MNI Banxico Review: August 2025

MNI Point of View: Easing Pace Slows, Further Cuts Hinted

Banxico slowed the pace of monetary policy easing in August, cutting its overnight rate by 25bps to 7.75% - as was widely expected. The decision was split, with Deputy Governor Jonathan Heath the lone dissenter voting to pause the easing cycle. The committee will "assess further adjustments to the reference rate," suggesting that additional easing is likely at upcoming meetings. Among sell-side, analysts expect the Board to deliver another 25bp rate cut in September, but views remain divided over the scope for further easing beyond next month.

The policy statement acknowledged that although economy grew at a faster rate during Q2-2025 than in the previous quarter, economic slack prevails while an uncertain environment poses "significant downward risks". Headline inflation is still expected to converge to target in the third quarter of 2026, but the Bank's core inflation forecasts were nudged slightly higher. Overall, the Board assesses that inflation risks remain "biased to the upside," albeit less skewed than in 2021-2024. US economic policy changes are also noted to have added uncertainty to forecast, and their effects could imply pressures on inflation on both sides of the balance of risks.

The central bank raised its core inflation forecasts for 2H-2025 but lowered its near-term headline projections, maintaining the view that both measures will converge to target well within the policy horizon. In Q4-2025, headline inflation is expected to average 3.7% (unchanged compared to the June projections) while core is also seen at 3.7% (up 10bps from the previous projections).

Banxico maintained its forward guidance, which hints at additional rate cuts: "Looking ahead, the MPC will assess further adjustments to the policy rate." Besides the consideration of "all determinants of inflation," there is no conditionality alongside the guidance, providing strong argument that the Board will continue with 25bp cuts. The 4-1 vote split (Jonathan Heath was the lone dissenter in favour of no change, as was widely expected) further bolsters the argument that Banxico is not at the end of its current cutting cycle given that the delivery of the ninth consecutive rate cut had firm support.

Among sell-side, views remain mixed over whether easing will continue after September. The resilience of the peso and the lack of a meaningful improvement in the labour market are among the factors cited by those who are expecting more than one 25bp rate cut this year, while others cite ongoing core inflation pressures and uncertainty over Fed policy as justification for a more cautious stance.

Given that yesterday's decision was fully priced, there was little reaction from the Mexican peso, with USD/MXN trading in a tight range following the decision. The trend condition in USD/MXN remains bearish overall with spot currently trading close to July's cycle lows. Moving average studies are in a bear mode position too, signalling scope for an extension lower towards 18.4302, the Aug 1 2024 low, and 18.1837, the 61.8% retracement of the Apr 9 '24 - Feb 3 bull leg. On the upside, a clear break of resistance at the 50-day EMA, intersecting today at 18.8899, would be needed to signal a possible reversal.

Click here to see the full policy statement.

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The complete set of revised inflation forecasts were set out in the following table within the statement:

Forecasts for Headline and Core Inflation
Annual percentage change of quarterly average indices

	2024		2025				2026				2027	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
Headline (CPI)												
Current (08/07/2025)[1/]	**5.0**	**4.5**	**3.7**	**4.2**	**3.8**	**3.7**	**3.4**	**3.1**	**3.0**	**3.0**	**3.0**	**3.0**
Previous (06/26/2025)[2/]	5.0	4.5	3.7	4.3	4.1	3.7	3.4	3.1	3.0	3.0	3.0	3.0
Core												
Current (08/07/2025)[1/]	**4.0**	**3.7**	**3.6**	**4.1**	**4.1**	**3.7**	**3.5**	**3.1**	**3.0**	**3.0**	**3.0**	**3.0**
Previous (06/26/2025)[2/]	4.0	3.7	3.6	4.1	3.8	3.6	3.4	3.1	3.0	3.0	3.0	3.0
Memo												
Annualized seasonally adjusted quarterly variation in percent[3/]												
Current - Headline[1/]	5.3	3.1	2.8	5.8	3.7	2.9	2.4	3.5	3.2	2.8	2.5	3.3
Current - Core[1/]	3.6	3.5	4.2	5.0	3.7	2.6	3.2	3.0	3.1	2.7	3.1	3.0

1/ Forecast starting August 2025.
2/ Forecast starting June 2025. See monetary policy statement of June 26, 2025.
3/ See methodological note on the seasonal adjustment process.
Source: INEGI for observed annual variation figures and Banco de México for seasonally adjusted figures and forecasts. Note: Shaded areas correspond to observed figures.

