May 29, 2025

Banxico hits the gas as growth risks loom larger

- **Banxico released the minutes of the decision held on May 15th. At the time, they opted to cut the reference rate unanimously by 50bps to 8.50%, in line with our expectations**
- **In our view, the document is consistent with the more dovish tone of the statement, suggesting once again a rate cut of a similar magnitude in the following meeting**
- **Overall, we believe the three most relevant topics discussed by members were: (1) Economic activity, with greater pessimism about the outlook; (2) the perception that inflationary conditions have improved; and (3) more room for maneuver in terms of the relative policy stance considering current levels of the Mexican peso**
- **In addition, the institution released yesterday its 1Q25 *Quarterly Report* (QR). We highlight a downward revision in GDP forecasts for 2025 and 2026, with other indicators also signaling further weakness in activity. In our opinion, comments from members were consistent with today's minutes**
- **Considering the tone of the minutes and the QR, we reiterate our call of a 50bps cut in June**
- **Nevertheless, we believe reductions will be more aggressive than we previously thought. We now anticipate the reference rate by year-end at 7.00% (previous: 7.75%). With this, the monetary authority would bring forward the cuts we had penciled in for 2026**

The dovish tone holds, pointing to a faster rate-cutting cycle. In our view, the document validated the less restrictive tone of the statement and other comments from Board members, including those made in the *Quarterly Report's* press conference yesterday. We highlight discussions on three relevant subjects, which seem to be the most important for future decisions: (1) Economic activity, with greater pessimism about the outlook; (2) the perception that inflationary conditions have improved; and (3) more room for maneuver in terms of the relative policy stance considering current levels of the peso vs. the dollar. Members kept talking about the trade backdrop, with uncertainty as the main shared point among them. Considering this, along with the opinions we attribute to each member about the forward guidance (presented in the table in the following page), we still expect a 50bps cut in June to 8.00%. Nevertheless, we now think the rate-cutting cycle will be more aggressive, with the monetary authority bringing forward the reductions we had penciled in for 2026 to this year. As such, we forecast the reference rate by year-end at 7.00%, which would be close to the terminal level we estimate for this cycle.

The Board focused on economic weakness. In the arguments laid out in the minutes and in the answers given in the QR yesterday, most members expect the economy to keep showing weakness, bringing out concepts like 'stagnation' or 'sluggishness'. Yesterday, Governor Victoria Rodríguez mentioned that "*…we are forecasting a period of sluggishness, but not a recession…*"; while Jonathan Heath stated that "*…we are not necessarily close to a recession…*". Returning to the minutes, most indicated that the balance of risks on this front remains tilted to the downside. The complex backdrop and the uncertainty due to tariffs impacted the behavior of economic agents through their consumption and investment decisions. Even more importantly, most Board members believe that economic slack is an element that will help fight off inflationary pressures. In our opinion, Omar Mejía expanded on this idea, signaling that "*...the recent evolution of macroeconomic conditions and the forecast of a greater-than-expected easing of slack conditions would not only exert downward pressures on inflation, but would also contribute to mitigate the impact of factors that could exert upward pressure on it…*".


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Banxico's decisions in 2025

Date	Decision
February 6th	-50bps
March 27th	-50bps
May 15th	-50bps
June 26th	--
August 7th	--
September 25th	--
November 6th	--
December 18th	--

Source: Banxico

The inflation outlook appears to have improved. Most members reiterated that inflation is at a stage where less restraint is appropriate to bring it toward the target. Regarding the rebound in inflation in 1H-May, members noted that it was due to the non-core, with higher volatility in meat and egg prices. On the core, they acknowledged that it has declined at a slower pace than anticipated. However, slack should contribute to its moderation. In the QR, Omar Mejía mentioned that "*...the non-core component should not be overweighted...*" and that "*...the increase in goods has not been widespread...*". On the other hand, Jonathan Heath expressed greater concerns about the acceleration of the core, advising to be careful that an upward trend does not consolidate.

