

# MNI Banxico Preview: December 2025

**Rate Decision and Monetary Policy Statement:** 1900GMT / 1400ET - Thursday, December 18, 2025.

## MNI POV: Cut Expected, Hawkish Risks Prevalent

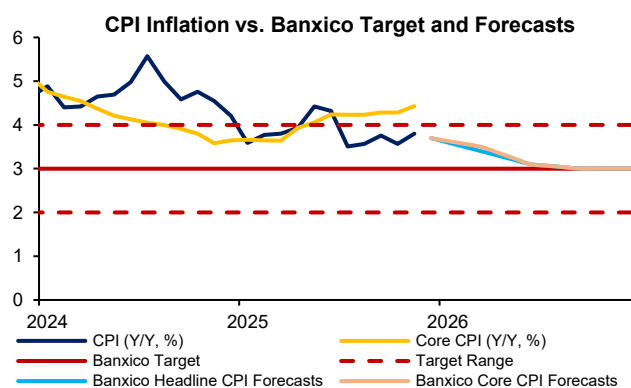
Banxico is expected to deliver another 25bp rate cut to 7.0% on Thursday as it continues to respond to weak activity data, which revealed a contraction of the economy in the third quarter. However, recent stronger-than-expected CPI inflation data have significantly increased the risk of a pause in the easing cycle, if not this week, then more likely early in the new year, keeping focus on the forward guidance. At the very least, the persistence of core CPI inflation above the central bank's target range ceiling adds to risks that another Board member, most likely Deputy Governor Borja, joins Deputy Governor Heath in dissenting with a vote to remain on hold.

### Above-Expectations Inflation Data Could Prompt Further Board Split

After striking a more cautious tone in November, amid persistent core inflation pressures, latest CPI data have reinforced prospects for a pause in the easing cycle in the near future. Last week's inflation data certainly raise the risks of an additional dissenter at Thursday's meeting, especially considering that the central bank's core inflation forecasts were revised higher again last month. In addition, the Board also amended its forward guidance in November to say that it will "evaluate reducing the reference rate" ahead, rather than "assess further adjustments to the reference rate", drawing attention to the possibility of a pause soon.

The most likely new candidate to dissent would be Deputy Governor Galia Borja, especially given her hawkish remarks immediately after last week's inflation data. Borja noted that the balance of risks to inflation remains tilted to the upside, and that next year will bring additional risks such as increases in some taxes, uncertainty on tariffs and the USMCA renegotiation.

In contrast, Governor Rodriguez and Deputy Governor Mejia have continued to strike a dovish message of further gradual easing, while Deputy Governor Cuadra recently argued that full-year GDP growth could be lower than the central bank's official estimate of 0.6%. Former Economy Ministry deputy general director Daniel Zaga recently told MNI that the board is likely to be near the end of its easing cycle as core inflation remains at high levels. Indeed, Zaga believes the next few decisions will be increasingly split as the bank approaches the terminal rate. (See MNI Policy Team Insights below.)



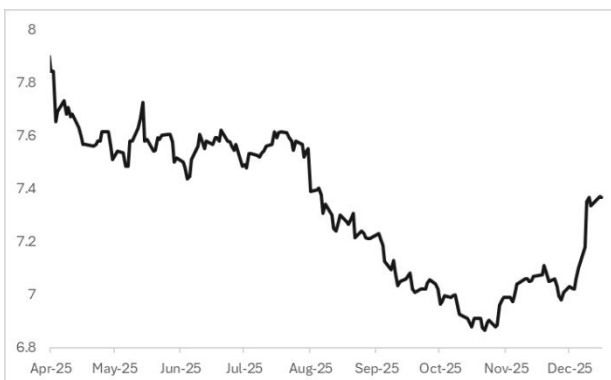
Source: MNI/INEGI/Banxico/Bloomberg Finance L.P

### Core CPI Inflation At 20-Month High

In September, headline CPI inflation rose to 3.80% y/y, from 3.57%, 10bp above expectations on the back of higher food prices. Despite the move, the headline rate remains below Banxico's 4% target range ceiling, where it has been since July. On the other hand, core inflation remains stuck above that target range ceiling, with the annual rate rising to 4.54% y/y in the second half of November, its highest level since March 2024. The upside surprise came within the core goods component, where inflation accelerated by 25bp to 4.37% y/y. Core services inflation also remained persistent, with the annual rate there edging up to 4.49% y/y.

