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GLOBAL ECONOMICS

LATAM FLASH

November 5, 2026

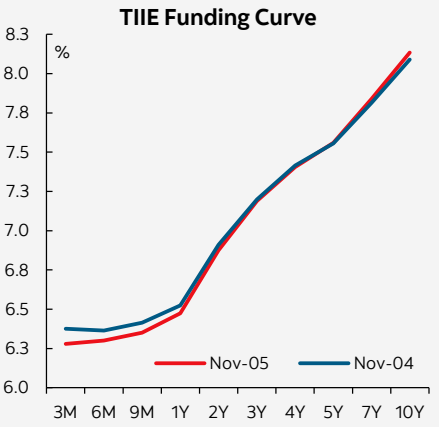
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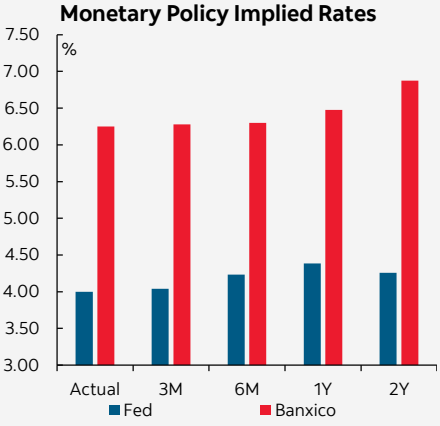
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Chart 1



Source: Scotiabank Economics, Bloomberg.

Chart 2



Source: Scotiabank Economics, Bloomberg.

Mexico—Banxico Cuts 25bps and Tees Up Long Hold

KEY TAKEAWAYS

- **The Governing Board cut the benchmark rate by 25 bps in a split vote, despite the consensus expecting the rate to be held.**
- **In the global environment, uncertainty related to the Middle East conflict continues, while in the Mexican economy, slack conditions persist with downside risks.**
- **In advanced economies, several central banks have made upward adjustments in the second half of the year in response to greater inflationary pressures from higher energy prices.**
- **The Governing Board revised upward its inflation expectation for the current quarter, with the balance of risks skewed to the upside, although it considered that the disinflation process has continued.**
- **Going forward, the statement indicated that the Board is considering keeping the rate at its current level for an extended period.**

Banco de México's Governing Board decided to cut the benchmark interest rate by 25 bps to 6.25% in a split decision. Although the door had been opened to a cut and some analysts expected it to materialize, the consensus pointed to the benchmark rate being held at 6.50%, with that level being the terminal rate for this year. In addition, the Board revised upward its headline and core inflation projections for 4Q-26, placing both at 3.7%, although the expectation of convergence to 3.0% in 4Q-27 is maintained.

The statement noted that global economic activity maintained a slightly less dynamic pace of expansion during the third quarter of 2026 than in the previous quarter. Inflation increased in several advanced economies due to higher energy prices, with persistence in core inflation. It highlighted that the Federal Reserve held its benchmark rate at 3.75–4.00% at its October meeting, that financial markets continued to show volatility, with limited movements in the dollar and increases in long-term U.S. Treasury yields that took them to record highs. It also reiterated that uncertainty related to the Middle East conflict persists for the global economic environment.

On the domestic front, the Governing Board noted that, since the last monetary policy decision, interest rates on government securities in Mexico declined at medium and long maturities and rose at short maturities. For its part, the peso depreciated. The Board highlighted the expansion of the economy during the third quarter, although slack conditions are expected, as well as the persistence of downside risks going forward.

Regarding inflation, in the first half of October it stood at 3.62% due to a rebound in the non-core component, while core inflation remained virtually unchanged at 3.78%. Despite this, the Governing Board considered that the disinflation process has continued and that no demand pressures are perceived in the economy. It also considered that the pass-through of exchange rate movements to prices would be limited. Nevertheless, and somewhat contradictorily, the Board once again revised upward its forecasts for the fourth quarter of the current year for both headline and core inflation, although it still expects inflation to converge to the 3.0% target in the last quarter of 2027.

In addition, the balance of inflation risks remains skewed to the upside, citing the persistence of core inflation, further peso depreciation, disruptions from trade policies, inflationary impacts from geopolitical conflicts, weather-related disruptions, and cost pressures. On the other hand, the downside risks were the same as at the previous meeting: weaker-than-anticipated economic activity, a lower pass-through of cost increases, and lower pressures from peso appreciation.

Although most analysts, ourselves included, anticipated that Banco de México would keep the rate unchanged on this occasion, the cut is not entirely surprising, since the minutes had left open the possibility of an additional move and some Board members had indicated in various forums their inclination to make one last adjustment to the benchmark rate, although the arguments are not so clear. However, the cut was accompanied by a statement with a more restrictive tone, which suggests the start of a new pause and places greater emphasis on the evolution of inflation expectations, where market expectations have declined only marginally and still do not show clear convergence toward the target.

The most relevant signal was that the Board explicitly indicated that keeping the rate at the level reached "for an extended period" will contribute to the convergence of inflation, which could be interpreted as these members continuing to see monetary conditions as remaining in restrictive territory, in a context in which the decision was split 3–2 and the headline and core inflation forecasts for the fourth quarter of 2026 were revised upward, from 3.5% to 3.7% and from 3.6% to 3.7%, respectively. Finally, the publication of the minutes on November 19th will be key to analyzing the details of the discussion and understanding the reasons behind the decision.

As for the market reaction, the dollar appreciated by about 10 cents at the time the decision was published, reaching $18.84, and then settling at $18.73. For its part, the Funding TIIE curve showed movements. The short end (up to 1 year), as well as the 2-, 3-, and 4-year tenors, declined between 1.00 and 9.50 bps, while the rest of the curve out to 30 years rose between 0.50 and 4.50 bps. The implied three-month rate stood at 6.28%, while the one-year rate stood at 6.48%, implying that the market anticipates a higher rate a year from now.

Table 1: Banxico's Headline And Core Inflation Forecasts

Headline Inflation (%)									
	26-Q3	**26-Q4**	**27-Q1**	**27-Q2**	**27-Q3**	**27-Q4**	**28-Q1**	**28-Q2**	**28-Q3**
Current (November-26) a.o.p.	3.3	3.7	3.4	3.3	3.2	3.0	3.0	3.0	3.0
Previous (September-26) a.o.p.	3.3	3.5	3.4	3.3	3.2	3.0	3.0	3.0	3.0
Var. (Current - Previous)	**0.0**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Core Inflation (%)									
	26-Q3	**26-Q4**	**27-Q1**	**27-Q2**	**27-Q3**	**27-Q4**	**28-Q1**	**28-Q2**	**28-Q3**
Current (November-26) a.o.p.	3.9	3.7	3.4	3.3	3.2	3.0	3.0	3.0	3.0
Previous (September-26) a.o.p.	3.9	3.6	3.4	3.3	3.2	3.0	3.0	3.0	3.0
Var. (Current - Previous)	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

*Average of Period (a.o.p.)
Sources: Scotiabank Economics, Banxico.

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