June 26, 2025

# Banxico – Signaling a more moderate pace for cuts in the second half of the year

- **In line with our forecast, Banxico's Board cut the reference rate by 50bps to 8.00% in a split decision. Jonathan Heath dissented, favoring an unchanged stance**
- **In our view, the tone was less dovish, highlighting:**
  - **(1) A change in the forward guidance, signaling that "*...looking ahead, the Board will assess further adjustments to the reference rate...*", eliminating the comment about a 'similar magnitude';**
  - **(2) The balance of risks for inflation remains tilted to the upside, removing the statement of an improvement which appeared in the previous two meetings;**
  - **(3) A new upward adjustment in inflation forecasts, which we detail further ahead; and**
  - **(4) The acknowledgement that the reduction in services inflation has been gradual, while goods have been higher than anticipated**
- **Headline inflation forecasts were revised higher for the next four quarters, with an average adjustment of +40bps (see table below). Despite this, the timing of the convergence to the target remained in 3Q26. Meanwhile, estimates for the core in the next five quarters were higher, with an average move of +16bps**
- **The evaluation of effects from trade uncertainty, both for prices and activity, was very similar to the previous statement**
- **We consider that adjustments in the institution's communication, along with a more challenging inflation backdrop and expectations that the Fed will take longer to resume its rate-cutting cycle corroborates our view of smaller cuts in the second half of the year**
- **In this sense, we forecast a 25bps rate cut in the August 7th meeting, taking it to 7.75%. After this, we keep expecting a year-end level of 7.00%**

**Banxico: CPI forecasts**
% y/y, quarterly average

| | 1Q25 | 2Q25 | 3Q25 | 4Q25 | 1Q26 | 2Q26 | 3Q26 | 4Q26 | 1Q27 | 2Q27 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Headline** | | | | | | | | | | |
| Current | 3.7* | 4.3 | 4.1 | 3.7 | 3.4 | 3.1 | 3.0 | 3.0 | 3.0 | 3.0 |
| Previous | 3.7* | 3.9 | 3.5 | 3.3 | 3.2 | 3.1 | 3.0 | 3.0 | 3.0 | -- |
| Difference (bps) | -- | 40 | 60 | 40 | 20 | 0 | 0 | 0 | 0 | -- |
| **Core** | | | | | | | | | | |
| Current | 3.6* | 4.1 | 3.8 | 3.6 | 3.4 | 3.1 | 3.0 | 3.0 | 3.0 | 3.0 |
| Previous | 3.6* | 3.9 | 3.6 | 3.4 | 3.3 | 3.0 | 3.0 | 3.0 | 3.0 | -- |
| Difference (bps) | -- | 20 | 20 | 20 | 10 | 10 | 0 | 0 | 0 | -- |

*Actual data
Source: Banxico


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**Banxico's decisions in 2025**

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

*The minutes of this decision will be published on July 10th
Source: Banxico

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**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, 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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|---|---|
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| **HOLD** | When the share expected performance is similar to the MEXBOL estimated performance. |
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