MNI Banxico Preview: August 2025

Rate Decision and Monetary Policy Statement: 2000BST / 1500ET - Thursday, August 07, 2025.

MNI POV: Easing Pace to Slow, Eyes on Vote Split

After four consecutive 50bp rate cuts, Banxico's governing board is widely expected to slow the easing pace in August and deliver a 25bp cut in the overnight rate to 7.75%. This would be consistent with signalling at the previous monetary policy meeting that several board members intend to proceed more cautiously with rate cuts ahead, amid an increase in core CPI inflation pressures. That said, a persistently weak growth backdrop keeps the door open to further easing. As such, the vote split and forward guidance will remain in focus to determine the potential scale of further rate cuts for the rest of the year.

Board Signals Slowdown in Easing Pace

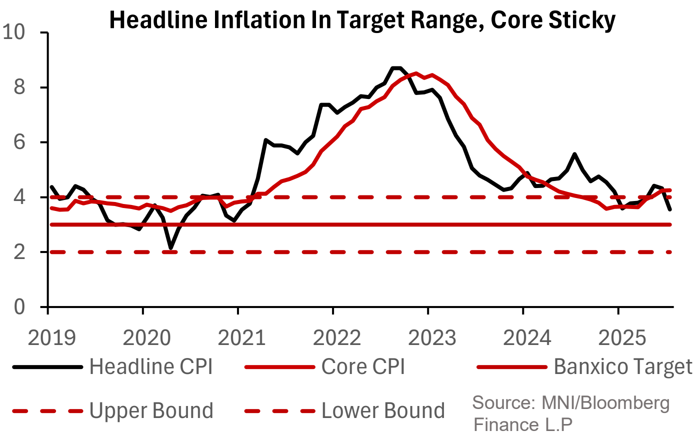
After delivering another 50bp cut in June, Banxico's governing board struck a less dovish tone, signalling a slower easing pace ahead. Although the committee still sees significant downside risks to growth, near-term inflation forecasts have risen, and the forward guidance for cuts of a similar magnitude ahead was dropped. The shift came amid a hawkish dissent from Deputy Governor Heath, who voted to remain on hold last month to assess whether the inflation slowdown projections actually materialise in the third quarter.

Heath argued that the uptrend in inflation to above the ceiling of the target range, and deterioration in the balance of risks, exhausted the room for a predetermined recalibration of the monetary policy stance. With the decision to cut further last month, he also felt that "a message of complacency" was being sent at the expense of the central bank's commitment to the inflation target. He argued that this risked undermining the credibility of the committee, especially now that the forecast trajectory on inflation is being missed.

Overall, however, the minutes to the June meeting confirmed that several Board members intend to proceed more cautiously with rate cuts ahead, with some clearly stating that this should be the final 50bp cut. Speaking to MNI recently, former Banxico economist David Tapia said that the change in forward guidance is a clear signal that Banxico is seeking greater flexibility, while Deputy Governor Omar Mejia told MNI "graduality" is now being considered in its next moves (See MNI Policy Team Insights below).

Core Inflation Has Become More of a Concern

Since the June meeting, latest data have continued to show the familiar mix of weak economic activity but elevated inflation pressures, particularly in the core component. Although headline CPI inflation ticked down to 4.32% y/y in June, stronger-than-expected core CPI inflation data support the case for Banxico to slow the easing pace ahead. Annual core CPI inflation rose to a 14-month high of 4.24% y/y in June, from 4.06%, driven by a further uptrend in core goods inflation to 3.91% y/y and uptick in services inflation to 4.62%.



Subsequent bi-weekly CPI data for the first half of July were more encouraging, with both headline and core inflation coming in softer-than-expected. Headline inflation fell to 3.55% y/y in H1 July, its lowest level since January, due to an easy base effect as agricultural prices were under severe pressure in July 2024 from drought conditions in Mexico.

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Core inflation remained above the target range ceiling at 4.25% y/y, however, which all but cements the likelihood of a 25bp cut this month. Indeed, Deputy Governor Heath even said following the data that given core inflation is still high, and showing no signs of falling, it would be preferable for the central bank to pause, suggesting the likelihood of another split vote this week.

Looking ahead, the recent appreciation of the Mexican peso should help to contain the upward trend in core goods inflation, which is already showing some signs of peaking. Services inflation remains sticky, however, and re-accelerated in the second quarter amid a still tight labour market and robust wage growth, pointing to the need for caution in the rate cutting cycle ahead. Analysts see headline CPI inflation ending this year at 4.00%, according to the July 22 Citi survey, 10bps above expectations ahead of the June MPC meeting. After that, the headline rate is expected to edge down to 3.80% by end-2026, 5bps above the previous forecast. Meanwhile, core inflation is expected to end this year at 4.03%, up slightly from 3.95% in June, while the end-2026 estimate remained at 3.70%. As a comparison, the central bank remains more optimistic, expecting headline inflation to end this year at 3.7%, with core at 3.6%, before reaching the 3.0% target in Q3 2026.