The above-expectation inflation data has prompted a significant hawkish repricing across the TIE-F swaps curve, as the persistence of core inflation tilted the risks substantially

### Mexico 2-Yr TIE-F Swap Rates Extend Two-Week Rise to 40BPs



Source: MNI/Bloomberg Finance L.P

towards a hawkish surprise from the Banxico committee this week. Hawkish dissenter Deputy Governor Heath has recently expressed his doubts about the convergence of inflation to the 3% target in Q3 next year, and these latest data increase the prospect of a further upward revision to Banxico's CPI forecasts this week, and a later convergence to target, which would be another signal of a potential pause in the easing cycle ahead. News that Congress has given final approval for additional tariffs on Chinese and Asian imports also adds some upside risks to CPI forecasts, although Economy Minister Ebrard said this week that he only expects these tariffs to add 0.2% points to inflation.

### Core Inflation Expectations Rise Further

Against this backdrop, analysts' inflation expectations for next year have continued to edge higher, bringing them close to Banxico's 4% target range ceiling. While headline inflation forecasts for this year have remained relatively stable at 3.79% (vs. 3.80% ahead of the Nov 6 Banxico meeting), according to the latest Citi survey, the end-2026 estimate has increased by 5bp to 3.95%. At the same time, core inflation forecasts have continued to climb, with the end-25 forecast rising 3bp to 4.23% and the end-26 estimate up by 9bp at 3.89%. What's more, the latest survey came ahead of last week's strong CPI data, which suggests that expectations could climb further ahead.

Nonetheless, analysts still expect the easing cycle to continue next year, after a 25bp rate cut this week, with the policy rate seen ending 2026 at 6.50%, unchanged from estimates ahead of the previous meeting. By contrast, latest market pricing now suggests that the policy rate will not fall below 7% next year, with hikes potentially even coming into the equation later in 2026. As such, scope is seen for the central bank to adopt a more data-dependent approach in its forward guidance this week to avoid unsettling inflation and rate expectations further.

### Weak Growth Backdrop Still Supports Case for December Rate Cut

Despite the increase in core inflation pressures, most analysts believe that headline inflation remaining within the 2-4% target band will provide enough justification for the dovish members of the committee, who remain concerned about the downside risks to economic activity, to vote for a further cut. Speaking last month after the 25bp move, Governor Rodriguez said that she saw a cut of the same magnitude as highly likely in December, although further ahead she noted that the central bank does not have a predetermined path on rates, and the easing cycle could proceed at a more gradual pace in 2026.

Since the November meeting, final Q3 GDP data confirmed a 0.3% q/q contraction in the economy last quarter, bringing annual growth to its lowest (-0.1% y/y) since Q1 2021. The weakness was driven by a 1.5% q/q contraction in industry, which offset a modest 0.2% q/q gain in service sector activity and a 3.5% q/q rebound in primary output. Speaking after the data, President Sheinbaum said that the weakness reflected the impact of falling US demand and tariffs, as US trade talks have continued to drag on, despite earlier optimism. However, the recent approval of plans for Mexico to impose tariffs of as much as 50% on some imports from China has raised hopes that this could help to advance negotiations going forward.

For now, however, growth pressures have continued to mount, and September activity data suggest that the weakness continued into quarter-end, boding poorly for Q4 growth prospects. As a result, GDP growth forecasts have continued to decline, with economists now expecting the economy to grow by just 0.37% this year, according to the latest Banxico survey, and 1.21% in 2026. Meanwhile, credit growth has also continued to slow, with Deputy Governor Mejia telling MNI recently that credit responds with a lag to interest rate moves, and that the impact of monetary policy could be even greater given the economic weakness that began to emerge at the end of 2023.













