MNI Banxico Preview: September 2025

Rate Decision and Monetary Policy Statement: 2000BST / 1500ET - Thursday, September 25, 2025.

MNI POV: 25bp Easing Pace Expected to Continue Ahead

After slowing the easing pace in August, the Banxico committee is expected to deliver another 25bp rate reduction, taking the overnight target rate to 7.5%. After dissenting in favour of a rate hold at the two previous meetings, there will be the usual attention on Deputy Governor Heath's vote, as he continues to focus his rhetoric around the stalling of progress on core disinflation. Separately, the continued appreciation of the Mexican peso and the Fed back in easing mode bolster the likelihood of the committee maintaining its guidance in assessing further adjustments to the reference rate ahead.

Fed Easing Bolsters Likelihood of Further Banxico Cuts Ahead

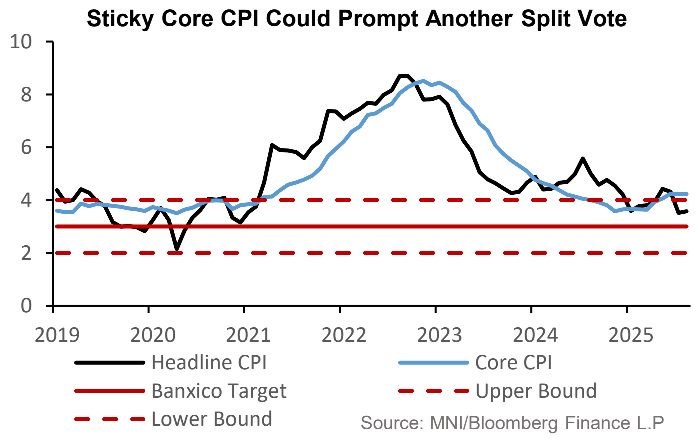
At the August monetary policy meeting, the Banxico committee acknowledged that although the economy had grown at a faster pace in Q2, the uncertain environment continued to pose significant downside risks. Meanwhile, headline inflation was still expected to converge to the 3% target in Q3 2026, although it continued to see inflation risks as being biased to the upside amid an uptick in core inflation forecasts. Looking ahead, the Board maintained its forward guidance, which hinted at additional rate cuts, and the 4-1 vote split in favour of the cut last month (with Deputy Governor Heath the sole dissenter for no change) was seen as supporting the view that Banxico is not at the end of its current cutting cycle.

Since then, domestic activity indicators have remained weak, particularly on the investment side, while core inflation has held above the ceiling of the central bank's 2-4% target range. Despite the persistence of core inflation, however, Banxico Governor Rodriguez has continued to strike a dovish tone, noting after the publication of the recent quarterly inflation report that growth is expected to remain low for the rest of this year, only followed by a gradual expansion through 2026. The central bank now sees real GDP rising by 0.6% this year (vs. 0.1% previously) and 1.1% in 2026 (vs. 0.9%). Meanwhile, Deputy Governor Omar Mejia explicitly said that space still exists to continue the easing cycle, while even the more hawkish Deputy Governor Heath said that although recession risks have been put at bay, growth needs to be much stronger going forward.

Importantly, the resumption of the Fed's easing cycle last week also gives the Banxico committee more space to continue with its own sequence of rate cuts beyond the widely anticipated move this week. Speaking to MNI earlier this month, before the Fed rate cut, Banxico's former director of economic studies, Alejandro Werner, said that while a 25bp Fed cut could prompt Banxico to stick with 25bp moves, "if the Fed signals a clear dovish stance and the peso appreciates, Banxico could deliver another 50bp cut, especially if the Mexican economy slows toward the end of the year". (See MNI Policy Team Insights below.)

Core Inflation Stuck Above Target

Although headline inflation has fallen back into the central bank's target range since the previous MPC meeting, core inflation remains stuck above the 4% threshold amid sticky services pressures. Headline inflation fell to 3.51% y/y in July, from 4.32%, due to a helpful base effect related to last year's drought, and then held close to that level, at 3.57% in August. Core inflation, however, has remained broadly unchanged over the last couple of months, at 4.23% y/y. Within core, goods inflation inched higher to 4.05% y/y in August, offsetting a slight moderation in the services component, where inflation nonetheless remains persistent at 4.40% y/y.