Banorte's assessment on Board member's comments in the May 15th minutes

Bias	Member	Order in the minutes	Relevant comments
Hawkish	Jonathan Heath	4	*"...it is time to eliminate the reference in the forward guidance suggesting that monetary policy calibration could continue in a similar magnitude in upcoming meetings…"* *"...the lack of progress in inflation convergence so far this year and the upward bias in the balance of risks to inflation warn that it is necessary to proceed with caution…"* *"...patience is needed to accumulate information in order to have clarity on the effects of trade policies and an optimal course of action…"*
	Galia Borja	3	*"...pointed out that as the differential narrows, the relative monetary policy stance would gain more relevance. He/she mentioned that, further on the horizon, the above will end up implying a greater gradualism for monetary policy decisions..."* *"...the intensification of economic weakening in 2025 would imply lower price-related pressures on the economy looking ahead…"* *"...considering the generalized weakening of the US dollar, as well as the stability of the Mexican peso, the margin to reduce said differential could be higher…"*
	Gabriel Cuadra	2	*"...proposed adjustment in the reference rate allows to continue calibrating the absolute monetary policy stance adequately, in line with the unprecedented economic environment being faced…"* *"...monetary policy continues being implemented in an environment of high uncertainty and volatility, after the relevant changes in US trade policies and the consequent reaction of other economies…"* *"...combination of tariff-related shocks and higher risk premia in the United States is consistent with a downward adjustment in Mexico's reference rate, since their effects on economic activity would predominate among inflation determinants…"*
	Victoria Rodríguez	1	*"…she/he deemed it appropriate to communicate that the inflationary environment is foreseen to allow continuing with the rate-cutting cycle and signal that adjustments of the same magnitude cannot be ruled out…"* *"...greater slack conditions should contribute to mitigate inflationary pressures."* *"...noted that the behavior of the Mexican peso provides additional room for lowering the reference rate…"*
Dovish	Omar Mejía	5	*"...that additional adjustments of a magnitude similar to those implemented in previous meetings, even after said calibration process concludes, are consistent with the recent evolution of macroeconomic conditions…"* *"...the recent evolution of macroeconomic conditions and the forecast of a greater-than-expected easing of slack conditions would not only exert downward pressures on inflation, but would also contribute to mitigate the impact of factors that could exert upward pressure on it."* *"…monetary policy must ensure that convergence is efficient and must adequately weigh the upward and downward risks to inflation, without entailing unnecessary costs for the economy…"*

Source: Banorte with information from Banxico

The room for maneuver in terms of the relative stance remains wide. Only two members specifically addressed the rate differential with the US. We believe they were Jonathan Heath and Galia Borja. Both agreed that the narrower the spread, the more relevant it will be in terms of the factors to be considered for the decision. Galia Borja emphasized that "*…considering the generalized weakening of the US dollar, as well as the stability of the Mexican peso, the margin to reduce said differential could be higher…*". Based on this relationship, all members elaborated on the Mexican peso's positive performance recently. In this regard, Governor Victoria Rodríguez noted that "*…the behavior of the Mexican peso provides additional room for lowering the reference rate…*". Bearing in mind the latter, we believe the Board may be willing to continue reducing the spread if this behavior persists, pushing it below its long-term averages.

Downward revision in GDP for 2025 and 2026 in the 1Q25 *Quarterly Report*. In addition to the members' comments already mentioned, the focus was on updates to macroeconomic forecasts. The point estimate for 2025 GDP was revised down by 50bps to 0.1% (range: -0.5% to 0.7%).

The adjustment is partly explained by the expectation of an additional moderation in US activity, negatively impacting local production. Regarding tariffs, they do anticipate an impact. However, they are limited in their central scenario due to the preferential treatment that an important part of the flow of goods to that country maintains. On the domestic side, the recent performance of consumption and investment points to "*...lower growth of domestic demand throughout the forecast horizon than previously foreseen...*". They highlighted investment, impacted by uncertainty. Consistent with this, the expectation for 2026 was also weaker, at 0.9% from 1.8%. Also relevantly, the output gap is negative (*i.e.* a cooldown in the economy), deepening its downward trajectory over the forecast horizon. In this sense, job creation estimates for both years were also revised downwards (see tables below), with external account deficits widening in almost all cases.

Banxico's Forecasts
Current Report (1Q25)

	2025	2026
GDP (% y/y)		
Central scenario	0.1	0.9
Range	-0.5 to 0.7	0.1 to 1.7
Employment (thousands)	110 to 290	270 to 470
Trade Balance (US$ bn)	-18.4 to -10.4 (-1.0% to -0.6% of GDP)	-23.8 to -14.4 (-1.3% to -0.8% of GDP)
Current account (US$ bn)	-9.1 to 3.6 (-0.5% to 0.2% of GDP)	-21.1 to -4.6 (-1.2% to -0.3% of GDP)

Source: Banxico

Banxico's Forecasts
Previous Report (4Q24)

	2025	2026
GDP (% y/y)		
Central scenario	0.6	1.8
Range	-0.2 to 1.4	1.0 to 2.6
Employment (thousands)	220 to 420	360 to 560
Trade Balance (US$ bn)	-17.4 to -9.4 (-1.0% to -0.6% of GDP)	-22.1 to -12.7 (-1.2% to -0.7% of GDP)
Current account (US$ bn)	-12.0 to 0.7 (-0.7% to 0.0% of GDP)	-18.5 to -2.0 (-1.0% to -0.1% of GDP)

Source: Banxico

Analyst Certification.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Santiago Leal Singer, Víctor Hugo Cortes Castro, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Carlos Hernández García, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, José De Jesús Ramírez Martínez, Daniel Sebastián Sosa Aguilar, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Marcos Saúl García Hernandez, Juan Carlos Mercado Garduño, Ana Gabriela Martínez Mosqueda, Ana Laura Zaragoza Félix, Jazmin Daniela Cuautencos Mora, Andrea Muñoz Sánchez and Paula Lozoya Valadez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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	Reference
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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

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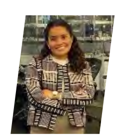

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