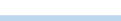

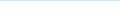

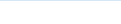














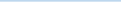






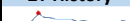

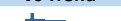













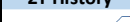
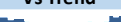
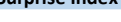



### Resilient Peso Gives Banxico Room to Cut Further

USDMXN has continued to erode last year's post-election rally as price fell below the psychological 18.00 handle for the first time since July 2024 this week. The peso has continued to benefit from an attractive carry buffer amid Fed rate cuts, has been aided by the hawkish central bank repricing over the last week, while continuing to be boosted by elevated equity sentiment and a softer dollar. The trend needle in USDMXN continues to point south and the latest fresh cycle low confirms a resumption of the downtrend, maintaining the price sequence of lower lows and lower highs. Technical signals point to a growing likelihood of a move towards 17.6067 and 17.4466, important chart lows from last year. On the upside, key resistance moves down to 18.3327, the 50-day EMA.

USDMXN Eroding Post Election Rally



Source: MNI/Bloomberg Finance L.P

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	3.99	3.7	⬆️	4.6	⬇️					-0.56
Core CPI	% y/y	4.43	4.2	⬆️	4.1	⬆️					1.45
CPI	% m/m	0.66	0.1	⬆️	0.3	⬆️					2.09
Oil Price (WTI Active)	\$	55.62	62.70	⬇️	58.14	⬇️					-0.73
Economic Activity		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
PMI Manufacturing	Index	47.3	50.2	⬇️	46.7	⬆️					-0.93
GDP	% y/y	-0.1	0.3	⬇️	1.7	⬇️					-1.18
Industrial Man Prod	% y/y	-0.4	-2.4	⬆️	-4.0	⬇️					0.51
Economic Activity IGAE	% y/y	0.65	1.06	⬇️	2.62	⬇️					0.44
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	8.1	10.0	⬇️	11.2	⬇️					-2.13
Non-Fin Corp Credit	% y/y	-4.6	-2.5	⬇️	-1.0	⬇️					-1.52
Household Credit	% y/y	17.0	16.7	⬆️	16.2	⬆️					1.13
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	3.3	3.2	⬆️	4.1	⬇️					0.05
Consumer Confidence (Q)	Index	44.2	46.6	⬇️	46.6	⬇️					-2.01
Unemployment Rate	%	2.6	2.8	⬇️	2.5	⬆️					-0.32
Nominal Wage Increase	% y/y	7.2	8.5	⬇️	8.9	⬇️					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	64,326	58,709	⬆️	57,842	⬆️					1.34
10-Yr TIIE Swap Yield	%	8.37	7.91	⬆️	8.20	⬆️					-0.94

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):

All 25 analysts in the latest Bloomberg survey expect the central bank to deliver another 25bp rate cut to 7.00% this week.

### Banorte: Forecast 25bp Cut This Week and Further 50bp to Terminal 6.5% in Q1

- Banorte expects a 25bp reduction to the reference rate, reaching 7.00%, which would make it the eighth reduction this year and the twelfth in a row. Once again, Banorte sees a dissent from Jonathan Heath, consistent with his view that the current inflationary environment is not conducive for further cuts.
- In Banorte's opinion, the main factors supporting this decision include: (1) Expectations that economic slack will continue helping the price formation process; (2) Mexican peso strength against the dollar, explained in part by the relative stance with the Fed; and (3) headline inflation, which remains within the variability range around the target.
- Banorte anticipates upward revisions to short-term inflation forecasts, although with the estimated moment of convergence to the target remaining in 3Q26. The forward guidance will also be important, with some members pointing to the convenience of gradual adjustments going forward.
- Banorte looks forward to two relevant releases after this decision that will help define the monetary policy path in 2026: this meeting's minutes (on Jan 8) and the 2026 Monetary Program (end Jan). With the relatively dovish bias that prevails among most Board members, Banorte reiterate their call of a 50bp cumulative reduction in Q1 2026, taking the rate to a terminal level of 6.50%.

### BBVA: Expect 25bp Cut, But Stable Policy Rate Spread Should Still Support MXN

- Banxico has indicated that it could still make an adjustment at the December meeting. BBVA expects a 25bp cut, but policymakers have emphasised that future decisions will be made cautiously. BBVA sees upside risks to inflation in 1Q26 due to expected increases in the excise tax (IEPS) and the likely approval of new tariffs, which could add around 20bp to next year's annual rate of inflation.
- Against this backdrop, the policy rate spread is likely to remain stable in the near term, which combined with low volatility, should continue to support the strength of the MXN.



