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Mexico—Banxico Delivers a 25 Basis Point Cut as Expected

- **Banxico’s Board cut the reference interest rate by 25 basis points, bringing it to 10.25%. This move was widely anticipated by the market.**
- **The core inflation forecast for Q4-2024 was revised downward, while total inflation expectations were adjusted upward until Q2-2025.**
- **This decision reflects a more dovish tone, given its unanimity and the continued anchoring of core inflation expectations.**
- **We maintain our outlook for an additional 25 basis point cut for the remainder of the year, closing 2024 at 10.00%.**
- **The exchange rate was volatile during the session, ranging from \$20.38 to \$20.67, reaching \$20.54 prior to the official announcement.**

For the third consecutive meeting, and the fourth time this year, Banxico’s Board of Governors decided to cut the reference interest rate by 25 basis points, bringing it to 10.25%. This move was widely anticipated by the market. Notably, the Board members voted unanimously to cut the rate, unlike the previous decision where Deputy Governor Jonathan Heath dissented, favouring to keep the rate unchanged at 10.75%. Additionally, the Board revised the short-term general inflation expectations upward, while still expecting it to converge to 3.0% by the end of 2025.

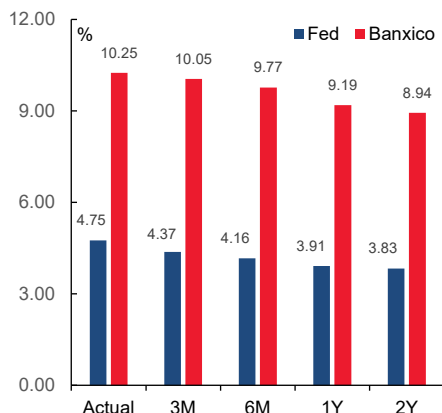
The statement highlighted the relatively unchanged global economic growth rate relative to the previous quarter, with a lower inflation profile in developed countries, staying below central banks’ targets in several cases. Looking ahead, global risks include reduced economic integration, increased geopolitical tensions, expanding inflationary pressures, and greater financial market volatility.

The statement also noted increased local market volatility due to the U.S. presidential elections, affecting both interest rates and the exchange rate, resulting in the peso’s depreciation against the dollar and a steepening bond yield curve. Regarding local economic growth, a slight rebound was observed in Q3 compared to previous quarters; however, stagnation is anticipated for the next year, with the balance of risks still tilted to the downside.

The statement emphasized the downward trend in core inflation, now within the target range at 3.80%. Similarly, the core inflation forecast for Q4-2024 was revised downward, while total inflation expectations were adjusted upward until Q2-2025. Upward risks to

Chart 1

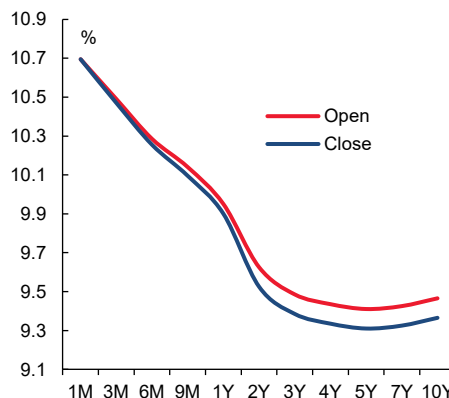
Monetary Policy Implied Rates



Sources: Scotiabank Economics, Bloomberg.

Chart 2

TIEE Swap Curve



Sources: Scotiabank Economics, Bloomberg.

inflation include persistent core inflation, greater exchange rate depreciation, cost pressures, climate event impacts, and escalating geopolitical conflicts. Downward risks include economic slowdown, lower costs, and a smaller-than-anticipated pass-through of a weaker peso on inflation. Thus, the balance of risks on inflation remains tilted to the upside.

We believe that this decision reflects a more dovish tone, given its unanimity and the continued anchoring of core inflation expectations, despite the upward revisions to total inflation forecasts. It will be crucial to monitor global shocks and the effects of economic weakness on inflation. Therefore, we maintain our outlook for an additional 25 basis point cut in the reference interest rate for the remainder of the year, closing 2024 at 10.00%. However, 2025 will be a challenging year for Banco de México, as global and local risks could impact price formation, and therefore the path of monetary policy. Considering this, we forecast the reference interest rate to be around 9% in the first half of next year. It will be important to review the minutes of this decision that will be published on November 28th.

The exchange rate was volatile during the session, ranging from \$20.38 to \$20.67, reaching \$20.54 prior to the official announcement. The TIE curve fell by an average of 10 basis points in the 2- to 10-year nodes, while the implied curve differed from analysts' forecasts, standing at 9.19% in one year, versus 8% as expected by recent surveys.

Table 1: Mexico - Banxico's Headline and Core Inflation Forecasts												
Headline Inflation	23-Q4	24-Q1	24-Q2	24-Q3	24-Q4	25-Q1	25-Q2	25-Q3	25-Q4	26-Q1	26-Q2	26-Q3
Current (Nov. 24) e.o.p.	4.4	4.6	4.8	5.0	4.7	3.9	3.4	3.1	3.0	3.0	3.0	3.0
Previous (Sept. 24) e.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
Var. Current - Previous	0.0	0.0	0.0	-0.1	0.4	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Core Inflation	23-Q4	24-Q1	24-Q2	24-Q3	24-Q4	25-Q1	25-Q2	25-Q3	25-Q4	26-Q1	26-Q2	26-Q3
Current (Nov. 24) e.o.p.	5.3	4.7	4.2	4.0	3.7	3.5	3.3	3.1	3.0	3.0	3.0	3.0
Previous (Sept. 24) e.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
Var. Current - Previous	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Scotiabank Economics, Banxico.

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