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All Signal, No Noise

MARKET ANALYSIS

MNI Banxico Review – November 2025

MNI POV: Another 25bp Cut, Guidance Amended

Banxico's governing board cut the overnight rate by a further 25bp to 7.25%, as expected. The decision was split once again, with Deputy Governor Heath still voting to keep the policy rate on hold. While the committee still sees significant downside risks to growth, near-term core inflation forecasts have risen further. Meanwhile, the forward guidance was amended to suggest the possibility of a pause in the easing cycle after a December cut. Analysts continue to see the policy rate falling to 6.5% or just below next year, but perhaps with pauses along the way.

The accompanying statement was similar to the previous one in September, with the Board maintaining a dovish bias and still noting the "significant downward risks" to growth posed by the uncertain environment and trade tensions. The forward guidance was amended, however, and the Board now says that it will "evaluate reducing the reference rate" ahead, rather than "assess further adjustments to the reference rate", raising the possibility of a pause in the easing cycle after another cut in December.

On inflation, the committee sees the headline rate ending the year at 3.5% (vs. 3.6% previously), while core inflation is expected to reach 4.1% (vs. 4.0% previously). From there, inflation is projected to decline at a slower pace through H1 2026, although both the headline and core rates are still expected to converge to the 3% target in Q3 2026 (see table below). Overall, the higher core CPI trajectory through H1 2026 is another modest hawkish development, consistent with Deputy Governor Heath's continued concerns regarding the persistence of core inflation.

Meanwhile, the balance of risks to inflation remains biased to the upside, although that bias is still "less pronounced than that faced between 2021 and 2024". As before, changes in US economic policies are said to have added uncertainty, implying two-way pressures to the inflation outlook.

Looking ahead, the Board's consideration of another rate cut will still "take into account the effects of all determinants of inflation" and will be implemented in such a way "to enable an orderly and sustained convergence of headline inflation to the 3% target during the forecast period". Analysts expect another 25bp cut in December and still see further easing to around 6.25-6.50% next year, but with possible pauses along the way.

Link to full statement: https://www.banxico.org.mx/canales/%7B25A640E2-88CE-98A7-3CB9-84E95137C743%7D.pdf

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		
	IV	I	II	III	IV	I	II	III	IV	I	II	III
Headline (CPI)												
Current (11/06/2025)1/	4.5	3.7	4.2	3.6	3.5	3.5	3.2	3.0	3.0	3.0	3.0	3.0
Previous (09/25/2025)2/	4.5	3.7	4.2	3.6	3.6	3.4	3.1	3.0	3.0	3.0	3.0	3.0
Core												
Current (11/06/2025)1/	3.7	3.6	4.1	4.2	4.1	3.8	3.3	3.0	3.0	3.0	3.0	3.0
Previous (09/25/2025)2/	3.7	3.6	4.1	4.2	4.0	3.6	3.2	3.0	3.0	3.0	3.0	3.0
Memo												
Annualized seasonally adjusted quarterly variation in percent3/												
Current - Headline1/	3.3	2.7	5.6	2.8	2.8	2.9	3.6	2.7	2.7	2.9	3.5	2.8
Current - Core1/	3.6	4.3	4.9	4.3	3.1	3.0	2.9	3.1	3.0	3.0	2.9	3.0

1/ Forecast starting in October 2025.
2/ Forecast starting in September 2025. See monetary policy statement of September 25, 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.

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There was little reaction from the Mexican peso to the widely expected decision, although it did trade marginally firmer given the amendment to the guidance. The medium-term trend condition in USDMXN remains bearish for now, with the bear trigger at 18.2008, the Sep 17 low. Meanwhile, the TIIE-F swaps curve edged higher, with the two-year rate rising 5bp on the session (vs. -2bp ahead of the decision), as the market pared rate cut expectations at the margin.