**BNY Mellon: Fed's Stance Offers Banxico Some Breathing Room to Cut Again**

- Banxico is expected to continue easing this week, with a 25bp cut in the overnight rate to 7%.
- With core inflation near 4.5%, the real rate buffer is present. However, markets may question the capacity for further cuts if there are any upside inflation surprises.
- The Fed's current stance offers some breathing room, and Mexico's trade outlook will also matter, given its exposure to the US. The recent 50% tariff hike on Chinese imports may also influence inflation expectations over the medium term.

**Commerzbank: Anticipate 25bp Cut, But Signal for Slowdown in Easing Pace**

- Inflation figures for November were roughly 0.1pp higher than expected. This is rather unusual for Mexico, where inflation figures are published every two weeks and the forecasts of economists surveyed by Bloomberg usually correspond closely with the actual figures.
- Nevertheless, the impact of this unexpected figure should be limited. Seasonally adjusted figures confirm the recent trend: core inflation remains close to the upper limit of the target range and shows no signs of moving in either direction.
- Therefore, Banxico is likely to cut interest rates by a further 25bp this week, but also use the opportunity to signal a slowdown in the cycle of interest rate cuts in the coming months. However, market expectations are already quite optimistic, so the upside potential for the peso will likely depend on whether interest rate hikes appear realistic in the coming year.
- The Mexican peso suffered in the short term due to the US president's threat to increase tariffs by five pp in response to the water conflict, although it has recovered from this latest development. This is presumably because the conflict can be resolved quite easily through concessions. Nevertheless, the renewed threat makes it clear that the greatest danger to the peso in the coming year will come from the White House.

**Goldman Sachs: Expect 25bp Cut, But Pause in Easing Cycle at Beginning of 2026**

- Goldman Sachs expects the MPC to cut the policy rate by 25bp to 7.0%, with likely one dissenting vote for no cut given persistent core inflation pressures and further deterioration of inflation expectations. GS anticipates that the forward guidance will be tweaked: suggesting the possibility that the rate normalisation cycle may be paused at the beginning of 2026.
- Cutting at the Dec meeting would be in line with the MPC guidance. Pausing would be warranted by the fact that with the expected cut to 7.00% the ex-ante real rate will decline to close to 3.0% (within the  $r^*$  1.8%-3.6% band), core inflation has been accelerating and services inflation remains high and sticky, inflation is expected to reaccelerate in 1Q2026 (higher taxes and import tariffs), headline/core inflation expectations for 2026 have deteriorated further, and the outlook for additional FOMC rate decisions is uncertain.
- GS also expects an upward revision to the 2026 inflation forecasts in order to incorporate the impact of higher taxes/tariffs, the potential impact of the FIFA Soccer World Cup on selected services, and double-digit increase in the minimum wage. This could delay the central bank's expected convergence of inflation the target from 3Q26 to possibly only 2H2027; another factor weighing in favour of a pause in the easing cycle at the beginning of 2026.

**Itaú: Continue to Expect 25bp Cut, But Anticipate Shift to More Data Dependent Guidance**

- Last week's inflation report was an unwelcome surprise for inflation convergence. While Itaú maintain their forecast for inflation to end 2025 at an above target 3.8% and only a modest decline to 3.7% in 2026, they remain cautious about next year's inflation outlook, as non-core items could revert to historically higher averages.
- Regarding Banxico's meeting this week, Itaú continues to expect a 25bp cut, but anticipate a shift toward more date-dependent guidance, leaving the February 26 meeting wide open with a high bar for another cut.

**JP Morgan: Expect 25bp Cut with Risk of 3-2 Vote Split; See Final Cut to 6.75% in Q1 For Now**

- Banxico's Copom will release its last monetary policy decision of the year, and probably one of the most complicated of the current easing cycle. JP Morgan expects a divided 4-1 cut that will bring the overnight policy rate to 7%, the lowest since May 2022. The risk of a 3-2 decision is not small, with two hawkish

dissenters calling for “on hold.” Importantly, this cut would complete the third stage in the cycle, consisting of more gradual cuts (i.e. 25bp clips) after a more aggressive re-calibration stage of 50bp in 1H25 and the scattered actions in 2024.

