

Contributors

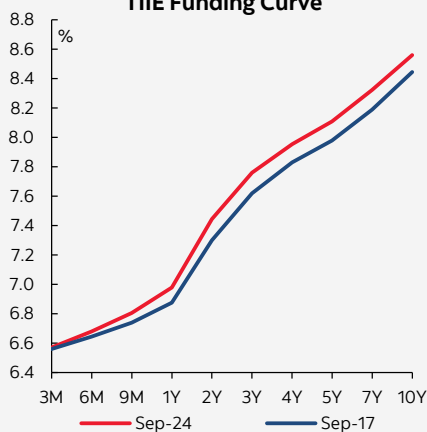
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Chart 1

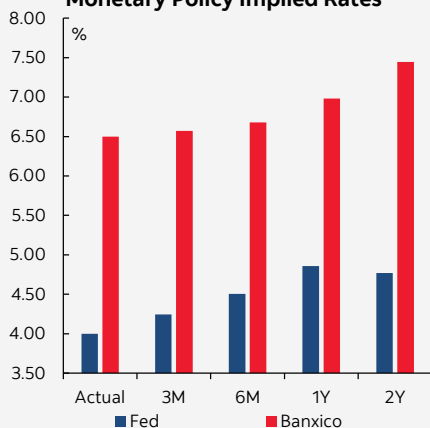
TIIE Funding Curve



Sources: Scotiabank Economics, Banxico.

Chart 2

Monetary Policy Implied Rates



Sources: Scotiabank Economics, Banxico.

Mexico—Banxico Keeps Rates Unchanged as Peso Pressures Persist

KEY TAKEAWAYS

- **As widely expected, the Governing Board left the policy rate unchanged at 6.50%.**
- **The statement highlighted ongoing global uncertainty stemming from the conflict in the Middle East, while domestically the economy remains subject to downside risks.**
- **Regarding inflation, the Board maintained its expectation that inflation will converge to target in the fourth quarter of 2027, despite slight revisions to short-term forecasts.**
- **The Governing Board noted that Mexico's monetary policy should not react mechanically to adjustments in the Federal Reserve's rate path.**
- **During the week, the USDMXN weakened, with the peso depreciating to 17.76 per U.S. dollar.**

The Governing Board of the Bank of Mexico kept the benchmark interest rate unchanged for the third consecutive meeting at 6.50% in a unanimous decision. The decision was in line with market expectations, which anticipate that the policy rate will remain at current levels throughout the remainder of the year. The Board also marginally revised its headline inflation forecasts lower in Q3-26, while slightly raising its core inflation projections for the same period, maintaining its expectation that inflation will converge to the 3.0% target in the fourth quarter of 2027.

The statement noted that during the third quarter of 2026, global economic activity expanded at a faster pace than in the previous quarter. Headline inflation rebounded in June across several advanced economies, driven by higher energy prices, while core inflation remained persistent. The Board highlighted that the Federal Reserve increased its policy rate by 25 basis points at its September meeting, financial markets continued to exhibit volatility, commodity prices increased, the U.S. dollar appreciated, and long-term U.S. Treasury yields moved higher. Finally, it reiterated the persistence of an uncertain outlook related to the conflict in the Middle East and its potential repercussions.

Domestically, the Governing Board noted that since the previous monetary policy decision, yields on Mexican government securities increased across most maturities. Meanwhile, the peso displayed some volatility. The Board also pointed to a moderation in the pace of economic expansion during the third quarter, while anticipating the persistence of economic slack conditions and downside risks going forward.

Regarding inflation, the first half September inflation print, released on the same day, showed annual headline inflation at 3.42% y/y, above the 3.36% consensus expectation. However, core inflation surprised to the downside, declining from 3.83% to 3.79%. As a result, short-term inflation forecasts were revised downward, while longer-term projections remained stable and above target. Thus, the central bank expects headline inflation to converge to target during the fourth quarter of 2027, subject to upside risks including persistent core inflation, trade policy disruptions, inflationary effects from geopolitical conflicts, climate-related impacts, cost pressures, and a depreciation trend in the peso. On the downside, risks remained unchanged from the previous meeting: weaker-than-expected economic activity, a lower pass-through from production costs, and reduced inflationary pressures stemming from the peso's appreciation since last year.

In our view, the evolution of the monetary policy stance will depend primarily on incoming inflation data, USDMXN developments, and the relative policy stance vis-à-vis the Federal Reserve. In this regard, the statement appears to make a deliberate effort to differentiate

Mexico's economic cycle from that of the United States by noting that "monetary policy should not react mechanically to expected adjustments in the federal funds rate." Nevertheless, the peso depreciated during the week to 17.76 per U.S. dollar. Therefore, we believe it will be important to closely monitor potential scenarios of exchange-rate volatility. Accordingly, we maintain our expectation that the policy rate will remain unchanged throughout the rest of 2026 and 2027. Finally, the release of the meeting minutes on October 8th will be key to understanding the details of the Governing Board members' views.

As for the market reaction, the U.S. dollar has strengthened since the Federal Reserve's rate adjustment last week. Consequently, the USDMXN moved from a low of 16.88 per dollar at the beginning of the month to 17.67 at the start of the trading session and further weakened to 17.76 per dollar following the monetary policy announcement. Meanwhile, the Overnight TIE swap curve also moved higher. The short end of the curve (up to one year) increased between 0.88 and 10.55 basis points, while maturities between one and thirty years rose between 11.50 and 14.50 basis points. The three-month implied curve stood at 6.57%, while the one-year implied rate reached 6.98%, suggesting that markets anticipate a higher policy rate one year ahead.

Table 1: Banxico's Headline and Core Inflation Forecasts (%)											
Headline Inflation	26-Q1	26-Q2	26-Q3	26-Q4	27-Q1	27-Q2	27-Q3	27-Q4	28-Q1	28-Q2	28-Q3
Current (Sep-26) a.o.p.	4.1	3.9	3.3	3.5	3.4	3.3	3.2	3.0	3.0	3.0	3.0
Previous (Aug-26) a.o.p.	4.1	3.9	3.5	3.5	3.4	3.3	3.2	3.0	3.0	3.0	0.0
Var. Current - Previous	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Core Inflation	26-Q1	26-Q2	26-Q3	26-Q4	27-Q1	27-Q2	27-Q3	27-Q4	28-Q1	28-Q2	28-Q3
Current (Sep-26) a.o.p.	4.5	4.2	3.9	3.6	3.4	3.3	3.2	3.0	3.0	3.0	3.0
Previous (Aug-26) a.o.p.	4.5	4.2	3.8	3.5	3.1	3.0	3.0	3.0	3.0	3.0	0.0
Var. Current - Previous	0.0	0.0	0.1	0.1	0.3	0.3	0.2	0.0	0.0	0.0	0.0
* Average of Period (a.o.p)											
Sources: Scotiabank Economics, Banxico.											

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