Key Upcoming Dates:

- **Aug 21 – Release of August Meeting Minutes**
- **Aug 27 – Release of Inflation Report**
- **Sep 09 – August CPI Inflation Data**
- **Sep 25 – Next Banxico Meeting**

Analyst Views (Alphabetical Order):

Banorte: Expect 25bp Cut in Sept, Reiterate Estimate for Rates at 7.00% by Year-End

- Banorte note that the balance of risks for inflation remains skewed to the upside, with the same drivers relative to the previous statement. In a similar fashion, their assessment about the effects of trade uncertainty, both for prices and economic activity, also remained unchanged
- It is their take that rate cuts will continue during the rest of the year, based on: (1) The performance of the MXN, expecting that it will stay at relatively favorable levels in coming months; (2) The limited outlook for economic activity, providing room in terms of the overall slack for some prices; (3) Renewed bets that the Fed will cut its reference rate; and (4) A relatively benign scenario relative to other countries in terms of tariffs.
- All in all, Banorte forecast a 25bp rate cut in the meeting to be held on September 25 taking it to 7.50%. Moreover, they reiterate their estimate of a 7.00% interest rate by year-end.

BBVA: Continue to Expect Three Additional 25bp Rate Cuts This Year

- BBVA continue to expect Banxico to deliver three additional 25bp rate cuts this year, ringing the policy rate down to 7.00% by year-end. The resilience of the peso and the lack of a meaningful improvement in the labor market should continue to support disinflation, particularly in core services.
- Although recent GDP data surprised to the upside, BBVA believe this reflects temporary factors and does not change the underlying weakness in domestic demand. Formal job creation remains subdued, and real wage

growth has softened, pointing to continued headwinds on household consumption. These dynamics are likely to sustain a negative output gap and help bring down services inflation as well as keep goods inflation in check, reinforcing the case for further, albeit gradual, easing.

- They say the upcoming minutes will be key to gauge how firmly the majority of the Board remains committed to additional cuts, and whether any members are starting to lean toward a pause.

Goldman Sachs: Forecast Another 25bp Cut in Sept, Expect Policy Rate to Reach 7.25% by Year-End

- Goldman Sachs note that the forward guidance hints at additional rate cuts. They note that the MPC continues to stress that uncertainty and trade frictions and made no major changes to the inflation forecasts.
- In Goldman's assessment, the MPC brushed aside high core-goods inflation and services inflation stickiness and seems inclined to continue to normalize monetary policy and keep the Mexico-US interest rate differential tighter than the historical norm.
- There was no mention in the statement to policy neutrality or the terminal rate. Goldman Sachs forecast another 25bp rate cut at the September meeting, and expect the policy rate to reach 7.25% by end-2025.

Itau: Expect One Last 25bp Cut to Occur at the Next Meeting

- Itau note that Banxico maintained the same forward guidance, indicating future adjustments (plural) ahead. Given recent inflation dynamics and lower interest rate differentials with the US, they believe Banxico will adopt a meeting-by-meeting approach going forward.
- They expect one last 25bp cut to occur at the next meeting, leading to a terminal rate of 7.5% in 2025. Banxico may cut further, depending on inflation dynamics, the currency's performance, and the Fed's actions. Itau anticipate only one 25bp cut by the Fed this year, in December

JP Morgan: Believe Board Remains Comfortable With Back-to-Back 25bp Cuts

- JP Morgan note that perhaps the most surprising fact in the August policy decision was the implicit commitment to remain on the easing cycle without adding conditionality – other than the usual balance of risks to growth and inflation. In their view, there are strong, compelling arguments to continue cutting 25bps, but there are pockets of concern that were worth underscoring in the communique.
- They say the non-unanimous 4-1 decision was consistent with their long-standing view, one that suggests the Bank is not there yet, and intends to proceed steadily with the easing cycle. With the staff only modestly adjusting the inflation path for the core subindex, JPM believe the Board remains comfortable at the start of this new phase in which the Bank is expected to cut back-to-back in 25bps clips.

Rabobank: Expect Another 25bp Cut in September to Be Last of This Cutting Cycle

- Rabobank note that the Bank provided some forward guidance saying that "looking ahead, the Board will assess further adjustments to the reference rate." And even as Heath fears that the pace of cutting signals that the Bank is complacent with the current inflationary trajectory, the Bank of course stated that it "reaffirms its commitment to its primary mandate and the need to continue its efforts to consolidate an environment of low and stable inflation."
- While the Bank made some adjustments to its short-term inflation outlook, it still sees core and headline converging to 3.0% by Q3 2026.
- This reinforces Rabobank's view that we will see Banxico cut the policy rate another 25bp at the next meeting on September 25. Rabobank expect this to be the final cut of this cutting cycle and therefore forecast the terminal rate to be 7.50%.

SocGen: Expect at Least One More 25bp Cut This Year

- SocGen currently expect at least one more 25bp rate cut this year (to 7.50%), possibly as soon as September, and see downside risks for an additional cut later this year, particularly if the Federal Reserve resumes easing.
- They note that the market is currently pricing in about 65bp of Fed cuts over the next six months, and only about 30bp of cuts by Banxico. It expects a total of 109bp and 47bp of rate cuts by the Fed and Banxico, respectively, over the next twelve months.
- SocGen continue to expect Banxico to cut rates by another 75bp in 2026 (to 6.75%) and see downside risks that the bank might consider front-loading some of these cuts. If growth weakness intensifies, SocGen also see downside risks to their 2026 rate forecast.