Notable Dates:

- **Nov 07 – Oct CPI Inflation**
- **Nov 20 – Release of Nov Meeting Minutes**
- **Nov 26 – Release of Inflation Report**
- **Dec 09 – Nov CPI Inflation**
- **Dec 18 – Next Banxico Meeting**

Analyst Views (Alphabetical Order)

Banorte: Slight Guidance Tweak, Maintaining Dovish Tone

- In Banorte's view, the tone remains dovish, although giving signs of greater caution ahead. 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, the persistence [to the upside] of core inflation jumped up a place, with disruptions due to geopolitical conflicts dropping down a position.
- Meanwhile, Banxico's assessment about the effects of trade uncertainty for prices stayed unchanged. For the economy, they recognised the decline in 3Q25 GDP, with trade issues still skewing risks to the downside.
- Banorte believes the rate-cutting cycle will continue. Among they main arguments are; (1) the forward guidance, (2) the recent weakness in economic activity, (3) the favourable performance of the Mexican peso against the USD, (4) a still accommodative Fed; and (5) some stability on inflation.
- As such, Banorte continues to forecast a 25bp reduction in the reference rate in December. Looking further ahead, they reiterate their call of cuts in 1Q26, with another two -25bp adjustments to set the rate at 6.50%, a level which Banorte believe will prevail for the rest of 2026.

BBVA: Still See Cuts to 6.5% Next Year, But with Possible Pauses Along the Way

- The novelty came from a subtle change in the forward guidance. Banxico continued to leave the door open for further easing, but, in contrast to previous statements, it did not explicitly mention 'several cuts', a plural it had included in previous statements, but rather the possibility of 'cutting further'.
- In BBVA's view, this leaves the possibility of Banxico pausing after a rate cut in December. BBVA still expects a 25bp cut in December and further cuts to 6.5% by YE2026, but with the possibility of pauses along the way due to stickier inflation and also influenced by the Fed's future moves and the MXN's performance.

Goldman Sachs: Do Not Rule Out a Pause After a Dec Rate Cut

- In Goldman Sachs' assessment, the MPC keeps brushing aside high core-goods inflation and services inflation stickiness. GS expects the MPC to cut the policy rate by another 25bp in Dec, to 7.00%, and expects two 25bp cuts in 2026, to 6.50%.
- GS does not rule out a pause early in 2026 given that at 7.00% (with the expected Dec cut) the ex-ante real rate would be hovering at around 3.20%, within the r* 1.8%-3.6% neutral band, inflation is expected to remain under pressure in 1Q2026 (impacted by tax increases), headline/core inflation expectations for 2026 have been drifting upwards, and the outlook for the FOMC rate path became more uncertain.

Itaú: Still Forecast 6.5% Terminal Rate, But Banxico More Dependent on CPI and Fed Dynamics

- Consistent with the communication, Itaú anticipates an additional 25bp cut in December, leading to a year-end monetary policy rate of 7.0%. Itaú's scenario also includes two more 25bp cuts at the first two meetings next year, with the terminal rate reaching 6.5%. They expect Banxico to be more dependent on CPI and FOMC dynamics next year.
- Banxico is scheduled to publish the monetary policy meeting minutes on November 20, which should provide insight into the decision and board dynamics, particularly regarding the discussion on the singular forward guidance in this meeting. Itaú will also be attentive to diverging views on the estimation of the neutral rate, as its upper bound was crossed.

JP Morgan: Continue to See Rate at 6.50% by March, But Continuity of Cycle at Risk

