

Banxico minutes – The cutting cycle will continue, albeit with adjustments of a lower magnitude

- Banxico released the minutes from its June 26th decision, in which they cut the reference rate by 50bps to 8.00%. The vote was split on that occasion, with Jonathan Heath dissenting
- In our view, the document maintains a dovish tone, similar to the [statement](#). This suggests that the rate-cutting cycle will continue, although it clearly indicates that future moves will be more restrained
- Apart from the size of upcoming adjustments, we consider that the two most relevant topics discussed were: (1) The relative stance with the US given the dollar's recent performance; and (2) mixed comments on inflation, although with the majority still holding a more constructive outlook
- We maintain our forecast of a 25bps cut in the August 7th decision and that the reference rate will end the year at 7.00%. Furthermore, we believe this level will prevail throughout 2026

The dovish tone holds, signaling that the rate-cutting cycle will continue. In our view, the document validated the accommodative stance of the [statement](#). The most relevant element was the confirmation of the change in the forward guidance on upcoming moves, with most members clearly signaling that they will be 'gradual' –a description that we attribute to their likely magnitude, not their timing. Among the topics discussed that directly influence this outlook, we highlight discussions on: (1) The relative monetary stance with the US –specifically the short-term interest rate differential– through the lens of the USD's recent performance; and (2) mixed comments on inflation, albeit with most members maintaining a constructive view. Considering the opinions we attribute to each member, our inflation forecasts for Mexico, and the Fed's monetary policy, we reiterate our call of a 25bps cut in August to 7.75%. After this, adjustments will continue for the remainder of the year, taking the reference rate to 7.00% by YE25. Said level would prevail throughout 2026, which would be very close to the terminal rate we estimate for this cycle.

Broad consensus that the next adjustments will be 'gradual'. Among the four members who supported the cut, all of them indicated that the reductions in the reference rate will continue. As can be seen in the table on the next page, we identify the comments on this topic in the first position, with explicit mentions of words like 'gradual' or 'lesser magnitude' in three of them, sending a strong signal that the next adjustment will be -25bps. However, we believe Governor Victoria Rodríguez was clearest on this issue, referring to the action taken in this meeting as *"...the final 50bps adjustment..."*.

Broad discussions about the relative stance with the US and its implications for the local reference rate. This topic had not been addressed as strongly in previous discussions, which is why it caught our attention. For us it is key since all members –including Jonathan Heath– consider that the rate spread with the US allows for additional adjustments. However, in our opinion, the most relevant comments were from Governor Victoria Rodríguez and Deputy Governors Gabriel Cuadra and Omar Mejía, stating that this differential could be lower than the historical average when considering the recent performance of the US dollar (see table below for more details). In this context, it is worth remembering that, since Banxico introduced the reference rate, the average spread (based on the upper bound of the *Fed funds* rate) is ~475bps. The minimum was 275bps between 2014 and 2016. At the current level of both interest rates, it stands at 350bps. Considering these levels and the minutes, we believe most members could argue for further rate cuts, to some extent independent from any upcoming decisions by the Fed.

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Alejandro Padilla Santana
Chief Economist and Head of Research
alejandro.padilla@banorte.com



Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Market Strategy
juan.alderete.macal@banorte.com



Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com



Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com



Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com

Banxico's decisions in 2025

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

Source: Banxico



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Document for distribution among the general public

Banorte's assessment of Board member's comments in the June 26th minutes

| Bias | Member | Order in the minutes | Relevant comments |
|---------|--------------------|----------------------|---|
| Hawkish | Jonathan Heath | 4 | "...although the monetary policy stance remains restrictive, the room for further calibration has been exhausted." "...the rate differential with the United States is still ample and that the Mexican peso remains stable amid a broad depreciation of the US dollar..." "...the expectation of low inflation derived from greater slack conditions, besides not having materialized, is not realistic..." |
| | Galia Borja | 2 | "... going forward, a more gradual approach will be adopted during the rate-cutting cycle..." "...the increase in risk premia in this economy [US] makes it relevant to evaluate the volatility-adjusted interest rate spread on a multilateral basis..." "...considered that the medium-term determinants of inflation, such as the output gap, the exchange rate, and inflation expectations, do not indicate that pressures are likely to persist..." |
| | Gabriel Cuadra | 3 | "...looking ahead, any additional adjustment to the reference rate would be assessed, taking into account the effects of all inflation determinants..." "...given the weakening of the US dollar, it could be argued that there would be room for said differential to narrow further." "...inflation cannot be expected to remain unaffected in light of a significant and sustained depreciation." |
| | Victoria Rodríguez | 1 | "...it should be communicated that, going forward, a more gradual approach will be adopted during the rate-cutting cycle." "...in a scenario where the US dollar is expected to continue depreciating, the rate differential could narrow beyond its historical average, allowing for a greater easing of the monetary policy stance..." "...there is no predetermined policy stance nor tolerance or indifference regarding the current levels or the recent increase in inflation..." |
| | Omar Mejía | 5 | "...considering the current inflationary scenario and its outlook, as well as the adjustments made, adjustments of lesser magnitude to the reference rate could be considered to address both sides of the balance of risks..." "...the relative stance must be assessed in light of the new dynamics of the US dollar, beyond previously observed rate differentials." "...given the higher level of slack anticipated, and the moderation of both the labor market and wage growth, lower inflationary pressures are still expected..." |
| Dovish | | | |

