MNI Banxico Review – December 2025

MNI POV: Dovish Bias Intact, Timing of Next Cut Uncertain

Banxico's governing board cut the overnight rate by a further 25bp to 7.00%, as expected. Despite some expectations for a potential adjustment to the vote split, Deputy Governor Heath remained the sole dissenter, voting to keep the policy rate on hold. The forward guidance was amended to provide more optionality going forward; however, the central bank's easing bias has been maintained as we head into 2026. Analysts are now split on whether the next cut will be in February, or if a pause is imminent.

Regarding the forward guidance, the board will now "evaluate the timing for additional reference rate adjustments", compared to the prior statement where the committee would "evaluate reducing the reference rate". While this is undoubtedly a hawkish development, providing more optionality stepping into 2026, the adjustment did not reflect the growing expectations for a more substantial shift in the board's policy bias. Indeed, the maintenance of the easing bias prompted a dovish reaction from markets. The similarity to the Fed's latest guidance adjustment is also notable, potentially highlighting that the FOMC's decisions could have a larger-than-usual impact on Banxico's reaction function.

Another moderately dovish development was that the committee still see the convergence of inflation in Q3 2026 (table included below). Shorter-term forecasts for both headline and core CPI were revised higher as expected, but the maintenance of the convergence timeline emphasise the dovish majority still believe that most recent inflationary pressures appear to be a short-term phenomenon. Offsetting this slightly, the board did reference upcoming fiscal adjustments, stating that "the Governing Board will evaluate updating the inflation forecast to reflect the effects associated with said measures more accurately".

The statement reiterated that among the most relevant global risks are the escalating trade tensions along with the intensification of geopolitical turmoil and their possible impact on inflation, economic activity, and volatility in financial markets.

In terms of market reaction, the Mexican peso remained little changed through the event, as has been the case for much of 2026. Carry dynamics and a potential shift away from regional peers in recent weeks continue to bolster the peso, helping USDMXN consolidate below its recent breakout point of 18.20, around the 18.00 mark. The more notable reaction was seen across the TIIE-F swaps curve, with the 2- and 5-year segment of the curve extending the move lower to around 11bps on the day. The moves further erode the prior hawkish repricing, with the potential for 2-year swap rates to head back to 7.00% in coming sessions.

Link to full statement: https://www.banxico.org.mx/publications-and-press/announcements-of-monetary-policy-decisions/%7B7DCCD7FD-3BCF-CB35-FD10-B2E19859980F%7D.pdf

Notable Dates:

- **Dec 23 – Bi-Weekly Inflation Data**
- **Jan 08 – Release of Dec Meeting Minutes**
- **Jan 08 – December Inflation Data**
- **Jan 30 – Preliminary Q4 GDP Data**
- **Feb 05 – Next Banxico Meeting**

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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

	2025				2026				2027			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Headline (CPI)												
Current (12/18/2025)[1/]	**3.7**	**4.2**	**3.6**	**3.7**	**3.7**	**3.3**	**3.0**	**3.0**	**3.0**	**3.0**	**3.0**	**3.0**
Previous (11/06/2025)[2/]	3.7	4.2	3.6	3.5	3.5	3.2	3.0	3.0	3.0	3.0	3.0	
Core												
Current (12/18/2025)[1/]	**3.6**	**4.1**	**4.2**	**4.3**	**4.0**	**3.4**	**3.0**	**3.0**	**3.0**	**3.0**	**3.0**	**3.0**
Previous (11/06/2025)[2/]	3.6	4.1	4.2	4.1	3.8	3.3	3.0	3.0	3.0	3.0	3.0	
Memo												
Annualized seasonally adjusted quarterly variation in percent[3/]												
Current - Headline[1/]	2.6	5.6	2.9	3.4	3.0	3.2	2.5	3.2	3.0	3.2	2.6	3.1
Current - Core[1/]	4.3	4.9	4.3	3.6	3.1	2.6	2.9	3.3	3.1	2.7	2.8	3.2

1/ Forecast starting in December 2025.
2/ Forecast starting in October 2025. See monetary policy statement of November 6, 2025. Forecast presented in the Quarterly Report July-September 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.

Analyst Views (Alphabetical Order)

Banorte: Reference Rate to End 2026 at 6.50%

- In Banorte's view, the tone was less dovish. In this sense, we highlight the change in the forward guidance, stating that "…looking ahead, the Board will evaluate the timing for additional reference rate adjustments…", dropping the word 'cutting'.
- The balance of risks for inflation remains skewed to the upside, noting a marginal change in the order of the factors stressing it. In this sense, cost pressures jumped up a place, with disruptions due to geopolitical conflicts dropping down a position.
- In addition, they signalled on their expectation that fiscal adjustments will have a temporary effect on prices. Nevertheless, they detailed that measuring their impact will require incorporating additional information.
- For activity, they keep expecting weakness in 4Q25, with trade issues still skewing risks to the downside looking ahead.
- Changes in the forward guidance suggest that the Board will prefer to provide a much more comprehensive view on the strategy they will follow in terms of the monetary stance next year in the 2026 Monetary Program, which will be released in late January.
- In this sense, we expect rate cuts to continue in 2026, with a cumulative 50bps reduction in 1H26 (previous: 1Q26), which would take the reference rate to 6.50%, level where we expect will close the year.