- The board delivered a hawkish cut in November, signalling that emerging inflation risks and lingering market uncertainties did not warrant cuts (in plural). To JPM, this meant the Board was going to take one step at a time, and as things stand right now, they are now cornered into calling for a pause in February to reassess current and future conditions.
- Growth stagnation, an expected Fed cut in January, and restrictive monetary conditions favour back-to-back cuts. Yet, given inflation surprises in November, sticky core services, and the confirmation of a new wave of tariffs in January that will bring inflation to 4.3% y/y (4.7% for core) in January, it should be enough to take a breather and reassess the balance of risks once the new tax wave heats the shores.
- To be fair, the risk of an extended pause is not small, potentially anchoring policy at 7% as the new terminal rate for this cycle. JPM will reassess the guidance from the Board this Thursday, but for the time being, they see one final cut in 1Q26 that would bring the policy rate to 6.75%.
- While Banxico could have been tempted to communicate in its Annual Monetary Program out in late January, a new easing (spaced) phase to bring rates towards 6%-6.5%, last week's news is an unwelcome development for their original strategy. A final word of caution. The staff should revise its new inflation path this week, bearing in mind the tariff news and the disappointing November inflation report to avoid a dent to its credibility.

#### **Natixis: Maintain 6.5% Terminal Rate Forecast, But Expect Pause in Early 2026**

- Natixis anticipates that Banxico will cut its policy rate by 25bp to 7.00% this week. They anticipate that three board members - Rodriguez, Mejia, and Cuadra - will definitely vote for a cut. Heath will most likely support a pause. While Natixis believes Borja will align with the doves, they wouldn't be surprised if she sides with Heath. Additionally, Natixis believes the forward guidance paragraph will indicate that Banxico is open to pausing its cutting cycle in the first meeting of 2026 (potentially extending to the next two meetings).
- Natixis expects inflation to rise at the beginning of 2027, driven by the impact of tax hikes and the 50% tariff on imports from Asian countries. However, they forecast a rate cut this week for the following reasons: Banxico has focused on annualised core inflation, which aligns with the staff's Q4 forecast of 3.1%; although core inflation exceeded expectations in November, it recorded the lowest monthly change in the past 12 months; the economy is showing signs of weak and declining growth; the Fed's rate cut provides Banxico with additional leeway to lower rates; the MXN has continued to appreciate.
- Natixis maintain their forecast for a terminal rate of 6.50% but expect a pause of one to two meetings in early 2026. The CPI for November was disappointing, with both headline and core figures above the 3.0% target. However, headline inflation remains within the target band of 2.0% to 4.0%, which Natixis believes will be 'good enough' for at least three of the five board members: Rodriguez, Mejia and Cuadra.

#### **Scotiabank: Expect Less Dovish (If Not Outright Hawkish) Board**

- Another quarter-point overnight rate cut is expected to be delivered on Thursday. That would mean 425bp of cumulative easing since early 2024. Key is the signal on how much further to go, if at all.
- One case for halting in its tracks is that core inflation has been on the rise throughout much of this year. It's running at 4.4% y/y, up from 3.7% in February. Another case is uncertainty over the forward path for the fed funds rate. The present policy rate spread is 350bp and has narrowed by 225bp since early 2024. That's a narrower spread than it was at any point since 2016.
- Trade negotiations with the US are an obvious risk but carry demand and supply side considerations. Mexico's steep tariffs applied against Asian imports - particularly from China with rates up to 50% - could pose substantial pass-through risk given high import propensities.
- Even before this announcement, Deputy Governor Jonathan Heath said “nobody believes” that the central bank will achieve its 3% inflation target as the midpoint of a 2–4% target range. Heath warned “We must do everything we can, and continue doing so permanently, to bring inflation down to 3%.” To date, Heath's dissenting voice has been on the right side of the debate. With MXN appreciating by about 15% to the dollar April, his colleagues may counterbalance the debate.