Source: Banorte with information from Banxico

The Board's majority pointed out that inflation has been affected by supply shocks, with better expectations for the medium term. The view for inflation expectations remains relatively favorable and is primarily based on the forecast of greater economic slack. They attributed the rebound in annual inflation in the latest figures to a supply shock, specifically in meat & egg, over which monetary policy has no direct influence. In this regard, several members reiterated that the estimated moment for inflation to converge to its target has not changed and is not a relevant concern for future policy decisions. The contrasting view came from Deputy Governor Jonathan Heath, who emphasized the need for a pause in the cycle, specifying in his dissenting statement that *"...In this new stage of inflationary pressures, where it is not clear if these will be temporary, it is imperative to send a consistent message of decisiveness, through both the forward guidance and our actions, that every effort will be made to contain such pressures."*

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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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Raquel Vázquez Godínez
Assistant
raquel.vazquez@banorte.com
(55) 1670 - 2967



María Fernanda Vargas Santoyo
Analyst
maria.vargas.santoyo@banorte.com
(55) 1103 - 4000 x 2586

Economic Research



Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and
Market Strategy
juan.alderete.macal@banorte.com
(55) 1103 - 4046



Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com
(55) 5268 - 1694

Market Strategy



Santiago Leal Singer
Director of Market Strategy
santiago.leal@banorte.com
(55) 1670 - 1751



Carlos Hernández García
Senior Strategist, Equity
carlos.hernandez.garcia@banorte.com
(55) 1670 - 2250



Marcos Saúl García Hernández
Analyst, Fixed Income, FX and Commodities
marcos.garcia.hernandez@banorte.com
(55) 1670 - 2296



Ana Gabriela Martínez Mosqueda
Strategist, Equity
ana.martinez.mosqueda@banorte.com
(55) 5261 - 4882

Quantitative Analysis



Alejandro Cervantes Llamas
Executive Director of Quantitative Analysis
alejandro.cervantes@banorte.com
(55) 1670 - 2972



Daniel Sebastián Sosa Aguilar
Senior Analyst, Quantitative Analysis
daniel.sosa@banorte.com
(55) 1103 - 4000 x 2124



Alejandro Padilla Santana
Chief Economist and Head of
Research
alejandro.padilla@banorte.com
(55) 1103 - 4043



Itzel Martínez Rojas
Analyst
itzel.martinez.rojas@banorte.com
(55) 1670 - 2251



Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com
(55) 1670 - 2957



Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com
(55) 1105 - 1438



Marissa Garza Ostos
Director of Equity Strategy
marissa.garza@banorte.com
(55) 1670 - 1719



Hugo Armando Gómez Solís
Senior Strategist, Equity
hugo.gomez@banorte.com
(55) 1670 - 2247



Gerardo Daniel Valle Trujillo
Senior Analyst, Corporate Debt
gerardo.valle.trujillo@banorte.com
(55) 1670 - 2248



Paula Lozoya Valadez
Analyst, Equity
paula.lozoya.valadez@banorte.com
(55) 1103 - 4000 x 2060



José Luis García Casales
Director of Quantitative Analysis
jose.garcia.casales@banorte.com
(55) 8510 - 4608



Jazmin Daniela Cuautencos Mora
Strategist, Quantitative Analysis
jazmin.cuautencos.mora@banorte.com
(55) 1670 - 2904



Lourdes Calvo Fernández
Analyst (Edition)
lourdes.calvo@banorte.com
(55) 1103 - 4000 x 2611



Katia Celina Goya Ostos
Director of Economic Research,
Global
katia.goya@banorte.com
(55) 1670 - 1821



Luis Leopoldo López Salinas
Economist, Global
luis.lopez.salinas@banorte.com
(55) 1103 - 4000 x 2707



Víctor Hugo Cortes Castro
Senior Strategist, Technical
victorh.cortes@banorte.com
(55) 1670 - 1800



Leslie Thalía Orozco Vélez
Senior Strategist, Fixed Income and FX
leslie.orozco.velez@banorte.com
(55) 5268 - 1698



Juan Carlos Mercado Garduño
Strategist, Equity
juan.mercado.garduno@banorte.com
(55) 1103 - 4000 x 1746



José De Jesús Ramírez Martínez
Senior Analyst, Quantitative Analysis
jose.ramirez.martinez@banorte.com
(55) 1103 - 4000



Andrea Muñoz Sánchez
Strategist, Quantitative Analysis
andrea.muñoz.sanchez@banorte.com
(55) 1105 - 1430