

Banxico reiterates it will remain on hold

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Weak domestic demand continues to support Banxico's neutral stance, even as markets price in Fed tightening

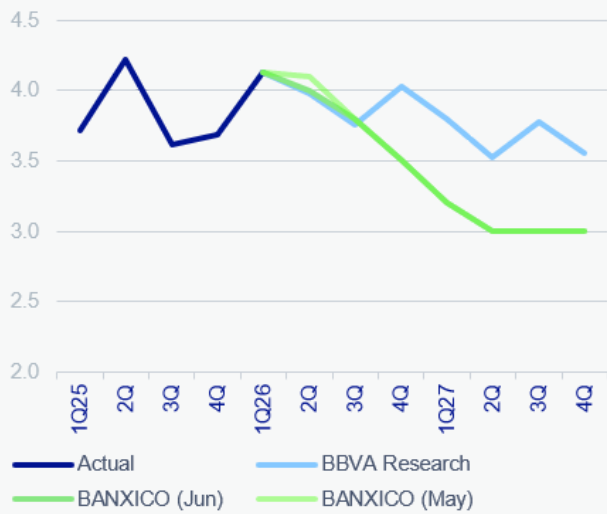
Banxico kept the policy rate unchanged at 6.50%, as widely expected, in a unanimous decision, while reiterating that “it will be appropriate to maintain the reference rate at its current level.” The statement conveyed a slightly more constructive assessment of both the external and domestic outlook. Regarding the external backdrop, the Board acknowledged that uncertainty surrounding the Middle East conflict persists but noted that “recent negotiations suggest a solution is underway.” Domestically, the Board stated that “the Mexican economy is anticipated to expand during the second quarter of 2026,” after contracting in the previous one. Meanwhile, it softened its assessment of economic slack by dropping the previous reference that it would be “greater than previously anticipated,” though reiterated that “significant downward risks to economic activity persist.” Market reaction was negligible, with both the peso and government bond yields little changed, suggesting that investors had fully priced in both the decision and the unchanged forward guidance.

Banxico's minor adjustments to the inflation outlook reinforced the view that recent supply shocks are fading while signaling that the final mile of core disinflation remains challenging. The Board acknowledged the decline in headline inflation between April and the first half of June, driven by lower readings in both the core and non-core components. Reflecting this improvement, the headline inflation forecast for 2Q26 was revised down modestly to 4.0% from 4.1%, now matching our forecast, while the expected convergence to the 3.0% target by 2Q27 remained unchanged ([Figure 1](#)). At the same time, core inflation forecasts were revised slightly higher through the end of 2026 (by 0.1 pp this quarter and the next two, to 4.2%, 3.8% and 3.5%, respectively), likely reflecting the services inflation stickiness, which policymakers continue to view as the main obstacle to completing the disinflation process ([Figure 2](#)). The Board reiterated that the balance of risks for inflation remains tilted to the upside, with geopolitical developments and the persistence of core inflation continuing to be the main sources of concern. Banxico also appeared more comfortable with the exchange rate, moving the risk of peso depreciation to the bottom of the list of upside risks. Overall, the updated inflation assessment supports the decision to remain on hold. Although the Board continues to stress “the absence of demand-related pressures in the economy,” the slow pace of disinflation in core services does not warrant further policy easing.

We continue to expect Banxico to keep the policy rate at 6.50% at least through year-end, with any further easing likely contingent on a resumption of Fed rate cuts. The repeated forward guidance leaves little doubt that Banxico's pause stance is here to stay for now. By reiterating that "it will be appropriate to maintain the reference rate at its current level" and that the current stance is "well-suited" to the macroeconomic environment, the Board signaled that it is comfortable with the policy rate at its current level—which sits right at the midpoint of the neutral range—and sees little need to signal a likely adjustment in either direction. At the same time, the statement does not reveal how strongly Board members are committed to an extended pause, leaving the upcoming minutes as the key source to assess the strength of that consensus. In particular, it will be important to determine whether Jonathan Heath's support for holding rates reflects confidence that the current stance is sufficiently restrictive to deliver the final stage of disinflation. As markets increasingly price the possibility of a Fed rate hike this year, he—and potentially even other members—could push to introduce a tightening bias into the policy debate.

Banxico trimmed its headline inflation forecast for this quarter to match our projection...

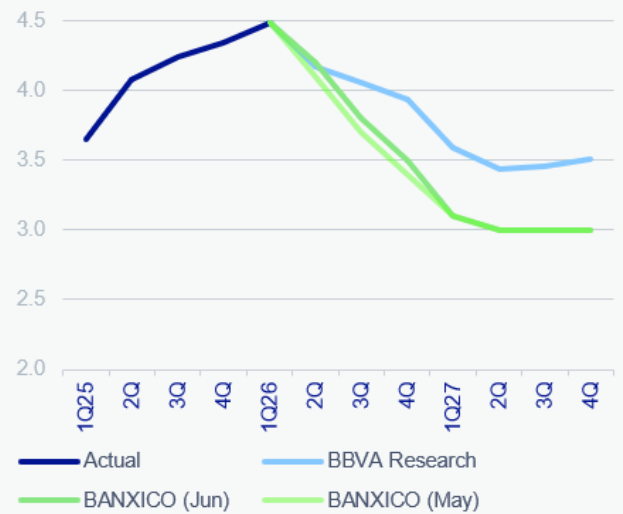
FIGURE 1. HEADLINE INFLATION OUTLOOK (YOY % CHANGE)



Source: BBVA Research, Banxico, INEGI

... while nudging up its core inflation forecasts for this quarter and the next two

FIGURE 2. CORE INFLATION OUTLOOK (YOY % CHANGE)



Source: BBVA Research, Banxico, INEGI

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