BBVA: Dovish Bias Remains

- Weak economic activity and the strength of the MXN justified further easing, despite upward adjustments to the inflation forecasts for 4Q25 through 2Q26 and further upside risks to inflation from taxes and likely tariffs.

- The forward guidance moved to a more cautious stance, also as expected. Banxico signalled that further cuts are on the table, keeping the dovish bias, but it will discuss when to implement them. Indeed, higher inflation and additional pressures from taxes, tariffs and minimum wage increases will weigh on Banxico as it continues to delay the convergence to target.
- BBVA's local strategists expect Banxico to ease further in 2026 to 6.50%. Since the curve is currently pricing in rates above 7% for the coming months, there is potential for a shift lower in the front end.
- The MXN has tended to be unaffected by Banxico easing so far and can remain strong in the short term, supported by the carry and low volatility. Furthermore, the MXN seems to be capturing some of the outflows from Brazil and potentially from Colombia, with the continued addition of long positions. As such, peer performance could have an influence in the near term as BRL technicals and flows shift.

Goldman Sachs: Forward Guidance Hints at Pause

- Goldman Sachs now expect the MPC to be on hold at the next 2 meetings while looking for a window of opportunity to resume cutting.
- Pausing would be warranted by the fact that the ex-ante real rate is now 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 been deteriorating, and the outlook for additional FOMC rate cuts is uncertain.
- GS also expect 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 the double-digit increase in the minimum wage.
- These could delay the central bank's expected convergence of inflation the target from 3Q26 to possibly only 2H2027; another factor supporting a pause in the easing cycle at the beginning of 2026.

JP Morgan: Surprise Maintenance of Dovish Bias

- The surprise in the statement was the resumption of the dovish bias in the context of recent inflation surprises related to (1) modest Black Friday discounts, (2) a non-core spike in raw food, and (3) expectations (according to JPM forecasts) of inflation around 4.5% at the turn of 1Q26 — with new tariffs on non-FTA countries effective in January.
- The non-consensus cut (4-1) confirmed the majority still acknowledge the recent shocks as isolated in the context of cooling domestic-demand pressures and with economic slack lingering. The recent downward revisions unveiled in the Quarterly Inflation Report are consistent with a near-recession scenario in 2H26.
- This also suggests not only that the weight of the output gap in Banxico's reaction function is more relevant than before, but also that the board is more tolerant of inflation.
- While the Board warned that it is ready to adjust its inflation path soon, potentially in February, the fact that the guidance continues to point in the direction of further cuts (i.e. addressing additional adjustments) is evidencing that the COPOM remains firm in its intention to reduce the overnight policy rate below 7%.
- JPM expect only one more cut to 6.75% but the dovish bias embedded in the statement is pointing lower for sure. Fed actions, in our view, will dictate the space ahead and inflation dynamics, the timing.

Scotiabank: Rate-Cutting Cycle Continues Despite Inflationary Pressures

- The statement highlighted signs of moderation in global economic activity during Q4 2025 amid trade tensions and geopolitical conflicts, as well as a weakening in domestic economic activity for the same period, in a context of uncertainty and trade frictions.
- Monetary conditions are already in neutral territory, even though inflation and market/analyst expectations remain above target.
- The statement suggested that the door is open to pause the rate-cutting cycle. For now, Scotiabank maintain their outlook for two additional cuts next year, anticipating a terminal rate of 6.50% in 2026.

Rabobank: At Least Two Further 25BP Cuts Forecast, Risk of More

- Rabobank see at least two more 25bp cuts from Banxico in 2026, starting with the next meeting on February 5. However, the outlook is still not fully certain as Rabo see competing stagflationary pressures in 2026 putting the Governing Board in a tough spot.
- The risk to our view is currently skewed in favour of more cuts, down to a terminal rate below 6.50%, rather than fewer cuts.
- USDMXN is currently trading around the 18-handle, having broken through support at 18.2. While there is little support until we get to 17.6, Rabo find this recent bout of MXN appreciation to be short-lived, and still see USDMXN trading between our 18.2-18.8 range in the next few months.
- Despite further USD weakness as the Fed continues to cut rates along with Banxico (largely maintaining an interest rate differential around 325bp), and low implied volatility supporting MXN carry trade appeal, Rabo find levels below 18 to be unsustainable.

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