- JP Morgan says that the Board delivered a neutral-to-hawkish cut, bringing the policy rate to 7.25%, the lowest since mid-2022. It was a mixed statement, and JPM struggled to understand its outright bias even if dropping the 'plural' emphasis made the release seem hawkish. To be sure, the Board did not erase the possibility of more than one cut, but it opted for ambiguous guidance amid cross-currents in inflation and the Fed's recent actions.
- The staff revised headline inflation lower for 4Q, from 3.6% to 3.5%, but revised core up, by one-tenth to 4.1%. In the context of significant downside risks to growth and the economy contracting in 3Q, this means the Board has a compelling case to continue easing more aggressively than in previous cycles. Yet, the still modest upward revision to the inflation path for next year, in the context of excise tax hikes and their one-off effect on core inflation, cornered the Board into acting with caution.
- To the latter point of caution, it is also evident that sidelining the discussion on MXN and the Fed suggests they are very much aware of forthcoming risks related to a Fed pause and a weaker currency at the turn of the year. To JPM, this approach should be interpreted more as a flexible stance to acknowledge the risks, rather than a statement that signals the end of the cycle soon.
- It is fair to state as well that the cautious approach is signalling implicitly that we should expect inflation forecast revisions in December and possibly in February, which could accelerate the convergence to neutrality, and could trigger a pause if inflation jumps above 4%, which is not a far-fetched conclusion.
- Overall, the statement was surprising given the narrative embedded in earlier communications. Considering the cautious approach, JPM believes the Board could have taken the opportunity to revise inflation higher for 2026 or to gradually delay convergence. JPM agrees with the more flexible approach, but the ambiguous stance blurs the guidance. They continue to expect rates at 6.5% by March, but the continuity of the cycle is definitely at risk given the renewed fears.

Rabobank: Core CPI Convergence to Target Still Seems a Long Way Off

- The decision statement was largely unchanged from last time, though there was a slight change in language that the Bank will "evaluate reducing the reference rate" whereas it previous said "adjusting the reference rate."
- Banxico's inflation forecasts have changed slightly, but it still sees headline and core CPI inflation converging at the 3.0% target by 2026 Q3. Rabobank has consistently noted that core CPI inflation in Mexico needs to register below 0.3% m/m in order to suggest convergence at the 3.0% target. Given the most recent print of 0.33%, the target still seems a long way off. However, a significant portion of this print can be attributed to seasonality in education prices, so upward inflationary pressures may not be as high as they seem.
- Rabo forecasts one more 25bp cut this year at the December meeting, bringing us to a year-end rate of 7.00%. They are forecasting two additional cuts in 2026 as well.

Scotiabank: Probability of Dec Rate Cut Decreased, but Remains Base Case

- Scotiabank believes the monetary policy decision reflects a less restrictive stance in comparison to previous meetings. However, monetary conditions are now approaching the upper bound of the neutral rate, even as inflationary pressures—particularly in core components—persist.
- The notable shift in language opens the door to pausing the easing cycle. In this context, it will be crucial to monitor not only inflationary risks and the impact of domestic economic weakness on price dynamics, but also labour market developments and inflation and employment trends in the US. These factors could significantly influence the Federal Reserve's next rate decision, potentially narrowing the window for further rate cuts by Banxico.
- Scotiabank believes the likelihood of another cut in December has decreased, although a 25bp reduction remains their base case. They maintain their year-end forecast for the policy rate at 7.00%, assuming the rate spread between Mexico and the US will not fall below 325bp.

SocGen: Maintain 6.25% End-2026 Forecast, even if Timing of Cuts Becomes More Sporadic

- Facing a weak economic outlook, the Bank of Mexico continued to downplay somewhat elevated core inflation and reduced its policy rate by another 25bp to 7.25%. The statement suggests a high possibility of another rate cut of similar magnitude in December, with further policy easing also appearing likely in 2026.
- Crucially, the central bank's overall assessment of the factors affecting the easing cycle—despite somewhat upward revisions to the near-term core inflation forecast—has not changed materially since the September meeting. The forward guidance has not changed much either and, if anything, has probably turned somewhat more dovish for this stage of the easing cycle.
- Unless the economy shows signs of improvement or the peso comes under significant pressure, inflation risks are less likely to materialise. The global economy arguably faces more risk of slowdown than inflationary pressure. The market expects the Federal Reserve to cut rates by another 80bp over the next twelve months.
- Given this setup, SocGen expects the Bank of Mexico to ease further, even though the timing of easing may become more sporadic after the December rate cut. They maintain their end-2026 Bank of Mexico policy rate forecast at 6.25% and see risks to this forecast as largely balanced.

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