Economic and Financial Markets Research
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Banxico minutes – The current monetary stance and economic slack will drive 'gradual' cuts

- **Banxico released the minutes of its August 7th decision, when the reference rate was cut by 25bps to 7.75%. The vote was split on said occasion, with Jonathan Heath dissenting again**
- **In our view, the document maintained a dovish tone, similar to the statement. Overall, the discussion suggests that several factors will continue driving the rate-cutting cycle. However, it was clear that the next moves will be 'gradual'**
- **In this respect, we highlight at least two drivers for future adjustments: (1) The relative stance with the US, along with USD weakness, which still provides some margin for reductions; and (2) the view that economic slack, along with other inflation drivers, will favor a decline in prices**
- **Based on these arguments, we maintain our forecast of a 25bps cut in the September 25th decision. We also reiterate call for the rate at 7.00% by year-end. The latter level would prevail throughout 2026, quite close to the mid-point of the neutral range estimated by the institution**

The dovish tone stays in place, meaning cuts will continue. In our view, the document validated the accommodative stance of the statement. Given the continuity of the forward guidance, the themes that dominated the discussion were quite similar to those in the previous minutes. This time around, most members emphasized the 'graduality' of upcoming rate cuts, with two main themes behind the arguments: (1) The interest rate spread with the US, which still provides some margin for additional adjustments despite its accumulated reduction; and (2) the consolidation of a more constructive view for inflation ahead, with economic slack as a key factor to drive prices down. We also note that Deputy Governor Jonathan Heath practically presented opposing arguments to all the points of his colleagues, in our view expanding his hawkish tilt. Considering the opinions that we attribute to each member, we reiterate our call of a 25bps cut in September to 7.50%. We also reaffirm our view that adjustments will continue during the remainder of the year, partly supported by our forecast of two 25bps cuts from the Fed, taking the reference rate to 7.00% by year-end. Said level would prevail throughout 2026, in turn very close to the mid-point of the neutral range estimated by the institution.

Gradual adjustments will continue. Among the four members that supported the reduction, three were quite clear in suggesting that cuts will continue. The word 'gradual' was key among them. In the comments attributed to Governor Victoria Rodríguez and Deputy Governor Omar Mejía we see several coincidences, signaling that this strategy will allow them to continue with the current cycle. On the other hand, we believe that Gabriel Cuadra was less dovish at the margin, arguing that "*…the next monetary policy decision is not predetermined…*". However, when considering the points explained below, we believe a pause in the following meeting will be difficult to see.

The relative stance with the US is very important. Most members explained that the interest rate spread between Mexico and the US continues to favor extending the current rate-cutting cycle. Some recognized that attention must remain on the relative stance given that the spread has already compressed and/or because of the possibility of a rebound in volatility, albeit with the general sentiment suggesting that USD weakness will permit them to reassess the available margin to continue with reductions. On the Fed's monetary policy outlook, we believe Governor Victoria Rodríguez was transparent in her view that said institution will resume interest rate cuts, which would give Banxico additional room to lower its rate further.

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 7th	-25pbs
September 25th	--
November 6th	--
December 18th	--

Source: Banxico

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Banorte's assessment of Board member's comments in the August 7th minutes

Bias	Member	Order in the minutes	Relevant comments
Hawkish	Jonathan Heath	4	*"... is required to deal with a persistent core inflation and ensure that it resumes its downward trend…"* *"... the reference rate must be far enough from the neutral range in order to prevent ex-ante and ex-post real rates from migrating passively to said range in the event of higher inflation…"* *"...strengthened expectations of a more moderate easing by the Federal Reserve, limiting the room to adopt an even looser relative monetary stance…"*
	Gabriel Cuadra	3	*"...going forward, the margin for narrowing the differential would need to be assessed."* *"...the Governing Board must remain attentive to ensuring that merchandise inflation finishes its stabilization…"* *"...it should be communicated that the next monetary policy decision is not predetermined and will depend on macroeconomic conditions…"*
	Galia Borja	2	*"...both the relative and absolute monetary stances provide some room for additional adjustments to the reference rate…"* *"...annual inflation has fluctuated within the variability range since January, indicating that the inflationary outlook is in a different stage…"* *"…the adjustments should be more gradual compared to those made during the calibration process in the first half of the year…"*
	Victoria Rodríguez	1	*"...looking ahead, additional rate reductions with be evaluated and that a gradual approach will contribute to give continuity to the rate-cutting cycle…"* *"...core inflation is expected to return to a downward trend given the slack conditions in the economy…"* *"...the Federal Reserve is expected to restart the reductions of its policy rate…"*
Dovish	Omar Mejía	5	*"...given the inflationary outlook, it is appropriate to continue with the rate-cutting cycle…"* *"…the conditions of generalized weakness of the US dollar will also be relevant to assess the relative monetary stance beyond the differentials observed in the past…"* *"...lack conditions are expected to intensify, despite the recent upturn in economic activity…"*

Source: Banorte with information from Banxico

Economic slack, along with other factors, will allow inflation to continue decreasing. Starting from a favorable outcome for price dynamics in July –partly due to improvements in the non-core component–, most members showed greater conviction that inflation will keep declining, achieving the convergence to the target in 3Q26. The main driver would be slack conditions in the economy, which would drive a reduction in core inflation. In this regard, several members dismissed some of the recent shocks, expecting them to dissipate. This would add to other determinants that would support this scenario, including labor market weakness and the recent appreciation of the Mexican peso.

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Directory

Research and Strategy

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

Raquel Vázquez Godinez
Assistant
raquel.vazquez@banorte.com
(55) 1670 – 2967

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

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

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

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

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

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

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

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

Market Strategy

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

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

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

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

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

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

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

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

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

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

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

Quantitative Analysis

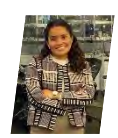
Alejandro Cervantes Llamas
Executive Director of Quantitative Analysis
alejandro.cervantes@banorte.com
(55) 1670 - 2972

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

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

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

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



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

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