Trade Tensions Still Pose Significant Downside Risks to Growth

While persistent core inflation remains a source of concern for the central bank, weak economic activity data continue to support the case for further rate cuts for now. In May, the monthly GDP proxy was unchanged on the previous month, below expectations for a 0.2% m/m gain. As a result, annual growth remained in negative territory, at -0.19% y/y, improving from a 1.7% y/y contraction in April, but below consensus forecasts for a return to positive growth. Monthly data showed an improvement in retail sales growth in May (+2.7% y/y), but ongoing weakness in the industrial sector, where industrial production fell by 0.8% y/y.

While the resilient labour market and strong wage growth should continue to support consumer spending ahead, the manufacturing sector, particularly export-oriented industries, still faces significant uncertainties from the adverse external backdrop and elevated trade tensions with the US. In the eyes of the Banxico board, this uncertain environment and ongoing trade tensions continue to pose “significant downside risks” to growth. Analysts, too, remain very pessimistic about the growth outlook, with the economy still expected to grow by just 0.2% this year, according to a Citi survey, and still below trend 1.2% next year. Against this backdrop, the policy rate is seen ending this year at 7.50%, before falling to 6.75% in 2026, unchanged from June.

Fresh Cycle Low in USDMXN

The trend needle in USDMXN is unchanged and continues to point south, despite the pair’s recent recovery which is - for now - considered corrective. Fresh cycle lows reinforce the current downtrend, while moving average studies are in a bear mode position too. While resistance at the 50-day EMA, at 18.9389, has been pierced, a clear break of this average is required to undermine the bearish trend. This would open 19.3431, the Jun 23 high. Meanwhile, a resumption of weakness would refocus attention towards 18.4302, the Aug 1 2024 low, and 18.1837, the 61.8% retracement of the Apr 9 ‘24 - Feb 3 bull leg.

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MNI Banxico Data Watch List												
Inflation		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Bi-Weekly CPI	% y/y	3.55	3.9	↓	4.0	↓					-0.75
Core CPI	% y/y	4.24	3.6	↑	3.7	↑					1.80
CPI	% m/m	0.28	0.3	↓	0.4	↓					-0.75
Oil Price (WTI Active)	$	66.14	68.99	↓	69.15	↓					-0.26
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	46.3	46.5	↓	49.8	↓					-1.49
GDP	% y/y	0.8	2.2	↓	3.6	↓					-1.04
Industrial Man Prod	% y/y	-0.8	-1.2	↑	-1.4	↑					0.50
Economic Activity IGAE	% y/y	-0.19	-0.64	↑	0.38	↓					-0.20
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
M3 Money Supply	% y/y	11.7	11.1	↑	12.7	↓					0.25
Non-Fin Corp Credit	% y/y	-4.6	-2.5	↓	-1.0	↓					-1.52
Household Credit	% y/y	16.7	16.4	↑	16.1	↑					1.65
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales	% m/m	2.7	4.3	↓	-0.2	↑					-0.02
Consumer Confidence (Q)	Index	45.4	46.0	↓	46.9	↓					-1.24
Unemployment Rate	%	2.8	2.5	↑	2.6	↑					1.28
Nominal Wage Increase	% y/y	7.8	8.0	↓	10.0	↓					0.05
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Bolsa Mexicana	Index	56,802	52,484	↑	49,513	↑					1.22
10-Yr TIIE Swap Yield	%	8.31	8.38	↓	9.38	↓					-1.05

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg

Analyst Views (Alphabetical Order):

A significant majority of analysts (22/23) in the Bloomberg survey expect the Board to deliver a 25bp rate cut to 7.75% this week.

BNY: Expect 25bp Cut But Note That Prudence is Needed

- BNY note that Banxico is expected to cut rates by 25bps to 7.75% while maintaining a sufficiently strong real-rate buffer. They say prudence is needed despite July's headline inflation easing to 3.55% y/y (biweekly basis), while core inflation remained elevated at 4.25%, above the bank's 3% ± 1% target range.
- Despite the disinflation trend in headline prices, persistent services inflation, domestic wage pressures and recent peso volatility may cause some hesitation for further easing. Even so, more policy space can open up should disinflation continue.