Overall, core inflation dynamics will remain a concern for some Board members this week, notably hawkish dissenter Jonathan Heath, raising the prospect of another split vote. Nonetheless, the data are unlikely to derail a rate cut, with

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the majority of the Board focusing on the downside risks emanating from the mounting slack in the economy. Bi-weekly CPI data for the first half of September, due just ahead of the meeting this week, are unlikely to change the picture either (with headline inflation seen rising to 3.75%, while core holds around 4.25%), but further ahead the resilience of the Mexican peso should help to contain the upward trend in core goods inflation, while services inflation should slowly ease on the back of the weakness of demand.

Analysts' inflation expectations have also remained relatively stable, with headline CPI inflation seen ending this year at 3.99%, according to this week's Citi survey (vs. 4.00% ahead of the August meeting), before easing to 3.79% at end-2026 (vs. 3.76% last month). Meanwhile, core inflation is expected to end this year at 4.12%, up 2bp from August, while the end-2026 estimate remains at 3.70%. As a comparison, the central bank expects both headline and core inflation to end this year at 3.70%, before both fall to the 3.0% target in Q3 2026.

Widening Negative Output Gap Supportive of Further Rate Cuts

Meanwhile, domestic activity indicators remain weak, with the economy contracting by a larger-than-expected 0.89% m/m in July, bringing the annual rate of growth down to -1.14% y/y, from +1.30% in June. This follows a 0.6% q/q expansion in real GDP in Q2, which although better than initially expected, still only left the annual rate of growth at 0.0% y/y. While private consumption remains relatively firm, investment is weak, highlighted by a 1.4% m/m (-6.4% y/y) decline in June. Over Q2, private consumption rose by 1.2% q/q, while investment edged up by just 0.2% q/q amid a notable 1.5% q/q contraction in public investment. The labour market is also showing some signs of softening, albeit from a relatively strong starting point. Formal job creation and nominal wage growth are moderating and the unemployment rate rose to a 10-month high of 2.77% in July - although it remains at a relatively low level for now.

Overall, GDP growth forecasts for this year have edged up in recent weeks as the Q2 data appeared to remove the threat of recession. Analysts now see the economy growing by 0.5% this year, according to the latest Citi survey, up from 0.3% ahead of the August MPC meeting. At the same time, however, the 2026 GDP estimate has ticked down to 1.3%, keeping growth well below trend. Banxico also expects the output gap to widen into negative territory through the rest of this year and next, according to the latest QIR, suggesting ample scope to continue with rate cuts ahead. Against this backdrop, analyst interest rate expectations have declined since August, with the policy rate now seen ending this year at 7.00% (vs. 7.50% previously) and 6.50% next year (vs.6.75% before).

USDMXN Continues to Erode Post 2024 Election Rally

The Mexican peso has maintained its very resilient tone since April, with USDMXN remaining in close proximity to recent cycle lows, printed last week at 18.20. The continued strength of the peso should bolster the likelihood that the committee maintains its guidance for assessing further adjustments to the reference rate ahead. From a technical perspective, a bearish trend condition in USDMXN remains intact, with last week's breach of 18.5109 support marking an extension of the current downtrend. The next psychological support resides at 18.00 handle, while initial resistance at the 20-day EMA is at 18.4939. Firm resistance to watch is the 50-day EMA, at 18.6462.

