

## Banxico – Front-loaded easing in 2025, but with a higher terminal rate

- In line with [our call](#), Banxico’s Board cut the reference rate by 25bps to 10.00% in a unanimous decision
- It is worth remembering that this was the last decision by Deputy Governor Irene Espinosa. She will leave the position on December 31<sup>st</sup>
- In our view, the tone was more dovish, highlighting:
  - (1) Changes in the forward guidance, signaling now that “...larger downward adjustments could be considered in some meetings, albeit maintaining a restrictive stance...”;
  - (2) The explicit mention that the current inflationary environment “...will allow further reference rate reductions...”, especially considering that the word “adjustments” was used previously, suggesting more conviction about the direction of the moves;
  - (3) The recognition that we are already in a “...rate-cutting cycle...” and that it is appropriate to extend it; and
  - (4) Emphasis on the downward path of core inflation, both in recent data given that it was characterized as “clear,” and on expectations that it will continue to decline –although the latter contrasts with the revisions to the forecasts–
- Inflation forecast revisions were mixed throughout the horizon. In the short term, both the headline and the core moved lower; nevertheless, they were adjusted upwards for 2025 and the beginning of 2026 (see table below). Hence, the estimated convergence to the target was delayed by three quarters, to 3Q26
- The perception of external risks keeps evolving. This time around, they highlighted the potential effects from US tariffs to Mexican exports, added as one driver that could skew inflation higher
- Considering today’s rate cut, the statement’s tone, our views on inflation and economic activity, as well as a Board that could be more dovish, we believe that Banxico will extend the easing cycle. Nevertheless, a limiting factor for the terminal level will be the Fed’s more cautious stance, as well as other challenges in the external front
- All in all, we keep expecting accumulated rate cuts of 200bps in FY2025, with the reference rate closing the period at 8.00%. This would be our new level for the terminal rate, higher than previously forecasted. On the following meeting –on February 6<sup>th</sup>– we anticipate -25bps, although also incorporating -50bps across several moments in the year

### Banxico: CPI forecasts

% y/y, quarterly average

	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
<b>Headline</b>										
Current	5.0*	4.6	3.8	3.5	3.4	3.3	3.2	3.1	3.0	3.0
Previous	5.0*	4.7	3.9	3.4	3.1	3.0	3.0	3.0	3.0	--
Difference (bps)	--	-10	-10	10	30	30	20	10	0	--
<b>Core</b>										
Current	4.0*	3.6	3.5	3.5	3.4	3.3	3.2	3.0	3.0	3.0
Previous	4.0*	3.7	3.5	3.3	3.1	3.0	3.0	3.0	3.0	--
Difference (bps)	--	-10	0	20	30	30	20	0	0	--

\*Actual data. Source: Banxico

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### Banxico’s decisions in 2024

Date	Decision
<a href="#">February 8<sup>th</sup></a>	0bps
<a href="#">March 21<sup>st</sup></a>	-25bps
<a href="#">May 9<sup>th</sup></a>	0bps
<a href="#">June 27<sup>th</sup></a>	0bps
<a href="#">August 8<sup>th</sup></a>	-25bps
<a href="#">September 26<sup>th</sup></a>	-25bps
<a href="#">November 14<sup>th</sup></a>	-25bps
<a href="#">December 19<sup>th</sup>*</a>	-25bps

\*The minutes of this decision will be published on January 9<sup>th</sup> 2025  
Source: Banxico



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