vote—with Deputy Governor Heath voting to keep the rate unchanged. This marks the eighth consecutive rate cut—four 25 bp cuts last year and four 50 bp cuts so far in 2025—likely the last of this magnitude for the year. Notably, the Board revised upward its inflation expectations for headline inflation from Q2 2025 to Q1 2026, and for core inflation from Q2 2025 to Q2 2026, while maintaining its forecast for inflation to converge to the 3.0% target by Q3 2026.

The communiqué noted an expected slowdown in the global and U.S. economies for the remainder of the year, a trend that could extend into 2026. This scenario unfolds amid uncertainty driven by trade tensions and geopolitical conflicts. It also highlighted that, in this adverse environment, the U.S. dollar has shown a depreciation trend, while government bond yields have moved moderately, reflecting lower financial market volatility. Additionally, the Federal Reserve decided to keep its interest rate unchanged in response to a complex outlook marked by inflationary pressures stemming from geopolitical conflicts and trade disputes.

Chart 1
Monetary Policy Implied Rates


Sources: Scotiabank Economics, Bloomberg.

Chart 2
TIIE Funding Curve


Sources: Scotiabank Economics, Bloomberg.

June 26, 2025

Domestically, the Board noted that economic activity expanded in April; however, it continued to show signs of weakness, consistent with recent trends. It also warned that the balance of risks remains tilted to the downside. The Board highlighted the appreciation of the exchange rate and a decline in government bond yields across all maturities.

Regarding inflation, the Board once again revised its short-term forecasts upward due to recent readings (4.51% y/y in the second half of June), mainly driven by increases in the core component (4.20%), particularly goods (3.84%). The central bank now estimates an average annual inflation of 4.3% y/y for Q2, up from the previous 3.9%. The core inflation forecast also rose from 3.9% to 4.1% for the same period. The statement acknowledged that year-end inflation expectations have increased. Nevertheless, it still anticipates convergence to the 3.0% target by Q3 2026. The Board considers the balance of risks to remain skewed to the upside, though less pronounced than during 2021–2024. The statement also reiterated increased uncertainty due to changes in U.S. economic policy, with implications for both upward and downward inflation pressures. Upside risks include: exchange rate depreciation; disruptions from geopolitical conflicts or trade policies; persistence in core inflation; cost pressures; and climate-related shocks. Downside risks include: weaker-than-expected economic activity; lower pass-through of cost increases; and reduced pressures from the recent MXN appreciation.

We consider that the monetary policy decision reflects a less dovish tone compared to previous meetings—although it remains within a restrictive stance—as Deputy Governor Heath voted to keep the rate unchanged at 8.50%. Additionally, the statement noted that ‘Going forward, the Governing Board will assess additional cuts to the reference rate,’ marking a significant shift in forward guidance, which had previously emphasized continued adjustments of similar magnitude (i.e., 50 basis points). Additionally, short-term inflation estimates were again revised upward. Going forward, it will be crucial to monitor the evolution of upside inflation risks (global trade contraction, rising geopolitical tensions, and cost pressures), as well as the effects of domestic economic weakness on price dynamics. Based on this, we expect Banxico to cut the reference rate by 25 basis points at the next monetary policy meeting on August 7th, although a pause in the easing cycle is also on the table. It is also likely to be a split decision, as perceptions of inflation risks and the monetary stance appear to differ among Board members. We maintain our year-end rate forecast at 7.50%, contingent on inflation showing signs of convergence to the target and the interest rate differential with the U.S. remaining above 350 basis points. For more insight into the members’ positions, the minutes of this decision, to be published on May 29th, 2025, will be especially relevant.

As for the market reaction, the USDMXN slightly appreciated during the day, fluctuating between \$18.84 and \$18.93, with limited response to the monetary policy decision. Meanwhile, the TIE funding curve showed little movement, with an average decline of 1.5 basis points from the previous day. The three-month implied curve stood at 7.90%, while the one-year curve was at 7.24%. According to recent surveys, analysts expect the benchmark interest rate to end 2025 in a range between 7.00% and 8.00%.

Table 1: Mexico - Banxico's Headline & Core Inflation Forecasts												
Headline Inflation	24Q3	24Q4	25Q1	25Q2	25Q3	25Q4	26Q1	26Q2	26Q3	26Q4	27Q1	27Q2
Current (Jun. 25) a.o.p.	5.0%	4.5%	3.7%	4.3%	4.1%	3.7%	3.4%	3.1%	3.0%	3.0%	3.0%	3.0%
Previous (May. 25) a.o.p.	5.0%	4.5%	3.7%	3.9%	3.5%	3.3%	3.2%	3.1%	3.0%	3.0%	3.0%	-
Var. Current - Previous	0.0%	0.0%	0.0%	0.4%	0.6%	0.4%	0.2%	0.0%	0.0%	0.0%	0.0%	-
Core Inflation	24Q3	24Q4	25Q1	25Q2	25Q3	25Q4	26Q1	26Q2	26Q3	26Q4	27Q1	27Q2
Current (Jun. 25) a.o.p.	4.0%	3.7%	3.6%	4.1%	3.8%	3.6%	3.4%	3.1%	3.0%	3.0%	3.0%	3.0%
Previous (May. 25) a.o.p.	4.0%	3.7%	3.6%	3.9%	3.6%	3.4%	3.3%	3.0%	3.0%	3.0%	3.0%	-
Var. Current - Previous	0.0%	0.0%	0.0%	0.2%	0.2%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%	-
Sources: Scotiabank Economics, Banxico.												

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