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	3.65	4.6	↓	3.8	↓					-1.41
Core CPI	% y/y	4.23	4.1	↑	3.7	↑					1.01
CPI	% m/m	0.06	0.3	↓	0.3	↓					-2.41
Oil Price (WTI Active)	$	63.41	58.20	↑	66.43	↓					-0.07
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	50.2	46.7	↑	47.6	↑					0.32
GDP	% y/y	0.1	1.6	↓	2.5	↓					-1.31
Industrial Man Prod	% y/y	-2.7	-4.0	↑	-3.0	↑					-0.59
Economic Activity IGAE	% y/y	-1.14	-1.65	↑	0.22	↓					-0.84
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	10.0	11.2	↓	12.2	↓					-1.04
Non-Fin Corp Credit	% y/y	-4.6	-2.5	↓	-1.0	↓					-1.52
Household Credit	% y/y	16.7	16.5	↑	16.2	↑					1.25
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	3.2	4.1	↓	-0.4	↑					0.05
Consumer Confidence (Q)	Index	46.7	46.6	↑	46.3	↑					1.19
Unemployment Rate	%	2.8	2.5	↑	2.7	↑					1.03
Nominal Wage Increase	% y/y	7.3	8.9	↓	8.3	↓					-0.68
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Bolsa Mexicana	Index	62,135	57,842	↑	52,326	↑					1.10
10-Yr TIIE Swap Yield	%	7.71	8.20	↓	8.53	↓					-1.16

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):

Analysts are unanimous in expecting a 25bp rate cut this week, according to the latest Bloomberg survey, with all 25 respondents expecting a reduction in the overnight rate to 7.50%. Separately, BNY Mellon in the sample below expects no change.

Banorte: See 25bp Cut in Split Decision, Value in Short/Medium-Term Nominal Rates

- Banorte expects Banxico to lower its policy rate by 25bps to 7.50%, with Jonathan Heath likely voting to hold. They do not anticipate changes to the forward guidance, though upward revisions to core inflation forecasts are probable. This setup supports continued easing, with rates ending 2025 and 2026 at 7.00% and 6.50%, respectively.
- Banorte continues to see value in short- and medium-term nominal rates, primarily on the back of the decoupling between market pricing for Banxico and their own projections. The curve currently embeds an implied rate of 6.88% for end-2026, which is its most aggressive point in the recent pricing, yet still above their 6.50% estimate. This divergence should continue to drive a downward shift in the yield curve.
- Additionally, the Mbono's curve offers positive carry from Mar'29 onward, allowing investors to capture gains as market pricing converges toward their Banxico call. Banorte initiates a long Mar'29 Mbono position, with an entry level at 8.03%, targeting 7.63%, and a stop-loss at 8.28%.
- On the FX, Banorte expects the USD will continue to weaken through year-end, albeit at a more gradual pace than in prior months. This environment provides a favourable backdrop for MXN, though they remain cautious as the onset of NAFTA negotiations could spur hedging demand, especially amid declining implied volatilities across the MXN curve.

BBVA: Another Split Decision Likely, On Lookout for New Forward Guidance

- On Thursday, Banxico is widely expected to cut by 25bp to 7.5%, again in a likely split decision (4-1). The steady tone by policymakers, a stronger MXN, weak economic activity and the Fed's 25bp cut in September back a continuation of the easing cycle. Investors will be on the lookout for new forward guidance and revised forecasts, or any change in tone. Eventually, lower Mexican rates will dent the carry rally, but Banxico's easing has not had much impact on the peso so far.

BNY Mellon: See Banxico on Hold, Favour Duration

- BNY Mellon sees Banxico remaining on hold at 7.75% this week. August headline inflation rose slightly to 3.57% y/y, while core inflation was about 4.2%, keeping underlying pressure above the 3% target midpoint. Banxico's late-August quarterly report noted that inflation projections were revised up for the coming quarters and that convergence to the 3% target is still anticipated around the third quarter of 2026. The Board also emphasised that policy would remain focused on consolidating disinflation and anchoring expectations, with the inflation risk balance still tilted to the upside.
- iFlow indicates ongoing interest in adding to Latin American FX exposure and Banxico's real rate buffer is clearly conducive for MXN performance, especially with the updated Fed trajectory. However, BNY still favours duration as the better expression as the dollar's soft positioning situation and limits to additional easing in pricing could generate a broader tactical recovery.