BofA: Expect 25bp Cut, Believe Banxico Will Look Through Strong Q2 GDP Growth

- BofA's economist forecasts Banxico to cut the overnight rate by 25bps to put it at 7.75%. They believe that Banxico will look through the strong GDP growth in 2Q and will argue that the economy overall remains weak.
- Moreover, Banxico will likely also argue that both the weakness in activity and a (relatively) strong MXN will help bring core inflation down. BofA see risks to the upside, as there is already a board member who opposes cuts in the near term until core inflation eases.

Goldman Sachs: Expect 25bp Rate Cut and for Forward Guidance to Harden

- Goldman Sachs expect the MPC to cut the policy rate by 25bp to 7.75%, with likely one dissenting vote for no cut given lingering core inflation pressures.
- Their call is based on weak current and prospective growth dynamics, still high ex-ante real rate (4.3% vs 2.7% estimated r*), relatively well behaved MXN, and perhaps most relevant of all, the fact that the July 10

MPC minutes showed that the majority of directors judge the medium-term inflation determinants as favourable but are inclined to moderate the pace of easing from 50 to 25bp.
- Goldman Sachs expect the forward guidance to harden, indicating that the easing/normalization cycle will turn more data-dependent, but with a nod to extend the rate cutting cycle.

JP Morgan: Base View Remains That Easing Cycle Will Proceed Nonstop Through Year-End

- JP Morgan expect Banxico to cut 25bps to 7.75%. They say focus will be mainly on guidance and bias, and here the board is likely to avoid any pre-commitment allowing for either a continuation of the easing cycle or a pause. Their base view remains that the easing cycle will proceed nonstop through year-end as the Fed starts cutting and the economy dips and cools down demand. This should bring down still-sticky services inflation (and overall core inflation as a result).
- JPM note that it would be understandable if Banxico refrains from committing to a given course of action at this juncture. Data are not clearly breaking either way at this point. This week, GDP surprised strongly to the upside, and the labor market gave signs of life, having earlier looked like it was breaking.
- In fact, JPM have marked up their growth forecast for the year. However, the very leading edge of data is showing a different picture, consistent with their view that GDP should slow markedly in 2H.

Natixis: Continue to Forecast Terminal Rate Around 6.50%

- Natixis believe that Banxico will cut its policy rate by 25bps to 7.75% on the back of slightly more benign inflation in the first half of July. It is likely that deputy governor Jonathan Heath will continue to vote for a pause. Additional cuts will depend on the path of inflation.
- They continue to forecast a terminal rate of around 6.5%, which is within the neutral rate band of 1.8% and 3.6%. However, the probability of Banxico pausing after the August meeting has started to increase, given firmer growth, and will exceed 50% if the US Fed delays restarting its cutting cycle beyond October, which after the release of the NFP seems unlikely.
- Natixis note that inflation finally dropped below the upper bound of the target band (2.0–4.0%) for the first two weeks of July, after readings above 4.0% in May and June. Perhaps more importantly, core inflation finally showed some signs of moderation, coming in at 4.25%, but remains sticky.

Scotiabank: Downshift in Rate Cut Size Justified by Guidance

- Banxico is expected to cut its overnight rate by 25bps to 7.75%. Scotiabank say one reason for expecting this downshift is guidance provided the last time they cut in June. There have also been divisions of late on the Governing Board. The decision to cut 50bps in June was split as four policymakers supported the move but one—the influential Deputy Governor Jonathan Heath—voted for no change.
- Recent inflation numbers have picked up above the upper end of the target range of 2–4%. Scotibank say if Heath eventually succeeds at winning over his colleagues, then consensus expectations in a July 25th Bloomberg survey for another 125bps of rate cuts by the end of 2026 are far too aggressive.

SocGen: Still Expect 25bp Cut But See Less Possibility of a September Move as Well

- SocGen still expect a 25bp rate cut in August (and one in 4Q25) but see less possibility of a cut in September. The possibility of sporadic rate cuts has certainly increased now that the bulk of the easing is already implemented.
- SocGen say we might see Banxico's statement suggesting intermittent easing ahead. Banxico's real spread vs. the Fed has declined below 10-year average in recent months. Following the changes to SocGen's Fed rate call, they have recently revised up their year-end Banxico rate forecasts for 2025 and 2026 to 7.50% and 6.75%, respectively, vs. their June Outlook forecast of 7.25% and 6.50%.

- SocGen see the risks to these forecasts as largely balanced, but a lot depends on the outcome of trade negotiations with the US. The statement after the July FOMC suggests that a September Fed rate cut cannot be ruled out. This could open up the possibility of Banxico continuing to front-load rate cuts depending on its assessment of core inflation and growth risks.

