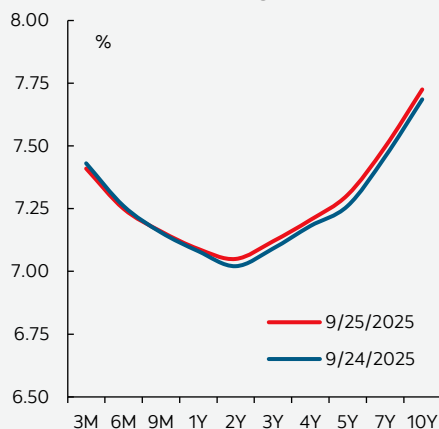


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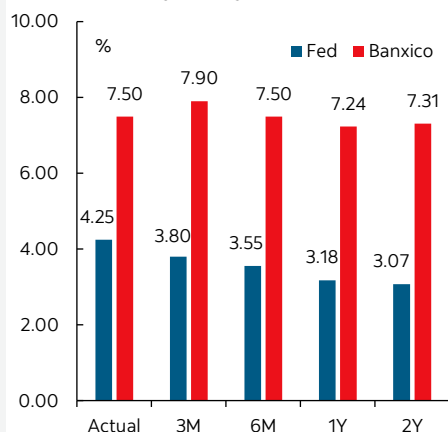
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**Chart 1**
**TIIE Funding Curve**


Sources: Scotiabank Economics, Bloomberg.

**Chart 2**
**Monetary Policy Implied Rates**


Sources: Scotiabank Economics, Bloomberg.

## Mexico—Banxico Aligns with Market Expectations and the Fed

- **Banxico's Governing Board cut the benchmark interest rate by 25 basis points to 7.50%, in line with the market consensus, in a split vote.**
- **Headline inflation forecasts were revised downward, while core inflation projections were adjusted upward in the short term again, owing to rising prices in goods and services. Inflation is expected to converge to the 3.0% target by Q3 2026.**
- **Monetary conditions are now very close to the upper bound of the neutral interest rate, despite persistent inflationary pressures, mainly from the core component.**
- **We maintain our year-end target rate forecast at 7.00%, subject to the inflation trajectory and the interest rate differential between Mexico and the United States.**

The Governing Board of Banco de México decided to cut the benchmark interest rate by 25 basis points to 7.50%, in line with consensus expectations. This marks the third consecutive meeting with a split vote, with Deputy Governor Jonathan Heath once again dissenting. This brings the total to ten consecutive rate cuts: four cuts of 25 bps last year, four cuts of 50 bps earlier in 2025, and two cuts of 25 bps since.

Notably, the Board revised upward its core inflation expectations from Q3 2025 to Q2 2026, while headline inflation estimates for Q3 and Q4 2025 were revised downward. The Board maintained its expectation that inflation will converge to the 3.0% target by Q3 2026 (table 1).

The communiqué reiterated that global economic activity likely slowed during Q3 2025 compared to the previous quarter. It also anticipates continued moderation in both the global and U.S. economies through the remainder of 2025 and into 2026. The Federal Reserve reduced its benchmark rate by 25 basis points and signaled further cuts, leading to lower interest rates—especially at shorter maturities—and a moderate depreciation of the dollar. Inflation in major advanced economies showed mixed behaviour. Key global risks include rising trade tensions and geopolitical conflicts, which could impact inflation, growth, and financial volatility.

Domestically, the Board noted that economic activity showed weakness at the beginning of Q3 2025 amid uncertainty and trade tensions, which pose significant downside risks. It also highlighted that Mexican government bond yields declined, particularly at longer maturities, while the peso appreciated.

Regarding inflation, the Board reported that between July and the first half of September, headline inflation in Mexico rose from 3.51% to 3.74%, while core inflation remained stagnant between 4.23% and 4.26%. Headline inflation expectations were revised downward for year-end, with convergence to the target expected in Q3 2026. However, core inflation forecasts were revised upward. Upside risks include peso depreciation, geopolitical conflicts, persistent core inflation, cost pressures, and climate-related events. Downside risks include weaker economic activity, lower cost pass-through, and peso appreciation. The balance of risks remains tilted to the upside, albeit less than in previous years. Uncertainty surrounding changes in U.S. economic policy could affect inflation in both directions.

We consider that the monetary policy decision reflects a less restrictive stance compared to previous meetings, as evidenced by the new rate cut. However, monetary conditions remain close to the upper bound of the neutral rate, despite ongoing inflationary pressures, particularly from the core component. The statement highlights the dissenting

September 25, 2025

vote of Deputy Governor Jonathan Heath, who favoured maintaining the rate at 7.75% for the third consecutive meeting. The possibility of further rate cuts remains open, as noted in the statement: “Going forward, the Governing Board will assess additional reductions to the reference rate.”

In this context, it will be crucial to monitor not only upside inflation risks and the impact of domestic economic weakness on price dynamics, but also labour market developments and inflation trends in the U.S. These factors could significantly influence the Federal Reserve’s next rate decision, potentially creating more room for Banxico to continue its easing cycle. We expect Banxico to proceed with another rate cut in the November decision, in line with the Fed’s moves. However, the decision is likely to be split again, given ongoing differences among Board members regarding inflation risks and the monetary stance, both in absolute and relative terms.

We maintain our forecast for a 7.00% interest rate at year-end 2025, assuming the rate differential between Mexico and the U.S. does not fall below 325 basis points. To better understand each Board member’s position, it will be especially important to review the minutes of this decision, scheduled for release on October 9<sup>th</sup>, 2025.

Regarding market reaction, the exchange rate experienced slight depreciation during the day, fluctuating between \$18.40 and \$18.56, with a modest appreciation to \$18.52 following the monetary policy decision. Meanwhile, the TIIE funding curve moved lower, with an average decline of 2 basis points compared to the previous day (chart 1). The three-month implied curve stood at 7.41%, while the one-year curve settled at 7.08% (chart 2). Analysts participating in expectations surveys forecast the benchmark rate to end 2025 at 7.00%, with responses ranging from 7.00% to 7.50%.

**Table 1: Banxico’s Headline and Core Inflation Forecasts (%)**

Headline Inflation	25-Q1	25-Q2	25-Q3	25-Q4	26-Q1	26-Q2	26-Q3	26-Q4	27-Q1	27-Q2	27-Q3
Current (Sep. 25) e.o.p.	3.7	4.2	3.6	3.6	3.4	3.1	3.0	3.0	3.0	3.0	3.0
Previous (Aug. 25) e.o.p.	3.7	4.2	3.8	3.7	3.4	3.1	3.0	3.0	3.0	3.0	0.0
Var. Current - Previous	0.0	0.0	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Core Inflation	25-Q1	25-Q2	25-Q3	25-Q4	26-Q1	26-Q2	26-Q3	26-Q4	27-Q1	27-Q2	27-Q3
Current (Sep. 25) e.o.p.	3.6	4.1	4.2	4.0	3.6	3.2	3.0	3.0	3.0	3.0	3.0
Previous (Aug. 25) e.o.p.	3.6	4.1	4.1	3.7	3.5	3.1	3.0	3.0	3.0	3.0	0.0
Var. Current - Previous	0.0	0.0	0.1	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0

Sources: Scotiabank Economics, Banxico.

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