BofA: Expect 25bp Cut with Risk of Further Easing This Year

- BofA expects Banxico to cut the overnight rate by 25bp to put it at 7.50% on Thursday. They believe that Banxico will tolerate core inflation, as although it remains relatively high, it is stable. Moreover, they believe that Banxico will argue that the economy overall remains weak. Furthermore, 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 downside. Despite board members opposed to cutting (Heath), Banxico could cut more this year if headline inflation remains below 4%, the economy slacks, a strong MXN persists or the Fed cuts.

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CIBC: Banxico to Signal Openness to Further Cuts in Q4, Potential for Correction Lower in S-T Rates

- CIBC expects Banxico to cut the overnight rate by 25bp to 7.50% this week and to signal openness to additional cuts in Q4, particularly as the Fed resumes its easing cycle and signals two more rate cuts this year. Notably, the majority of the board appears less concerned about the Banxico-Fed rate differential, while 1-year inflation expectations continue to trend lower and headline inflation remains below 4.0%.
- With the market still pricing Banxico's terminal rate near 7.0% and the Fed resuming its easing cycle, CIBC sees potential for a 40-50bp correction lower in short-term rates. Additionally, the current Banxico-Fed rate differential priced one year forward suggests a widening of up to 60bp, including this week's anticipated cut.
- This situation amplifies downside risks to the Banxico-Fed rate differential and increases the likelihood of a rebound in USD/MXN. However, CIBC recommends initiating long positions on dips toward 18.20 as USD weakness persists.

Goldman Sachs: See 25bp Cut with One Dissenting Vote, Likely Increase to 2026 CPI Forecasts

- Goldman Sachs expects the MPC to cut the policy rate by 25bp to 7.50%, with likely one dissenting vote for no cut given lingering core inflation pressures.
- They expect the forward guidance to signal the continuation of the rate normalisation cycle given, among other factors, the expectation of two additional FOMC cuts in 2026, weak current and prospective real activity dynamics (negative output gap over the forecasting horizon), still high ex-ante real rate (4.0% vs estimated r* at 2.7%) and a relatively well-behaved MXN.
- GS expects another upward revision to the 2026 inflation forecasts, with inflation convergence to the target delayed to possibly 1H2027.

Itaú: Reduce Year-End Policy Rate Forecasts by 50bp, Given Fed Easing Cycle

- Itaú believes Banxico will have more room to cut rates ahead, given their revised expectations for three consecutive Fed rate cuts in the coming meetings. As a result, they now see Banxico cutting to 7.0% by year-end, including a 25bp cut this week, down from their previous estimate of 7.5%.
- They also now expect consecutive Banxico rate cuts ahead, contrary to their previous expectations, and see the policy rate reaching 6.5% next year, as compared to 7.0% seen previously.
- Base effects will accelerate core CPI during the second half of 2025 and headline inflation next year. This poses risks to Banxico and may prompt a pause to wait until inflation cools off. However, given the more dovish FOMC, the stable USDMXN, and the benign marginal inflation dynamics in the context of a widening negative output gap, Itaú now believes it is more plausible for them to proceed with a continuous cycle, with the risk/alternative scenario being a pause, rather than the other way around.

JP Morgan: Breathing Space Granted by the Fed Provides Room to Maintain Dovish Bias

- With the policy rate now at 7.75%, each monetary policy decision in Mexico will need to be crafted more carefully, considering that the MPC has emphasised the need to maintain a gradual approach in the context of inflation challenges and the high level of economic uncertainty.
- Yet, with the ex-ante policy rate still above 4% and the Fed granting some more space from the 'spread' perspective, JP Morgan is confident that the road ahead remains clear, for now. They expect a 25bp cut this week, which will bring the policy rate to 7.5%, the lowest level in three years.
- JPM believes that the breathing space granted by the Fed, plus encouraging core inflation news should provide enough room to maintain a dovish bias, and they think the risk of a unanimous (5-0) call remains non-negligible.
- Core goods inflation remains well supported by currency appreciation, while core services inflation is losing momentum on the back of demand-side economic weakness. By now it should be clear that from the aggregate demand perspective, it is not just investment that is weak. Consumption is losing traction as employment stutters, remittances falter and the urge to boost imports fades.