Wells Fargo: Persistence of Core Inflation Means August Rate Cut Could Be Last of Cycle

- Wells Fargo expect Banxico to lower its policy rate 25bps to 7.75%, which is in line with the consensus forecast. Headline inflation has slowed in recent months, and indeed should slow further with the July CPI to 3.54% year-over-year, driven in particular by a deceleration in energy prices, as well as fruit and vegetable prices. Core inflation may remain relatively steady, close to the 4.24% reading seen in June, and still above the 2%–4% inflation target range.
- The persistence of core inflation, in Wells Fargo’s view, means the central bank's August rate cut could be the last of the current cycle. That said, Wells Fargo will be assessing any downside CPI surprises, along with Banxico's forward guidance and updated inflation forecasts, to see if there might be potential for one final rate cut even beyond Banxico's August announcement.

MNI Policy Team Insights:

MNI EM INTERVIEW: Banxico Mulling More Gradual Policy – Mejia

By Larissa Garcia
Jul 29, 2025

The Central Bank of Mexico carried out a “calibration” process in the first half of the year with a series of 50 basis point cuts and is now considering “graduality” in its next moves, Deputy Governor Omar Mejia told MNI, adding that the monetary path should be sufficient to ensure inflation converges to target.

"While the calibration process was associated with 50-basis-point reductions, we’re now entering a phase where we’re considering that graduality will allow the continuation of the rate-cutting cycle," Mejia said in an interview at his office in Mexico City.

Asked whether the board is evaluating a pause in its easing cycle next week, he added: "What was communicated is that downward adjustments continue to be considered. That’s what was stated in the statement and in the minutes and it is being discussed going forward.

Banxico cut its policy rate by another 50 basis points to 8.00% last month, with Deputy Governor Jonathan Heath voting to hold at 8.50%. The board signaled further cuts ahead, without specifying their size

"As with all collegiate decision-making bodies, sometimes decisions are unanimous, sometimes not. But what matters is that decisions at the Bank of Mexico are based on the inflation outlook and the responsibility to fulfill the constitutional mandate of price stability. Beyond the vote composition, what’s important is that monetary policy decisions reflect the macroeconomic environment and are consistent with that mandate," the Deputy Governor said.

RESTRICTIVE STANCE

The board removed from its statement the phrase indicating that the interest rate must remain in restrictive territory. Mejia said there are many ways to evaluate the restrictiveness of monetary policy, but the key message is that the path will remain consistent with the convergence of inflation to the 3% target.

He noted that Banxico’s estimated neutral range is between 1.8% and 3.6% in real terms. At the midpoint, the neutral rate would be around 2.7%, and since it measures an unobserved variable, the discussion about how restrictive the stance is should consider a broader set of factors, such as the evolution of economic slack and labor market dynamics.

"That’s why I think the removal of that phrase perhaps suggests that the stance will now be evaluated from different angles, on how restrictive the stance actually is," Mejia emphasized.

The Banxico official reiterated that the board is fully committed to the 3% inflation target. "Some criticism may arise because we’ve emphasized a calibration process with 50-basis-point cuts and communicated that more cuts are being evaluated. But our communication is consistent with the inflation-targeting framework, which is based on forecasts."

Beyond short-term noise, the board needs to focus on inflation trends, he noted. "Inflation is near historical levels, and the challenge now is bringing it down from those levels to the 3% target," he said.

"We welcome constructive criticism. But instead of alarmism around a single data point, central bankers must explain inflation dynamics, the nature of shocks, and the strategy behind monetary policy decisions. That clarity has helped ensure that our decisions are well received by the public and markets. In a context of heightened uncertainty, a central banker’s role is not to add volatility, but to communicate as clearly as possible."

MNI EM INTERVIEW: Banxico Could Be Forced to Pause Cuts – Alatorre

By Larissa Garcia
Jul 14, 2025

The Central Bank of Mexico may be forced to pause its easing cycle at the next meeting if the inflation outlook continues to deteriorate, former deputy director of macroeconomic analysis at the Ministry of Finance and Public Credit Eugenio Gomez Alatorre told MNI, adding that holding rates would be the prudent move.

"If the upward trend in inflation continues, Bank of Mexico will be forced to pause the rate-cutting cycle," Alatorre, now a professor at Universidad Panamericana, said in an interview.

Banxico cut its policy rate by another 50 basis points to 8.00% last month, with Deputy Governor Jonathan Heath voting to hold at 8.50%. The board signaled more cuts ahead, without specifying their size.

