Scotiabank

GLOBAL ECONOMICS

LATAM FLASH

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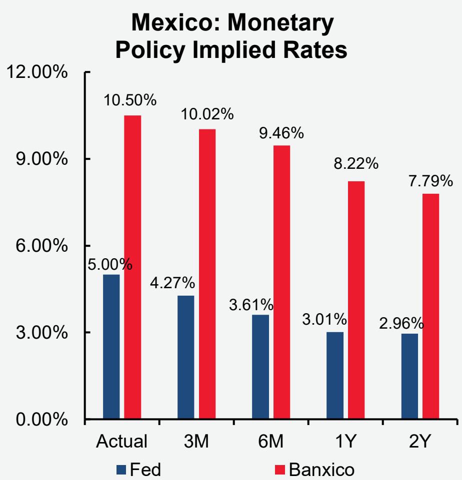
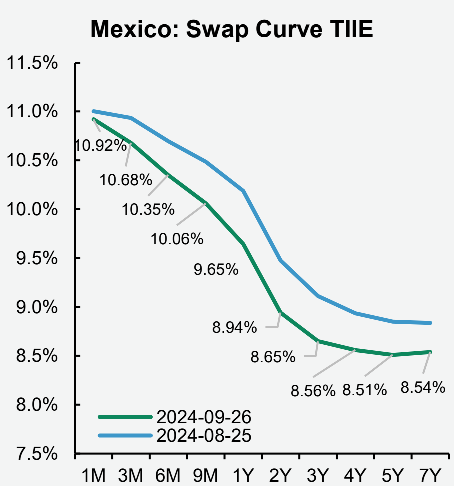
Chart 1



Sources: Scotiabank Economics, Bloomberg.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

Mexico—Banxico Delivers the Expected 25bps Cut in a Divided Decision

In a divided decision, Banco de México's Governing Board met expectations by cutting the target rate by 25 basis points to 10.50%. The dissenting vote came this time from Deputy Governor Jonathan Heath, who voted to keep the rate unchanged at 10.75%. On the other hand, the headline and core inflation expectations were marginally revised downwards in the short term, still expected to converge to 3.0% by the end of 2025.

Table 1: Mexico—Banxico's Headline & Core Inflation Forecasts

Headline Inflation	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1	25Q2	25Q3	25Q4	26Q1	26Q2	26Q3
Current (Sept. 24) a.o.p.	4.4%	4.6%	4.8%	5.1%	4.3%	3.7%	3.3%	3.1%	3.0%	3.0%	3.0%	3.0%
Previous (August. 24) a.o.p.	4.4%	4.6%	4.8%	5.2%	4.4%	3.7%	3.3%	3.1%	3.0%	3.0%	3.0%	
Var. Current - Previous	0.0%	0.0%	0.0%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Core Inflation	**23Q4**	**24Q1**	**24Q2**	**24Q3**	**24Q4**	**25Q1**	**25Q2**	**25Q3**	**25Q4**	**26Q1**	**26Q2**	**26Q3**
Current (Sept. 24) a.o.p.	5.3%	4.7%	4.2%	4.0%	3.8%	3.5%	3.3%	3.1%	3.0%	3.0%	3.0%	3.0%
Previous (August. 24) a.o.p.	5.3%	4.7%	4.2%	4.0%	3.9%	3.6%	3.3%	3.1%	3.0%	3.0%	3.0%	
Var. Current - Previous	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Sources: Scotiabank Economics, Banxico.

As we have previously mentioned, one of the reasons for the Board of Governors decision is the slowdown in economic activity. The statement mentioned that the economy is going through a period of weakness due to uncertainty stemming from internal and external factors. It reiterated risks to the growth outlook are biased to the downside. On the other hand, the statement also highlighted the volatility observed in the Mexican peso.

Regarding the balance of inflation risks, it remains biased to the upside. The upside risks mentioned were: persistence of core inflation; further exchange rate depreciation; higher cost pressures; climate impacts; and escalation of geopolitical conflicts. The statement also mentioned the following downside risks: lower than anticipated economic activity; a lower pass-through of some cost pressures; and that the effect of the exchange rate depreciation on inflation will be lower than anticipated.

We consider that Banxico not following the Fed with a larger 50bps cut in this decision was appropriate, as Banxico began its cutting cycle earlier, and core inflation in Mexico remains stickier and more persistent than in the U.S. Also, Mexico faces additional domestic factors of uncertainty, so the 25bps cut looks more appropriate with the current outlook.

The Governing Board considered that non-core inflation shocks will continue to dissipate in the following quarters, and that core inflation will continue on its downward trajectory. Regarding forward guidance, the statement signaled additional cuts in the remainder of the year, in line with analysts' and market expectations, mentioning that it "will take into account the prospect that global shocks will continue to fade and the effects of weak economic activity". However, we believe that the outlook continues to be marked by an environment of uncertainty, so that future episodes of volatility could impact the monetary policy path.

The exchange rate was volatile during the session, in a range of $19.46–$19.75, reaching the highest levels prior to the release of the statement, as markets were favouring a possible 50bps cut. The implied curve rose to 10.09% at its 3-month node, in line with analysts' consensus of a year-end rate at 10.0% for 2024 and 8.0% for 2025.