Scotiabank: Fed Cut, US Tariffs and Uncertainty Around USMCA Add to Motivation to Ease

- A 25bp rate cut to 7.5% would extend the easing cycle to a cumulative 375bp. Guidance provided at the August meeting that accompanied a 25bp rate cut shifted more to the affirmative in replacing wording that policy was merely being 'calibrated' to how it was "deemed appropriate to continue the rate-cutting cycle."
- Another reason for a cut this week is that while it doesn't always follow the Fed, Banxico frequently does so, and the FOMC just restarted what Scotiabank thinks will be a material easing campaign.
- US tariffs and uncertainty around USMCA negotiations add to motivations to ease. Recent data have been mixed as jobs and wages hold up quite firmly, but industrial output has fallen over the past couple of months. The peso has appreciated from about 20.8 to the dollar in April to 18.4 now. Such forces will nevertheless be accompanied by a weary eye turned toward core CPI inflation that has risen back to about 4¼% y/y over recent months.

SocGen: Weak Growth Backdrop and Fed Cuts to Prompt Further Front-Loading of Easing Cycle

- SocGen believes that weak growth back home and the Federal Reserve's relatively accommodative stance will prompt the Bank of Mexico to continue front-loading its own easing cycle. They expect the central bank to cut the overnight rate by 25bp to 7.50% in September and signal further easing in 4Q25.
- SocGen continues to expect Banxico to take the overnight rate to 7.25% this year – meaning only one rate cut in 4Q25, while the probability of the central bank implementing rate cuts in both next quarter's meetings is quite substantial too. This possibility will rise if the economic and labour market data weaken further in the US, likely prompting the Federal Reserve to cut in both meetings in 4Q25.
- SocGen currently projects the Banxico policy rate in 2026 at 6.50% vs consensus forecast of 6.75%. In their view, the downside risk of Banxico continuing to front-load rate cuts in 1H26 is still quite substantial. Weaker US and Mexican growth and labour market data will raise the downside risks of additional Banxico rate cuts, with the possibility of Banxico taking rates close to 6.0% in 2026.

Wells Fargo: 25bp Cut Could Mark Final Move in Current Cycle

- At its most recent meeting in August, the central bank cut its policy rate by 25bp to 7.75%, while offering limited forward guidance. One board member opposed further easing, citing persistently high core inflation as a key concern. Despite that caution, Wells Fargo expects the central bank to cut rates by 25bp this week, bringing its Overnight Rate down to 7.50%.
- August inflation data showed headline inflation ticking up slightly to 3.57% y/y, ending a three-month streak of slowing down. Core inflation remained steady at 4.23% - still elevated and above the central bank's 2%-4% target range. With core inflation proving sticky, economic activity holding up and the interest rate differential with the Fed having narrowed over the past several months, WF believes Banxico is nearing the end of its easing cycle and that the 25bp cut this week could mark the final move in the current cycle.

MNI Policy Team Insights

MNI EM INTERVIEW: Banxico Can Cut More If Fed Turns Dovish - Werner

By Larissa Garcia
Sep 17, 2025

The Central Bank of Mexico is likely to stick with 25-basis-point rate cuts for now, though it could have more room to ease if the Federal Reserve signals a clear dovish stance over the coming months, potentially strengthening the peso, Banxico's former director of economic studies Alejandro Werner told MNI.

"If the Fed cuts 25bp today, Banxico might stick with 25bp cuts for a while. However, if the Fed signals a clear dovish stance and the peso appreciates, Banxico could deliver another 50bp cut, especially if the Mexican economy slows toward the end of the year," he said in an interview. "Still, there is a very high chance they will stick with 25bp."

Banxico's decision to slow the pace of its easing last month, reducing its overnight interbank rate 25 basis points to 7.75% and signaling more cuts ahead without specifying the size, was a prudent one, said Werner, who also served as director of the Western Hemisphere Department at the International Monetary Fund until 2021 and is now a director of the Georgetown Americas Institute and a non-resident senior fellow at the Peterson Institute for International Economics.