"The decision shows that Banxico’s board has objectives other than price stability. Inflation is rising and has exceeded the upper limit of the central bank’s target. Cutting the rate in this context suggests that the board is not concerned about inflation, despite it being their legal mandate," he said.

"Holding the rate would have been the prudent decision given the recent negative inflation data," he added.

SPLIT DECISION

Regarding the split decision, Alatorre said that Heath "seems to be the only one who understands this and recognizes his responsibility as a deputy governor."

"I think inflation will remain a concern in the coming months, and we’ll continue to see split votes. In certain scenarios, the divergence could grow, meaning we might see a three-to-two vote if the inflation outlook worsens," he noted.

The board removed from its statement the phrase indicating that the interest rate needs to remain in restrictive territory, which could suggest it is now aiming for the neutral rate by the end of the cycle, he said.

"But honestly, I’m not entirely sure how to interpret it. The board has shown a strong interest in continuing to lower rates, and it seems the rate will end up at 7.5%, despite high inflation."

INFLATION TREND

The former deputy director said a recent rebound in inflation, even in core inflation, might signal a trend.

"It’s true that economic activity is weak and that should help reduce inflation, but it’s not enough. Let’s remember there have been several episodes of stagflation in the past. Moreover, I believe Banxico can do little to boost growth, since the weakness is mainly due to a lack of private investment caused by an uncertain environment created by the government, and also by insufficient public investment," he said.

"A rate change won’t fix that, but ignoring inflation could lead to a rebound in prices on top of a recession, creating a worse problem: stagflation.”

Alatorre noted that, in principle, a more cautious Fed should also lead to caution in Mexico. "However, the dollar’s weakness driven by Trump’s policy creates room to narrow the interest rate differential between Mexico and the U.S. So, I don’t think the Fed’s decisions will have much impact on Banxico’s," he said.

MNI EM INTERVIEW: Banxico Likely to Slow Pace and Pause – Tapia

By Larissa Garcia
Jul 7, 2025

The Central Bank of Mexico is seeking greater flexibility by removing the size of upcoming cuts from its forward guidance, and is likely to slow the pace of easing in August to 25 basis points, economist David Tapia told MNI.

"The change in forward guidance is a clear signal that Banxico is seeking greater flexibility and no longer wants to pre-announce specific cuts. This, in my view, confirms that the pace will be more moderate," said Tapia — a former Banxico economist and currently chief economist at a large Mexican pension fund — in an interview.

He expects a 25-basis-point cut at the next meeting, to 7.75%, and said the probability of a pause after August is high if inflation data disappoints or in case of exchange rate volatility.

Banxico cut its policy rate by another 50 basis points to 8.00% last month, with Deputy Governor Jonathan Heath voting to hold rates at 8.50%. The board signaled more cuts ahead without specifying their size.

CONSISTENT CUT

"The decision to cut by 50 basis points was consistent with the board’s diagnosis: a disinflation process that is progressing gradually, albeit with episodes of resistance, and an economic environment showing clear signs of slowing," he said.

He believes this move also reflected an intention to move toward a more balanced calibration of the monetary stance, which remains very restrictive in both real terms and relative to other emerging economies.

"The challenge now will be to manage this normalization prudently, given that upside risks to inflation persist and the external environment is increasingly uncertain," he stressed.

SPLIT DECISION

In his view, the split decision reflects the current dilemma: that on the one hand, domestic activity is very weak and justifies some monetary easing, while on the other, core inflation has recently picked up, and upside risks persist from the exchange rate, wage indexation, and the pass-through of U.S. trade policy.

"It’s likely we will see more split decisions as long as the disinflation process remains unclear and unsustained. In my view, the dissenting vote’s argument will focus on the need to consolidate inflation’s convergence to the target and to prevent expectations from deteriorating," he said.

Banxico also removed from its statement the reference to the need for rates to remain restrictive. "I believe the removal of that language was intentional to underscore that monetary policy is already in a normalization phase, but it doesn’t necessarily imply that we will reach a neutral level this year," Tapia explained.

RESTRICTIVE TERMINAL RATE

He predicts the rate will end 2025 at 7.75%, with a further adjustment to 7.25% in 2026, which would still represent a restrictive stance in real terms.

"The risk remains tilted toward a lower terminal rate closer to neutrality, given the degree of monetary restriction and the weakness of economic activity. However, this will also depend on the relative stance vis-à-vis the Federal Reserve," he said.

The tightening of U.S. trade policy presents a double challenge for Mexico, Tapia noted. While it limits investment and export prospects by increasing uncertainty over rules of origin and preferential access to the U.S. market, it also raises the risk of pass-through to domestic prices via exchange rate depreciation and higher costs of imported goods subject to tariffs.