**SocGen: Still Forecast 25bp Cut, But Recent Inflation Data Warrant Caution**

- With the Federal Reserve also cutting rates in December and the peso remaining at a supportive level (up 14% year-to-date), SocGen anticipates Banxico will lower its policy rate to 7.0% this week. However, more recent inflation data warrant increased caution.
- Mexico's CPI inflation surprised to the upside in the second half of the month, with the headline rate climbing to 3.99% y/y and core inflation accelerating to 4.54%, its highest level since March 2024, when Banxico began its current easing cycle. The surprise was notable not only in magnitude but also in composition, as goods inflation defied base effects while services inflation remained persistent.
- SocGen believes that the upside surprise in Mexican core inflation has reached a level where Banxico may soon need to address growing criticism of its inflation forecasts. The continued rise in minimum wages and the impact of higher import tariffs may explain some of the recent upside surprises in core inflation. However, unless core disinflation resumes, Banxico may have to pause its easing cycle, most likely after a December rate cut, but possibly even foregoing a cut altogether.
- Upside risks to SocGen's end-2026 rates forecast of 6.25% have increased. While they continue to expect inflation to moderate meaningfully over the coming quarters - given that 2026 will likely be the third consecutive year of below-trend economic growth - the risks to their 2026 Banxico rate forecast of 6.25% have also risen. SocGen will await Banxico's statement next week and additional data releases on growth and inflation before reassessing their end-2026 rate outlook.

## MNI Policy Team Insights

**MNI EM INTERVIEW: Rate Lags On Credit Back Gradual Easing - Mejia**

*By Larissa Garcia*  
*Dec 2, 2025*

Mexican credit markets react with a delay to interest rate moves, and the effects of past monetary tightening will continue to filter through and allow policymakers to keep adjusting policy gradually, deputy governor of the Central Bank of Mexico Omar Mejia, who has just co-authored a study on the subject, told MNI.

"Our study shows that credit responds with a lag to interest rate moves, and that the impact of monetary policy could be even greater given the economic weakness that began to emerge at the end of 2023. Thus, the lagged effect of the policy rate on credit adds to the impact that the economic slowdown itself would already have," Mejia said in an interview.

The paper "The Credit Channel in Mexico during the Post-Pandemic Period" was written together with Mauricio Torres, Jorge Jaramillo, and Jose Eduardo Valencia, all from Banxico, and was published in October of this year. Between 2022 and 2024, the period of focus for the research, Mexico's interest rate reached its peak of 11.25% yet the credit market remained dynamic, the authors found.

**MONETARY POLICY WORKING**

"At first glance, this behavior could be interpreted as evidence of the absence of the credit channel. However, in this study we argue that it is essential to consider the role of other factors, particularly the phase of the economic cycle," the official pointed out.

The authors found that the strength of monetary policy had not weakened, but that other factors, including prior economic growth, the post-pandemic credit rebound, and rising real wages, drove credit expansion.

Credit grew 6.2% on average in real terms from September 2022, when the monetary stance turned clearly restrictive, to March 2024, when the central bank made its first rate cut. Over the same period, consumer credit grew 10.7%.

"In the period we analyzed, credit showed strong expansion, but this was because the effect of increases in the policy rate was more than offset by the dynamism of economic activity. That does not mean the rate had no effect. Had the policy rate not been raised, there would have been effects on this and other channels that would have hindered the disinflation process," Mejia noted.

## NEUTRAL RATE

Banxico cut its policy rate by 25 basis points to 7.25% last month. With this move, the ex-ante real rate stood at 3.36% and entered the board's estimated range for the neutral rate, which goes from 1.8% to 3.6%, with a midpoint of 2.7%.

"The neutral rate is an unobservable variable, and its measurement is subject to considerable uncertainty. This reference must be interpreted in light of prevailing macroeconomic conditions and not only based on whether the rate crosses that threshold," Mejia said. He stressed that economic activity could amplify the credit channel.

"I consider it appropriate to assess the level of the monetary stance by taking into account various macroeconomic factors, which could indicate that monetary policy will indeed continue to influence the price-formation process, providing room to keep adjusting the policy rate with greater gradualism," he said.

"It is foreseeable that we will enter a period of moderate recovery, but the economy will continue to show wide slack throughout the forecast horizon," he added.

Mejia also emphasized that the weakness of the dollar mitigates the risk of depreciation of the Mexican peso. "And a medium-term factor is the significant increase in retirement savings resources, which will continue to grow, and this has a positive effect on the supply of loanable funds."