What matters more than the size of the cuts is the signal Banxico gives about the terminal rate, Werner said, adding that the central bank should be clearer about its thinking regarding where it expects the cycle to end.

"Their communication is very minimal. But I think now they should start talking about their terminal rate, and maybe make some assumptions about where the Fed is going to stop. I think that would be important because it could help guide the reaction in the long-term rates that we have been seeing in the 10-year rate," he said.

"And I think we will start seeing clues of what Banxico's tolerance is for staying at the upper part of the inflation band. They always say that they're doing everything to achieve 3%. But on average, they have never achieved 3%. Maybe there was an 18-month period when they did, but overall their tolerance level has been living above 3%."

Banxico's inflation target band is centered at 3% with a 1% margin in either direction.

Werner also noted that the effects of U.S. trade policy on inflation remain uncertain and could be disinflationary, but Mexico's own tariffs on China could push prices higher.

NEUTRAL LEVEL UNCERTAIN

He also pointed to doubts about the neutral rate. Banxico estimates that it lies a range between 1.8% and 3.6% in real terms, with a midpoint of 2.7%, but the former director believes it could be lower.

"Banxico takes five methodologies to estimate the neutral level and averages them. They should decide on a methodology that actually applies to the Mexican economy and stick with that one," Werner commented.

"Many of the other methodologies they use are designed for a closed economy, and since Mexico borrows from the rest of the world, that tends to push the interest rate higher. Therefore, Banxico tends to be more hawkish than it needs to be. Regarding the terminal rate, I think that would be an interesting discussion, but I haven't seen it yet."

MNI EM INTERVIEW: Banxico To Cut Once More And Hold - Covarrubias

By Larissa Garcia
Aug 22, 2025

The Central Bank of Mexico is likely to reduce its policy rate by 25 basis points to 7.50% at its next meeting in September before pausing its easing cycle until next year, former Banxico deputy manager of research strategy Enrique Covarrubias told MNI.

Minutes released Thursday confirmed a shift to a pause, he said.

"I think these minutes in particular were very relevant, because they were one of the first stages of this process of ending the monetary policy easing cycle. And it seems to me that there is indeed a change of tone in this regard," Covarrubias, now chief economist at Actinver, said in an interview.

The rate-cutting cycle has been mainly driven by domestic factors, he said.

"It has been due both to the economic slowdown and also to the decline in the inflation rate, especially compared with a year ago. And these rate cuts at some point have to end, at least for these domestic reasons," he said.

"And it seems to me that the signal the Governing Board as a whole is giving is that, in general, yes, we should be expecting the next meeting to be the last of the rate cuts. But at the same time, they do not want to completely close the door to additional cuts."

EXTERNAL FACTORS

External factors could give Banxico more room to continue the easing cycle next year, he said.

"There is uncertainty on several issues related to what the Federal Reserve in the United States will do, for example, and about inflation behavior due to U.S. tariffs."

The former Banxico economist forecasts interest rates to end this year at 7.50% and 2026 at 6.5%, while inflation might be above 4% this year.

"This is an inflation that is clearly above the Bank of Mexico's mandate, and I think that is why at this moment there is some nervousness among members of the Governing Board, even someone who has already voted not to move the rate," he noted.

Banxico slowed the pace of its easing this month, reducing its overnight interbank rate 25 basis points to 7.75% and signaling more cuts ahead without specifying the size. Deputy Governor Jonathan Heath dissented in favor of holding.

DISSENTING VOTES

Covarrubias said that upcoming decisions are likely to continue with dissenting votes not only at the next meeting, with one vote to hold, but even during a possible pause, with at least one member voting to continue cutting.

The effects of the trade tariff policy of Donald Trump's U.S. administration are still uncertain, but Mexican exports have remained strong even several months after the announcement, he said.

The recent solid performance of the peso's exchange rate is due to many factors, he said, though he added that it was probably due more to worsening sentiment toward the dollar than to unambiguous confidence in Mexico's currency.