## MNI EM POLICY: Banxico Split on FX Effects As US Spread Narrows

*By Larissa Garcia*  
Nov 26, 2025

Dovish board members at the Central Bank of Mexico are arguing that the country's economic cycle has decoupled from that of the U.S. in recent years and that further peso resilience might point to room for more rate cuts, MNI understands.

Questions around the outlook for the peso are one of the main points of disagreement on the board, with hawkish members also seeing the risk of having to rebuild the rate differential with the U.S., either by holding rates steady as the Federal Reserve cuts or even hiking if the Fed adopts a tighter stance.

Banxico's September meeting saw heated debate on the issue, with Deputy Governor Gabriel Cuadra, as well as Governor Victoria Rodriguez and board members Galia Borja and Omar Mejia all highlighting how the peso had appreciated since August's rate cut to 7.75%, MNI understands.

The governor noted the country's solid macroeconomic fundamentals, which both Rodriguez and Borja said had been supported by Mexican exports to the U.S. under the USMCA. The governor noted that year-to-date peso appreciation exceeded 10%, though she, together with Cuadra and Borja, stressed that this was largely explained by the broad retreat of the dollar.

A credible monetary policy framework has also been positive for the peso, it was noted, with Cuadra observing at the meeting that peso implied volatility has fallen below that of other emerging economies. Expectations for peso



depreciation have moderated even as interest rate differentials with the U.S. have fallen below historical averages and are expected to remain relatively stable, Mejia noted.

## RATE DIFFERENTIAL

Banxico cut its policy rate by 25 basis points to 7.25% this month, with Deputy Governor Jonathan Heath again dissenting in favor of holding, and the board signaled at least one more reduction ahead.

The Banxico-Fed interest rate differential is now at 325 basis points, versus an historical average of around 500 points. Markets are pricing an 80% chance of a 25bp cut by the Fed in December.

On the hawkish side, Borja warned of the risk of a reversal in the dollar's depreciation or a sudden spike in peso volatility from the low percentiles.

Heath, who has voted against rate cuts since July, argued that the broad depreciation of the dollar has made the interest rate differential with the U.S. less relevant. He stressed that although the recent easing by the Fed opens some room, the central bank should react with caution given the possibility that the Fed cuts less than expected.

## MNI EM INTERVIEW: Banxico Nearing End Of Easing Cycle - Zaga

*By Larissa Garcia*  
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The Central Bank of Mexico is likely near the end of its easing cycle after a 25-basis-point rate cut last week to 7.25%, as core inflation remains at high levels, former Economy Ministry deputy general director Daniel Zaga told MNI.

"I think the latest 25-basis-point cut is fine, but it should already be reaching the limit of reductions the central bank can deliver," Zaga, who left government service in 2018 and is now chief economist for Spanish-speaking Latin America at Deloitte, said in an interview.

While headline inflation is below 4% and within Banxico's target range of 1 percentage point above or below 3%, core inflation remains resilient, he said.

"Non-core inflation, which is very volatile, is currently very low. That means it could rise at any moment because it depends more on factors not related to monetary policy," he said, noting inflation pressures particularly from increases in the minimum wage over the past seven years.

## EASING CYCLE NEARS END

In his view, the central bank might deliver one or two more 25-basis-point cuts, including one in December.

"Today we're at 7.25%. We might see one or two more cuts. I really don't think there will be any beyond that," he said.

Banxico cut its policy rate by 25 basis points to 7.25% last week, with Deputy Governor Jonathan Heath again dissenting in favor of holding. The board signaled at least one more reduction ahead.

Zaga believes the next few decisions will be increasingly split as the bank approaches the end of the easing cycle.

"I think there are, in some way, certain pressures for the central bank to cut rates, and the main one is that the federal government is increasing spending significantly, especially expected for next year."



## TIED TO FED MOVES

Banxico's next moves will also be strongly influenced by the Federal Reserve, he said.

"The rate differential between Banxico and the Fed is very low, just a little over 300 basis points. Historically, it has reached 500 or 600 basis points. If the Fed cuts, we have room to cut without causing the currency to depreciate. But if the Fed doesn't cut, I think we shouldn't move at all," he noted.

Zaga also emphasized that the neutral interest rate may be higher than the central bank's current estimate, which is a range between 1.8% and 3.6% in real terms, with a midpoint of 2.7%.